

**Eighteenth Meeting of the  
IMF Committee on Balance of Payments Statistics  
Washington, D.C., June 27–July 1, 2005**

**Definition of Direct Investment Terms**

**I. DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)**  
**II. OUTCOME PAPER (DITEG) # 20**

**April 8, 2005**

**1. Topic: Definition of Foreign Direct Investment (FDI) terms**

**2. Issues: See DITEG Issue Papers #20 by the Canada (March 2005), Issue Papers #20 by Australia (March 2005); Outcome paper #20 of DITEG December 2004 meeting.**

(i) DITEG reviewed two issues papers prepared by the editorial group which allowed delineating the scope of the exercise as well as setting the priorities and establishing the procedures for future work on the FDI glossary which will be common to both the *IMF Balance of Payments Manual* and the *OECD Benchmark Definition of Foreign Direct Investment*. The first document provided some examples of definitions while the second one provided a rather broad list including terms which have broader coverage than direct investment. Both documents demonstrated the complexity of a rather resource absorbent process and the need for co-ordination with similar work undertaken elsewhere.

(ii) The editor of the System of National Accounts (SNA)<sup>1</sup> informed DITEG of the existence of an SNA glossary. For its revision contacts are being established with responsible institutions/bodies to co-ordinate with other work, such as the Balance of Payments Manual, External Debt Guide, Trade in Services Manual, Revenue Statistics, etc.

**3. Recommendations:**

(i) DITEG recommended that the FDI glossary which is to be included in the IMF Balance of Payments Manual and in the OECD Benchmark Definition of Foreign Direct Investment should be limited only to terms that are directly related to direct investment.

(ii) DITEG recommended that other terms which are used in the manuals but which have a broader coverage than direct investment (e.g. residence, financial assets, units, transactions, etc.) should only be cross-referenced with the source which has the primary carriage (e.g. SNA).

(iii) DITEG emphasized the importance of harmonisation and recommended particular attention to be attached to consistency with other work, including the terminology of more recent areas such as the GATTs, FATS, etc.

(iv) DITEG agreed that the work for developing a glossary will involve (i) a review of changing definitions as a result of the revision of the concepts; (ii) improve some

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1. SNA editor was participating as a guest to DITEG meeting.

of the existing definitions by providing clarity; (iii) to define new terms resulting from developments in the recent years.

(v) DITEG recommended that the actual preparation of the FDI glossary will entail:

- (a) DITEG Secretariat, following an electronic consultation with the group, should establish a list of FDI terms drawn from the broader list presented by the editorial group (see Annex);
- (b) The glossary should be elaborated as a part of the work of the Benchmark Advisory Group (BAG) of the OECD Workshop on International Investment Statistics (WIIS); this work should be conducted with special attention to the revision time-table of manuals in;
- (c) The draft glossary prepared by BAG should be submitted for approval to the OECD WIIS and to the IMF Committee.
- (d) The glossary should be provided to the SNA as an input for direct investment terms.

#### **4. Rejected Alternatives:**

The proposal to include terms which go beyond the only scope of direct investment was rejected.

#### **5. Questions for the IMF Committee on Balance of Payments (the Committee) and the OECD Workshop in International Investment Statistics (WIIS)**

- (i) *Do the Committee and the WIIS agree that the FDI glossary be only limited to direct investment terms and only cross-reference the primary sources for terms which have a broader coverage than direct investment?*
- (ii) *Do the Committee and the WIIS agree with the preliminary list of terms included in the Annex of the present document?*
- (iii) *Do the Committee and the WIIS agree that the direct investment glossary be developed by the OECD BAG which they will sign-off for their respective manuals?*
- (iv) *Do the Committee and the WIIS agree that the final FDI glossary should be an input for the SNA?*

