

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.

## Italy:

# Direct Investment Compilation Practices, Data Sources and Methodology

### Contact person:

Mrs. Sandra Napolitano, or Mrs. Valerie Pellegrini  
Statistical Department  
Ufficio Italiano dei Cambi  
Via 4 Fontane 123  
Casella Postale N463  
00184 Roma  
Centro Corrispondenza  
Italy

Telephone: (39-06) 4663-4732  
Fax: (39-06) 4663-4882  
E-mail: s.napolitano@UIC.it

### Direct Investment in Italy

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

### Direct Investment Abroad

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

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

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

**A. Compilation Practices and Data Sources**

**Data Availability:** Preliminary monthly data on (i) direct investment income (income on equity, and reinvested earnings only), and (ii) direct investment financial flows (equity capital and other capital) are disseminated with a timeliness of 6 weeks after the end of the reference month for the most timely data, and 12 weeks after the end of the reference month for the most comprehensive data. Data on income on debt (interest) are not compiled.

**Revision Policy:** The data are revised 12 weeks after the end of the reference month to take account of errors or late responses received from reporting enterprises and banks. The data are considered to be final 5 months after the end of the reference year.

**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 annual enterprise surveys of direct investment enterprises in Italy is used as a source for the estimates of reinvested earnings. (An annual profitability rate is estimated on the basis of the survey, and reinvested earnings are calculated as the difference between the total estimated direct investment income and income distributed. The annual profitability rate is divided into 12 equal amounts and the monthly estimates are calculated on the basis of the direct investment stock data at the end of the month preceding the reference month.) A business register of enterprises involved in direct investment is not maintained at present.

**Geographic Classification:** Monthly data showing country breakdowns are disseminated for direct investment income and direct investment financial flows with a timeliness of 12 weeks after the end of the reference month. The transactor principle, rather than 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 are disseminated showing breakdowns of both direct investment income and direct investment financial flows by regions or economic zones for: (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vi) OPEC. The five countries with the largest amount of direct investment flows into Italy during 2001 (ranked in descending order) were: France, Luxembourg, the United Kingdom, the United States, and the Netherlands.

**Industrial Classification:** Annual data showing breakdown by industrial sectors are disseminated for direct investment income and direct investment financial flows, with a timeliness of 5 months after the end of the reference year. The data are based on the industrial sector 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 are disseminated showing breakdowns by industrial sector/region or economic zone for: (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vi) OPEC. Data showing breakdowns by industrial sector/partner country are also disseminated.

**B. Methodology**

**Definition of Direct Investment Enterprises in Italy:** In accordance with the international standards, the basic criterion for defining direct investment enterprises in Italy is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management. Enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. However, unincorporated enterprises are always treated as being direct investment enterprises, regardless of the percentage ownership held by a nonresident investor. No value threshold is used to identify direct investment enterprises.

**Treatment of Indirectly-Owned Direct Investment Enterprises:** The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Contrary to the FCS, (i) the direct investment earnings data do not include the relevant share of indirectly-owned direct investment enterprises, and (ii) the

direct investment financial flows data do not include equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises in a “horizontal” relationship (that is, the relationship between affiliated enterprises that share only the same direct investor). However, equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises in a “vertical” relationship are included. Listed enterprises in Italy are required by law to (i) produce consolidated accounts covering their subsidiaries and associates, either domestic or foreign, and (ii) identify all transactions with the parent company.

**Measurement of Direct Investment Earnings:** Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate earnings of direct investment enterprises. In accordance with COPC, deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes. However, contrary to COPC, the data include realized and unrealized capital gains and losses, write-offs, and exchange rate gains or losses. 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):** The data cover both incorporated enterprises and unincorporated enterprises. Contrary to the international standards, dividends and distributed branch profits are recorded on the date they are paid, rather than the date they are payable. In accordance with the international standards, the data are recorded gross of any withholding taxes.

**Treatment of Reinvested Earnings and Undistributed Branch Profits:** The data cover both incorporated enterprises and unincorporated enterprises. Contrary to the international standards, reinvested earnings and undistributed branch profits are not recorded in the period in which they are earned, but instead are recorded using the earnings of the current year, minus the dividends of the previous year.

**Treatment of Income on Debt (Interest):** Not applicable. Data on income on debt (interest) are not compiled at present. However, there are plans to begin to compile and disseminate these data beginning with the most comprehensive data for 2002.

**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: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, and (v) trade credits. The data do not cover 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 transactions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated banks and between affiliated financial intermediaries.

