

OECD Benchmark Definition of Foreign Direct Investment (Fifth Edition)



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Foreword

The *Benchmark Definition of Foreign Direct Investment* was developed to address the need to measure this specific form of cross-border investment. It was first published in 1983 and this release of the revised *Benchmark Definition* in 2025 represents its fifth edition. The global economy has changed considerably over that time, yet the need to understand cross-border direct investment remains just as relevant now as it was 42 years ago.

The foundation of the *Benchmark Definition* is that of cooperation, collaboration and knowledge sharing. The OECD has also worked with the International Monetary Fund and United Nations to promote consistency and harmonised approaches to the foreign direct investment (FDI) elements of the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, and *2025 System of National Accounts (2025 SNA)*. Having these agreed international standards for FDI statistics is a way of promoting consistent approaches, definitions and methods that are comparable between economies and with other international statistical accounts. This is crucial for informing analysis and policy making.

Producing statistics is not a discrete event; it is a continual process of development and understanding. This fifth edition builds on the principles included in the previous edition to capture the evolving needs for official statistics. Our previous considerations looking to the top of corporate structures for inward FDI have been updated to reflect what we have learned. To this, we have added further detail on how to compile statistics covering a wide range of other topics. This includes looking down ownership chains of outward FDI, differentiating FDI that increases the host economy's productive capacity from changes in ownership of existing assets, and identifying resident special purpose entities within ownership chains and measuring the FDI that passes through them. We also clarify concepts for recording FDI income, such as dividends and reinvested earnings, among others.

The OECD Working Group on International Investment Statistics acknowledges everyone that has contributed to the revision of the *Benchmark Definition*. We hope that the resulting fifth edition continues to represent a valuable tool for compilers and users of FDI statistics and that the implementation of the revised standards further contributes to improving the comparability of FDI statistics across economies.

Acknowledgements

This fifth edition of the *Benchmark Definition of Foreign Direct Investment* has benefitted from the varied and valued inputs from representatives of OECD and non-OECD countries, other international organisations and invited experts. The broad range of perspectives enhanced the discussions, and the information considered during the update and drafting stages.

Specifically, we acknowledge the invaluable contributions of Maria Borga, the Editor of the fifth edition of the *Benchmark Definition*, Andrew Jowett, Chair of the OECD Working Group on International Investment Statistics (WGIIS), and Francesca Spinelli and Emilie Kothé, from the WGIIS Secretariat, in completing the manual that is now available. We are grateful to the WGIIS Bureau members – John Sheridan, Agne Bikauskaitė, Jessica Hanson, Mirco Lattwein, Morten-Bo Paulsen, Eric Simard and Manfred Viquez-Alcázar (some of these members were also lead authors of the notes mentioned below). We also appreciate the support provided by all WGIIS delegates during the update process, which involved many reviews and discussions of notes, chapters, annexes and other material.

We acknowledge the enhanced contribution of the peer reviewers and the lead authors of a series of discussion notes produced by the Benchmark Technical Expert Group (BTEG) on specific topics as part of the revision of the manual: Thiago Said Vieira (Brazil), María Isabel Méndez Ferrada (Chile), Peter Banhegyi and Beata Montvai (Hungary), Silvia Sabatini and Valerio Della Corte (Italy), Sakiko Ohtsuka (Japan), Michal Kupc and Krzysztof Wyroba (Poland), Carlos Figueira (Portugal), Roberto Bardas and Fernando Nieto (Spain), Ricardo Limes (United States), Carmen Picon Aguilar and Fausto Pastoris (European Central Bank), Irene Madsen (Eurostat) and Maria Borga and Topias Leino (International Monetary Fund, IMF). Contributions from all other BTEG members are highly valued too. We are also grateful to Christian Lajule and Roger De Boeck, two FDI statistics experts, for their support during the review and drafting process. We appreciate as well the participation of other colleagues from International Organisations, including the ECB, Eurostat and UNCTAD, and thank in particular several colleagues from the IMF for the close collaboration during the parallel updates of the *Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)* and the *Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*.

