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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
INVESTMENT COMMITTEE**

Workshop on International Investment Statistics

**DRAFT OECD BENCHMARK DEFINITION OF FOREIGN DIRECT INVESTMENT, 4TH EDITION -
PROGRESS REPORT**

by OECD Secretariat

**24-26 April 2006, Paris
17-18 October 2006, Vienna**

Contact:
Ayse Bertrand (ayse.bertrand@oecd.org)

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WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS

24-26 April 2006

Revision of the OECD *Benchmark Definition of Foreign Direct Investment* – *Progress report*

1. *Progress report on the work of the Benchmark Advisory Group (BAG)*

1. WIIS heard an oral report from the Chairman of BAG with regard to:

- (i) The achievements of the BAG meeting of 18 November 2005;
- (ii) The results of the informal interim meeting of the BAG Chairman with the editor and IMF and OECD Secretariats;
- (iii) Accomplishments of BAG in this first phase in terms of the reorganisation of the structure of the *Benchmark Definition* as well as the content.

2. *Foreign Direct investment statistics: How to better meet user requirements*

2. WIIS considered a document on “How to better meet user needs” [DAF/INV/STAT(2006)4] and heard a presentation from the Secretariat of the Investment Committee. WIIS noted that at least four priority areas for policy makers, based on the Committee’s undertakings in the last few years can be identified, which would benefit from adequate FDI statistics:

- (i) Attractiveness of the domestic economy as an investment location;
- (ii) The opportunities and challenges when domestic enterprises move offshore;
- (iii) “Unwelcome” mergers and acquisitions, strategic sectors and national champions;
- (iv) Investment for development: FDI from the OECD area to poorer countries.

3. The Secretariat indicated that aggregate FDI data alone are not sufficient to answer all the questions raised in policy areas and more analytical breakdowns would be very useful, such as:

- (i) In-depth information about partner countries;
- (ii) Detailed equity investment data;
- (iii) “Real” investment as opposed to “paper transactions”;
- (iv) Special purpose entities.

4. WIIS noted the needs for additional data sets on new forms of corporate linkups such as strategic alliances, transfer of know-how, joint ventures, etc., and indicated that these are important elements which deserved attention, possibly under the research agenda.

5. WIIS further indicated (a) the importance of bringing together OECD's FDI statistics and the statistics of the Activities of Multinational Enterprises (AMNEs) to look at the UBO information; and (b) the cost element of new statistics and the need to review priorities at the national level to identify any statistical activities which may be ceased.

3. *Draft Benchmark Definition of Foreign Direct Investment [DAF/INV/STAT(2006)2] : questions for clarification*

6. WIIS considered the issues raised in the discussion document circulated by the BAG [(DAF/INV/STAT(2006)3] and the written comments provided by member countries [DAF/INV/STAT/RD(2006)4]. Issues reviewed by WIIS and the deliberations are listed hereafter¹

7. WIIS agreed to move up and renumber as Chapter 2 the Uses of FDI statistics and asked BAG to improve the titles of the Chapter 4: The Scope of FDI and Chapter 5: Measuring FDI. It was also requested to include appropriate reference to the OECD *Handbook on Economic Globalisation Indicators* as the source of the material included in Chapter 7: FDI and Globalisation (*Question 1*).

8. WIIS agreed that each chapter would start with a short summary as an introduction. BAG was also asked identify a method which would allow an easy identification of recommendations. (*Question 2*)

9. WIIS agreed to extend the time-table of the Benchmark Definition 4 edition for another year (see Annex 1 for time-table). The draft will be submitted to the Investment Committee for approval at end-2007 (as opposed to end-2006). This additional time would be mostly devoted to developing methodologies for new breakdowns and for clarification in response to user needs: *FDI excluding pass-through funds and capital in transit; FDI according to ultimate host/ investing country; FDI by type* (cross-border mergers and acquisitions); *clarifying issues related to income*. WIIS agreed that small project groups working electronically would be an efficient approach to move forward the developmental work. IMF and OECD will be involved in all four groups (*Question 3*).

10. With regard to these additional breakdowns, WIIS took note of the question expressing concerns for the use of "supplemental data" as identifier while "supplemental" implies voluntary provision of data. WIIS deferred this discussion² (*Question 4 to be revisited*).