## A. Annex

### FDI glossary: proposed list of terms

<b>Term</b>	<b>Source</b>
Acquisition	DITEG papers, OECD glossary
All-inclusive concept	
Asset/liability principle	OECD glossary, FDI Glossary from ONS
Associated companies	Pink Book Glossary, BMD para 14
Balance of payments statistics	FDI Glossary from ONS
Book value	OECD glossary, FDI Glossary from ONS, BMD para 21, DITEG papers
Branch	Pink Book Glossary, FDI Glossary from ONS, DITEG papers
Conduits	DITEG papers
Consolidated reporting	OECD glossary
Control	FDI Glossary from ONS, DITEG papers
Current Operating Performance Concept	
Debtor/creditor principle	FDI Glossary from ONS, OECD glossary
Direct investment (Foreign direct investment)	OECD glossary, FDI Glossary from ONS, DITEG papers, Pink Book Glossary
Direct investment enterprise (contains definitions of subsidiaries, associates and branches) (Foreign direct investment enterprise)	OECD glossary, BMD para 7-12, DITEG papers
Direct investment equity	DITEG papers
Direct Investment Flows	BMD para 35
Direct Investment positions	
Direct investment income	FDI Glossary from ONS, OECD glossary, BMD para 28
Direct investor (Foreign Direct Investor)	FDI Glossary from ONS, OECD glossary, DITEG papers
Directional principle	FDI Glossary from ONS, OECD glossary, DITEG papers
Disinvestment	FDI Glossary from ONS, BMD para 37-38, DITEG papers
Dividends*	FDI Glossary from ONS, OECD glossary, BMD para 28
Earnings*	FDI Glossary from ONS
Equity capital	OECD glossary, FDI Glossary from ONS, DITEG papers
Exchange rate gains or losses*	
Extension of capital	FDI Glossary from ONS, BMD para 40
Fellow subsidiary	
Financial derivatives	Pink Book Glossary, FDI Glossary from ONS, DITEG papers
Financial Intermediaries*	BMD para 40, DITEG papers

<b>Term</b>	<b>Source</b>
Fully Consolidated System	BMD para 15-16, DITEG papers
Greenfield investments	DITEG papers
Holding companies	FDI Glossary from ONS, BMD para 41
Home country	OECD glossary
Host Country	BMD para 19, OECD glossary
Immediate host/investing country	OECD glossary, FDI Glossary from ONS
Indirectly owned/Controlled Direct Investment Enterprises	BMD para 40
Inter-company transactions	DITEG papers
International Accounting Standards (IAS) *	DITEG papers
International Transactions Reporting System (ITRS) *	
Inward Direct Investment	BMD para 7,19
Land and buildings*	OECD glossary
Loan guarantees*	DITEG papers
Market price – market value*	FDI Glossary from ONS
Mergers and Acquisitions (M&As)	DITEG papers
Multinational enterprise	DITEG papers
Multiterritory enterprise	DITEG papers
Natural resources exploration	
Non-voting stocks*	FDI Glossary from ONS, OECD glossary
Nomenclature générale ses activités économiques dans les Communautés Européennes (NACE) *	
Ordinary share*	OECD glossary, FDI Glossary from ONS, Pink Book Glossary
Other capital	FDI Glossary from ONS, OECD glossary, DITEG papers
Outsourcing	
Outward Direct Investment	BMD para 7,19
Own funds at book value	FDI Glossary from ONS, DITEG papers
Parent company	DITEG papers
Permanent debt	DITEG papers, FDI Glossary from ONS OECD glossary, DITEG papers, Pink Book Glossary, FDI Glossary from ONS
Portfolio investment*	
Preference share*	OECD glossary, FDI Glossary from ONS, Pink Book Glossary
Quoted shares*	DITEG papers

<b>Term</b>	<b>Source</b>
Reinvested earnings and undistributed profits	OECD glossary
Reverse investment	FDI Glossary from ONS, OECD glossary, DITEG papers, BMD para 36
Round tripping	DITEG papers
Shell companies	DITEG papers
Special Purpose Entities (SPEs)	FDI Glossary from ONS, OECD glossary, BMD para 39, DITEG papers
Stock of Direct Investment	BMD para 22
Subsidiary	OECD glossary, DITEG papers, FDI Glossary from ONS, Pink Book Glossary
Take-over (see acquisition)	OECD glossary, DITEG papers, FDI Glossary from ONS
Trade credit*	DITEG papers
Transactor principle	OECD glossary, FDI Glossary from ONS
Transfer price	OECD glossary
Ultimate Beneficial Owner	
Ultimate Controlling Country	DITEG papers, BMD para 43
Ultimate host/investing economy	OECD glossary
United Nations International Standard Industrial Classification of All Economic Activity: *	
Unlisted company*	DITEG papers
Unincorporated foreign affiliate	
Voting stocks*	OECD glossary, FDI Glossary from ONS

\* Terms which could be included in the FDI glossary using the agreed definitions by other competent bodies.