Finally, we thank Ana Novik for her guidance, the WGIIS Secretariat for co-ordinating the preparation of the revised *Benchmark Definition*, Perla Ibarlucea Flores and Laura Kuusela for their great assistance in finalising the publication, and Liv Gudmundson and Lucinda Pearson for preparing the manual for publication.

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Recommendation of the Council on the Benchmark Definition of Foreign Direct Investment

THE COUNCIL,

HAVING REGARD to Article 5 b) of the Convention on the Organisation for Economic Co-operation and Development (OECD) of 14 December 1960;

HAVING REGARD to the standards developed by the OECD in the area of statistical practice;

CONSIDERING that improvements have been achieved in the comparability of data collected on foreign direct investment since the first publication of the Benchmark Definition of Foreign Direct Investment (FDI) in 1983 but that however divergences still exist between domestic methodologies and the methodology of the Benchmark;

RECOGNISING the desirability of ensuring that the methodology of the Benchmark Definition of FDI continues to reflect the reality of foreign direct investment transactions in a globalising world economy.

On the proposal of the Investment Committee:

I. RECOMMENDS that Members and non-Members having adhered to this Recommendation (hereafter the “Adherents”) continue to take steps to bring their statistical methodology in line with the Benchmark Definition of FDI as set out in the Appendix, and to consider 2029 as a target year for its full implementation, thereby providing a comparable and reliable basis for users of foreign direct investment statistics.

II. RECOMMENDS that Adherents actively co-operate internationally on foreign direct investment statistics. To this effect, Adherents should:

- (i) reinforce co-operation among them on the compilation of FDI statistics, including co-operation on sharing methodologies, national activities and good practices related to FDI statistics that would improve the comparability of data and collection systems; and
- (ii) co-operate with non-Adherents to strengthen their capacity for the collection and compilation of FDI statistics and their communication.

III. RECOMMENDS that Adherents provide statistical information to the OECD in order to support its work in this area. To this effect, Adherents should:

- (i) provide national FDI statistics so as to contribute to maintaining a set of comparable and reliable FDI data; and

- (ii) provide periodic reports and information on the implementation of the Benchmark Definition, so as to enable monitoring of progress, including by completing the Survey of Implementation of Methodological Standards for Direct Investment and providing updated information when needed.

IV. INVITES the Secretary-General and Adherents to disseminate this Recommendation.

V. INVITES non-Adherents to take account of and to adhere to this Recommendation subject to a review by the Working Group on International Investment Statistics (WGIIIS).

VI. ENCOURAGES national central banks, national statistics offices, and other official national compilers of foreign direct investment statistics to promote and follow this Recommendation.

VII. INSTRUCTS the Investment Committee, through the WGIIIS, to:

- a) Serve as a forum to exchange information, good practices and innovative experiences with respect to the implementation of this Recommendation, including by:
 - (i) Taking steps for the harmonisation of FDI statistics to respond to the needs of the analysis of the global economy; and
 - (ii) keeping abreast of new developments impacting statistical methodologies, including issues indicated in Annex D of the Benchmark Definition.
- b) Support and facilitate Adherents' efforts to implement this Recommendation, in co-operation with other relevant international organisations and stakeholders, including through:
 - (i) collecting and publishing at regular intervals stock and flow data of inward and outward foreign direct investment;
 - (ii) preparing accompanying methodological notes in light of the results of the Survey of Implementation of Methodological Standards for Direct Investment;
 - (iii) documenting areas where the methodology used by Adherents differs from the Benchmark Definition.
- c) Report to Council on the implementation, dissemination and continued relevance of this Recommendation no later than five years following its revision and at least every ten years thereafter.