11. With regard to Chapter 1: Introduction, WIIS made no specific recommendations to modify its structure or its content (*Question 5*)

12. Some delegates expressed concerns with regard to extended discussion of institutional units in the body of the *Benchmark Definition* and suggested to move some items to a dedicated annex. This argument was based on the fact that most of the material on institutional units related to general principles set out either by the *System of National Accounts* (SNA) and/or by the *Balance of Payments Manual* (BPM). While the views were divided the organisation of this chapter was left, at the present time, as it is. (*Question 6 to be revisited*).

1. Question numbers included as reference relate to the discussion document DAF/INV/STAT(2006)3.

² At the meeting of the Benchmark Advisory Group of April 2006, IMF indicated that they will not demand any data reporting for data identified as "supplemental".

13. With regard to the question whether or not the discussion on institutional sectors should be included in the *Benchmark Definition*, WIIS agreed that it was important to include it for issues related to compilation even if OECD requires information by economic activity but not by institutional sector (*Question 7*).

14. WIIS provided clarification to estimate the 10 per cent threshold. WIIS confirmed that the objective of direct investor is to establish a long-term relationship to have an influence on the management of the direct investment enterprise. 10 per cent of the voting power is the proxy to determine the “influence”. WIIS clarified that most voting shares are ordinary shares. However, there are some shares which provide return on equity without any voting power (e.g. in limited partnerships). WIIS asked BAG to develop further this theme (*Question 8*).

15. WIIS deferred the discussion of a definition of a “parent company” (*Question 9*).

16. For the discussion on the definition of “subsidiaries”, “affiliates” and “fellow companies” see section 4.3 below (*Questions 10 and 11*).

17. WIIS deferred the discussion whether or not “non-profit institutions serving households” qualify as direct investment enterprise (*Question 12*).

18. For the discussion on direct investment relationship and the Fully Consolidated System, see section 4.3 below (*Questions 13 and 14*).

19. WIIS considered the request from BAG to draw a road-map for the follow-up work on SPEs. A number of delegations expressed the view that using a national definition of SPEs is not a satisfactory approach. They also indicated that to meet user needs one would need to look at the type of transactions rather than at SPEs (*Question 15*).

20. WIIS considered *Annex 8: Collective Investment Instruments (CII)* of the Draft *Benchmark Definition* and with a view to providing its recommendations³ on the treatment of CII with regard to FDI statistics. The views of Delegations were once again divided not allowing any consensus for the treatment of CIIs. The issue was left unresolved which may imply *status quo* as the fall-back scenario unless further discussions allow an agreed conclusion of WIIS. Some experts requested further clarification from the IMF with regard to current recommendation in BPM5 (*Question 16*).

21. WIIS considered *Annex 10: Mergers and Acquisitions (M&A)* as a part of FDI statistics the Draft *Benchmark Definition*. This proposal will be further elaborated by the project group on M&As for WIIS review. Moreover, delegates recalled the relevance of M&As series with AMNE statistics.

22. WIIS agreed with the following methods included in the *Benchmark Definition* to approximate unlisted equity position (*Question 22*):

- Recent transaction price
- Market capitalization method
- Net asset value

³ In April 2005, WIIS discussed CIIs when views on their treatment were divided. The issue was left as unresolved.

- Including goodwill and intangibles
- Excluding goodwill and intangibles
- Present value
- Own funds at book value
- Apportioning market value of global enterprise group to local operation (in deviation of the SNA)

4. Clarification of the “Fully Consolidated System” (FCS)

23. WIIS considered document DAF/INV/STAT(2006)7 providing clarification of the Fully Consolidated System (FCS)⁴ prepared by Australia (*Questions 13 of the discussion document*).

WIIS:

- (i) agreed with the general thrust of the paper defining the extent of the FCS;
- (ii) maintained its deliberation (of April 2005) with the shift of the emphasis to influence in defining the characteristics of direct investment;
- (iii) agreed with the removal of the concept of incorporation when defining the extent of the direct investment relationship;
- (iv) agreed to defining the FCS without specifically referring to residence criteria while the purpose of the FCS is to identify a group of enterprises which is significantly influenced by an investor;
- (v) did not agree to replace “subsidiary / associate / branch” terminology with “controlled enterprise / influenced enterprise” and asked BAG to further refine this point (*Questions 10 & 11 of the discussion document*);
- (vi) agreed with the principle that “influenced” and “controlled” enterprises should cover cumulative ownership links but asked that these cases be demonstrated graphically in the annex;
- (vii) agreed with the general logic of the description (but requested editing) of the degree of influence of a direct investor being maintained through a controlling link and diminished by one degree through an influencing link;
- (viii) agreed that issues related to recording income be further discussed electronically within a smaller project group for reporting at the next meeting;
- (ix) observed the concerns of several delegations on the practical application of the FCS and agreed that the European and United States methods be briefly described in Annex 4 of the *Benchmark Definition* as proxies to the FCS. (*Question 14 of the discussion document*).

