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Recent Activities of the OECD's Working Group on International Investment Statistics

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The WGIIS has been focused on two main activities in the past couple of years. The first activity is to clarify some of the recommendations included in the most recent set of standards and to develop implementation guidance where needed. As countries have implemented the latest standards, they have identified cases where the drafting across manuals has not been aligned as well as cases where additional guidance and sharing of best practices in implementation would be useful. The second activity has been to make progress on further advancing the statistics by pursuing some items on the research agenda of the 4th edition of the OECD's Benchmark Definition of Foreign Direct Investment as well as by working on integrating FDI income into the Trade in Value Added Framework. This document will begin with a brief description of the metadata survey carried out by the WGIIS, which lays the groundwork for the sections that follow. It will then discuss the work of two Electronic Discussion Groups that the WGIIS formed to focus on the recording of FDI income and on implementation of the presentation by Ultimate Investing Country. This is followed by describing the development of goals for a future update of the Benchmark Definition. It concludes with a brief description of some future activities.

Metadata Survey

With most countries having completed the implementation of BPM6 and BD4, the WGIIS decided to undertake a metadata survey to provide up-to-date information on the methods, concepts, and data sources countries use in compiling FDI statistics. The metadata survey was launched in July 2016, and 34 of 35 OECD countries completed it. The survey was very detailed. It included questions on:

- the definition of direct investment and the methods used to identify the entities in a direct investment relationship;
- coverage of some specific items that can be difficult, including real estate (specifically purchases of residential real estate by individuals), debt instruments, fellow enterprises, the relevant share of earnings from indirectly owned direct investment enterprises, collective investment institutions that meet the definition of a direct investors and/or direct investment enterprises, and operators of mobile equipment that meet the definition of a direct investment enterprise;
- use of the Current Operating Performance Concept (COPC) in the measurement of FDI income
- methods used to value listed and unlisted equity;
- data sources countries used and how they managed confidentiality;
- geographic and industrial classifications used by countries in reporting their detailed annual statistics;
- presence of Special Purpose Entities (SPEs) in the reporting country, coverage and identification of resident SPEs as well as the use of SPEs abroad by resident direct investors;

- FDI statistics by Ultimate Investing Country (UIC);
- And, finally, coherence of the statistics with the statistics included in their International Investment Position (IIP) accounts and the IMF's Coordinated Direct Investment Survey.

The results of the survey were published in July 2017 and are available at: http://www.oecd.org/investment/statistics.htm. Countries are requested to provide the WGIIS Secretariat wth updates of their metadata when changes are implemented.

The results of the survey demonstrated that the comparability across countries in the methodologies for FDI statistics improved with the implementation of the latest international standards. Yet some significant differences remained, including in the coverage of fellow enterprises and collective investment institutions, the application of the directional principle to the detailed statistics, the basis for industrial classification (particularly for outward FDI), and the valuation of FDI positions. These findings point the way towards some of the recommendations that countries are having the most difficulty in implementing.

Electronic Discussion Group on FDI Income, Dividends, and Reinvested Earnings

The WGIIS decided to form an Electronic Discussion Group (EDG) on FDI income in light of differences in the drafting of recommendations across the manuals for compiling FDI income. It was also thought to be beneficial given the increasing emphasis placed on FDI income for a number of uses, such as in measuring rates of return and in the analysis of globalisation. The goal of the EDG is to develop more complete guidance as well as to develop a deeper understanding of the conceptual issues surrounding the recording of FDI income, dividends, and reinvested earnings in both the Balance of Payments (BOP) and FDI accounts as well as the national accounts.

The first item to be undertaken by the EDG was an overview of the existing practices and a review of the concept of earnings used in the national accounts to determine whether the COPC as defined in BD4 is still consistent with it or if changes need to be made. It was found that, in general, the COPC was still aligned with the national accounts, but some more guidance might be needed in the cases of finance and insurance companies.

Next, the EDG examined the drafting in the manuals for the treatment of very large dividends. BPM6 and SNA 2008 both introduce the concept of superdividends and recommend that they be treated as withdrawals of equity while BD4 does not define superdividends. In addition, identification of superdividends in the manuals is not very precise, and it does not take into account the possibility of a change in dividend behaviour. Therefore, the EDG will focus on identifying the different practices applied and developing further guidance on how to treat exceptionally large dividends.

