

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

United States:

Direct Investment Compilation Practices, Data Sources and Methodology

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Direct Investment in the United States

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

Direct Investment Abroad

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

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

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data are compiled by the Bureau of Economic Analysis (BEA) 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 10 weeks after the end of the reference period on the BEA website (<http://www.bea.gov>) and are subsequently published in the BEA's *Survey of Current Business*, which is also available on the BEA website. The data are also reported to the IMF and the OECD for publication.

Revision Practices

The data are preliminary when first released. The data are generally revised to incorporate updated source data. Revised data for the first, second, and third quarter of the current calendar year are disseminated 3 months after their first release. Following dissemination of the fourth quarter data in March of the following year, the data for all four quarters are again revised and disseminated in June of each year. At the same time, quarterly estimates for two or more years before the given year are revised and disseminated. When benchmark survey results become available, all quarterly data since the first quarter of the year of coverage of the benchmark survey are again revised, and at that point the data for three or more years prior to the current calendar year are generally considered to be final, that is, up to 48 months after their first release. However, revisions may be made to data prior to the date of the most recent benchmark survey to incorporate changes in methodology or to smooth discontinuities in the series that result from benchmarking.

The revised status of the quarterly data is usually identified in the disseminated data, and the revision practices are always indicated in the text of the *Survey of Current Business* article in which the revised annual data are published. The general public are informed of the reasons for the revisions. In instances of major changes in methodology or data collection systems the historical data are revised back as far as data are available or the revision is thought to be material.

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 on an aggregate basis and the reporting requirements are compulsory.

Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of resident enterprises. Annual enterprise surveys of resident enterprises are used as a secondary data source for all components. Company accounts of direct investment enterprises resident in the United States and press reports are also used for cross-checking the data on income on equity, and equity capital. Bilateral data are used for cross-checking the aggregate data on direct investment income with the data compiled by Canada. (The United States and Canada conduct bilateral Current Account reconciliations of the annual data.)

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD 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 BEA and is updated on an ongoing basis using information from (i) the financial press, and (ii) compulsory direct investment surveys. 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 and position data.

Geographic Classification

Quarterly data showing breakdowns by country for the direct investment income and the direct investment financial flows data are compiled by the BEA and disseminated quarterly with a timeliness of 10 weeks after the end of the reference period on the BEA website (<http://www.bea.gov>). (Data for a limited number of countries are also subsequently published in the BEA's *Survey of Current Business*, which is also available on the BEA website.) The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data cover 40 countries and bilateral data are not used in the compilation of the data. However, bilateral data from Canada are used in the annual current account reconciliation with Canada, which is published separately. In addition, annual data showing breakdowns by country for the direct investment income and the direct investment financial flows data are compiled by the BEA and disseminated once a year with a timeliness of 10 weeks after the end of the reference period on the BEA website cited above, and with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website. The annual data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data cover 40 countries for the most timely data disseminated on the BEA website, and 153 countries for the more comprehensive data published in the *Survey of Current Business*.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment in the United States during 2003 (ranked in descending order) were: the United Kingdom, the Netherlands, Japan, France and Switzerland. The five countries with the largest amount of direct investment financial flows into the United States during 2003 (ranked in descending order) were: the Canada, Luxembourg, Japan, France, and Australia.

In addition to the data showing country breakdowns, quarterly and annual data are compiled by the BEA showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, and (ii) the OPEC countries. The quarterly data are disseminated quarterly with a timeliness of 10 weeks after the end of the reference period on the BEA website cited above, and the annual data disseminated once a year with a timeliness of 10 weeks after the end of the reference period on the BEA website.

There are differences in the data coverage, sources, etc. between the inward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD, and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication. Specifically, the aggregate inward data on direct investment income and direct investment financial flows disseminated in the national publications and reported to the IMF for publication are compiled on a current-cost basis (which approximates the current period value), while the inward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD are compiled on an historical cost basis.

Industrial Classification

Quarterly data showing breakdowns by industrial activity for direct investment income and direct investment financial flows are compiled by the BEA and disseminated quarterly with a timeliness of 10 weeks after the end of the reference period on the BEA website (<http://www.bea.gov>). (Data for a limited number of industrial activities are also subsequently published in the BEA's *Survey of Current Business*, which is available on the BEA website.) The data showing breakdowns by industrial activity for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data show a breakdown for 15 industrial activities. The classification used is the 1997 North American Industry Classification System (NAICS), which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Beginning with the 2002 Benchmark Survey of Foreign Direct

Investment in the United States the BEA has adopted a revised system of coding consisting of 205 codes based on the 2002 NAICS. However, until the results of that benchmark survey are finalized in 2006, the quarterly transactions data will be based on the 1997 NAICS. In addition, annual data showing breakdowns by industrial activity for the direct investment income and the direct investment financial flows data are compiled by the BEA and disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website cited above. The annual data showing industrial activity breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data cover all of the 197 BEA industry codes based on the 1997 NAICS in which there is investment.

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investment enterprises. Limited data classified by the industry of the ultimate beneficial owner (nonresident direct investor) are also disseminated. The five industrial activities with the largest amount of direct investment income from investment in the United States during 2003 (in descending order) were: (i) wholesale trade, (ii) finance and insurance, (iii) chemical manufacturing, (iv) transportation equipment manufacturing, and (v) other industries. The five industrial activities with the largest amount of direct investment financial flows into the United States during 2003 (in descending order) were: (i) finance and insurance, (ii) other industries, (iii) depository institutions, (iv) chemical manufacturing, and (v) transportation equipment manufacturing.