APPENDIX

Abbreviations and acronyms

AMNE	Activities of Multinational Enterprises
BEI	Balance on Earned Income
BEPS	Base Erosion and Profit Shifting
BD4	(OECD) Benchmark Definition of Foreign Direct Investment, fourth edition
BOP	Balance of Payments
BPM	(the International Monetary Fund) Balance of Payments and International Investment Position Manual
BPM6	(the International Monetary Fund) <i>Balance of Payments and International Investment Position Manual, Sixth Edition</i>
BPM7	(the International Monetary Fund) <i>Integrated Balance of Payments and International Investment Position Manual, Seventh Edition</i>
BTI	Balance on Transfer Income
CAB	Current Account Balance
CDIS	(the International Monetary Fund) Coordinated Direct Investment Survey
CFC	Consumption of Fixed Capital
CII	Collective Investment Institution
COPC	Current Operating Performance Concept
CU	Currency Union
DIE	Direct Investment Enterprise
DIIC	Direct Influence/Indirect Control Method
EC	Extension of Capacity
ECB	European Central Bank
EcUn	Economic Union
eSUT	Extended Supply/Use Table
EU	European Union
FATS	Foreign AffiliaTe Statistics
FDI	Foreign Direct Investment
FDIR	Framework for Direct Investment Relationships
G20	Group of 20
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GDI	Gross Domestic Income
GFCF	Gross Fixed Capital Formation
GI	Greenfield Investment
GNI	Gross National Income
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IIP	International Investment Position

IMF	International Monetary Fund
IP	Intellectual Property
ISIC	International Standard Industrial Classification
ITRS	International Transactions Reporting System
KAB	Capital Account Balance
M&A	Mergers and Acquisitions
MMF	Money Market Funds
MNE	Multinational Enterprise
MSITS	Manual on Statistics of International Trade in Services
NAFA	Net Acquisition of Financial Assets
NAV	Net Asset Value
NBS	National Balance Sheet
NFA	Net Financial Accounts
NIA	Net Income from Abroad
NIL	Net Incurrence of Liabilities
NLB	Net Lending/Borrowing
NPISH	Non-Profit Institutions Serving Households
OCV	Other Changes in Volume
OFATS	Outward Foreign Affiliates Statistics
OFBV	Own Funds at Book Value
OPC	Other Price Changes
PMM	Participation Multiplication Method
PO	Proportional Ownership
R&D	Research and Development
RIE	Reinvested Earnings
SDMX	Standard Data and Metadata eXchange
SNA	System of National Accounts
SPE	Special Purpose Entity
STEC	Services Trade by Enterprise Characteristics statistics
TEC	Trade by Enterprise Characteristics statistics
TIVA	Trade in Value Added
UBO	Ultimate Beneficial Owner
UCI	Ultimate Controlling Institutional Unit
UCP	Ultimate Controlling Parent
UHE	Ultimate Host Economy
UIE	Ultimate Investing Economy
UNCTAD	United Nations Conference on Trade and Development
US GAAP	United States Generally Accepted Accounting Principles
WTA	Winner Takes All
WGIIS	Working Group on International Investment Statistics

1 Introduction

Foreign direct investment (FDI) is an important means of economic and financial integration of economies. The *Benchmark Definition* sets the international standards for the compilation of FDI statistics. Internationally comparable FDI statistics are an important input into economic and financial analysis. The revision of the *Benchmark Definition* was carried out in a transparent process and in close cooperation with national and international experts. The concepts, definitions, and recommendations in the *Benchmark Definition* are consistent with other macroeconomic manuals. This edition of the *Benchmark Definition* recommends new and revised presentations to enhance the analytical usefulness of FDI statistics. It also includes detailed guidance and numerical examples to support compilers.