Finally, the EDG will clarify the calculation and time of recording of reinvested earnings, especially in the case of interim dividends, across the international standards. The EDG will also explore the definition of retained earnings in financial accounting standards and how it relates to what we are trying to measure in

the economic accounts to determine if there are adjustments that need to be made and to formulate some drafting proposals in that sense.

Electronic Discussion Group on the Implementation of the Ultimate Investing Country Presentation

The WGIIS decided to form an EDG on the implementation of the Ultimate Investing Country (UIC) presentation given that many countries were interested in developing such statistics but were doing so based on different data sources and practices. The goal of the EDG is to develop more complete and practical guidance on the implementation of the UIC. This guidance will not only help countries that will implement the presentation in the future but will also help enhance comparability of the statistics across countries.

BD4 recommends a supplemental presentation of inward investment positions by UIC. There have been several issues raised as countries have begun to implement this recommendation. These include differing guidance in BD4 and the Activities of Multinational Enterprise (AMNE) and Foreign AffiliaTe Statistis (FATS) for identifying the ultimate investor; the special cases identified by countries as being particularly problematic; the reattribution of debt as well as equity positions to the UIC; and the expansion to FDI income payments.

As a first step, the EDG catalogued differences between the guidance in BD4, which recommends that countries follow the ownership chains of each direct investor in the direct investment enterprise to determine the investor who controls that investment, and the guidance in AMNE/FATS statistics, which recommends that one ultimate controlling investor be identified for each foreign-controlled enterprise. In practice, many countries are using the information collected as part of their AMNE/FATS data collections to identify the UIC, and, thus not following the guidance in BD4.

The Study Group will consider the both the practical and conceptual implications of each method. There have been presentations by a couple of countries illustrating the impact on the statistics of the different methods; these have found that for most countries there is little difference between the methods, but there can be substantial difference for selected countries and industries. The next step is to consider the advantages and disadvantages of each method and to develop guidance on the interpretation and use of the statistics. The Study Group will also consider what should be done with minority ownership interests if the guidance in AMNE/FATS statistics is used since that guidance only refers to controlled foreign enterprises.

Next, the EDG will consider the cases that countries have identified as being problematic for the implementation of the UIC presentation. First, it can be difficult to determine the residence of some direct investors even if their identity is known. These include the cases of collective investment institutions and natural persons. The second cases are where the UIC is located in a tax haven or offshore financial centre. In this case, it would be preferable to only identify the UIC as a tax haven or offshore financial centre if there is a physical presence there and it is also the decision centre for the MNE. The last case is when it is

not possible to identify the UIC. In each case, the Study Group should develop practical guidance for compilers to follow in determining the UIC.

Finally, the EDG will consider some other aspects of the implementation of the UIC presentation, including the reallocation of debt as well as equity and the extension to income statistics. BD4 recommends that the entire inward position to the UIC when presenting the statistics on this basis. However, a few countries are only reattributing the equity portion of the position to the UIC and leaving the debt position between the two parties directly involved in the debt transaction. The Study Group will consider the implications and interpretations of the data when debt is and is not reallocated to the UIC. For the analysis of global value chains, it is also of interest to identify where the FDI income payments are ultimately received. The Study Group will examine the feasibility of extending the presentation by UIC to FDI income payments.

Proposed Goals for an Eventual Update of the Benchmark Definition

The OECD's Investment Committee requested that the WGIIS develop a proposal for an eventual update of the Benchmark Definition. Because the next edition of the Benchmark Definition will not be published for many years, the WGIIS agreed to start the planning by identifying broad goals for an eventual update to help guide the research that the WGIIS pursues in the coming years. The process of developing these goals involved several rounds of consultation with countries to identify the issues to be considered. The proposed goals will be updated with issues that may be identified in the future.

