

This metadata describes the compilation practices, sources and methodology in use in 2001. Please refer to the contact persons below for details of any changes that may have been introduced by the country since that time.

Israel:

Direct Investment Compilation Practices, Data Sources and Methodology

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Direct Investment in Israel

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

Direct Investment Abroad

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

[Glossary of Direct Investment Terms and Definitions](#)

DIRECT INVESTMENT IN ISRAEL
BALANCE OF PAYMENTS (“TRANSACTIONS DATA”)

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on direct investment income (reinvested earnings only), and preliminary monthly data on direct investment financial flows (equity capital and other capital) are disseminated with a timeliness of 4 weeks after the end of the reference period. Data on income on equity and income on debt (interest) are not compiled.

Revision Policy: The data become final 4 months after they are first released.

Data Coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Data are collected on an individual transactions basis, and reporting requirements are compulsory.

Data Sources: The data are compiled primarily from an international transactions reporting system (ITRS). Information from (i) a direct reporting system (DRS), and (ii) the Israeli Security Authority, are used as secondary data sources. Press reports are used for cross-checking the data. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis using information from registers maintained by government licensing and regulatory authorities.

Geographic Classification: Monthly data showing country breakdowns are disseminated for direct investment financial flows (but not direct investment income) with a timeliness of 4 weeks after the end of the reference period. The coverage of the detailed data differ from the aggregate data as they are based on the information from the DRS, and the Israeli Security Authority, but not the ITRS. In accordance with the international standards, the debtor/creditor principle is used as the basis for the geographic allocation of the data. Bilateral information is not used in the compilation of the data. Data showing breakdowns by regions or economic zones are not compiled. The five countries with the largest amount of direct investment flows into Israel during 2001 (ranked in descending order) were: the United States, Canada, the United Kingdom, the Netherlands, and Belgium.

Industrial Classification: Data showing breakdowns by industrial sector (monthly data for the direct investment financial flows data, and quarterly data for the direct investment income data) are disseminated with a timeliness of 4 weeks after the end of the reference period. The coverage of the detailed data differ from the aggregate data as they are based on the information from the DRS, and the Israeli Security Authority, but not the ITRS. The data are based on the industry of the resident direct investment enterprise. The classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Data showing a more detailed classification (at the two digit level of the Standard Industrial Classification of All Economic Activities, 1993, published by the Central Bureau of Statistics) are also disseminated. Data showing breakdowns by industrial sector/region or economic zone, are disseminated for the direct investment financial flows data only for: (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vii) OPEC. Data showing breakdowns by industrial sector/partner country are also disseminated for the direct investment financial flows data.

B. Methodology

Definition of Direct Investment Enterprises in Israel: In accordance with the international standards, the basic criterion for defining direct investment enterprises in Israel is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management. However, (i) all nontraded enterprises are treated as direct investment enterprises regardless of the percentage of ownership by the nonresident direct investor, and (ii) the data include enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management, as evidenced by representation on the Board of Directors. No value threshold is used to identify direct investment enterprises. Unincorporated enterprises are treated differently from incorporated enterprises, in that unincorporated enterprises, such as branches, are excluded from the direct investment data.

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 direct investment earnings data include the relevant share of indirectly-owned direct investment enterprises. Contrary to the FCS, the direct investment financial flows data do not include all equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises, as the indirect relationships between untraded enterprises are only partially identified. Enterprises in Israel are required by law to (i) produce consolidated accounts covering their subsidiaries and associates, either domestic or foreign, or (ii) identify all transactions with the parent company.

Measurement of Direct Investment Earnings: Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate earnings of direct investment enterprises. In accordance with COPC, write-offs, and exchange rate gains or losses, are not included. Contrary to COPC, (i) deductions are not made for depreciation of capital, or for provisions for host-country income and corporation taxes, and (ii) realized and unrealized capital gains and losses are included. However, in accordance with the accounting rules in Israel, not all unrealized capital gains and losses are recorded in the accounts of enterprises. In accordance with the international standards, when a direct investment enterprise makes a loss, the net loss is recorded as negative reinvested earnings.

Treatment of Income on Equity (Dividends and Distributed Branch Profits): Not applicable. Data on income on equity (dividends and distributed branch profits) are not compiled at present.