Annual data are disseminated once a year by the BEA in the *Survey of Current Business*, for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are disseminated with a timeliness of 6 months after the end of the reference period and are generally revised annually for 2 years. In addition, all annual estimates for the years following the year of the benchmark survey up through the most recent year are revised again when the benchmark survey results become available. The annual data become final either (i) 30 months after the end of the reference year, or (ii) after the data from the benchmark survey become final, whichever date is the later. For direct investment income, the five highest ranking partner countries during 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United Kingdom, Japan, Switzerland, France, and the Netherlands. For direct investment financial flows, the five highest ranking partner countries during 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United Kingdom, France, Switzerland, Australia, and Japan.

In addition, annual data compiled by the BEA for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone are disseminated with a timeliness of 6 months after the end of the reference period in the *Survey of Current Business*. These data are generally revised annually for 2 years. In addition, all annual estimates for the years following the year of the benchmark survey are revised again when the benchmark survey results become available. The annual data become final either (i) 30 months after the end of the reference year, or (ii) after the data from the benchmark survey become final, whichever date is the later.

There are differences in the data coverage, sources, etc. between the inward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD, and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication. Specifically, the aggregate inward data on direct investment income and direct investment financial flows disseminated in the national publications and reported to the IMF for publication are compiled on a current-cost basis (which approximates current period value), while the inward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD are compiled on an historical cost basis.

B. Methodology

Definition of Direct Investment Enterprises in the United States

In accordance with the international standards, the basic criterion for defining direct investment enterprises in the United States 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. In accordance with the FCS, (i) the direct investment earnings data include the relevant share of all indirectly-owned direct investment enterprises, to the extent that they are included in the earnings of the directly owned enterprises, and (ii) the direct investment financial flows data include most equity and other capital transactions made directly between resident enterprises of a related group 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. However, the US methodology, rather than the FCS, is used to define the related group. Specifically, (i) the US methodology excludes, while the FCS may include, resident enterprises of which the nonresident direct investor indirectly owns less than 10 percent, and (ii) the US methodology includes, while the FCS may exclude, resident enterprises in which the nonresident direct investor indirectly owns 10 percent or more, namely associates (minority owned affiliates) of associates.

Enterprises in the United States are required by law to (i) produce consolidated accounts covering their domestic subsidiaries and associate companies, and (ii) identify all transactions with the parent company. However, enterprises in the United States are not required by law to produce consolidated accounts covering their foreign subsidiaries and associate companies.

Measurement of Direct Investment Earnings

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

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

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

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade

credits, and (v) financial leases. In accordance with the international standards, 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. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data are recorded on an accrual basis.

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, non-participating preference shares are classified as equity capital, rather than as other capital.

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, and (iii) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include transactions associated with permanent debt between affiliated banks. (Permanent debt is defined as being debt that is both permanently invested in the enterprise by the parent company and has been positively identified as being used for non-banking type activities, such as to acquire buildings, equipment, and other fixed assets.) Contrary to the international standards, (i) the data include changes in insurance company technical reserves, (ii) the data do not include transactions associated with permanent debt between affiliated financial intermediaries, because of the difficulty in identifying these transactions in the present data sources, and (iii) the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital.

The treatment of 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 varies depending on the treatment in the accounting records of the individual enterprises—either (i) the entire amount of the loan outstanding is treated as an equity capital injection by the guarantor and recorded under “Direct Investment in the United States: Equity Capital: Increase in Liabilities to Direct Investors” at the time the guarantee is invoked, or (ii) the entire amount of the loan outstanding is treated as lending by the guarantor and recorded under “Direct Investment in the United States: Other Capital: Increase in Liabilities to Direct Investors” at the time the guarantee is invoked, or (iii) the periodic payments of principal and interest made by the guarantor are treated as equity capital injections by the guarantor and recorded under “Direct Investment in the United States: Equity Capital: Increase in Liabilities to Direct Investors” at the time the periodic payments are made, or (iv) the periodic payments of principal and interest made by the guarantor are treated as lending by the guarantor and recorded under “Direct Investment in the United States: Other Capital: Increase in Liabilities to Direct Investors” at the time the periodic payments are made.

Treatment of Reverse Investment

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

Assuming that the direct investment enterprise is a resident of the United States 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 the United States and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as "Portfolio Investment: Increase in Assets: Equity Securities", rather than as "Direct Investment in the United States: Equity Capital: Increase in Claims on Direct Investors". However, these transactions are considered to be immaterial. In accordance with the international standards, loan transactions are recorded as "Direct Investment in the United States: Other Capital: Increase in Claims on Direct Investors" and 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 the United States 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 United States 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 the United States by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in the United States by nonresidents that have the primary purpose of financial intermediation, transactions with affiliated banks are excluded from the data, except those involving equity capital and permanent debt, and transactions with 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 financial intermediaries involving permanent debt, because of the difficulty in identifying these transactions in the present data sources.)

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in the United States by nonresident enterprises and nonresident individuals. However, the data exclude real estate purchased exclusively for personal use. Land and buildings purchased in the United States by nonresident enterprises and nonresident individuals on long-term leases are included. (Long-term leases are defined as being leases of one year or longer.)

Treatment of Natural Resources Exploration

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

Exchange Rate Conversion

The data on dividends and distributed branch profits and equity capital are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Most data for income on debt (interest) are converted to the unit of account at the exchange rate prevailing on the day of the transaction, but some are converted at the average exchange rate for the period. Most data for reinvested earnings are converted to the unit of account at

the average exchange rate for the period, but some are converted at the exchange rate prevailing on the day of the transaction. The data on other capital are converted to the unit of account at the rates used in the balance sheets of the individual reporting enterprises.