1.1. FDI in the global economy

1. Foreign direct investment (FDI) is one of the principal ways that economies integrate into the global economy.¹ FDI is not only an important channel for exchanging capital across countries but also for exchanging goods, services and knowledge, and serves to link and organise production across countries. FDI provides a means to create stable and long-lasting relationships between economies, and it can be an important vehicle for local enterprise development under the right policy environment. It may also help improve the competitive position of both the recipient (“host”) and the investing (“home”) economy. FDI provides an opportunity for the host and home economies to promote their products more widely in international markets. FDI is an important source of capital for a range of host and home economies.

2. FDI has grown rapidly in recent decades and both the destinations and sources of FDI have expanded with globalisation. The significant growth in the level of FDI reflects both an increase in the size and number of individual FDI transactions as well as the growing diversification of enterprises across economies and sectors of economic activity (industry). Large multinational enterprises (MNEs) are traditionally the dominant players in cross-border FDI transactions, but it is believed that small and medium-size enterprises have also become increasingly involved in FDI.

3. Internationally harmonised, timely and reliable statistics are essential to assess the trends and developments of FDI activity globally, regionally, and at the country level, and to assist policy makers in dealing with the challenges of global markets. The usefulness of direct investment statistics depends on their compliance with several quality parameters: (a) alignment with international standards; (b) avoiding inconsistencies and reducing global discrepancies; (c) achieving consistent statistical series over time; and (d) timeliness (see also *Data Quality Assessment Framework* (IMF, n.d_[1])).

1.2. Purpose of the Benchmark Definition

4. The *Benchmark Definition of Foreign Direct Investment* (*Benchmark Definition*) sets the world standard for direct investment statistics.² It is fully compatible with the underlying concepts and definitions of the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition* (BPM7, (IMF, Forthcoming_[2])) and the *2025 System of National Accounts* (2025 SNA, (United Nations et al., Forthcoming_[3])).³ Within this overall framework, it is important to stress that the main focus of the *Benchmark Definition* is FDI statistics encompassing direct investment positions and related direct investment financial and income transactions (flows). Moreover, the *Benchmark Definition*, in terms of detail and disaggregation, goes beyond the aggregate statistics of the functional category of direct investment in the balance of payments and the international investment position.

5. To support these standards for FDI statistics, the *Benchmark Definition* provides guidance on how to compile comprehensive FDI statistics, consisting of:

- Aggregate FDI financial transaction, position, and income statistics compiled using the asset/liability principle with resident special purpose entities (SPEs) separately identified.
- The integrated FDI position statement (according to the asset/liability presentation), showing the relationship between the opening and ending positions resulting from transactions, revaluations (broken down into exchange rate changes and other price changes), and other changes in volume. Resident SPEs should be separately identified as for aggregate FDI positions.
- FDI financial transaction, income and position statistics disaggregated by immediate partner economy according to the directional principle with resident SPEs separately identified.
- FDI financial transaction, income and positions statistics disaggregated by sector of economic activity according to the directional principle with resident SPEs separately identified.

- Inward FDI positions and income disaggregated by ultimate investing economy (UIE) according to the directional principle.
- Outward FDI positions disaggregated by ultimate host economy (UHE).
- Pass-through funds by identifying outward FDI financial transactions, positions and income broken down by the residency of the ultimate controlling parent.
- Aggregate FDI financial transactions by type: greenfield (new) investment and extensions of capacity, mergers and acquisitions (M&A), and financial and corporate restructuring.

6. The *Benchmark Definition* serves several objectives. It provides:

- a single point of reference for compilers and users of FDI statistics
- clear guidance for individual countries compiling direct investment statistics as they develop or change their statistical systems
- an international standard taking into account the effects of globalisation that provides the basis for economic analysis, especially for international comparisons
- identification of topics and issues requiring research to further develop FDI statistics
- practical guidance to users of direct investment statistics, including the links of FDI with other macroeconomic statistics
- an objective basis for measuring methodological differences that may exist between national statistics that need to be taken into account both for cross-country and industry analysis of FDI.