Treatment of Reinvested Earnings and Undistributed Branch Profits: The data cover incorporated enterprises, but not unincorporated enterprises. In accordance with the international standards, reinvested earnings and undistributed branch profits are recorded in the period in which they are earned.

Treatment of Income on Debt (Interest): Not applicable. Data on income on debt (interest) are not compiled at present.

Treatment of Equity Capital: The data cover all types of financial flows affecting equity capital, namely, (i) listed voting stocks (shares), (ii) unlisted voting stocks, (iii) other non-voting stocks (including participating preference shares), and (iv) non-cash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, the data include equity transactions between affiliated banks and between affiliated financial intermediaries.

Treatment of Other Capital: The data cover long-term loans only. The data do not cover: (i) bonds and money market instruments, (ii) short-term loans, (iii) financial leases, (iv) trade credits, and (v) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, 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. Contrary to the international standards, the data do not include transactions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated financial intermediaries. (Transactions associated with permanent debt between affiliated banks are not applicable at present.)

Treatment of Reverse Investment: Transactions involving reverse investment are not treated in accordance with the international standards in all instances. Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, equity and loan transactions are recorded in accordance with the international standards as “Direct Investment Abroad: Increase in Claims on Affiliated Enterprises”. However, contrary to the international standards, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity transactions are recorded as “Portfolio Investment: Increase in Assets: Equity Securities”, and loan transactions are recorded as “Direct Investment in Israel: Decrease in Liabilities to Direct Investors”, rather than as “Direct Investment in Israel: Increase in Claims on Direct Investors” in both instances.

Treatment of Quasi-corporations: Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Israel by nonresidents of (i) mobile equipment, such as ships, aircraft, and drilling rigs, and (ii) construction enterprises.

Treatment of Offshore Enterprises: Not applicable. There are no offshore enterprises established in Israel by nonresidents at present.

Treatment of Special Purpose Entities (SPEs): Not applicable. There are no SPEs established in Israel by nonresidents at present.

Treatment of Land and Buildings: In accordance with the international standards, the data include purchases and sales of land and buildings in Israel by nonresident enterprises and individuals.

Treatment of Natural Resources Exploration: Contrary to the international standards, the direct investment data do not include expenditure related to natural resources exploration in Israel by nonresidents. However, it is planned to include such expenditure in the direct investment data in the future.

Exchange Rate Conversion: Financial flows transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Reinvested earnings are converted at the exchange rate prevailing on the day of the reported balance sheet (that is, the end of the accounting period).

DIRECT INVESTMENT IN ISRAEL
INTERNATIONAL INVESTMENT POSITION (“POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on (i) equity capital and reinvested earnings, and (ii) other capital, are disseminated with a timeliness of 4 months after the end of the reference period.

Revision Policy: The data are revised to incorporate revisions to the data on unlisted enterprises. The data become final 4 months after they are first released.

Data Coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Reporting requirements are compulsory.

Data Sources: The data are compiled primarily from a direct reporting system. Secondary data sources used are: (i) transactions data on banks obtained from the Banks Supervisor, and (ii) data from the Israeli Securities Authority collected by the Foreign Exchange Control Authority. The perpetual inventory method (a method for deriving position data from transactions data) is used for the transactions data on banks obtained from the Banks Supervisor, but without adjustments for price changes or exchange rate changes. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis using information from registers maintained by government licensing and regulatory authorities.

Geographic Classification: Quarterly data showing country breakdowns are disseminated with a timeliness of 4 months after the end of the reference period. The coverage of the detailed data differ from the aggregate data as they are based on the information from the DRS, and the Israeli Security Authority only. In accordance with the international standards, the data are compiled on an “immediate country” basis. Bilateral information is not used in the compilation of the data. Data showing breakdowns by regions or economic zones are not compiled. The five countries with the largest amount of direct investment in Israel as at the end of 2001 (ranked in descending order) were: the United States, Canada, the United Kingdom, the Netherlands, and Belgium.