**Treatment of Reverse Investment:** Transactions involving reverse investment are not treated in accordance with the international standards in all instances. Assuming that the direct investment enterprise is a resident of Italy and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, 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 and loan transactions are recorded as “Direct Investment in Italy: Decrease in Liabilities to Direct Investors”, rather than as “Direct Investment in Italy: 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 Italy by nonresidents of mobile equipment, such as ships, aircraft, and drilling rigs. Quasi-corporations arising from the operation in Italy by nonresidents of construction enterprises cannot be identified at present.

**Treatment of Offshore Enterprises:** In accordance with the international standards, activities of offshore enterprises established in Italy by nonresidents 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 in Italy by nonresidents are generally included in the direct investment data, and (ii) in the case

of SPEs established in Italy by nonresidents 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. However, there may be gaps in the coverage of the data as the present data collection system does not provide a legal definition of the activities of SPEs.

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

**Treatment of Natural Resources Exploration:** Contrary to the international standards, the data do not include expenditure related to natural resources exploration in Italy by nonresidents.

**Exchange Rate Conversion:** Transactions are converted to the unit of account at the average exchange rate in the period in which the transactions are recorded.

## DIRECT INVESTMENT IN ITALY

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

#### A. Compilation Practices and Data Sources

**Data Availability:** Annual (calendar year) data on (i) equity capital and reinvested earnings, and (ii) other capital, are disseminated with a timeliness of 130 days (approximately 4.5 months) after the end of the reference year.

**Revision Policy:** The data are revised 5 months after the end of the reference year, at which time they are considered to be final.

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

**Data Collection Methods:** Reporting requirements are compulsory.

**Data Sources:** The position data are compiled primarily from an international transactions reporting system (ITRS), using the perpetual inventory method (a method for deriving position data from transactions data), with adjustments for price changes and exchange rate changes. Starting in 1998, an annual survey of direct investment enterprises in Italy has been used as a complementary source to calculate the data on reinvested earnings. (An annual profitability rate is estimated on the basis of the survey, and reinvested earnings are calculated as the difference between the total estimated direct investment income and income distributed.) There are plans to use this survey to compile the position data in the future. A business register of enterprises involved in direct investment is not maintained at present.

**Geographic Classification:** Annual data showing country breakdowns are disseminated with a timeliness of 5 months after the end of the reference year. 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 are disseminated showing breakdowns by regions or economic zones for: (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vi) OPEC. The five countries with the largest amount of direct investment in Italy as at the end of 2001 (ranked in descending order) were: France, the Netherlands, Switzerland, the United States, and the United Kingdom.

**Industrial Classification:** Annual data showing breakdowns by industrial sector are disseminated with a timeliness of 5 months after the end of the reference year. 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 are disseminated showing breakdowns by industrial sector/region or economic zone for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vi) OPEC. Data showing breakdowns by industrial sector/partner country are also disseminated.

#### B. Methodology

**Definition of Direct Investment Enterprises in Italy:** In accordance with the international standards, the basic criterion for defining direct investment enterprises in Italy is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management. Enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. However, unincorporated enterprises are always treated as being direct investment enterprises, regardless of the percentage ownership held by a nonresident investor. No value threshold is used to identify direct investment enterprises.

**Treatment of Indirectly-Owned Direct Investment Enterprises:** The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Contrary to the FCS, (i) the relevant share of indirectly-owned direct investment enterprises is not included in the reinvested earnings data, and (ii) the equity and other capital position data do not include positions between resident enterprises and nonresident enterprises of the same group of related enterprises in a “horizontal” relationship (that is, the relationship between affiliated enterprises that share only the same direct investor). However, equity and other capital positions between resident enterprises and nonresident enterprises of the same group of related enterprises in a “vertical” relationship are included. Listed enterprises in Italy are required by law to (i) produce consolidated accounts

covering their subsidiaries and associates, either domestic or foreign, and (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 both incorporated enterprises and unincorporated enterprises, but, contrary to the international standards, are not 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 Italy.)

**Treatment of Other Capital:** The data cover: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, and (v) trade credits. The data do not cover 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 banks and between affiliated financial intermediaries.

**Treatment of Reverse Investment:** Positions involving reverse investment are not treated in accordance with the international standards in all instances. Assuming that the direct investment enterprise is a resident of Italy and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, 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 and loan positions are recorded as "Liabilities: Direct Investment in Italy: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Italy: 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 Italy by nonresidents of mobile equipment, such as ships, aircraft, and drilling rigs. Quasi-corporations arising from the operation by nonresidents of construction enterprises in Italy cannot be identified at present.

**Treatment of Offshore Enterprises:** In accordance with the international standards, activities of offshore enterprises established in Italy by nonresidents 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 in Italy by nonresidents are generally included in the direct investment data, and (ii) in the case of SPEs established in Italy by nonresidents 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. However, there may be gaps in the coverage of the data as the present data collection system does not provide a legal definition of the activities of SPEs.