7. Since publication of the first edition of the *Benchmark Definition*, compiling economies have made important progress in revising their FDI measurement systems towards greater compliance with its requirements and definitions. The OECD maintains a database of metadata for members' FDI statistics to track implementation of the recommendations and to assist users in interpreting the statistics and understanding differences across members' compilation systems and statistics. In addition, the Working Group on International Investment Statistics (WGIIIS) Secretariat will monitor members' implementation of the recommendations in this *Benchmark Definition* at regular intervals to ensure members' alignment with international statistical standards and accurate metadata.

1.3. Why measure FDI?

8. Market opening, technological innovations and cheaper communication tools have allowed investors to diversify further their participation in competitive markets overseas. In consequence, a significant increase in cross-border capital movements, including direct investment, has become a key factor in international economic integration, more generally referred to as globalisation.

9. By the very nature of its motivation, FDI promotes stable and long-lasting economic links between economies through immediate access for direct investors in home economies to production units (businesses/enterprises) of the host economies. Within a proper policy framework, FDI assists host economies in developing local enterprises, promotes international trade through access to markets and contributes to the transfer of technology and know-how. In addition to its direct effects, FDI has an impact on the development of labour and financial markets and influences other aspects of economic performance through its spill-over effects.

10. Therefore, regular analysis of direct investment trends and developments is an integral part of most macroeconomic and cross-border financial analysis. An important element of analysis is international comparability of the statistics, which is supported by the measurement of FDI according to clear and unambiguous guidelines. It is of prime interest to policy analysts to identify the source and destination of this type of investment. In other words, identifying partner economies and industries for inward and outward investment is central to most analysis. There is also increasing interest in identifying FDI by type, as

different types of FDI – e.g., M&A, greenfield investment and extensions of capacity – are likely to vary in their impacts, in particular, on the host economy. This *Benchmark Definition* introduces new analytical breakdowns and develops new concepts to reflect more useful FDI statistics on these dimensions: by partner economy, by industry, and by type.

11. Notwithstanding a number of significant improvements to the measurement of FDI introduced in this edition, there are topics that require additional research. These are topics for which research could not be concluded in time for the publication of this edition as well as new and developing topics that have arisen during the revision process. This further research is described in Annex D.

1.4. Revision of the *Benchmark Definition*

12. The main objectives of this revision to the *Benchmark Definition* are to:

- ensure consistency and alignment across all of the updated macroeconomic statistical manuals
- enhance the analytical usefulness of FDI statistics by proposing new and revised presentations of FDI statistics
- support statisticians in compiling FDI statistics by providing detailed guidance and examples
- identify several issues that require further research to enhance FDI statistics.

13. The revision was undertaken through a transparent revision process. The list of topics for research was developed in close cooperation with and based on inputs from the OECD WGIIS. The teams conducting the research consisted of national and international experts. The proposed recommendations were presented at meetings of the OECD WGIIS that endorsed the recommendations included in this *Benchmark Definition*.

1.5. An overview of foreign direct investment concepts

14. Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The “lasting interest” is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise.⁴ Direct investment may also allow the direct investor to gain access to the economy of the direct investment enterprise, which it might otherwise not be able to do. The objectives of direct investment are different from those of portfolio investment, whereby investors do not generally expect to influence the management of the enterprise.

15. Direct investment enterprises are either corporations, which may either be subsidiaries (in which over 50% of the voting power is held) or associates (in which between 10% and 50% of the voting power is held) or they are quasi-corporations, such as branches (which are effectively 100% owned by their parents). The relationship between the direct investor and its direct investment enterprises may be complex and bear little or no relationship to management structures. Direct investment relationships are identified according to the criteria of the framework for direct investment relationships (FDIR), including both direct and indirect FDI relationships (see Chapter 2).