DIRECT INVESTMENT IN THE UNITED STATES

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 Bureau of Economic Analysis (BEA) 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 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website (<http://www.bea.gov>). The data showing these components are not reported to the IMF for publication, only the data for total direct investment in the United States, as the data reported to the IMF are on a current-cost basis, for which breakdowns by component are not available, while the component data disseminated in the *Survey of Current Business* are on a historical cost basis.

Revision Practices

The data are preliminary when first released. The data are generally revised to incorporate updated source data. The data are revised once a year, typically for 2-3 years after their first release, and the revised data are disseminated together with the preliminary data for the latest year. When benchmark survey results become available, all annual data since the year of coverage of the benchmark survey are again revised, and at that point the data for three or more years prior to the current calendar year are generally considered to be final, that is, 36 months after their first release. However, revisions may also be made to data prior to the date of the most recent benchmark survey to incorporate changes in methodology or to smooth discontinuities in the series that result from benchmarking.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. In instances of major changes in methodology or data collection systems the historical data are revised back as far as data are available or the revision is thought to be material.

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 on an aggregate basis and the reporting requirements are compulsory.

Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of resident enterprises. Annual enterprise surveys of resident enterprises are used as a secondary data source for all components. Company accounts of direct investment enterprises resident in the United States and press reports are also used for cross-checking the data on and equity capital. The position data are estimated on three different valuation bases—market value, current cost, and historical cost. (The market value and current cost estimates are made at the aggregate level only and are included in the international investment position data for the United States. The data showing geographic and industrial activity breakdowns are valued at historical costs only.) The perpetual inventory method (a method of deriving position data from transactions data) is used to compile the equity capital data of the current cost estimates, with adjustments being made for price changes (changes in tangible asset prices), exchange rate changes, and other nontransaction changes (primarily capital gains and losses). For the

data compiled on the market value basis, adjustments are made for price changes to reflect changes in stock market prices, as well for as exchange rate changes, and other nontransaction changes (primarily capital gains and losses).

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and the OECD 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 BEA and is updated on an ongoing basis using information from (i) the financial press, and (ii) compulsory direct investment surveys. 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 and position data.

Geographic Classification

Annual data showing breakdowns by country for the inward direct investment position data are compiled by the BEA and disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website (<http://www.bea.gov>). The data showing country breakdowns for the inward direct investment position data are also reported to the OECD for publication. The data cover 153 countries and bilateral data are not used in the compilation of the data. In addition, annual data showing breakdowns by country for the inward direct investment position data are compiled by the BEA and disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website cited above. The annual data showing country breakdowns for the inward direct investment position data are also reported to the OECD for publication. The data cover all countries from which there is direct investment, namely, 153 countries.

In accordance with the international standards, the data are compiled on an "immediate country" basis. In addition, annual data compiled on an "ultimate country" basis are published once a year in limited detail. The five countries with the largest amount of direct investment in the United States as at the end of 2002 (ranked in descending order) were: the United Kingdom, the Netherlands, Japan, France, and Germany.

In addition to the data showing country breakdowns, annual data are compiled by the BEA showing breakdowns of the inward position data for the following regions/economic zones: (i) the EU15, and (ii) the OPEC countries. These data are disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website. The data are also reported to the OECD for publication.

There are differences in the data coverage, sources, etc. between the inward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD, and the aggregate inward position data reported to the IMF for publication. Specifically, the aggregate inward position data disseminated in the national publications and reported to the IMF for publication are compiled on both a current-cost basis and a market value basis, while the inward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD are compiled on an historical cost basis.

Industrial Classification

Annual data showing breakdowns by industrial activity for the inward direct investment position data are compiled by the BEA and disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website (<http://www.bea.gov>). The data showing breakdowns by industrial activity for the inward direct investment position data are also reported to the OECD for publication. The data show a breakdown for 15 industrial activities. The classification used is the 1997 North American Industry Classification System (NAICS), which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Beginning with the 2002 Benchmark Survey of Foreign Direct Investment in the United States the BEA has adopted a revised system of coding consisting of 205 codes based on the 2002 NAICS. However, until the results of that benchmark survey are finalized in 2006, the annual position data will be based on the 1997 NAICS. In addition, annual data showing breakdowns by industrial activity for the inward direct investment position data are compiled by the BEA and disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website cited above. The annual data are also reported to the OECD for

publication. The data cover all of the 197 BEA industry codes based on the 1997 NAICS in which there is investment.

The inward direct investment position data are classified on the basis of the industrial activity of the resident direct investment enterprises. Limited data classified by the industry of the ultimate beneficial owner (nonresident direct investor) are also disseminated. The five industrial activities with the largest amount of direct investment in the United States as at the end of 2002 (in descending order) were: (i) other industries, (ii) wholesale trade, (iii) finance and insurance, (iv) chemical manufacturing, and (v) information.

Annual data are disseminated once a year by the BEA in the *Survey of Current Business* for the inward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are disseminated with a timeliness of 6 months after the end of the reference period and are generally revised annually for 2 years. In addition, all annual estimates for the years following the year of the benchmark survey are revised again when the benchmark survey results become available. The annual data become final either (i) 30 months after the end of the reference year, or (ii) after the data from the benchmark survey become final, whichever date is the later. The five highest ranking partner countries as at the end of 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United Kingdom, the Netherlands, Japan, France, and Germany.

In addition, annual data compiled by the BEA for the inward direct investment position data showing a breakdown by both industrial activity and region/economic zone are disseminated with a timeliness of 6 months after the end of the reference period in the *Survey of Current Business*. These data are generally revised annually for 2 years. In addition, all annual estimates for the years following the year of the benchmark survey are revised again when the benchmark survey results become available. The annual data become final either (i) 30 months after the end of the reference year, or (ii) after the data from the benchmark survey become final, whichever date is the later.

