

This metadata describes the compilation practices, sources and methodology in use in 2001. 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”)**

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

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

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on (i) direct investment income (income on equity, reinvested earnings, and income on debt [interest]), and (ii) direct investment financial flows (equity capital and other capital), are disseminated with a timeliness of 10 weeks after the end of the reference period.

Revision Policy: The data generally become final 48 months after their first release. Revised data for Q1, Q2, and Q3 of the calendar year are disseminated 3 months after their first release. Following the dissemination for the Q4 data in March, 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 may also be revised and disseminated. When benchmark surveys results become available, all quarterly estimates since Q1 of the year of coverage of the benchmark survey are revised, and at that point the data for three or more years prior to the current year are generally considered “final”. However, revisions may be made to data prior to the date of the most recent benchmark survey to (i) incorporate changes in methodology, or (ii) smooth discontinuities in the series that result from benchmarking.

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

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

Data Sources: The data are compiled primarily from quarterly enterprise surveys of direct investment enterprises in the United States. The surveys cover approximately 95 percent of the applicable universe in terms of value. Response rates rise from 50-65 percent for the earliest estimate for a given quarter to nearly complete reporting for the “final” estimate for that quarter published two or more years later. Data for the unreported portion of the universe (other than intercompany debt flows) are estimated. Press reports, and published sources, such as company accounts, are used for cross-checking the data obtained from the surveys. Every five years a benchmark survey is conducted, with the benchmark survey for the data on direct investment in the United States (inward data) being conducted two years before the benchmark survey for the data on direct investment abroad (outward data). These benchmark surveys cover the universe of direct investment enterprises, and collect annual data on transactions and related positions, as well as on the financial and operating characteristics of direct investment enterprises. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis using information from (i) the financial press and (ii) mandatory surveys of enterprises.

Geographic Classification: Quarterly data showing country breakdowns are disseminated for direct investment income and direct investment financial flows with a timeliness of 10 weeks after the end of the reference period. 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. However, annual reconciliations with the Canadian data on direct investment income are disseminated separately, as part of the regular reconciliation of the current account data for the two countries. As well as breakdowns by individual countries, data are disseminated showing breakdowns by regions or economic zones for the following: (i) the European Union, and (ii) the OPEC countries. The five countries with the largest amount of direct investment flows into the United States during 1999 (ranked in descending order) were: the United Kingdom, the Netherlands, Germany, Japan, and Switzerland for direct investment income flows, and the United Kingdom, the Netherlands, Luxembourg, Germany, and France for the direct investment financial flows.

Industrial Classification: Quarterly data showing a breakdown by industry are disseminated for direct investment income and direct investment financial flows with a timeliness of 10 weeks after the end of the reference period. 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). Annual data are available for every industry among the 137 codes in the current U.S. industry classification system for which there is foreign direct investment. The current system, which is based on the U.S. Standard Industrial Classification System, is in the process of being replaced by a more detailed system that consists of approximately 195 codes and is based on the North American Industry Classification System (NAICS). The first use of the NAICS-based system for the data on direct investment in the United States (inward data) was in a benchmark survey covering 1997. Data showing

breakdowns by industrial sector/region or economic zone are disseminated for: (i) the European Union, and (ii) the OPEC countries. Data showing breakdowns by industrial sector/partner country are also disseminated.

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. Enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. No value threshold is presently used to identify direct investment enterprises. However, prior to 1997, the data did not cover very small foreign-owned enterprises that fell below a minimum reporting threshold in a benchmark survey, such as less than \$1 million in assets, sales, or net income in the 1992 benchmark survey. However, the data for these “exempt” enterprises are considered to be so insignificant that the change has had virtually no effect on the comparability of the time series data. Unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly-Owned Direct Investment Enterprises: The United States uses a methodology that is similar in most important respects to the “Fully Consolidated System” (FCS) recommended in the international standards. As recommended in the FCS, (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 all the equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises. However, the two systems differ in two ways in defining which indirectly-owned companies are direct investment enterprises: (i) the U.S. methodology (the USM) excludes, and the FCS may include, foreign enterprises in which the direct investor has less than a 10 percent equity interest, and (ii) the USM includes, and the FCS excludes, associates (minority-owned affiliates) of associates in which the direct investor has a 10 percent or more equity interest. Differences in the transactions or positions measured by the USM compared with the FCS are considered to be immaterial in the context of the US direct investment aggregates. Enterprises in United States 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: In accordance with the international standards, the “Current Operating Performance Concept” (COPC) is used to calculate earnings of direct investment enterprises. Specifically, (i) deductions are made for depreciation of capital and for provisions for host-country income and corporation taxes, and (ii) realized and unrealized capital gains and losses, write-offs and exchange rate gains or losses are not included. 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. In accordance with the international standards, dividends and distributed branch profits are recorded (i) on the date they are payable, and (ii) gross of any withholding taxes.