FDI seeks to measure long term investments by MNEs to access markets and key inputs, such as natural resources and human capital, and to locate stages of production in countries to take advantage of factor cost differences through their foreign investments. FDI has facilitated the creation of complex global production chains that support employment and generate income in the host economies. However, other factors, in particular fiscal optimisation, have also played a role in the shape and depth of these chains. When the FDI flows are related to purely financial flows engineered to minimise tax payments or overcome regulatory barriers, there is little direct impact on the host economy, at least in a traditional production sense. This can make it difficult to interpret FDI statistics because the financial structure of the MNE as captured in FDI statistics does not match the operational structure of the MNE, which reflects the organisation of its operations across countries. It also limits the usefulness of FDI statistics for analysing globalisation.

BD4 made substantial progress in making FDI statistics more useful for globalisation analyses. For example, it recommended identifying the FDI associated with resident SPEs so that the capital-in-transit through these SPEs could be segregated in a country's FDI statistics, thus better identifying the amount of FDI into and out of that country that is likely to have an impact on its economy. It also recommended a supplemental presentation of inward FDI positions by UIC, which provides information on the country of the investor that ultimately controls the investment. This is important for understanding the financial linkages between countries. However, BD4 included an ambitious research agenda of issues that needed to be explored to further improve the usefulness of FDI statistics, particularly for analysing globalisation.

In the first discussion of goals, the WGIIS agreed with extending the work done in BD4 to provide FDI statistics to better address globalisation while maintaining the alignment with FDI statistics for the BOP and IIP accounts. The WGIIS also agreed with the need to advance work on the BD4 Research Agenda. During the consultations, countries identified a number of issues they wanted to be considered for the update as well as encouraging a re-examination or further clarification of some of the recommendations and definitions in the 2008 standards not only for the feasibility of implementation but also for alignment with the concept of FDI and with other statistical standards. Countries expressed the need to think more deeply about what should be included in FDI, to consider developments in the economy and corporate organisation and finance to provide relevant guidance for the compilation of FDI statistics, to be practical and realistic in developing the next benchmark definition, and to ensure the next benchmark definition is well-aligned with other statistical domains.

The issues raised by delegates were organized into five broad categories. The first category is to identify purely financial flows and financial and corporate restructuring within FDI statistics. The first item mentioned in this category is the identification of pass-through capital. This is important for measuring FDI that is having an impact on the economy, and the WGIIS can build on the work being done in countries as well as by the Secretariat to define and measure pass-through capital. It also has implications for the compilation of statistics by UIC since the segregation of pass-through capital is necessary to avoid double-counting the investments from a particular UIC when the statistics are aggregated across countries. Other items in this category included the development of a definition of SPEs (something undertaken by the IMF Task Force on SPEs) and the need for a discussion of when Collective Investment Institutions should be included in FDI and when they should be excluded. Separate identification of financial conduits, entities that are established abroad for the purposes of raising capital from unaffiliated parties and lending it to other parts of the MNE or to engage in portfolio investment on behalf of the parent, was also encouraged. Finally, corporate restructurings, such as redomiciled companies and corporate inversions, that result in the headquarters of the company moving to a new country can result in significant FDI financial flows, which are often largely offset by portfolio investment flows. The question is raised as to whether transactions of these types should be included in the statistics at all or whether they should be treated another way, such as in "other changes."

The second broad category of issues raised were conceptual issues. Many of these revolved around the conceptual foundations for the recording of FDI income and are beign addressed by the EDG on FDI income, dividends, and reinvested earnings as discussed above. Other issues raised were the need to more fully develop the concept of ultimate host country. Finally, a couple of countries expressed concern about the 10 percent of voting power criterion. One suggested that 20 percent, to match the standard widely used in International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), would be better given that financial records are the major source for the data used to compile FDI statistics. Another country suggested covering only control relationships as this would align with AMNE/FATS statistics and could simplify compilation by reducing the number of special cases.

The third broad category were realistic and practical considerations. Again, many of these were practical considerations related to the recording of FDI income and included the time of recording reinvested earnings (especially in the case of interim dividends) and the treatment of very large dividends. Another major area was in the implementation of the UIC concept; the EDG on the implementation of the UIC presentation will help to address many of these issues. Countries also expressed an interest in sharing experiences on adjusting from the financial accounting records that are often the basis for FDI statistics compilation to the economic accouting concepts used in the statistics. Countries also expressed an interest in sharing experiences and developing practical guidance for the compilation of real estate transactions by individuals (as opposed to commercial real estate); it was also considered important to separately identify these transactions in the statistics, as is currently done in the OECD request for FDI statistics by activity.