16. Direct investment statistics cover all cross-border transactions and positions between enterprises that are a part of the same enterprise group as defined in the FDIR. According to the standard (core) and supplementary presentations, FDI statistics include direct investment positions (equity and debt), direct investment income transactions (distributed earnings, reinvested earnings, and interest income) and direct

investment financial transactions (equity and debt). Part of the difference between closing and opening FDI positions in a particular reporting period that cannot be explained by financial transactions is referred to as “other changes”. These “other changes” arise from revaluations, resulting from movements in exchange rates and other price changes, and changes in volume (see Chapter 5). Market value is the preferred conceptual basis to measure both direct investment positions and transactions (flows) (see Chapter 4).

17. Direct investment statistics are presented on an aggregate basis in terms of assets and liabilities and also, separately, on a directional basis (both for inward/outward FDI) with a geographical and industry disaggregation (see Chapter 7). For both inward and outward FDI on the directional basis, the allocation by partner economy uses the debtor/creditor principle. Directional data are also classified and analysed according to industrial activity. Directional data for both geographic and industry analysis should be derived from the basic information compiled on FDI assets and liabilities. It is recommended that the compiler separately identifies FDI transactions and positions effected through resident SPEs (see Section 6.2).

18. Cross-border positions/transactions involving pass-through funds (also referred to as “capital in transit”) distort the geographic and industry analysis. Therefore, compilers are strongly encouraged to provide positions data by the ultimate investing economy and the ultimate host economy in addition to the presentation by immediate investing and host economy (see Chapter 8).

19. Direct investment statistics are also disaggregated by major industry sectors based on the International Standard Industrial Classification (ISIC),⁵ according to the principal activity of the direct investment enterprise (in the reporting economy for inward investment and in the host economy for outward investment).

20. Moreover, considering user needs for information by the type of FDI, which provides an important dimension for economic analysis, compilers are encouraged to provide supplementary disaggregation of FDI transactions into greenfield investment and extensions of capacity, M&A, and corporate and financial restructuring (see Chapter 9).

1.6. Organisation of the Benchmark Definition

21. In providing guidance to national compilers and users of FDI statistics, the *Benchmark Definition* recommends harmonised standards to measure direct investment and proposes practical solutions to compilation problems. Where appropriate, more detailed information and guidance along with some concrete examples are provided in annexes to demonstrate or supplement the recommendations described in various sections of the main text. The FDI glossary is intended to assist both the compilers and users of direct investment statistics and includes definitions consistent with the *BPM* and *SNA* glossary for terms common to these standards. The topics addressed in the chapters are:

- Part 1. Overview of FDI
 - Chapter 2: Main concepts and definitions of foreign direct investment
 - Chapter 3: FDI financial and income transactions
 - Chapter 4: FDI positions
 - Chapter 5: Integrated FDI position statement
 - Chapter 6: Special cases
- Part 2: FDI series
 - Chapter 7: Standard and supplementary FDI series
 - Chapter 8: Disaggregation by economy and by industry
 - Chapter 9: FDI by type

- Part 3: Extending the use of FDI statistics
 - Chapter 10: Links between FDI and other statistics
 - Chapter 11: Communicating and using FDI statistics

References

- IMF (n.d), *Data Quality Reference Site*, <https://dsbb.imf.org/dqrs/DQAF> (accessed on 7 August 2024). [1]
- IMF (Forthcoming), *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, International Monetary Fund, Washington D.C. [2]
- United Nations et al. (Forthcoming), *2025 System of National Accounts*, United Nations et al., New York. [3]

Notes

¹ Foreign direct investment is sometimes also referred to simply as direct investment or as international direct investment.

² *OECD Benchmark Definition of Foreign Direct Investment* was first issued in 1983.

³ References to *BPM7* and *2025 SNA* reflect their content as of 2 January 2025. Should relevant text be subject to further revisions, subsequent versions will update the references once they come into effect.

⁴ While voting power is generally obtained through the purchase of equity, it is possible to have voting power that is not in the same proportion as the equity ownership (for example, share classes with different voting rights or ‘golden shares’ that have greater voting power than other shares).