Treatment of Reinvested Earnings and Undistributed Branch Profits: The data cover both incorporated enterprises and 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): The data cover interest income from (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, and (iv) trade credits. In accordance with the international standards, the data do not include interest from (i) 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, the data are compiled on an accrual basis.

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, (v) trade credits, and (vi) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, and (ii) 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. Contrary to the international standards, the data (i) include changes in insurance company technical reserves, and (ii) exclude transactions associated with permanent debt between affiliated financial intermediaries. However, permanent debt between affiliated financial intermediaries is believed to be immaterial in the U.S. data relative to the total debt 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 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, equity and loan transactions are classified in accordance with the international standards as "Direct Investment Abroad: Increase in Claims on Affiliated Enterprises". When the direct investment enterprise owns less than 10 percent of its nonresident direct investor, loan transactions are classified in accordance with the international standards as "Direct Investment in the United States: Increase in Claims on Direct Investors". However, contrary to the international standards, equity transactions are classified as "Portfolio Investment: Increase in Assets: Equity Securities", rather than as "Direct Investment in the United States: Increase in Claims on Direct Investors". Instances of reverse investment where the direct investment enterprise owns less than 10 percent of its nonresident direct investor are believed to be immaterial in the context of the U.S. direct investment aggregates.

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) mobile equipment, such as ships and drilling rigs, and (ii) construction enterprises. Contrary to the international standards, the data do not include the activities of quasi-corporations involving the operation of aircraft.

Treatment of Offshore Enterprises: In accordance with the international standards, activities of offshore enterprises established in the United States 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 the United States by nonresidents are generally included in the direct investment data, (ii) in the case of SPEs established in the United States by nonresidents that have the sole purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation transactions, are excluded from the data, and (iii) in the case of SPEs established in the United States by nonresidents that have the sole purpose of financial intermediation, transactions with affiliated banks involving equity capital and permanent debt are included in the data, as are transactions with affiliated financial intermediaries involving equity capital. Contrary to the international standards, in the case of SPEs established in the United States by nonresidents that have the sole purpose of financial intermediation, transactions with affiliated financial intermediaries involving permanent debt are excluded from the data. However, permanent debt between affiliated financial intermediaries is believed to be immaterial in the U.S. data relative to the total debt between affiliated financial intermediaries.

Treatment of Land and Buildings: In accordance with the international standards, the data include purchases and sales of land and buildings in the United States by nonresident enterprises and individuals. However, the data exclude real estate held exclusively for personal use.

Treatment of Natural Resources Exploration: In accordance with the international standards, expenditure on natural resource exploration in the United States by nonresidents is included in the data.

Exchange Rate Conversion: Most transactions are converted to the unit of account at the exchange rate prevailing on the day of the transaction, but some, such as the data on reinvested earnings, are converted at the average exchange rate for the period in which the transactions are recorded.

DIRECT INVESTMENT IN THE UNITED STATES
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 26 weeks (6 months) after the end of the reference year.

Revision Policy: The data are generally considered to be final 36 months after their first release. The data are revised on an annual basis, typically for 2-3 years after their first release. When results of benchmark surveys become available, all annual data since the year of the coverage of the benchmark survey are revised and at that point the data for three or more years before the current year are generally considered to be “final”. However, revisions may be made to data prior to the date of the most recent benchmark survey to (i) incorporate changes in methodology, and (ii) smooth discontinuities in the series that result from benchmarking.