There are differences in the data coverage, sources, etc. between the inward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD, and the aggregate inward position data reported to the IMF for publication. Specifically, the aggregate inward position data disseminated in the national publications and reported to the IMF for publication are compiled on a current-cost basis, while the inward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD are compiled on an historical cost basis.

B. Methodology

Definition of Direct Investment Enterprises in the United States

In accordance with the international standards, the basic criterion for defining direct investment enterprises in the United States 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. In accordance with the FCS, the data include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, to the extent to which they are included in the earnings of the directly owned enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group 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, the US methodology, rather than the FCS, is used to define the related group. Specifically, (i) the US methodology excludes, while the FCS may include, resident

enterprises of which the nonresident direct investor indirectly owns less than 10 percent, and (ii) the US methodology includes, while the FCS may exclude, resident enterprises in which the nonresident direct investor indirectly owns 10 percent or more, namely associates (minority owned affiliates) of associates.

Enterprises in the United States are required by law to (i) produce consolidated accounts covering their domestic subsidiaries and associate companies, and (ii) identify all transactions with the parent company. However, enterprises in the United States are not required by law to produce consolidated accounts covering their foreign subsidiaries and associate companies.

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, non-participating preference shares are classified as 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) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment in the United States.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, and (iii) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include positions associated with permanent debt between affiliated banks. (Permanent debt is defined as being debt that is both permanently invested in the enterprise by the parent company and has been positively identified as being used for non-banking type activities, such as to acquire buildings, equipment, and other fixed assets.) Contrary to the international standards, (i) the data include changes in insurance company technical reserves, (ii) the data do not include positions associated with permanent debt between affiliated financial intermediaries because of the difficulty in identifying these positions in the present data sources, and (iii) the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital.

The treatment of 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 varies depending on the treatment in the accounting records of the individual enterprises—either (i) the entire amount of the loan outstanding is treated as an equity capital injection by the guarantor and recorded under “Liabilities: Direct Investment in the United States: Equity Capital: Liabilities to Direct Investors” at the time the guarantee is invoked, or (ii) the entire amount of the loan outstanding is treated as lending by the guarantor and recorded under “Liabilities: Direct Investment in the United States: Other Capital: Liabilities to Direct Investors” at the time the guarantee is invoked, or (iii) the periodic payments of principal and interest made by the guarantor are treated as equity capital injections by the guarantor and recorded under “Liabilities: Direct Investment in the United States: Equity Capital: Liabilities to

Direct Investors” at the time the periodic payments are made, or (iv) the periodic payments of principal and interest made by the guarantor are treated as lending by the guarantor and recorded under “Liabilities: Direct Investment in the United States: Other Capital: Liabilities to Direct Investors” at the time the periodic payments are made.

Treatment of Reverse Investment

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

Assuming that the direct investment enterprise is a resident of the United States 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 the United States and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as “Assets: Portfolio Investment: Equity Securities”, rather than as “Liabilities: Direct Investment in the United States: Equity Capital: Claims on Direct Investors”. In accordance with the international standards, loan positions are recorded as “Liabilities: Direct Investment in the United States: Other Capital: Claims on Direct Investors”. However, these positions are not reported as “Liabilities: Direct Investment in the United States: Other Capital: Claims on Direct Investors” to the IMF as the data are reported to the IMF only at the aggregate level of total “Liabilities: Direct Investment in the United States”.

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in the United States 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 United States 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 the United States by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in the United States by nonresidents that have the primary purpose of financial intermediation, positions with affiliated banks are excluded from the data, except those involving equity capital and permanent debt, and positions with 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 financial intermediaries involving permanent debt because of the difficulty in identifying these positions in the present data sources.)

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include ownership of land and buildings in the United States by nonresident enterprises and nonresident individuals. However, the data exclude real estate held exclusively for personal use. Land and buildings owned in the United States by nonresident enterprises and nonresident individuals on long-term leases are included. (Long-term leases are defined as being leases of one year or longer.)

Treatment of Natural Resources Exploration

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

Valuation of Assets and Liabilities

The direct investment position data for the equity capital of listed enterprises, the equity capital of unlisted enterprises, and for other capital are valued on three different valuation bases—on a market value basis, on a current cost basis, and on an historical cost basis. The market value basis and current cost basis valuations are made at the aggregate level only and are included in the international investment position data. The data showing breakdowns by country and by industrial activity are valued on an historical cost basis only.

For the market value data, adjustments are made for price changes to reflect changes in stock market prices in the case of the listed enterprises, and changes in the Standard and Poors 500 index in the case of the unlisted enterprises. Exchange rate adjustments are made to reflect changes in the foreign-currency denominated assets and liabilities, and adjustments are also made for other nontransaction changes, which primarily reflect capital gains and losses. The other capital data are recorded at book values, which are considered to be approximately equal to market value.

For the current cost data, adjustments are made for changes in tangible asset prices of listed and unlisted enterprises, and exchange rate adjustments are made to reflect changes in the foreign-currency denominated assets and liabilities. Adjustments are also made for other nontransaction changes, which primarily reflect capital gains and losses. The other capital data are recorded at book values, which are considered to be approximately equal to market value.

For the historical cost data, no adjustments are made for price changes, but exchange rate adjustments are made to reflect changes in the foreign-currency denominated assets and liabilities. Adjustments are also made for other nontransaction changes, which primarily reflect capital gains and losses.