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

**Treatment of Natural Resources Exploration:** Contrary to the international standards, the data do not include expenditure related to natural resources exploration in Italy by nonresidents.

**Valuation:** In accordance with the international standards, the data are reported at market values. In the case of the equity capital data of unlisted companies, an index linked to the market value of the stock exchange is used to calculate the market value.

**Exchange Rate Conversion:** The exchange rate prevailing on the last day of the reference period is used to convert foreign currencies into the unit of account.

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

**A. Compilation Practices and Data Sources**

**Data Availability:** Preliminary monthly data on (i) direct investment income (income on equity, and reinvested earnings only), and (ii) direct investment financial flows (equity capital and other capital) are disseminated with a timeliness of 6 weeks after the end of the reference month for the most timely data, and 12 weeks after the end of the reference month for the most comprehensive data. Data on income on debt (interest) are not compiled.

**Revision Policy:** The data are revised 12 weeks after the end of the reference month to take account of errors or late responses received from reporting enterprises and banks. The data are considered to be final 5 months after the end of the reference year.

**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 annual enterprise surveys of direct investment enterprises in Italy is used as a complementary source. (An annual profitability rate is estimated on the basis of the survey, and reinvested earnings are calculated as the difference between the total estimated direct investment income and income distributed. The annual profitability rate is divided into 12 equal amounts and the monthly estimates are calculated on the basis of the direct investment stock data at the end of the month preceding the reference month.) A business register of enterprises involved in direct investment is not maintained.

**Geographic Classification:** Monthly data showing country breakdowns are disseminated for direct investment income and direct investment financial flows with a timeliness of 12 weeks after the end of the reference month. 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 are disseminated showing breakdowns of both direct investment income and direct investment financial flows by regions or economic zones for: (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vi) OPEC. The five countries with the largest amount of direct investment flows from Italian residents during 2001 (ranked in descending order) were: the Netherlands, the United Kingdom, France, Luxembourg, and the United States.

**Industrial Classification:** Annual data showing breakdown by industrial sectors are disseminated for direct investment income and direct investment financial flows, with a timeliness of 5 months after the end of the reference year. The data are based on both (i) the industrial sector of the resident direct investor, and (ii) the industry of the nonresident 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 are disseminated showing breakdowns by industrial sector/region or economic zone for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vi) 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. Investors which own less than 10 percent of a direct investment enterprise but have an effective voice in management are not included. However, unincorporated enterprises are always treated as being direct investment abroad, regardless of the percentage ownership held by a resident direct investor. No value threshold is used to identify direct investors abroad.

**Treatment of Indirectly-Owned Direct Investment Enterprises:** The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Contrary to the FCS, (i) the direct investment earnings data do not include the relevant share of indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data do not include equity and other capital transactions between resident

enterprises and nonresident enterprises of the same group of related enterprises in a “horizontal” relationship (that is, the relationship between affiliated enterprises that share only the same direct investor). However, equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises in a “vertical” relationship” are included. Listed enterprises in Italy are required by law to (i) produce consolidated accounts covering their subsidiaries and associates, either domestic or foreign, and (ii) identify all transactions with the parent company.

**Measurement of Direct Investment Earnings:** Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate earnings of direct investment enterprises. In accordance with COPC, deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes. However, contrary to COPC, the data include realized and unrealized capital gains and losses, write-offs, and exchange rate gains or losses. 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):** The data cover both incorporated enterprises and unincorporated enterprises. Contrary to the international standards, dividends and distributed branch profits are recorded on the date they are paid, rather than the date they are payable. In accordance with the international standards, the data are recorded gross of any withholding taxes.

**Treatment of Reinvested Earnings and Undistributed Branch Profits:** The data cover both incorporated enterprises and unincorporated enterprises. Contrary to the international standards, reinvested earnings and undistributed branch profits are not recorded in the period in which they are earned, but instead are recorded using the earnings of the current year, minus the dividends of the previous year.

**Treatment of Income on Debt (Interest):** Not applicable. Data on income on debt (interest) are not compiled at present. However, there are plans to begin to compile and disseminate these data beginning with the most comprehensive data for 2002.

**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: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, and (v) trade credits. The data do not cover 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 transactions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated banks and between affiliated financial intermediaries.

**Treatment of Reverse Investment:** Transactions involving reverse investment are not treated in accordance with the international standards in all instances. Assuming that the direct investment enterprise is a resident of Italy and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, 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 and loan transactions are recorded as “Direct Investment in Italy: Decrease in Liabilities to Direct Investors”, rather than as “Direct Investment in Italy: 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 Italian residents of mobile equipment, such as ships, aircraft, and drilling rigs. Quasi-corporations arising from the operation of construction enterprises abroad by Italian residents cannot be identified at present.