Industrial Classification: Quarterly data showing breakdowns by industrial sector are disseminated with a timeliness of 4 months after the end of the reference period. The coverage of the detailed data differ from the aggregate data as they are based on the information from the DRS, and the Israeli Security Authority only. The data are based on the industry of the resident direct investment enterprise. The classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Data showing a more detailed classification (at the two digit level of the Standard Industrial Classification of All Economic Activities, 1993, published by the Central Bureau of Statistics) are also disseminated. Data showing breakdowns by industrial sector/region or economic zone, are disseminated for the direct investment financial flows data only for: (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vii) OPEC. Data showing breakdowns by industrial sector/partner country are also disseminated.

B. Methodology

Definition of Direct Investment Enterprises in Israel: In accordance with the international standards, the basic criterion for defining direct investment enterprises in Israel is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management. However, (i) all nontraded enterprises are treated as direct investment enterprises regardless of the percentage of ownership by the nonresident direct investor, and (ii) the data include enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management, as evidenced by representation on the Board of Directors. No value threshold is used to identify direct investment enterprises. Unincorporated enterprises are treated differently from incorporated enterprises, in that unincorporated enterprises, such as branches, are excluded from the direct investment data.

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 relevant share of indirectly-owned direct investment enterprises is included in (i) the reinvested earnings data, and (ii) the equity and other capital position data. However, the indirect relationships between untraded enterprises are only

partially identified. Enterprises in Israel are required by law to (i) produce consolidated accounts covering their subsidiaries and associates, either domestic or foreign, or (ii) identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings: The data cover all types of position data affecting equity capital and reinvested earnings, namely, (i) listed voting stocks (shares), (ii) unlisted voting stocks, (iii) other non-voting stocks, including participating preference shares, (iv) non-cash acquisitions of equity, such as through the provision of capital equipment, and (v) reinvested earnings. In accordance with the international standards, the data include equity positions between affiliated banks and between affiliated financial intermediaries. The reinvested earnings data cover incorporated enterprises, but not unincorporated enterprises, and, in accordance with the international standards, are recorded in the period in which they are earned. (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 Israel.)

Treatment of Other Capital: The data cover long-term loans only. The data do not cover: (i) bonds and money market instruments, (ii) short-term loans, (iii) financial leases, (iv) trade credits, and (v) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, 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, the data include positions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated financial intermediaries. (Positions associated with permanent debt between affiliated banks are not applicable at present.)

Treatment of Reverse Investment: Positions involving reverse investment are not treated in accordance with the international standards in all instances. Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, equity and loan positions are recorded in accordance with the international standards as "Assets: Direct Investment Abroad: Claims on Affiliated Enterprises". However, contrary to the international standards, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity positions are recorded as "Assets: Portfolio Investment: Equity Securities", and loan positions are recorded as "Liabilities: Direct Investment in Israel: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Israel: Claims on Direct Investors" in both instances.

Treatment of Quasi-corporations: Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Israel by nonresidents of (i) mobile equipment, such as ships, aircraft, and drilling rigs, and (ii) construction enterprises.

Treatment of Offshore Enterprises: Not applicable. There are no offshore enterprises established in Israel by nonresidents at present.

Treatment of Special Purpose Entities (SPEs): Not applicable. There are no SPEs established in Israel by nonresidents at present.

Treatment of Land and Buildings: In accordance with the international standards, the data include ownership of land and buildings in Israel by nonresident enterprises and individuals.

Treatment of Natural Resources Exploration: Contrary to the international standards, the direct investment data do not include expenditure related to natural resources exploration in Israel by nonresidents. However, it is planned to include such expenditure in the direct investment data in the future.

Valuation: In accordance with the international standards, the positions for listed companies are recorded at market values. Contrary to the international standards, the positions for unlisted companies are recorded at book value, which, in accordance with the accounting procedures in Israel, are the historical costs, adjusted by the consumer price index.

Exchange Rate Conversion: The exchange rate prevailing on the day to which the position data relate is used to convert foreign currencies into the unit of account.

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

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on direct investment income (reinvested earnings only), and preliminary monthly data on direct investment financial flows (equity capital and other capital) are disseminated with a timeliness of 4 weeks after the end of the reference period. Data on income on equity and income on debt (interest) are not compiled.

Revision Policy: The data become final 4 months after they are first released.

Data Coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Data are collected on an individual transactions basis, and reporting requirements are compulsory.