⁴ The Fully Consolidated System was renamed in April 2006 by Benchmark Advisory Group as Framework for Direct Investment Relationship (FDIR).

5. Research agenda

24. WIIS considered document “Ultimate host country: U.S. proposal” [DAF/INV/STAT(2006)6] which provided a useful contribution for developmental work assigned to the project group on ultimate investing/host country (UIC/UHC).

25. WIIS heard two presentations which were also considered as useful material for developmental work of the project group on Special Purpose Entities and UIC/UHC:

- Supplementary FDI statistics on capital in transit presented by the European Central Bank [DAF/INV/STAT/RD(2006)2]
- Supplementary FDI statistics based on the conceptual framework of ultimate beneficial ownership/control presented by the Netherlands [DAF/INV/STAT/RD(2006)3]

5. Dates of future meetings:

WIIS: 17-18 October 2006, Vienna

BAG: 27-28 April 2006, Paris

19-20 October 2006, Vienna

WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS

17-18 October 2006, Vienna⁵

A. Welcoming remarks by Dr. Manfred Schekulin, Chairman of the OECD Investment Committee

26. Dr. Schekulin welcomed all participants to this session of the Workshop on International Investment Statistics (WIIS). He stressed the importance and the benefits of investment and the need to improve investment climate and international co-operation. He indicated that the work on FDI statistics and their analysis is one of the four priorities of the Investment Committee (IC). He also recalled the importance of reliable FDI statistic and, in consequence, the importance of the revision of the *OECD Benchmark Definition for Foreign Direct Investment (Benchmark Definition)* which is considered as a flagship output by the investment community at large.

27. Dr. Schekulin summarised the main expectations from this revision cycle: (i) providing solutions to issues resulting from new economic developments; (ii) maintaining international consistency between IMF and OECD standards; (iii) taking into account the feasibility of the implementation of these standards; (iv) improving the value of FDI by identifying ultimate source and destination, providing additional information on mergers and acquisitions and bridging the gaps between FDI and the activities of multinational enterprises.

28. Finally, in his capacity as the IC chairman, he invited Ralph Kozlow, WIIS Chairman to provide a briefing to the investment committee at its session in March 2007 on work of the group.

B. Revision of the OECD Benchmark Definition of Foreign Direct Investment – Progress report

1 Progress report on the work of the Benchmark Advisory Group (BAG)

29. WIIS heard an oral report from the Chairman of BAG with regard to:

(i) The achievements of the BAG meeting of 27-28 April 2006;

(ii) An interim version of the Draft *Benchmark Definition* was prepared by end-July 2006 taking into account: (i) WIIS comments of April 2006 meeting; (ii) BAG comments of April 2006 meeting and written comments thereafter. This interim version was submitted to the IMF Committee on Balance of Payments Statistics for written comments by end-August 2006.

(iii) The current version circulated to WIIS incorporate comments received from the IMF Committee and other BAG comments. [DAF/INV/STAT(2006)2/REV1]

5. This Workshop was held in Vienna hosted by Austria, Federal Ministry of Economics and Labour

2. Implementation of revised standards:

30. WIIS considered a document “Thoughts on the practical implementation of the revised Benchmark Definition of FDI” by the United Kingdom [DAF/INV/STAT/RD(2006)9]. The purpose of the presentation was not to question the basic principles such as the ownership of at least 10 per cent of the voting power. What the presentation rather intended to convey was the practical implementation of standards while at the same time stressing the importance of meeting user needs and linking FDI with other international developments and also considering the reporting burden by national respondents as well as the burden on national compilers.

31. The suggestion for the way forward is to explore the possibilities (i) for presenting FDI data on a control basis (while keeping the basic notion of influence); (ii) to establish closer links with statistics on the activities of multinational enterprises (AMNEs also referred to as FATS statistics within Europe); and (iii) to explore the benefit of a joint register and data reporting by the business on a similar basis for both FDI and AMNEs.

32. WIIS did not consider a change of the criteria from influence to control for relationships beyond the immediate partner even though some countries indicated that large shares of their FDI correspond to more than 50 per cent ownership of the voting power.