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

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

Data Sources: The data are compiled primarily from quarterly enterprise surveys of direct investment enterprises in the United States. Press reports, and published sources, such as company accounts, are also used for cross-checking the data obtained from the surveys. Every five years a benchmark survey is conducted, with the benchmark survey for the data on direct investment in the United States (inward data) being conducted two years before the benchmark survey for the data on direct investment abroad (outward data). These benchmark surveys cover the universe of direct investment enterprises, and collect annual data on transactions and related positions, as well as on the financial and operating characteristics of direct investment enterprises. The perpetual inventory method (a method for deriving position data from transactions data) is used to derive the equity component of the current cost estimate of the position data, with adjustments made for non-transaction changes, such as price changes, exchange rate changes, and capital gains and losses. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis, using information from (i) the financial press, and (ii) mandatory surveys of enterprises.

Geographic Classification: Annual data showing country breakdowns are disseminated with a timeliness of 26 weeks (6 months) after the end of the reference period. These data are compiled on an historical cost basis only. In accordance with the international standards, the data are compiled on an “immediate country” basis. In addition, data are compiled on the basis of the ultimate controlling country. Bilateral information is not used in the compilation of the data. However, annual reconciliations with the Canadian data on reinvested earnings are disseminated separately, as part of the regular reconciliation of the current account data for the two countries. As well as breakdowns by individual countries, data are disseminated showing breakdowns by regions or economic zones for the following: (i) the European Union, and (ii) the OPEC countries. The five countries with the largest amount of direct investment in the United States as at the end of 1999 (ranked in descending order) were: the United Kingdom, Japan, the Netherlands, Germany, and Canada.

Industrial Classification: Annual data showing a breakdown by industry are disseminated with a timeliness of 26 weeks (6 months) after the end of the reference period. These data are compiled on an historical cost basis only, and 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). Annual data are available for every industry among the 137 codes in the current U.S. industry classification system for which there is foreign direct investment. The current system, which is based on the U.S. Standard Industrial Classification System, is in the process of being replaced by a more detailed system that consists of approximately 195 codes and is based on the North American Industry Classification System (NAICS). The first use of the NAICS-based system for the data on direct investment in the United States (inward data) was in a benchmark survey covering 1997. Data showing breakdowns by industrial sector/region or economic zone are disseminated for: (i) the European Union, and (ii) the OPEC countries. Data showing breakdowns by industrial sector/partner country are also disseminated.

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. Enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. No value threshold is presently used to identify direct investment enterprises. However, prior to 1997, the data did not cover very small foreign-owned enterprises that fell below a minimum reporting threshold in a benchmark survey, such as less than \$1 million in assets, sales, or net income in the 1992 benchmark survey. However, the data for these “exempt” enterprises are considered to be so insignificant that the change has had virtually no effect on the comparability of the time series data. Unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly-Owned Direct Investment Enterprises: The United States uses a methodology that is similar in most important respects to the “Fully Consolidated System” (FCS) recommended in the international standards. As recommended in the FCS, the relevant share of indirectly-owned direct investment enterprises are included in (i) the reinvested earnings data, and (ii) the equity capital and other capital position data. However, the two systems differ in two ways in defining which indirectly-owned companies are direct investment enterprises: (i) the U.S. methodology (the USM) excludes, and the FCS may include, foreign enterprises in which the direct investor has less than a 10 percent equity interest, and (ii) the USM includes, and the FCS excludes, associates (minority-owned affiliates) of associates in which the direct investor has a 10 percent or more equity interest. Differences in the transactions or positions measured by the USM compared with the FCS are considered to be immaterial in the context of the US direct investment aggregates. Enterprises in United States 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, 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 the United States.)

Treatment of Other Capital: The data cover: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, (v) trade credits, and (vi) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, and (ii) 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. Contrary to the international standards, the data (i) include changes in insurance company technical reserves, and (ii) exclude positions associated with permanent debt between affiliated financial intermediaries. However, permanent debt between affiliated financial intermediaries is believed to be immaterial in the U.S. data relative to the total debt 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 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, equity and loan positions are classified in accordance with the international standards as “Assets: Direct Investment Abroad: Claims on Affiliated Enterprises”. When the direct investment enterprise owns less than 10 percent of its nonresident direct investor, loan positions are classified in accordance with the international standards as “Liabilities: Direct Investment in the United States: Claims on Direct Investors”. However, contrary to the international standards, equity positions are classified as “Assets: Portfolio Investment: Equity Securities”, rather than as “Liabilities: Direct Investment in the United States: Claims on Direct Investors”. Instances of reverse investment where the direct investment enterprise owns less than 10 percent of its nonresident direct investor are believed to be immaterial in the context of the U.S. direct investment aggregates.