The book values used are primarily those shown in the accounting records of the resident direct investment enterprises. However, in some instances the accounting records of the nonresident direct investors can be used to cross-check the data.

Exchange Rate Conversion

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

DIRECT INVESTMENT ABROAD
BALANCE OF PAYMENTS (“OUTWARD TRANSACTIONS”) DATA

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data are compiled by the Bureau of Economic Analysis (BEA) 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 10 weeks after the end of the reference period on the BEA website (<http://www.bea.gov>) and are subsequently published in the BEA's *Survey of Current Business*, which is also available on the BEA website. The data are also reported to the IMF and the OECD for publication.

Revision Practices

The data are preliminary when first released. The data are generally revised to incorporate updated source data. Revised data for the first, second, and third quarter of the current calendar year are disseminated 3 months after their first release. Following dissemination of the fourth quarter data in March of the following year, the data for all four quarters are again revised and disseminated in June of each year. At the same time, quarterly estimates for two or more years before the given year are revised and disseminated. When benchmark survey results become available, all quarterly data since the first quarter of the year of coverage of the benchmark survey are again revised, and at that point the data for three or more years prior to the current calendar year are generally considered to be final, that is, up to 48 months after their first release. However, revisions may be made to data prior to the date of the most recent benchmark survey to incorporate changes in methodology or to smooth discontinuities in the series that result from benchmarking.

The revised status of the quarterly data is usually identified in the disseminated data, and the revision practices are always indicated in the text of the *Survey of Current Business* article in which the revised annual data are published. The general public are informed of the reasons for the revisions. In instances of major changes in methodology or data collection systems the historical data are revised back as far as data are available or the revision is thought to be material.

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 on an aggregate basis and the reporting requirements are compulsory.

Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of direct investors resident in the United States. Annual enterprise surveys of resident direct investors are used as a secondary data source for all components. Company accounts of direct investors resident in the United States and press reports are also used for cross-checking the data on income on equity and equity capital. Bilateral data are used for cross-checking the aggregate data on direct investment income with the data compiled by Canada. (The United States and Canada conduct bilateral Current Account reconciliations of the annual data.) In addition the company accounts of nonresident direct investment enterprises are used to cross-check the data on aspects of the direct investment income and equity capital data.

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

A business register of enterprises involved in direct investment is used to compile the outward direct investment transactions data. The register is maintained by the BEA and is updated on an ongoing basis using information from (i) the financial press, and (ii) compulsory direct investment surveys. 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 and position data.

Geographic Classification

Quarterly data showing breakdowns by country for the direct investment income and the direct investment financial flows data are compiled by the BEA and disseminated quarterly with a timeliness of 10 weeks after the end of the reference period on the BEA website (<http://www.bea.gov>). (Data for a limited number of countries are also subsequently published in the BEA's *Survey of Current Business*, which is also available on the BEA website.) The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data cover 57 countries and bilateral data are not used in the compilation of the data. However, bilateral data from Canada are used in the annual current account reconciliation with Canada, which is published separately.

In addition, annual data showing breakdowns by country for the direct investment income and the direct investment financial flows data are compiled by the BEA and disseminated once a year with a timeliness of 10 weeks after the end of the reference period on the BEA website cited above, and with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website. The annual data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data cover 57 countries for the most timely data disseminated on the BEA website, and 185 countries for the more comprehensive data published in the *Survey of Current Business*.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment abroad by residents of the United States during 2003 (ranked in descending order) were: Canada, the Netherlands, the United Kingdom, Switzerland, and Ireland. The five countries with the largest amount of direct investment financial flows from the United States during 2003 (ranked in descending order) were: the United Kingdom, the Netherlands, Switzerland, Canada, and Ireland.

In addition to the data showing country breakdowns, quarterly and annual data are compiled by the BEA showing breakdowns of both the direct investment income and direct investment financial flows for the following regions/economic zones: (i) the EU15, (ii) the OPEC countries and (iii) Eastern Europe. The quarterly data are disseminated quarterly with a timeliness of 10 weeks after the end of the reference period on the BEA website cited above, and the annual data disseminated once a year with a timeliness of 10 weeks after the end of the reference period on the BEA website.

There are differences in the data coverage, sources, etc. between the outward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD, and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication. Specifically, the aggregate outward data on direct investment income and direct investment financial flows disseminated in the national publications and reported to the IMF for publication are compiled on a current-cost basis (which approximates the current period value), while the outward transactions data showing geographic breakdowns disseminated in the national publications and reported to the OECD are compiled on an historical cost basis.

Industrial Classification

Quarterly data showing breakdowns by industrial activity for direct investment income and direct investment financial flows are compiled by the BEA and disseminated quarterly with a timeliness of 10 weeks after the end of the reference period on the BEA website (<http://www.bea.gov>). (Data for a limited number of industrial activities are also subsequently published in the BEA's *Survey of Current Business*, which is also available on the BEA website.) The data showing breakdowns by industrial activity for both the direct investment financial

flows and direct investment income are also reported to the OECD for publication. The data show a breakdown for 16 industrial activities. The classification used is the 1997 North American Industry Classification System (NAICS), which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Beginning with the 2004 Benchmark Survey of US Direct Investment Abroad, the BEA plans to adopt a revised system of coding consisting of 205 codes based on the 2002 NAICS.

In addition, annual data showing breakdowns by industrial activity for the direct investment income and the direct investment financial flows data are compiled by the BEA and disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website cited above. The annual data showing industrial activity breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD for publication. The data cover all of the 197 BEA industry codes based on the 1997 NAICS in which there is investment.

