D.6 DI Statistics by Ultimate Investing Economy/Ultimate Host Economy and Identifying Pass-through Funds: Outcome of the Public Consultation

D.6 DI Statistics by Ultimate Investing Economy/Ultimate Host Economy and Identifying Pass-through Funds: Outcome of the Public Consultation[1]

The general consensus favors a supplemental presentation of direct investment (DI) statistics by Ultimate Investing Economy (UIE), Ultimate Holding Economy (UHE), and separate identification of pass-through funds, and the need to streamline the number of concepts for ultimate investor. Some practical concerns were raised for the supplemental presentation on DI flows and income and for allocating data to the UHE, due to difficulties in getting the necessary ownership information. In the light of the wide agreement received during the public consultation, the GN is proposed to be considered by the Committee for final decision.

1.   **The public consultation[2] exercise revealed a general support for a supplemental presentation of DI statistics by UIE, UHE and separate identification of pass-through funds, in particular for positions.** There were more reservations and practical concerns for DI flows and income due to the difficulties in getting the needed information including legal and resource constraints and respondent burden. In addition, caution should be paid on possible interpretation issues, which will require clear guidelines for users, and clear compilation guidelines to national producers to avoid asymmetries in treatments. For income, there was one reservation that one could allocate income to the UIE while an entity in the middle of the chain could be reallocating the fund to a third economy, an aspect that should indeed be clarified in the Compilation Guide. Finally, someone questioned whether the discussion in the BPM should be limited to setting guidelines regarding the UIE and UHE with perhaps a supplemental table, to avoid overlap with the *OECD's Benchmark Definition*, which will include detailed guidance and presentation tables.

2.   **A majority of respondents supported the Proportional Approach (PA), Winner Take All (WTA) and IFRS methods be presented as possible alternatives in *BPM7* for allocating data to the UIE.** Some suggested that there should be a single preferred method for comparability purpose and that the guidance should clearly describe the pros and cons of each method.

3.   **Having to choose one of the three, most respondents expressed preference for the WTA method.** This is seen as more practical to implement and consistent with other statistical domains, although one respondent recognized that there could be some misallocations in the case of holding chains. Those who opposed the proposal to have all three methods as acceptable in the next version of the Manual indicated that the PA method was more appropriate for DI, or suggested that the IFRS be discarded from the list of proposed alternatives as it is not fully in line with other statistical criteria in DI statistics. One respondent indicated that PA is recommended in *BD4* and is consistent with the allocation method to the immediate counterpart country.

4.   **There were more practical concerns raised for allocating data to the UHE, yet a majority of respondents supported that the four methods be proposed as possible alternatives within *BPM7*.** Some recommended that a preferred method be proposed, for comparability purposes. There were also concerns that the four methods proposed could lead to very different results and increase asymmetries.

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[1] This note has been prepared by Ms. Emilie Kothe, and Ms. Padma S. Hurree-Gobin (DITT Secretariat).

[2] Sixteen responses. See partial detailed results in Annex II.

5.   **More respondents expressed preference for the first operating unit method as it is more feasible.** Some respondents expressed preferences for the "Tracing influence down the ownership chain" and "Positions of the DIE in the resident economy" methods as they are more theoretically sound although less easy to implement.

6.   **The breakdown by residency of the ultimate investor was considered by most respondents a good indicator for pass-through funds, and there was full consensus on the need to streamline the number of concepts for the ultimate investor.** Respondents who opposed the proposed indicator of pass-through indicated that the proposed indicator would not be sufficient as external financing would not be covered and there are a number of cases where enterprises are resident in an economy with their center of economic interest located abroad.

7.   **Many respondents requested that clear compilation guidance for allocating data to the UIE and in particular to the UHE would be required,** including a description of the pros and cons of each method, to reduce the risks of asymmetries in treatment. Detailed guidance would also encourage implementation efforts by national compilers of this more challenging supplemental presentation. Clear examples to support the identification of pass-through would also be useful to support implementation.

Annex I. WGIIS Consultation on GN D.6: DI Statistics by Ultimate Investing Economy/Ultimate Host Economy and Identifying Pass-through Funds

1. **The OECD's *Benchmark Definition of Foreign Direct Investment, fourth edition* (*BD4*) provides detailed guidance on the compilation of direct investment (DI) statistics that is aligned with the recommendations in the IMF's *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*).** The Direct Investment Task Team (DITT) was established to research issues and make recommendations in the area of DI statistics for the update of the manuals. To ensure consistency remains across the *BPM7* and *BD5*, the IMF and the OECD are collaborating in the work of the DITT, serving as co-Chairs and in the DITT Secretariat.[3] The Terms of Reference of the DITT also calls for the OECD's Working Group on International Investment Statistics (WGIIS) to review the guidance notes at the same time as the Balance of Payments Task Team (BPTT).