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD  
WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS**

**DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)**

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**ISSUES PAPER (DITEG) #20**

**DEFINITION OF FOREIGN DIRECT INVESTMENT (FDI) TERMS**

**Prepared by Art Ridgeway, Statistics Canada**

**November 2004**

## DIRECT INVESTMENT TECHNICAL EXPERT GROUP

### ISSUES PAPER (DITEG) #20: DEFINITION OF FOREIGN DIRECT INVESTMENT (FDI) TERMS

One objective of the current round of revisions to the fifth edition of the IMF's *Balance of Payments Manual (BPM5)* and the third edition of the OECD's *Benchmark Definition of Foreign Direct Investment (BD3)* is to maintain and strengthen the harmonization of definitions used. While the process to date has witnessed the desire of the various parties to maintain harmonization, the drafting of the revisions to *BPM5* and *BD3* will be undertaken by separate drafting teams, each working under tight deadlines. It will be impossible to have the drafting teams consult with one another on every word. It is therefore important that a process be put in place to identify "key concepts and variables" for which explicit consultation will be required and to establish a process to ensure that the drafting teams and the decision bodies involved can efficiently consult on these key definitions that should be constant across the manuals.

This note addresses some principles and processes that could form the basis for ensuring the harmonization of definitions for FDI.<sup>1</sup>

#### **I. Current international standards for the statistical treatment of the issue**

Not applicable.

#### **II. Concerns/shortcomings of the current treatment**

It has been noted that even when there is general agreement on the definition of the concepts and variables, various manuals and documentation may contain a variety of wordings that can lead to differences in interpretation. There is also a desire to have definitions that are consistent with other statistical manuals such as the SNA93.

There are several glossaries in and out of manuals that provide definitions of many of the terms under consideration. There are differences in the wording of definitions across manuals that need to be resolved. The conflicts may arise due to differences in emphasis in the various sources.

#### **III. Possible alternative treatments**

##### Common definitions in glossaries

The proposition would be to have exactly the same wording for the basic definitions of "key concepts and variables". Any effort to harmonize definitions should assure the use of basic terms in a consistent manner. For example, the definition of resident units is fundamental to all aspects of the balance of payments and FDI as well as the SNA. There should be a common definition of these terms that can be used in any other definition without ambiguity.

This suggests there will be a hierarchy of terms such that more complex terms will depend on the previously established common definitions of simpler terms. For example, in defining the term

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<sup>1</sup> This issue has been identified as a DITEG issue but it is also important to other domains in the revision process including the revision of the SNA. Consideration should be given to expanding the scope of this issue to other parts of the process.



*direct investment enterprise* the use of the word “enterprise” should be fully consistent with the general definition of enterprise in SNA93 and other manuals.

#### A place to start

The IMF and OECD developed a glossary of FDI terms in preparing the report on the 2001 Survey on the Implementation of Methodological Standards for Direct Investment (SIMSDI) that is published on the IMF and OECD websites<sup>2</sup>. This could provide a starting point for the creation of a FDI glossary that could be included as part of both the next version of the balance of payments manual and of the next version of the *Benchmark Definition*<sup>3</sup>.

A working group could be established with country members from both drafting teams. It is proposed that this working group would work via e-mail given the already busy schedules of the participants. An e-mail process also has the advantage that a written process allows time for reflection on the subtle differences that come from alternative wording proposals.

The first step would be to identify the key concepts and variables that should have common definitions. As part of this process, it would be useful to identify basic definitions where there is already widespread agreement that would be useful in defining FDI terms e.g. non-resident.

Once a list of terms is defined for common definitions, it would be posted on the relevant IMF, OECD, and DITEG websites and a call for written submissions would be put forward. It is proposed that any suggested definition follow a simple basic format that would provide an explanation of the authors’ rationale for how the proposed definition change improves the existing definition, with explicit reference to other key terms and the glossaries of other principal manuals. (See Annex I.)

#### Principles to Follow

- \* Care should be taken not to define a general term to fit the context but to use the general term to develop the definition of the specific definition. (See Annex II for examples.)
- \* A term should not be defined inside the definition of another term.
- \* The hierarchy of definitions should be reviewed. Is there a logical flow between one term in the glossary and the use of that term to define other terms – e.g. enterprise, direct investment enterprise? (A practical test would be to substitute the definition of a term into its location in another definition. Does the definition still make sense?)
- \* The exclusions, as well as the inclusions, implied by the definitions proposed should be considered. Do sub-classes completely exhaust the general class? Are there cases where it is not clear where to assign a particular transaction or position?

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<sup>2</sup> *Foreign Direct Investment Statistics: How Countries Measure FDI, 2001*. (See reference list for access details.)