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the nonresident direct investment enterprises. Limited data classified by the industry of the US parent company (the resident direct investor) are also disseminated. The five industrial activities with the largest amount of direct investment income from investment abroad by residents of the United States during 2003 (in descending order) were: (i) other industries, (ii) wholesale trade, (iii) finance and insurance, (iv) mining, and (v) chemical manufacturing. The five industrial activities with the largest amount of direct investment financial flows from the United States during 2003 (in descending order) were: (i) other industries, (ii) finance and insurance, (iii) wholesale trade, (iv) mining, and (v) chemical manufacturing.

Annual data are disseminated once a year by the BEA in the *Survey of Current Business*, for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are disseminated with a timeliness of 6 months after the end of the reference period and are generally revised annually for 2 years. In addition, all annual estimates for the years following the year of the benchmark survey are revised again when the benchmark survey results become available. The annual data become final either (i) 30 months after the end of the reference year, or (ii) after the data from the benchmark survey become final, whichever date is the later. For direct investment income, the five highest ranking partner countries during 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: Canada, the Netherlands, the United Kingdom, Switzerland, and Singapore. For direct investment financial flows, the five highest ranking partner countries during 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United Kingdom, the Netherlands, Canada, Luxembourg, and Japan.

In addition, annual data compiled by the BEA for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone are disseminated with a timeliness of 6 months after the end of the reference period in the *Survey of Current Business*. These data are generally revised annually for 2 years. In addition, all annual estimates for the years following the year of the benchmark survey are revised again when the benchmark survey results become available. The annual data become final either (i) 30 months after the end of the reference year, or (ii) after the data from the benchmark survey become final, whichever date is the later.

There are differences in the data coverage, sources, etc. between the outward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD, and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication. Specifically, the aggregate outward data on direct investment income and direct investment financial flows disseminated in the national publications and reported to the IMF for publication are compiled on a current-cost basis (which approximates the current period value), while the outward transactions data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD are compiled on an historical cost basis.

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. In accordance with the FCS, (i) the direct investment earnings data include the relevant share of all indirectly-owned direct investment enterprises, to the extent that they are included in the earnings of the directly owned enterprises, and (ii) the direct investment financial flows data include most equity and other capital transactions made directly between resident enterprises of a related group and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other. However, contrary to the FCS, equity capital and loan transactions made directly between resident enterprises of a related group and nonresident enterprises that share a common direct investor but have no ownership in each other are not included. Furthermore, the US methodology, rather than the FCS, is used to define the related group. Specifically, (i) the US methodology excludes, while the FCS may include, nonresident enterprises of which the resident direct investor indirectly owns less than 10 percent, and (ii) the US methodology includes, while the FCS may exclude, nonresident enterprises in which the resident direct investor indirectly owns 10 percent or more, namely associates (minority owned affiliates) of associates.

Enterprises in the United States are required by law to (i) produce consolidated accounts covering their domestic subsidiaries and associate companies, and (ii) identify all transactions with the parent company. However, enterprises in the United States are not required by law to produce consolidated accounts covering their foreign subsidiaries and associate companies.

Measurement of Direct Investment Earnings

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

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

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

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, 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. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data are recorded on an accrual basis.

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, non-participating preference shares are classified as equity capital, rather than as other capital.

Treatment of Other Capital

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, and (iii) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include transactions associated with permanent debt between affiliated banks. (Permanent debt is defined as being debt that is both permanently invested in the nonresident enterprise by the parent company and has been positively identified as being used for non-banking type activities, such as to acquire buildings, equipment, and other fixed assets.) Contrary to the international standards, (i) the data include changes in insurance company technical reserves, (ii) the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital, and (iii) the data do not include transactions associated with permanent debt between affiliated financial intermediaries, because of the difficulty in identifying these transactions in the present data sources.

The treatment of instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise varies depending on the treatment in the accounting records of the individual enterprises—either (i) the entire amount of the loan outstanding is treated as an equity capital injection by the guarantor and recorded under “Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises” at the time the guarantee is invoked, or (ii) the entire amount of the loan outstanding is treated as lending by the guarantor and recorded under “Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises” at the time the guarantee is invoked, or (iii) the periodic payments of principal and interest made by the guarantor are treated as equity capital injections by the guarantor and recorded under “Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises” at the time the periodic payments are made, or (iv) the periodic payments of principal and interest made by the guarantor are treated as lending by the guarantor and recorded under “Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises” at the time the periodic payments are made.

Treatment of Reverse Investment

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

Assuming that the direct investment enterprise is a resident of the United States 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 the United States and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as "Portfolio Investment: Increase in Assets: Equity Securities", rather than as "Direct Investment in the United States: Equity Capital: Increase in Claims on Direct Investors". However, these transactions are considered to be immaterial. In accordance with the international standards, loan transactions are recorded as "Direct Investment in the United States: Other Capital: Increase in Claims on Direct Investors" and 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 the United States of (i) construction enterprises and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

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

Treatment of Special Purpose Entities (SPEs)

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

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings abroad by enterprises and individuals resident in the United States. However, the data exclude real estate purchased exclusively for personal use. Land and buildings purchased abroad by enterprises and individuals resident in the United States on long-term leases are included. (Long-term leases are defined as being leases of one year or longer.)

Treatment of Natural Resources Exploration

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

Exchange Rate Conversion

The data on dividends and distributed branch profits and equity capital are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Most data for income on debt (interest) are converted to the unit of account at the exchange rate prevailing on the day of the transaction, but some are converted at the average exchange rate for the period. Most data for reinvested earnings are converted to the unit of account at the average exchange rate for the period, but some are converted at the exchange rate prevailing on the day of the transaction. The data on other capital are converted to the unit of account at the rates used in the balance sheets of the individual reporting enterprises.