Data Sources: The data are compiled from (i) an international transactions reporting system (ITRS), and (ii) a direct reporting system (DRS). Press reports are used for cross-checking the data. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis using information from (i) registers maintained by government licensing and regulatory authorities, and (ii) the DRS.

Geographic Classification: Data showing country breakdowns (monthly data for the direct investment financial flows data, and quarterly data for the direct investment income data) are disseminated with a timeliness of 4 weeks after the end of the reference period. The coverage of the detailed data differ from the aggregate data as they are based on the information from the DRS, but not the ITRS. In accordance with the international standards, the debtor/creditor principle is used as the basis for the geographic allocation of the data. Bilateral information is not used in the compilation of the data. Data showing breakdowns by regions or economic zones are not compiled. The five countries with the largest amount of direct investment flows from Israel during 2001 (ranked in descending order) were: the United States, the United Kingdom, the Netherlands, Germany, and Switzerland.

Industrial Classification: Data showing breakdowns by industrial sector (monthly data for the direct investment financial flows data, and quarterly data for the direct investment income data) are disseminated with a timeliness of 4 weeks after the end of the reference period. The coverage of the detailed data differ from the aggregate data as they are based on the information from the DRS, but not the ITRS. The data are based on the industry of the resident direct investor. The classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Data showing a more detailed classification are also disseminated. Data showing a more detailed classification (at the two digit level of the Standard Industrial Classification of All Economic Activities, 1993, published by the Central Bureau of Statistics) are also disseminated. Data showing breakdowns by industrial sector/region or economic zone, are disseminated for the direct investment financial flows data only for: (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vii) OPEC. Data showing breakdowns by industrial sector/partner country are also disseminated for the direct investment financial flows data.

B. Methodology

Definition of Direct Investors Abroad: In accordance with the international standards, the basic criterion for defining direct investors abroad is 10 percent ownership of a nonresident enterprise by a resident investor, regardless of whether the investor has an effective voice in management. However, all resident investors in nontraded enterprises abroad (which comprise a significant proportion of direct investment abroad) are treated as direct investors regardless of the percentage ownership in the nonresident enterprise. In addition, the data include investors which own less than 10 percent of a nonresident direct investment enterprise but have an effective voice in management, as evidenced by representation on the Board of Directors. No value threshold is used to identify direct investors, although a threshold of USD 5 million investment in the nonresident direct investment enterprise is used to identify those direct investors that are asked to report under the direct reporting system. Unincorporated enterprises are treated differently from incorporated enterprises, in that unincorporated enterprises, such as branches, are excluded from the direct investment data.

Treatment of Indirectly-Owned Direct Investment Enterprises: The “Fully Consolidated System” (FCS) recommended in the international standards is fully applied. Specifically, (i) the direct investment earnings data include the relevant share of indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data include the equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises. Enterprises in Israel are required by law to (i) produce consolidated accounts covering their subsidiaries and associates, either domestic or foreign, or (ii) identify all transactions with the parent company.

Measurement of Direct Investment Earnings: Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate earnings of direct investment enterprises. In accordance with COPC, write-offs, and exchange rate gains or losses, are not included. Contrary to COPC, (i) deductions are not made for depreciation of capital, or for provisions for host-country income and corporation taxes, and (ii) realized and unrealized capital gains and losses are included. However, in accordance with the accounting rules in Israel, not all unrealized capital gains and losses are recorded in the accounts of enterprises. In accordance with the international standards, when a direct investment enterprise makes a loss, the net loss is recorded as negative reinvested earnings.

Treatment of Income on Equity (Dividends and Distributed Branch Profits): Not applicable. Data on income on equity (dividends and distributed branch profits) are not compiled at present.

Treatment of Reinvested Earnings and Undistributed Branch Profits: The data cover incorporated enterprises, but not unincorporated enterprises. In accordance with the international standards, reinvested earnings and undistributed branch profits are recorded in the period in which they are earned.

Treatment of Income on Debt (Interest): Not applicable. Data on income on debt (interest) are not compiled at present.

Treatment of Equity Capital: The data cover all types of financial flows affecting equity capital: (i) listed voting stocks (shares), (ii) unlisted voting stocks, (iii) other non-voting stocks (including participating preference shares) and (iv) non-cash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, the data include equity transactions between affiliated banks and between affiliated financial intermediaries.