⁵ The current version of ISIC is the fifth revision – ISIC5.

Part I Overview of FDI

2 Main concepts and definitions of foreign direct investment

This chapter presents the definitions and concepts underlying foreign direct investment statistics. It begins by defining economic territory, residence and institutional units. Then it defines foreign direct investment as establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) resident in an economy other than that of the direct investor. It explains that the direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. Next, it presents the Framework for Direct Investment Relationships used to determine and identify the extent and type of direct investment relationships. The chapter concludes with key accounting principles, including the time of recording of dividends, the valuation of transactions and positions, the debtor/creditor principle, and the asset/liability and directional presentations of FDI statistics.

2.1. Introduction

22. This chapter provides an overview of statistical units and the framework for direct investment relationships (FDIR). Rigorous application of these fundamental aspects is key to the implementation of the foreign direct investment (FDI) concepts and recommendations described in this *Benchmark Definition*. It is also matters both for the interpretation and use of FDI statistics. Definitions of statistical units underpinning the concepts and treatment of FDI are completely consistent with the general principles adopted in the *2025 System of National Accounts (2025 SNA)*, (United Nations et al., Forthcoming^[1]) and the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, (IMF, Forthcoming^[2]) and, therefore, consistent with the concepts and definitions underlying macroeconomic statistics.

23. The first section, which describes the statistical units, has two main purposes. First, it identifies the economic territory to be covered by FDI statistics and highlights its main features. Second, it describes the economic agents that are involved in direct investment and stresses the importance of the institutional sectors making up the economy.

24. Thereafter, the statistical units that make up the FDI universe are described in more detail. The concept of direct investment, direct investor, direct investment enterprise (DIE) and the relationships between the various units based on the FDIR are explained. This section includes details of the definition and treatment of fellow enterprises.

25. The final section discusses accounting principles for macroeconomic statistics that are particularly relevant for FDI statistics. Specifically, it recommends that market value is the conceptually ideal basis for valuing direct investment transactions and positions and also provides guidance on the calculation of FDI at market value. While this might be relatively straightforward for equity transactions and positions involving companies where the equity securities are listed on an organised stock exchange, it is much less so for unlisted (or unquoted) shares. In this latter case, market value may have to be estimated from the data provided by these unlisted companies. This chapter lists recommended methods by which this can be achieved, as well as listing those methods that are not recommended.

2.2. Statistical units

2.2.1. Economic territory and the concept of residence

26. The concept of residence is a fundamental factor for direct investment statistics that measure cross-border investment between residents of two or more economic territories.¹ Foreign direct investment includes transactions/positions between a resident and a non-resident institutional unit but excludes all transactions/positions between units that are residents of the same economy.²

27. The concept of residence in the *Benchmark Definition* is identical to that adopted by the *SNA* and the *BPM*. The residence of an economic entity (or an institutional unit) is attributed to the economic territory with which it has the strongest connection, in other words, its centre of predominant economic interest. Each institutional unit is a resident of one and only one economic territory. While some units, mostly households, may have connections with more than one economy, for statistical consistency, there is a need to attribute a single economic territory to each based on objective and comprehensive criteria.

Economic territory

28. The total economy is defined as the entire set of resident institutional units. Most entities have strong links with only one economy, so their residence is clear, but with increasing international economic

openness, there is a growing number of institutional units that have connections to more than one economy.

29. Even though there is often close correspondence, the statistical definition of the economic territory (or the economy – see Box 2.1) is not identical to the concept of a country or to any other legal definition (such as nationality). In many cases, but not always, a country indeed constitutes the economic territory. The existence of an institutional unit and the economic territory in which it is resident are determined by a number of criteria including physical presence and being subject to the jurisdiction of the government of the territory.