**Treatment of Offshore Enterprises:** In accordance with the international standards, activities of offshore enterprises established abroad by Italian 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 Italian residents are generally included in the direct investment data, and (ii) in the case of SPEs established abroad by Italian 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. However, there may be gaps in the coverage of the data as the present data collection system does not provide a legal definition of the activities of SPEs.

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

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

**Exchange Rate Conversion:** Transactions are converted to the unit of account at the average exchange rate in the period in which the transactions are recorded.

**ITALY: DIRECT INVESTMENT ABROAD**  
**INTERNATIONAL INVESTMENT POSITION (“POSITION DATA”)**

**A. Compilation Practices and Data Sources**

**Data Availability:** Annual (calendar year) data on (i) equity capital and reinvested earnings, and (ii) other capital, are disseminated with a timeliness of 130 days (approximately 4.5 months) after the end of the reference year.

**Revision Policy:** The data are revised 5 months after the end of the reference year, at which time they are considered to be final.

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

**Data Collection Methods:** Reporting requirements are compulsory.

**Data Sources:** The position data are compiled primarily from an international transactions reporting system (ITRS), using the perpetual inventory method (a method for deriving position data from transactions data), with adjustments for price changes and exchange rate changes. Starting in 1998, an annual survey of direct investment enterprises in Italy has been used as a complementary source to calculate the data on reinvested earnings. (An annual profitability rate is estimated on the basis of the survey, and reinvested earnings are calculated as the difference between the total estimated direct investment income and income distributed.) There are plans to use this survey to compile the position data in the future. A business register of enterprises involved in direct investment is not maintained at present.

**Geographic Classification:** Annual data showing country breakdowns are disseminated with a timeliness of 5 months after the end of the reference year. 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 are disseminated showing breakdowns by regions or economic zones for: (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vi) OPEC. The five countries with the largest amount of direct investment from Italian residents as at the end of 2001 (ranked in descending order) were: the Netherlands, the United States, the United Kingdom, France, and Germany.

**Industrial Classification:** Annual data showing breakdowns by industrial sector are disseminated with a timeliness of 5 months after the end of the reference year. The data are based on both (i) the industry of the resident direct investor, and (ii) the industry of the nonresident 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 are disseminated showing breakdowns by industrial sector/region or economic zone for (i) the European Union, (ii) EFTA, (iii) the OECD, (iv) NAFTA, (v) the CIS countries, (vi) ASEAN, and (vi) 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. Investors which own less than 10 percent of a direct investment enterprise but have an effective voice in management are not included. However, unincorporated enterprises are always treated as being direct investment abroad, regardless of the percentage ownership held by a resident direct investor. No value threshold is used to identify direct investors abroad.

**Treatment of Indirectly-Owned Direct Investment Enterprises:** The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Contrary to the FCS, (i) the relevant share of indirectly-owned direct investment enterprises is not included in the reinvested earnings data, and (ii) the equity and other capital position data do not include positions between resident enterprises and nonresident enterprises of the same group of related enterprises in a “horizontal” relationship (that is, the relationship between affiliated enterprises that share only the same direct investor). However, equity and other capital positions between resident enterprises and nonresident enterprises of the same group of related enterprises in a “vertical” relationship are included. Listed enterprises in Italy are required by law to (i) produce consolidated accounts

covering their subsidiaries and associates, either domestic or foreign, and (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 both incorporated enterprises and unincorporated enterprises, but, contrary to the international standards, are not 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: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, and (v) trade credits. The data do not cover 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 banks and between affiliated financial intermediaries.

**Treatment of Reverse Investment:** Positions involving reverse investment are not treated in accordance with the international standards in all instances. Assuming that the direct investment enterprise is a resident of Italy and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, 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 and loan positions are recorded as "Liabilities: Direct Investment in Italy: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Italy: 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 Italian residents of mobile equipment, such as ships, aircraft, and drilling rigs. Quasi-corporations arising from the operation of construction enterprises abroad by Italian residents cannot be identified at present.

**Treatment of Offshore Enterprises:** In accordance with the international standards, activities of offshore enterprises established abroad by Italian 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 Italian residents are generally included in the direct investment data, and (ii) the international standards, in the case of SPEs established abroad by Italian residents that have the sole purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries, except positions in equity capital and permanent debt, are excluded from the data. However, there may be gaps in the coverage of the data as the present data collection system does not provide a legal definition of the activities of SPEs.

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

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

**Valuation:** In accordance with the international standards, the data are reported at market values. In the case of the equity capital data of unlisted companies, an index linked to the market value of the stock exchange is used to calculate the market value.

**Exchange Rate Conversion:** The exchange rate prevailing on the last day of the reference period is used to convert foreign currencies into the unit of account.