Treatment of Other Capital: The data cover long-term loans only. The data do not cover: (i) bonds and money market instruments, (ii) short-term loans, (iii) financial leases, (iv) trade credits, and (v) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, 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. Contrary to the international standards, the data do not include transactions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated financial intermediaries. (Transactions associated with permanent debt between affiliated banks are not applicable at present.)

Treatment of Reverse Investment: Transactions involving reverse investment are not treated in accordance with the international standards in all instances. Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, equity and loan transactions are recorded in accordance with the international standards as “Direct Investment Abroad: Increase in Claims on Affiliated Enterprises”. However, contrary to the international standards, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity transactions are recorded as “Portfolio Investment: Increase in Assets: Equity Securities”, and loan transactions are recorded as “Direct Investment in Israel: Decrease in Liabilities to Direct Investors”, rather than as “Direct Investment in Israel: Increase in Claims on Direct Investors” in both instances.

Treatment of Quasi-corporations: Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by Israeli residents of (i) mobile equipment, such as ships, aircraft, and drilling rigs, and (ii) construction enterprises.

Treatment of Offshore Enterprises: In accordance with the international standards, activities of offshore enterprises established abroad by Israeli residents are generally 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 Israeli residents are generally included in the direct investment data, and (ii) in the case of SPEs established abroad by Israeli residents that have the sole purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries, except transactions in equity capital and permanent debt, are excluded from the data.

Treatment of Land and Buildings: In accordance with the international standards, the data include purchases and sales of land and buildings abroad by Israeli resident enterprises and individuals.

Treatment of Natural Resources Exploration: Contrary to the international standards, the direct investment data do not include expenditure related to natural resources exploration abroad by Israeli residents.

Exchange Rate Conversion: Financial flows transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Reinvested earnings are converted at the exchange rate prevailing on the day of the reported balance sheet (that is, the end of the accounting period).

ISRAEL: DIRECT INVESTMENT ABROAD
INTERNATIONAL INVESTMENT POSITION (“POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data covering the banking sector only are disseminated on (i) equity capital and reinvested earnings, and (ii) other capital, with a timeliness of 4 months after the end of the reference period. Annual (calendar year) data covering all sectors are disseminated on (i) equity capital and reinvested earnings, and (ii) other capital, with a timeliness of 6 months after the end of the reference period.

Revision Policy: The quarterly data on the banking sector become final 6-7 months after they are first released. The annual data are generally considered to be final at the time they are released.

Data Coverage: No major industrial sectors are excluded from the annual data.

Data Collection Methods: Reporting requirements are compulsory.

Data Sources: The quarterly data on the banking sector are compiled primarily from: (i) a direct reporting system (DRS), (ii) data on banks from the Banks Supervisor, and (iii) data from the Foreign Exchange Control Authority. An international transactions reporting system (ITRS) is used as a secondary data source. The perpetual inventory method (a method for deriving position data from transactions data) is used, with adjustments for price changes and exchange rate changes. The annual data covering all sectors are compiled from a direct reporting system. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis using information from (i) registers maintained by government licensing and regulatory authorities, and (ii) the DRS.

Geographic Classification: Data showing country breakdowns (quarterly for the banking sector and annual for the data covering all sectors) are disseminated with a timeliness of 4 months after the end of the reference period and 6 months after the end of the reference period, respectively. The coverage of the detailed data differ from the aggregate data as they are based on the information from the DRS, and the Israeli Security Authority only. In accordance with the international standards, the data are compiled on an “immediate country” basis. Bilateral information is not used in the compilation of the data. Data showing breakdowns by regions or economic zones are not compiled. The five countries with the largest amount of direct investment from Israel as at the end of 2001 (ranked in descending order) were: the United States, the United Kingdom, the Netherlands, Germany, and Switzerland.

Industrial Classification: Data showing country breakdowns (quarterly for the banking sector and annual for the data covering all sectors) are disseminated with a timeliness of 4 months after the end of the reference period and 6 months after the end of the reference period, respectively. The coverage of the detailed data differ from the aggregate data as they are based on the information from the DRS, and the Israeli Security Authority only. The data are based on the industry of the resident direct investor. The classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Data showing a more detailed classification are also disseminated. Data showing a more detailed classification (at the two digit level of the Standard Industrial Classification of All Economic Activities, 1993, published by the Central Bureau of Statistics) are also disseminated. Data showing breakdowns by industrial sector/region or economic zone, are disseminated for the direct investment financial flows data only for: (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vii) OPEC. Data showing breakdowns by industrial sector/partner country are also disseminated.