3. Review of new FDI methodologies under development

33. WIIS reviewed the work in progress presented by three project groups (PGs): Special purpose entities (SPEs); Ultimate investing/host country (UIC/UHC); and Mergers and acquisitions (M&As). WIIS asked the Benchmark Advisory Group (BAG) to enable discussion by PGs at its next meeting for further developmental work.

(a) Pass-through funds and capital in transit

34. WIIS considered a paper by PG –SPE prepared under the leadership of the Netherlands “Treatment of pass-through funds and capital in transit in FDI statistics: a preliminary proposal” [DAF/INV/STAT(2006)12].

35. WIIS was requested (i) to provide guidance to the PG-SPE indicating whether the work conducted so far is in the right direction; and (ii) to raise any technical problem they may have identified.

36. The problems to resolve are:

- (1) an increasing lack of insight in genuine, non inflated FDI;
- (2) the increased blurring of the borderline between FDI and other capital and, related to this;
- (3) the growing divergence between capital that is controlled and invested by a country;
- (4) increasing difficulties in constructing aggregates for country groups;
- (5) an increasing lack of insight in the ultimate origin and destination of FDI capital.

37. WIIS noted with satisfaction that the proposal described in the revised document provided considerable progress as compared to the initial version presented in April 2006. The conceptual framework is based on building blocks, the so-called combined approach. The combined approach attempts to deal with both (i) *capital in transit* problems in particular via the “empty shells” or other

entities, at default according to national definitions; and (ii) *the netting approach* to resolve the inflation problems in general. This approach requires data that are reported by entities controlled both by *resident and non-resident Ultimate Investing Parents (UIP)*. Constructing aggregate data by country groups (e.g. monetary union) raises additional problems. Furthermore, the proposal takes into account the practical difficulties for implementation, i.e. feasibility.

38. In summary, WIIS found the document very stimulating and most participants agreed with several elements. The proposal was considered to have a good basis and the PG was encouraged to move forward. Several elements were noted for extending the proposal: (i) to cover both flows and positions; (ii) identifying SPEs; (iii) providing split by partner country and by industry; (iv) achieving conceptually sound basis so that the data could be used for basic tables rather than as memo items.

39. The PG is expected to present a proposal at the next WIIS meeting in March 2007.

(b) *Ultimate investing/ host country (UIC/UHC)*

40. WIIS considered a PG-UIC/UHC document “Ultimate investing/host country in FDI statistics: preliminary notes for a proposal” [DAF/INV/STAT/RD(2006)8] The work of this PG was led by the United States which presented an initial proposal in April 2006. The document included only elements of several proposals.

41. WIIS agreed that the methodology for a common UIC/UHC proposal (i) be limited initially only to FDI positions and its extension to flows could be envisaged later; (ii) be limited to chains of control; (iii) be a single proposal for the sake of consistency. The PG is expected to present a proposal at the next WIIS meeting in March 2007.

(c) *Mergers and Acquisitions (M&A)*

42. WIIS considered a PG-M&A document “Segregating M&As as a breakdown of FDI statistics: A preliminary proposal” [DAF/INV/STAT(2006)14] and its addendum including comments by the United Kingdom. The document was developed under the leadership of Japan as a follow-up of the initial presentation in April 2006. Delegates appreciated the quality of the paper and reviewed the questions for discussion. They recommended that developmental work on M&As should remain within the WIIS mandate and to work on a two-way split: MAs and other types of FDI (including greenfield investments, extensions of capital, financial restructuring).

43. WIIS confirmed/recommended that (i) M&As will only apply to FDI flows; (ii) all initial and subsequent transaction will be covered for equity capital; the methodology could later be extended to other capital. WIIS did not have a clear recommendation for the proposed recording of M&As according to immediate partner country following after identifying ultimate purpose and ultimate industry. Further clarification was requested. On the other hand, some confidentiality concerns were raised for country/industry presentations. There was no resolution on the ultimate or immediate recording which was deferred to BAG.

44. WIIS expressed interest in further splits by greenfield investments, extension of capital and financial restructuring. However, it was agreed that these are complex issues and should be left to the research agenda since related concepts/definitions are not yet developed or agreed.

45. It was confirmed that the methodology should use the basic criteria of 10 per cent ownership of the voting power as opposed to control (more than 50 per cent).