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)

mobile equipment, such as ships and drilling rigs, and (ii) construction enterprises. Contrary to the international standards, the data do not include the activities of quasi-corporations involving the operation of aircraft.

Treatment of Offshore Enterprises: In accordance with the international standards, activities of offshore enterprises established in the United States 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 the United States by nonresidents are generally included in the direct investment data, (ii) in the case of SPEs established in the United States by nonresidents that have the sole purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation transactions, are excluded from the data, and (iii) in the case of SPEs established in the United States by nonresidents that have the sole purpose of financial intermediation, positions with affiliated banks involving equity capital and permanent debt are included in the data, as are positions with affiliated financial intermediaries involving equity capital. Contrary to the international standards, in the case of SPEs established in the United States by nonresidents that have the sole purpose of financial intermediation, positions with affiliated financial intermediaries involving permanent debt are excluded from the data. However, permanent debt between affiliated financial intermediaries is believed to be immaterial in the U.S. data relative to the total debt between affiliated financial intermediaries.

Treatment of Land and Buildings: In accordance with the international standards, the data include ownership of land and buildings in the United States by nonresident enterprises and individuals. However, the data exclude real estate held exclusively for personal use.

Treatment of Natural Resources Exploration: In accordance with the international standards, expenditure on natural resource exploration in the United States by nonresidents is included in the data.

Valuation: The position data are compiled on three different valuation bases: (i) market value, (ii) current cost, and (iii) historical cost. The market value and current cost data are compiled at the global level only, and reflect (i) price changes, such as changes in stock market prices for the market value data, and changes in tangible asset prices for the current cost data, (ii) exchange rate adjustments to reflect changes in foreign-currency-denominated assets and liabilities of affiliates, and (iii) other adjustments to primarily reflect capital gains and losses. The debt positions are not revalued in the market value data or the current cost data. The detailed data showing breakdowns by country and by industrial sector are valued only at historical cost.

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.

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

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on (i) direct investment income (income on equity, reinvested earnings, and income on debt [interest]), and (ii) direct investment financial flows (equity capital and other capital) are disseminated with a timeliness of 10 weeks after the end of the reference period.

Revision Policy: The data generally become final 48 months after their first release. Revised data for Q1, Q2, and Q3 of the calendar year are disseminated 3 months after their first release. Following the dissemination for the Q4 data in March, 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 may also be revised and disseminated. When benchmark surveys results become available, all quarterly estimates since Q1 of the year of coverage of the benchmark survey are revised and at that point the data for three or more years prior to the current year are generally considered “final”. However, revisions may be made to data prior to the date of the most recent benchmark survey to (i) incorporate changes in methodology, or (ii) smooth discontinuities in the series that result from benchmarking

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

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

Data Sources: The data are compiled primarily from quarterly enterprise surveys of residents with direct investment enterprises abroad. The surveys cover approximately 95 percent of the applicable universe in terms of value. Response rates rise from 50-65 percent for the earliest estimate for a given quarter to nearly complete reporting for the “final” estimate for that quarter published two or more years later. Data for the unreported portion of the universe (other than intercompany debt flows) are estimated. Press reports, and published sources, such as company accounts, are also used for cross-checking the data obtained from the surveys. Every five years a benchmark survey is conducted, with the benchmark survey for the data on direct investment abroad (outward data) being conducted two years after the benchmark survey for the data on direct investment in the United States (inward data). These benchmark surveys cover the universe of direct investment enterprises, and collect annual data on transactions and related positions, as well as on the financial and operating characteristics of direct investment enterprises. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis using information from (i) the financial press and (ii) mandatory surveys of enterprises.

Geographic Classification: Quarterly data showing country breakdowns are disseminated for direct investment income and direct investment financial flows with a timeliness of 10 weeks after the end of the reference period. 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. However, annual reconciliations with the Canadian data on direct investment income are disseminated separately, as part of the regular reconciliation of the current account data for the two countries. As well as breakdowns by individual countries, data are disseminated showing breakdowns of both direct investment income and direct investment financial flows by regions or economic zones for the following: (i) the European Union, and (ii) the OPEC countries. The five countries with the largest amount of direct investment flows from United States residents during 1999 (ranked in descending order) were: the United Kingdom, the Netherlands, Canada, Switzerland and Mexico for direct investment income flows, and the United Kingdom, Canada, Switzerland, Japan, and the Netherlands for the direct investment financial flows.