B. Methodology

Definition of Direct Investors Abroad: In accordance with the international standards, the basic criterion for defining direct investors abroad is 10 percent ownership of a nonresident enterprise by a resident investor, regardless of whether the investor has an effective voice in management. However, all resident investors in nontraded enterprises abroad (which comprise a significant proportion of direct investment abroad) are treated as direct investors regardless of the percentage ownership in the nonresident enterprise. In addition, the data include investors which own less than 10 percent of a nonresident direct investment enterprise but have an effective voice in management, as evidenced by representation on the Board of Directors. No value threshold is used to identify direct investors, although a threshold of USD 5 million investment in the nonresident direct investment enterprise is used to identify those direct investors that are asked to report under the direct reporting

system. Unincorporated enterprises are treated differently from incorporated enterprises, in that unincorporated enterprises, such as branches, are excluded from the direct investment data.

Treatment of Indirectly-Owned Direct Investment Enterprises: The “Fully Consolidated System” (FCS) recommended in the international standards is fully applied. Specifically, the relevant share of indirectly-owned direct investment enterprises is included in (i) the reinvested earnings data, and (ii) the equity and other capital position data. Enterprises in Israel are required by law to (i) produce consolidated accounts covering their subsidiaries and associates, either domestic or foreign, or (ii) identify all transactions with the parent company.

Treatment of Equity Capital and Reinvested Earnings: The data cover all types of position data affecting equity capital and reinvested earnings, namely, (i) listed voting stocks (shares), (ii) unlisted voting stocks, (iii) other non-voting stocks, including participating preference shares, (iv) non-cash acquisitions of equity, such as through the provision of capital equipment, and (v) reinvested earnings. In accordance with the international standards, the data include equity positions between affiliated banks and between affiliated financial intermediaries. The reinvested earnings data cover incorporated enterprises, but not unincorporated enterprises, and, in accordance with the international standards, are recorded in the period in which they are earned. (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 data cover long-term loans only. The data do not cover: (i) bonds and money market instruments, (ii) short-term loans, (iii) financial leases, (iv) trade credits, and (v) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, 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, the data include positions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated financial intermediaries. (Positions associated with permanent debt between affiliated banks are not applicable at present.)

Treatment of Reverse Investment: Positions involving reverse investment are not treated in accordance with the international standards in all instances. Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, equity and loan positions are recorded in accordance with the international standards as “Assets: Direct Investment Abroad: Claims on Affiliated Enterprises”. However, contrary to the international standards, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity positions are recorded as “Assets: Portfolio Investment: Equity Securities”, and loan positions are recorded as “Liabilities: Direct Investment in Israel: Liabilities to Direct Investors”, rather than as “Liabilities: Direct Investment in Israel: Claims on Direct Investors” in both instances.

Treatment of Quasi-corporations: Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by Israeli residents of (i) mobile equipment, such as ships, aircraft, and drilling rigs, and (ii) construction enterprises.

Treatment of Offshore Enterprises: In accordance with the international standards, activities of offshore enterprises established abroad by Israeli residents are generally 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 Israeli residents are generally included in the direct investment data, and (ii) in the case of SPEs established abroad by Israeli residents that have the sole purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries, except positions involving equity capital and permanent debt, are excluded from the data.

Treatment of Land and Buildings: In accordance with the international standards, the data include ownership of land and buildings abroad by Israeli resident enterprises and individuals.

Treatment of Natural Resources Exploration: Contrary to the international standards, the direct investment data do not include expenditure related to natural resources exploration abroad by Israeli residents.

Valuation: In accordance with the international standards, the positions for listed companies are recorded at market values. Contrary to the international standards, the positions for unlisted companies are recorded at book value, which, in accordance with the accounting procedures in Israel, are the historical costs, adjusted by the consumer price index.

Exchange Rate Conversion: The exchange rate prevailing on the day to which the position data relate is used to convert foreign currencies into the unit of account.