Another area falling under practical considerations was the valuation of equity. There are several different methods to value unlisted equity given in BD4 and BPM6. However, countries using different methods can lead to bilateral asymmetries; indeed differences in valuation are often a leading cause of asymmetries. Moreover, differences in valuation between functional categories of investment can lead to differences in the values of assets and liabilities of the same company in the accounts. For example, the shares in domestic MNEs held by foreign residents will be valued using stock exchange prices in portfolio investment while the foreign assets of the same MNE will often be valued at Own Funds at Book Value in direct investment. Finally, differences can also result when a direct investment goes from listed to unlisted. As a result, it would be useful to work towards reducing the number of methods included in the guidelines and to developing methods that yield similar results across functional categories and between listed and unlisted equity.

Given that globalisation is a very complex phenomenon that impacts many different aspects of the economy, it is necessary to have a larger system of statistics designed to capture it and provide information to analyse its impacts. Thus, the fourth category were related statistical domains that it was thought to be important for FDI statistics to be aligned and harmonized with as much as possible. These related domains included not only AMNE/FATS statistics but also many different sets of trade statistics, including trade in services, trade in goods, trade in value added, and trade by enterprise characteristic. Finally, a non-statistical area that delegates thought it would be good to explore cooperation with was that of IAS and IFRS. Because company financial records are the main source of FDI statistics for a growing number of countries, it could be worth understanding their guidance as well as reaching out to them to explain the challenges that we face.

The fifth and final category were emerging issues. Many delegates expressed that the agenda was already full, and it would be difficult to add new areas to the agenda. However, a few suggestions were made in this area. These included the institutional sector breakdown for FDI in the asset/liability presentation, cross-border exposures of MNEs, FDI by type—that is, FDI for M&A and for greenfield investments, classification by business function instead of industry, and FDI statistics at the sub-national level.

As a final step in developing the proposal, the WGIIS Secretariat launched a survey of the users of FDI statistics in July 2018 to seek input from them on their priorities for improving FDI statistics. The survey consisted of four questions:

- improvements in how FDI statistics are classified and measured;
- separate identification of purely financial transactions, such as capital-in-transit, that can complicate the interpretation of FDI statistics;
- related statistical domains; and
- any other issues the user would like to raise.

In addition, the survey included some free text questions where respondents were invited to provide suggestions for improving the usefulness and interpretability of FDI statistics. They could also provide suggestions for additional statistical domains for which greater harmonization with FDI statistics would be beneficial.

The survey received 84 responses and confirmed much of the understanding of the WGIIS of priorities for improving FDI statistics. Users placed the most importance on classification by ultimate investing and host countries, identification of FDI by type (especially greenfield FDI), and on the segregation of pass-through capital in the statistics. In addition to pass-through capital, users placed high importance on distinguishing between 'genuine' FDI and purely financial FDI more generally and also distinguishing better between direct and portfolio investment. They placed greatest importance on the alignment of FDI statistics with AMNE/FATS statistics and trade statistics. Some other themes in their responses were the need for greater cross-country comparability, greater granularity with respect to sector and partner country, improved timeliness, and greater country coverage. Both the issue of R&D and technology within the MNE and taxation were raised as additional issues.

Future Activities

One new project that the WGIIS Secretariat will be taking on will be the integration of FDI into the OECD's forthcoming Analytical AMNE database. This work will shed light not only on the relationship between trade and investment but will also explore the role of investments in intangibles. This project should provide important insights on the needs of FDI statistics for analysing globalisation. The WGIIS will continue to support the work of the EDG on FDI income, dividends, and reinvested earnings to better understand the conceptual foundations for the recording as well as developing practical guidance. The WGIIS will also continue to support the work of the EDG on the implementation of the UIC given the number of countries interested in compiling these statistics. Finally, the WGIIS will continue to serve as a forum where FDI statisticins can share their experiences on a variety of issues. Recent discussions have included compiling FDI statistics for M&A and greenfield investment, the treatment of corporate inversions, forecasting income, the ultimate host country presentation, foreign ownership of housing, micro data-linking exercises to shed more light on the contribution of FDI to host economies, and reducing bilateral asymmetries.