Industrial Classification: Quarterly data showing a breakdown by industry are disseminated for direct investment income and direct investment financial flows with a timeliness of 10 weeks after the end of the reference period. Breakdowns are disseminated primarily based on the industry of the foreign direct investment enterprise, and some details are also disseminated based on the industry of the resident direct investor (income data only). The classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC). Annual data are available for every industry among the 137 codes in the current U.S. industry classification system for which there is foreign direct investment. The current system, which is based on the U.S. Standard Industrial Classification System, is in the process of being replaced by a more detailed system that consists of approximately 195 codes and is based on

the North American Industry Classification System (NAICS). The first use of the NAICS-based system for the data on U.S. direct investment abroad (outward data) was in a benchmark survey covering 1999. Data showing breakdowns by industrial sector/region or economic zone are disseminated for: (i) the European Union, and (ii) the OPEC countries. Data showing breakdowns by industrial sector/partner country, and detail by industry of the direct investor (income only) 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 enterprises but have an effective voice in management are not included. No value threshold is presently used to identify direct investors abroad. However, prior to the 1999 benchmark survey, the data did not cover very small U.S.-owned companies (foreign affiliates) that fell below a minimum reporting threshold in the benchmark survey, such as less than \$3 million in assets, sales, or net income, in the 1994 benchmark survey. The data for these exempt affiliates are considered to be so insignificant that the change will have virtually no effect on comparability when results of the 1999 benchmark survey are incorporated into the time series in 2003. Unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly-Owned Direct Investment Enterprises: The United States uses a methodology that is similar in most important respects to the "Fully Consolidated System" (FCS) recommended in the international standards. As recommended in the FCS, (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 all the equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises. However, the two systems differ in two ways in defining which indirectly-owned companies are direct investment enterprises: (i) the U.S. methodology (the USM) excludes, and the FCS may include, foreign enterprises in which the direct investor has less than a 10 percent equity interest, and (ii) the USM includes, and the FCS excludes, associates (minority-owned affiliates) of associates in which the direct investor has a 10 percent or more equity interest. Differences in the transactions or positions measured by the USM compared with the FCS are considered to be immaterial in the context of the US direct investment aggregates. Enterprises in United States 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: In accordance with the international standards, the "Current Operating Performance Concept" (COPC) is used to calculate earnings of direct investment enterprises. Specifically, (i) deductions are made for depreciation of capital and for provisions for host-country income and corporation taxes, and (ii) realized and unrealized capital gains and losses, write-offs and exchange rate gains or losses are not included. 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. In accordance with the international standards, dividends and distributed branch profits are recorded (i) on the date they are payable, and (ii) gross of any withholding taxes.

Treatment of Reinvested Earnings and Undistributed Branch Profits: The data cover both incorporated enterprises and 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): The data cover interest income from (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, and (iv) trade credits. In accordance with the international standards, the data exclude interest from (i) financial derivatives, and (ii) 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, the data are compiled on an accrual basis.

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, (v) trade credits, and (vi) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, and (ii) 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. Contrary to the international standards, the data (i) include changes in insurance company technical reserves, and (ii) exclude transactions associated with permanent debt between affiliated financial intermediaries. However, permanent debt between affiliated financial intermediaries is believed to be immaterial in the U.S. data relative to the total debt 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 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, equity and loan transactions are classified in accordance with the international standards as "Direct Investment Abroad: Increase in Claims on Affiliated Enterprises". When the direct investment enterprise owns less than 10 percent of its nonresident direct investor, loan transactions are classified in accordance with the international standards as "Direct Investment in the United States: Increase in Claims on Direct Investors". However, contrary to the international standards, equity transactions are classified as "Portfolio Investment: Increase in Assets: Equity Securities", rather than as "Direct Investment in the United States: Increase in Claims on Direct Investors". Instances of reverse investment where the direct investment enterprise owns less than 10 percent of its nonresident direct investor are believed to be immaterial in the context of the U.S. direct investment aggregates.

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 United States residents of (i) mobile equipment, such as ships and drilling rigs, and (ii) construction enterprises. Contrary to the international standards, the data do not include the activities of quasi-corporations involving the operation of aircraft.