4. *Draft Benchmark Definition of Foreign Direct Investment: questions for clarification*

46. WIIS considered the issues raised in the discussion document circulated by the BAG [(DAF/INV/STAT(2006)11] in relation to *Draft Benchmark Definition of Foreign Direct Investment* [DAF/INV/STAT(2006)2/REV1]. Issues reviewed by WIIS and the deliberations are listed hereafter.⁶

47. WIIS deferred the discussion of the Framework of Direct Investment Relationship to the Benchmark Advisory Group (*Questions 1-4*).

48. WIIS considered a proposal by France for the presentation of FDI statistics by partner country and by industry classification for “inward” and “outward” investments according to the directional principle. The presentation of such data will be derived from the standard presentation for asset/liabilities. The group also considered two numerical examples demonstrating the results for each type of presentation. (*Question 5*)

49. There was a general agreement that users needed data according to inward and outward concepts in particular for FDI statistics presented by partner country and by industry classification. On the other hand, it was also acknowledge that assets/liabilities presentation provides more details for transactions between affiliated enterprises.

50. In conclusion, WIIS:

- (i) welcomed the proposal by France for the presentation of detailed tables by country and by industry classification according to the directional principle;
- (ii) recommended to include in the *Benchmark Definition* a description of the purpose and the interpretation of both presentations, namely for asset/liability principle and the directional principle. WIIS also requested that the formula for establishing the linkages between the two sets of data be provided and explained (pointing out that the main difference relates to reverse investment);
- (iii) expressed its preference for the standard presentation as displayed in the expanded format in Tables 1, 2, 3 as opposed to Tables 4, 5, 6 while the latter group corresponds to a more narrow definition;
- (iv) asked the BAG to provide further guidance to the project group.

51. The question was raised for clarification whether a *reverse investment* involves only direct FDI relationships or whether it can also include indirect relationships. WIIS agreed that reverse investment involves transactions and positions between a direct investment enterprise and its immediate as well as indirect direct investors. (*Question 6*)

52. WIIS was requested to review the use of the term “supplemental” data series in the *Benchmark Definition* given that such a qualification implies the provision of data on a voluntary basis which handicaps international comparison. WIIS agreed to find an alternative language and requested BAG to make a proposal.

6 . Question numbers included as reference relate to the discussion document DAF/INV/STAT(2006)11.

53. With regard to the question whether or not deposits by non-financial enterprises in their related financial institutions should be included in FDI, WIIS agreed to maintain the current practice to include them. (*Question 8*)

54. As to the request for further guidance for the attribution of industry classification according to the industry of the enterprise group, WIIS confirmed the description in the draft *Benchmark Definition* [DAF/INV/STAT(2006)2/REV1, p.75] (*Question 9*):

- “It is recommended for FDI statistics that when the enterprise (direct investor or direct investment enterprise) is part of a local enterprise group, the industry classification be that of the local enterprise group’s primary activity.”

55. To improve the compatibility between FDI and AMNE statistics, WIIS agreed on the usefulness of additional analytical presentation providing FDI by majority ownership (more than 50 per cent ownership of voting power) as a sub-category of standard FDI statistics (i.e. based on 10 per cent threshold). They also recommended that this work be a part of the research agenda. It was noted that some aggregation may be necessary to suppress confidential data. (*Question 10*)

56. WIIS was requested to review the treatment of technical reserves of captive insurance companies. There was a consensus that technical reserves of captive insurance companies be included in direct investment. It was also clarified that the instrument category is other capital and the allocation is not based on the percentage of ownership (unless it is 100 per cent owned) but on the share of owner’s policy. (*Question 11*)

57. WIIS was asked whether all funding by Non-profit institutions serving households (NPISH) should be excluded from direct investment or whether the basic criteria of 10 per cent threshold be applied when NPISH invests in a non-resident market producer. WIIS agreed that NPISH should be excluded from FDI. (*Question 12*)

58. With regard to the treatment of counterparty entry in the financial account of the provision for goods and services in-kind provided by an enterprise within a direct investment relationship, WIIS considered to apply principles similar to those applied for “transfer pricing”. However, WIIS left this issue unresolved. (*Question 13*)

5. *Dates of future meetings:*

MENA: 9 November 2006, Istanbul

WIIS 26-28 March 2007, Paris (of which 1 or 1½ days will be a joint session with the Globalisation group of the Committee on Industry and Business Environment)

1-3 October 2007

BAG 29-30 March 2007, Paris

4-5 October 2007, Paris