<sup>3</sup> The glossaries in the two manuals will, of course, each have definitions that go beyond the common FDI terms covered in this note. While the balance of payments glossary will cover subjects beyond FDI, the *Benchmark Definition* glossary will have an extended list of FDI terms needed for the more detailed presentation demanded in the *Benchmark Definition*.

#### **IV. Points for discussion**

1. *Should glossaries of FDI terms be included in both the IMF's Balance of Payments Manual and the OECD's Benchmark Definition of Foreign Direct Investment?*
2. *Should the definitions of "key concepts and variables" be identical in the two manuals?*
3. *Should these glossaries use definitions from other manuals such as the SNA93, whenever possible?*
4. *Should a working group be established that includes country members of the drafting teams of both manuals?*
5. *Should the working group on common wording for these definitions function primarily by e-mail?*

#### **References:**

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## Annex I

An example of a structure for proposing changes to definitions

### I. Existing Definition(s)

**Foreign direct investment enterprise** is “defined as an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise.

“The numerical guideline of ownership of 10 per cent of ordinary shares or voting stock determines the existence of a direct investment relationship. An effective voice in the management, as evidenced by an ownership of at least 10 per cent, implies that the direct investor is able to influence or participate in the management of an enterprise; it does not require absolute control by the foreign investor” (§7 and §8 OECD *Benchmark Definition*).

### II. Points considered in proposal for new definition

1. An incorporated or unincorporated enterprise – does the reference to two specific legal forms clarify or restrict the definition?
  - Economic units can take a wide variety of legal forms and it is important to ensure that we do not inappropriately restrict coverage of the concepts by reference to specific forms.
  - SNA93 has addressed this issue by defining “corporations (including quasi-corporations)” in a broad manner such that it is not a unit’s legal structure, but its economic goal, that determines its classification.
2. Enterprise – this term has a specific definition in SNA93. Is the usage consistent?
  - SNA93 defines “enterprise” as the portion of an institutional unit undertaking production.
  - It also notes that enterprises in the financial, non-financial and NPISH sectors are complete institutional units. Therefore the term “enterprise” and the term “institutional unit” for units in these sectors are synonymous.
3. Given the goal of foreign direct investment is it possible to identify specific types of economic units for which FDI would be defined?
  - Is it accepted that households and government units will never be foreign direct investment enterprises?
  - Is it clear that only non-profit units that are classified to the corporate sectors (financial or non-financial) would be potential foreign direct investment enterprises?
  - If the response is yes to both of these questions then, it follows that foreign direct investment enterprises would only be found in the financial and non-financial corporate sectors of an economy.

### III. Proposed definition

***Foreign direct investment enterprise*** is an *enterprise* (institutional unit) in the *financial* or *non-financial corporate sectors of the economy* in which a *non-resident* investor owns 10 per cent or more of the voting power of an incorporated enterprise or has the equivalent ownership in an enterprise operating under another legal structure.

- Words that are themselves well defined or are to be well defined as part of this process should be in italics to highlight the links between the definitions of key concepts and variables.

## Annex II

Moving from the general to the specific – examples

Do not redefine a general term in a narrower way:

### IMF/OECD Glossary

***Quasi-corporations:*** are enterprises that produce goods and services in an economy other than their own, but do not establish separate legal corporations in the host country. Quasi-corporations that are in a direct investment relationship with the parent enterprise are deemed to exist if:.....(page 157, *Foreign Direct Investment Statistics: How Countries Measure FDI, 2001.*)

### SNA Glossary

***“Quasi-corporations*** are unincorporated enterprises that function as if they were corporations, A quasi-corporation may be:

**Either** an unincorporated enterprise owned by a resident institutional unit that is operated as if it were a separate corporation and whose de facto relationship to its owner is that of a corporation to its shareholders: such as enterprise must, of course, keep a complete set of accounts

**Or** an unincorporated enterprise owned by a nonresident institutional unit that is deemed to be a resident institutional unit because it engages in a significant amount of production in the economic territory over a long or indefinite period of time.”

(*SNA93*, Paragraph 4.49)

The first definition seems to eliminate the possibility of a quasi-corporation being a direct investor, which was not likely intended.

### IMF/OECD Glossary

***Market price:*** is the amount of money that willing buyers would pay to acquire a financial asset from a willing seller. The use of market price for valuation of assets and liabilities is one of the key principles of balance of payments compilation. (page 156, *Foreign Direct Investment Statistics: How Countries Measure FDI, 2001*)

### SNA Glossary

***Market prices*** for transactions are the actual price[s] agreed upon by the transactors. (*SNA93*, paragraph 2.68)

The first definition would seem to limit market price only to transactions in financial assets.