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 Bureau of Economic Analysis (BEA) 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 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website (<http://www.bea.gov>). The data showing these components are not reported to the IMF for publication, only the data for total direct investment in the United States, as the data reported to the IMF are on a current-cost basis, for which breakdowns by component are not available, while the component data disseminated in the *Survey of Current Business* are on a historical cost basis.

Revision Practices

The data are preliminary when first released. The data are generally revised to incorporate updated source data. The data are revised once a year, typically for 2-3 years after their first release, and the revised data are disseminated together with the preliminary data for the latest year. When benchmark survey results become available, all annual data since the year of coverage of the benchmark survey are again revised, and at that point the data for three or more years prior to the current calendar year are generally considered to be final, that is, 36 months after their first release. However, revisions may also be made to data prior to the date of the most recent benchmark survey to incorporate changes in methodology or to smooth discontinuities in the series that result from benchmarking.

The revised status of the data is clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. In instances of major changes in methodology or data collection systems the historical data are revised back as far as data are available or the revision is thought to be material.

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 on an aggregate basis and the reporting requirements are compulsory.

Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of direct investors resident in the United States. Annual enterprise surveys of resident direct investors are used as a secondary data source for all components. Company accounts of direct investors resident in the United States and press reports are also used for cross-checking the data on equity capital. The position data are estimated on three different valuation bases—market value, current cost, and historical cost. (The market value and current cost estimates are made at the aggregate level only and are included in the international investment position data for the United States. The data showing geographic and industrial activity breakdowns are valued at historical costs only.) The perpetual inventory method (a method of deriving position data from transactions data) is used to compile the equity capital data of the current cost estimates, with adjustments being made for price changes (changes in tangible asset prices), exchange rate changes, and other nontransaction changes (primarily capital gains and

losses). For the data compiled on the market value basis, adjustments are made for price changes to reflect changes in stock market prices, as well for as exchange rate changes, and other nontransaction changes (primarily capital gains and losses).

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and the OECD 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 BEA and is updated on an ongoing basis using information from (i) the financial press, and (ii) compulsory direct investment surveys. 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 and position data.

Geographic Classification

Annual data showing breakdowns by country for the outward direct investment position data are compiled by the BEA and disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website (<http://www.bea.gov>). The data showing country breakdowns for the outward direct investment position data are also reported to the OECD for publication. The data cover all countries in which there is direct investment, namely, 186 countries. 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 the United States as at the end of 2002 (ranked in descending order) were: the United Kingdom, Canada, the Netherlands, Bermuda, and Switzerland.

In addition to the data showing country breakdowns, annual data are compiled by the BEA showing breakdowns of the outward position data for the following regions/economic zones: (i) the EU15, (ii) the OPEC countries, and (iii) Eastern Europe. These data are disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website cited above.

There are differences in the data coverage, sources, etc. between the outward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD, and the aggregate outward position data reported to the IMF for publication. Specifically, the aggregate outward position data disseminated in the national publications and reported to the IMF for publication are compiled on both a current-cost basis and a market value basis, while the outward position data showing geographic breakdowns disseminated in the national publications and reported to the OECD are compiled on an historical cost basis.

Industrial Classification

Annual data showing breakdowns by industrial activity for the outward direct investment position data are compiled by the BEA and disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website (<http://www.bea.gov>). The data showing breakdowns by industrial activity for the outward direct investment position data are also reported to the OECD for publication. The data show a breakdown for 16 industrial activities. The classification used is the 1997 North American Industry Classification System (NAICS), which broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Beginning with the 2004 Benchmark Survey of US Direct Investment Abroad, the BEA plans to adopt a revised system of coding consisting of 205 codes based on the 2002 NAICS.

In addition, annual data showing breakdowns by industrial activity for the outward direct investment position data are compiled by the BEA and disseminated once a year with a timeliness of 6 months after the end of the reference period in the BEA's *Survey of Current Business*, which is also available on the BEA website cited above. The annual data showing industrial activity breakdowns for the outward direct investment position data are also reported to the OECD for publication. The data cover all of the 197 BEA industry codes based on the 1997 NAICS in which there is investment.

The outward direct investment position data are classified on the basis of the industrial activity of the nonresident direct investment enterprises. Very limited data classified by the industry of the U.S. parent (resident direct investor) are also disseminated. The five industrial activities with the largest amount of direct investment from the United States as at the end of 2002 (in descending order) were: (i) other industries, (ii) finance and insurance, (iii) wholesale trade, (iv) chemical manufacturing, and (v) mining.

Annual data are disseminated once a year by the BEA in the *Survey of Current Business* for the outward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are disseminated with a timeliness of 6 months after the end of the reference period and are generally revised annually for 2 years. In addition, all annual estimates for the years following the year of the benchmark survey are revised again when the benchmark survey results become available. The annual data become final either (i) 30 months after the end of the reference year, or (ii) after the data from the benchmark survey become final, whichever date is the later. The five highest ranking partner countries as at the end of 2002 (ranked in descending order) for which breakdowns by industrial activity are disseminated were: the United Kingdom, Canada, the Netherlands, Bermuda, and Switzerland.

In addition, annual data compiled by the BEA for the outward direct investment position data showing a breakdown by both industrial activity and region/economic zone are disseminated with a timeliness of 6 months after the end of the reference period in the *Survey of Current Business*. These data are generally revised annually for 2 years. In addition, all annual estimates for the years following the year of the benchmark survey are revised again when the benchmark survey results become available. The annual data become final either (i) 30 months after the end of the reference year, or (ii) after the data from the benchmark survey become final, whichever date is the later.