2. **The WGIIS secretariat consulted with WGIIS delegates on the DITT GNs to gauge their support as any recommendations would need to be reflected in the update of the *Benchmark Definition* as well**. The questions put to the WGIIS delegates were the same as in the questionnaires used in the public consultations. Twenty-two countries responded, but not all countries responded to every question. The OECD organized a webinar on October 13 to discuss the outcomes of the consultation. There were more than 90 participants, and no dissenting opinions from those expressed during the consultation emerged.

3. **There was broad support for the presentation by ultimate partner, particularly for DI positions** (Table 1). Some noted that the interpretation of DI flows and implementation, particularly for DI income, may be difficult. There was less support for the identification of pass-through funds, but there was still a majority in favor. Those opposed noted that they did not have pass-through funds in their economy.

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[3] The OECD's Working Group on International Investment Statistics (WGIIS) is expected to formally endorse the update of *BD4* at its November 2020 meeting.

Table 1. Results of the WGIIS Consultation

Q1. Do you support a supplemental presentation on UIE, UHE, and identifying pass-through funds?				
	UIE/UHE		Pass-through funds	
	Yes	No	Yes	No
FDI positions	22	0	14	4
FDI flows	16	5	13	5
FDI income	14	7	11	6
Q2. Do you have a preference for any proposed method(s) for UIE?				
	Yes		No	
Proportional	9		7	
Winner takes all	16		3	
IFRS Consolidation	3		11	
Q3 Do you have a preference for a specific method for UHE?				
	Yes		No	
Tracing influence down the ownership chain	4		8	
Position of ultimate investor in the DIE in the host economy	3		8	
First operating unit	10		4	
Last unit in the chain	6		7	

4. **The questionnaire asked if they thought all proposed methods for identifying the ultimate investing economy (UIE) should be included in the manuals.** Most respondents (18 out of 22) indicated a preference for either an identification of a preferred method or a ranking of the methods by preference if all were to be included in the manuals, mainly to enhance comparability. Among the methods for UIE, most respondents preferred the winner takes all approach because it was the most feasible and it was consistent with other statistics (Foreign AffiliaTe/Activities of MNE statistics) (Table 1).

5. **For ultimate host economy (UHE), many countries noted that this was more difficult than the UIE.** It generally requires more information on the chain of ownership and on operations abroad. While most respondents (16 out of 20) supported presenting all methods in the manuals, they again wanted either one presented as preferred or the methods ranked. Among the methods, there was a preference for presenting the statistics for the first operating unit in the chain (Table 1). The first two methods are very data intensive. The first operating unit approach was considered the most feasible to implement that would still provide meaningful measures.

6. **Most respondents (20 out of 22) supported streamlining the number of different concepts of the ultimate investor in the standards.** Finally, most respondents (17 out of 20) thought that the indicator of pass-through funds proposed in the GN was a sufficient indicator of pass-through.

Annex II. Summary Results of the Public Consultation

1. Do you support a supplemental presentation on UIE, UHE, and identifying pass-through funds?

	Yes	No
FDI positions	94%	6%
FDI flows	88%	12%
FDI income	75%	25%

2. Do you suggest that all three methods (proportional, winner takes all, or IFRS consolidation), for allocating data to the UIE, proposed be presented as alternatives in BPM7?

Yes	No	Abstention
69%	25%	6%

3. Do you have a preference for any proposed method for UIE?

	Yes	No	Abstention
Proportional	50%	31%	19%
Winner Takes All	75%	12.5%	12.5%
IFRS	6%	56%	38%

4. Do you suggest that all methods for UHE proposed be presented as alternatives in BPM7?

Yes	No
69%	31%

5. Do you suggest that all methods for UHE proposed be presented as alternatives in BPM7?

	Yes	No	Abstention
Tracing influence down ownership chain	31%	50%	19%
Position of the ultimate investor in the DIE located in the host economy	38%	44%	18%
The first operating unit	50%	44%	6%
The last unit in the chain	13%	69%	18%

6. Do you support the proposal to streamline the number of different concepts in the standards for ultimate investor?

Yes
100%

7. Do you agree that the proposed breakdown of financial transactions, income and positions by residency of the ultimate investor is a sufficient indicator of pass-through?

Yes	No
81%	19%