Treatment of Offshore Enterprises: In accordance with the international standards, activities of offshore enterprises established abroad by United States 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 United States residents are generally included in the direct investment data, (ii) in the case of SPEs established abroad by United States residents that have the sole purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation transactions, are excluded from the data, and (iii) in the case of SPEs established abroad by United States residents that have the sole purpose of financial intermediation, transactions with affiliated banks involving equity capital and permanent debt are included in the data, as are transactions with affiliated financial intermediaries involving equity capital. Contrary to the international standards, in the case of SPEs established abroad by United States residents that have the sole purpose of financial intermediation, transactions with affiliated financial intermediaries involving permanent debt are excluded from the data. However, permanent debt between affiliated financial intermediaries is believed to be immaterial in the U.S. data relative to the total debt between affiliated financial intermediaries.

Treatment of Land and Buildings: In accordance with the international standards, the data include purchases and sales of land and buildings abroad by United States resident enterprises and individuals. However, the data exclude real estate held exclusively for personal use.

Treatment of Natural Resources Exploration: In accordance with the international standards, the data include expenditure related to natural resources exploration abroad by United States residents.

Exchange Rate Conversion: Most transactions are converted to the unit of account at the exchange rate prevailing on the day of transaction, but some, such as the data on reinvested earnings, are converted at the average exchange rate for the period in which the transactions are recorded.

UNITED STATES: 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 26 weeks (6 months) after the end of the reference year.

Revision Policy: The data are generally considered to be final 36 months after their first release. The data are revised on an annual basis, typically for 2-3 years after their first release. When the results of benchmark surveys become available, all annual data since the year of the coverage of the benchmark survey are revised and at that point the data for three or more years before the current year are generally considered to be “final”. However, revisions may be made to data prior to the date of the most recent benchmark survey to (i) incorporate changes in methodology, and (ii) smooth discontinuities in the series that result from benchmarking.

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

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

Data Sources: The data are compiled primarily from quarterly enterprise surveys of residents with direct investment enterprises abroad. Press reports, and published sources, such as company accounts, are also used for cross-checking the data obtained from the surveys. Every five years a benchmark survey is conducted, with the benchmark survey for the data on direct investment abroad (outward data) being conducted two years after the benchmark survey for the data on direct investment in the United States (inward data). These benchmark surveys cover the universe of direct investment enterprises, and collect annual data on transactions and related positions, as well as on the financial and operating characteristics of direct investment enterprises. The perpetual inventory method (a method for deriving position data from transactions data) is used to derive the equity component of the current cost estimate of the position data, with adjustments for non-transaction changes, such as price changes, exchange rate changes, and capital gains and losses. A business register of enterprises involved in direct investment is maintained. This register is updated on an ongoing basis, using information from (i) the financial press, and (ii) mandatory surveys of enterprises.

Geographic Classification: Annual data showing country breakdowns are disseminated with a timeliness of 26 weeks (6 months) after the end of the reference year. These data are compiled on an historical cost basis 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. However, annual reconciliations with the Canadian data on reinvested earnings are disseminated separately, as part of the regular reconciliation of the current account data for the two countries. As well as breakdowns by individual countries, data are disseminated showing breakdowns by regions or economic zones for the following: (i) the European Union, and (ii) the OPEC countries. The five countries with the largest amount of direct investment from United States residents as at the end of 1999 (ranked in descending order) were: the United Kingdom, Canada, the Netherlands, Switzerland, and Germany.