There are differences in the data coverage, sources, etc. between the outward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD, and the aggregate outward position data reported to the IMF for publication. Specifically, the aggregate outward position data disseminated in the national publications and reported to the IMF for publication are compiled on a current-cost basis, while the outward position data showing industrial activity breakdowns disseminated in the national publications and reported to the OECD are compiled on an historical cost basis.

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. In accordance with the FCS, the data include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, to the extent to which they are included in the earnings of the directly owned enterprises, and (ii) most equity capital and other capital positions held directly by resident enterprises of a related group 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. However, contrary to the FCS, equity capital and loan positions held directly between resident enterprises of a related group and nonresident enterprises that share a common direct investor but have no ownership in each other are not included. Furthermore, the US methodology, rather than the FCS, is used to define the related group. Specifically, (i) the US methodology excludes, while the FCS may include, nonresident enterprises of which the resident direct investor indirectly owns less than 10 percent, and (ii) the US methodology includes, while the FCS may exclude, nonresident

enterprises in which the resident direct investor indirectly owns 10 percent or more, namely associates (minority owned affiliates) of associates.

Enterprises in the United States are required by law to (i) produce consolidated accounts covering their domestic subsidiaries and associate companies, and (ii) identify all transactions with the parent company. However, enterprises in the United States are not required by law to produce consolidated accounts covering their foreign subsidiaries and associate companies.

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, non-participating preference shares are classified as 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) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment Abroad.)

Treatment of Other Capital

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, and (iii) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include positions associated with permanent debt between affiliated banks. (Permanent debt is defined as being debt that is both permanently invested in the nonresident enterprise by the parent company and has been positively identified as being used for non-banking type activities, such as to acquire buildings, equipment, and other fixed assets.) Contrary to the international standards, (i) the data include changes in insurance company technical reserves, (ii) the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital, and (iii) the data do not include positions associated with permanent debt between affiliated financial intermediaries because of the difficulty in identifying these positions in the present data sources.

The treatment of instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise varies depending on the treatment in the accounting records of the individual enterprises—either (i) the entire amount of the loan outstanding is treated as an equity capital injection by the guarantor and recorded under “Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises” at the time the guarantee is invoked, or (ii) the entire amount of the loan outstanding is treated as lending by the guarantor and recorded under “Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises” at the time the guarantee is invoked, or (iii) the periodic payments of principal and interest made by the guarantor are treated as equity capital injections by the guarantor and recorded under “Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises” at the time the periodic payments are made, or (iv) the periodic payments of principal and interest made by the guarantor are treated as lending by the

guarantor and recorded under "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises" at the time the periodic payments are made.

Treatment of Reverse Investment

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

Assuming that the direct investment enterprise is a resident of the United States 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 the United States and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Assets: Portfolio Investment: Equity Securities", rather than as "Liabilities: Direct Investment in the United States: Equity Capital: Claims on Direct Investors". In accordance with the international standards, loan positions are recorded as "Liabilities: Direct Investment in the United States: Other Capital: Claims on Direct Investors". However, these positions are not reported as "Liabilities: Direct Investment in the United States: Other Capital: Claims on Direct Investors" to the IMF as the data are reported to the IMF only at the aggregate level of total "Liabilities: Direct Investment in the United States".

Treatment of Quasi-corporations

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

Treatment of Offshore Enterprises

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

Treatment of Special Purpose Entities (SPEs)

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

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include ownership of land and buildings abroad by enterprises and individuals resident in the United States. However, the data exclude real estate owned exclusively for personal use. Land and buildings owned abroad by enterprises and individuals resident in the United States on long-term leases are included. (Long-term leases are defined as being leases of one year or longer.)

Treatment of Natural Resources Exploration

In accordance with the international standards, (i) the equity capital data include expenditure related to natural resources exploration abroad by residents of the United States, (ii) expenditure on bonus payments made by residents of the United States to the host country for the right to undertake exploration for natural resources is

included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (ii) in instances of the shutdown of a direct investment enterprise established abroad by residents of the United States for natural resource exploration, an adjustment to reflect that shutdown is made to the assets data on direct investment in the international investment position statistics.

Valuation of Assets and Liabilities

The direct investment position data for the equity capital of listed enterprises, the equity capital of unlisted enterprises, and for other capital are valued on three different valuation bases—on a market value basis, on a current cost basis, and on an historical cost basis. The market value basis and current cost basis valuations are made at the aggregate level only and are included in the international investment position data. The data showing breakdowns by country and by industrial activity are valued on an historical cost basis only.

For the market value data, adjustments are made for price changes to reflect changes in stock market prices in the case of the listed enterprises, and changes in the Morgan Stanley World Indices in the case of the unlisted enterprises. Exchange rate adjustments are made to reflect changes in the foreign-currency denominated assets and liabilities, and adjustments are also made for other nontransaction changes, which primarily reflect capital gains and losses. The other capital data are recorded at book values, which are considered to be approximately equal to market value.

For the current cost data, adjustments are made for changes in tangible asset prices of listed and unlisted enterprises, and exchange rate adjustments are made to reflect changes in the foreign-currency denominated assets and liabilities. Adjustments are also made for other nontransaction changes, which primarily reflect capital gains and losses. The other capital data are recorded at book values, which are considered to be approximately equal to market value.

For the historical cost data, no adjustments are made for price changes, but exchange rate adjustments are made to reflect changes in the foreign-currency denominated assets and liabilities. Adjustments are also made for other nontransaction changes, which primarily reflect capital gains and losses.

The book values used are those shown in both 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.