Industrial Classification: Annual data showing a breakdown by industry are disseminated with a timeliness of 26 weeks (6 months) after the end of the reference period. These data are compiled on an historical cost basis only. Breakdowns are disseminated primarily based on the industry of the foreign direct investment enterprise, and some details are also disseminated 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). Annual data are available for every industry among the 137 codes in the current U.S. industry classification system for which there is foreign direct investment. The current system, which is based on the U.S. Standard Industrial Classification System, is in the process of being replaced by a more detailed system that consists of approximately 195 codes and is based on the North American Industry Classification System (NAICS). The first use of the NAICS-based system for the data on U.S. direct investment abroad (outward data) was in a benchmark survey covering 1999. Data showing breakdowns by industrial sector/region or economic zone are disseminated for: (i) the European Union, and (ii) the OPEC countries. Data showing breakdowns by industrial sector/region or economic zone are disseminated for: (i) the European Union, and (ii) the OPEC countries. 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 enterprises but have an effective voice in management are not included. No value threshold is presently used to identify direct investors abroad. However, prior to the 1999 benchmark survey, the data did not cover very small U.S.-owned companies (foreign affiliates) that fell below a minimum reporting threshold in the benchmark survey, such as less than \$3 million in assets, sales, or net income, in the 1994 benchmark survey. The data for these exempt affiliates are considered to be so insignificant that the change will have virtually no effect on comparability when results of the 1999 benchmark survey are incorporated into the time series in 2003. Unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly-Owned Direct Investment Enterprises: The United States uses a methodology that is similar in most important respects to the "Fully Consolidated System" (FCS) recommended in the international standards. As recommended in the FCS, the relevant share of indirectly-owned direct investment enterprises are included in (i) the reinvested earnings data, and (ii) the equity capital and other capital position data. However, the two systems differ in two ways in defining which indirectly-owned companies are direct investment enterprises: (i) the U.S. methodology (the USM) excludes, and the FCS may include, foreign enterprises in which the direct investor has less than a 10 percent equity interest, and (ii) the USM includes, and the FCS excludes, associates (minority-owned affiliates) of associates in which the direct investor has a 10 percent or more equity interest. Differences in the transactions or positions measured by the USM compared with the FCS are considered to be immaterial in the context of the US direct investment aggregates. Enterprises in United States 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, 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: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, (v) trade credits, and (vi) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, and (ii) 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. Contrary to the international standards, the data (i) include changes in insurance company technical reserves, and (ii) exclude transactions associated with permanent debt between affiliated financial intermediaries. However, permanent debt between affiliated financial intermediaries is believed to be immaterial in the U.S. data relative to the total debt 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 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, equity and loan positions are classified in accordance with the international standards as "Assets: Direct Investment Abroad: Claims on Affiliated Enterprises". When the direct investment enterprise owns less than 10 percent of its nonresident direct investor, loan positions are classified in accordance with the international standards as "Liabilities: Direct Investment in the United States: Claims on Direct Investors". However, contrary to the international standards, equity positions are classified as "Assets: Portfolio Investment: Equity Securities", rather than as "Liabilities: Direct Investment in the United States: Claims on Direct Investors". Instances of reverse investment where the direct investment enterprise owns less than 10 percent of its nonresident direct investor are believed to be immaterial in the context of the U.S. direct investment aggregates.

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 United States residents of (i) mobile

equipment, such as ships and drilling rigs, and (ii) construction enterprises. Contrary to the international standards, the data do not include the activities of quasi-corporations involving the operation of aircraft.

Treatment of Offshore Enterprises: In accordance with the international standards, activities of offshore enterprises established abroad by United States 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 United States residents are generally included in the direct investment data, (ii) in the case of SPEs established abroad by United States residents that have the sole purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation transactions, are excluded from the data, and (iii) in the case of SPEs established abroad by United States residents that have the sole purpose of financial intermediation, positions with affiliated banks involving equity capital and permanent debt are included in the data, as are positions with affiliated financial intermediaries involving equity capital. Contrary to the international standards, in the case of SPEs established abroad by United States residents that have the sole purpose of financial intermediation, positions with affiliated financial intermediaries involving permanent debt are excluded from the data. However, permanent debt between affiliated financial intermediaries is believed to be immaterial in the U.S. data relative to the total debt between affiliated financial intermediaries.

Treatment of Land and Buildings: In accordance with the international standards, the data include ownership of land and buildings abroad by United States resident enterprises and individuals. However, the data exclude real estate held exclusively for personal use.

Treatment of Natural Resources Exploration: In accordance with the international standards, the data include expenditure related to natural resources exploration abroad by United States residents.

Valuation: The position data are compiled on three different valuation bases: (i) market value, (ii) current cost, and (iii) historical cost. The market value and current cost data are compiled at the global level only, and reflect (i) price changes, such as changes in stock market prices for the market value data, and changes in tangible asset prices for the current cost data, (ii) exchange rate adjustments to reflect changes in foreign-currency-denominated assets and liabilities of affiliates, and (iii) other adjustments to primarily reflect capital gains and losses. The debt positions are not revalued in the market value data or the current cost data. The detailed data showing breakdowns by country and by industrial sector are valued only at historical cost.

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.