Box 2.1. The economic territory

The economic territory includes the following:

1. Land area, airspace, territorial waters, including jurisdiction over fishing rights and rights to fuel or minerals. In a maritime territory the economic territory includes islands that belong to the territory (*BPM7, Chapter 4, Section A.3, paragraph 5.14*).
2. Clearly demarcated territorial enclaves in the rest of the world such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic immunity, etc. They are established with the formal political agreement of governments of the territories where the land areas are physically located. Such enclaves are used by governments that own or rent them for diplomatic military, scientific or other purposes.
3. Territorial enclaves used by foreign governments and physically located within a territory's geographical boundaries are not included in that economic territory but included in the territory of the governments that use them.
4. When a territory has a separate physical or legal zone that is under its control, but to which, to some degree, separate laws are applied (e.g., free trade zone or offshore financial centres), these special zones should be included in the economic statistics of the territory.
5. In cases of disputed zones, effective economic control may be unclear. In such cases, compilers make a decision on the inclusion or exclusion of the zone based on the particular circumstances and preferably include a description in the metadata.
6. In addition to economic territories under the effective control of a single government, the economic territory of a currency or economic union is also considered as a type of economic territory.

Note: The importance of economic territories described under (3) and (4) relates to the fact that they reflect the usual scope of macroeconomic policymaking.

Source: IMF (Forthcoming^[2]), *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*.

30. The most commonly used concept of economic territory is the area under the effective economic control of a single government. However, economic territory may be larger or smaller than this, as in a currency or economic union, which is discussed at more length in Annex 8.C.

Centre of predominant economic interest

31. Economic interests include current production, consumption, acquisition of assets and incurrence of liabilities, asset-holding, place of incorporation or registration, and the origin of applicable taxation and regulation.³

32. An institutional unit is considered to have a centre of predominant economic interest in an economic territory:

1. when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale
2. if the location, even if it is not fixed, remains within the economic territory
3. if the unit has already engaged in economic activities and transactions on a significant scale in the territory for one year or more, or if the unit intends to do so. The choice of one year as a specific period is somewhat arbitrary and is used as an operational guideline to avoid uncertainty and to facilitate international statistical consistency.

33. While actual or intended physical presence for a year or more is the main criterion, other criteria apply in some special cases such as for corporations having little or no physical presence or individuals that move in such a way that they do not stay in any territory for more than a year.

34. There are cases where the institutional unit has little or no physical presence in a territory. This arises with some categories of special purpose entities (SPEs) and similar units (see Section 6.2). Some cases of restructuring or outsourcing could also result in residual units with little or no physical presence. Moreover, these units might not undertake significant production. In such cases, the jurisdiction where the unit has its legal domicile and/or which regulates its activities is considered to be that unit's predominant centre of economic interest while location and production criteria may not be meaningful.

2.2.2. Institutional units

35. *An institutional unit is an economic entity that is capable, in its own right, of owning assets, typically able to incur liabilities, and engaging in economic activities and in transactions with other entities (2025 SNA, Chapter 5, Section A, paragraph 5.2).*

36. Institutional units of an economy are classified by the SNA under two main categories: (i) households and (ii) legal and social entities (see Box 2.2). While the *Benchmark Definition* follows the general principles of the SNA to identify institutional units, the treatment of some specific issues concerning cross-border direct investment transactions/positions also need to be addressed.

37. Institutional units are defined by the SNA in the context of a single economy and to identify the residents of that economy. However, a legal entity may have to be split into separate institutional units that are resident in different economies to address the statistical treatment of entities that have strong links with more than one economy. As a result, some arrangements that are not legal entities in their own right may be recognised as being institutional units, i.e., quasi-corporations.

38. *A quasi-corporation is an unincorporated business that operates as if it was a unit separate from its owner(s).* Examples are branches, land ownership, partnerships (both of limited and unlimited liability), trusts, and resident portions of multi-territory enterprises. These quasi-corporations are treated as if they were corporations, i.e., as separate institutional units from the units to which they legally belong. For example, quasi-corporations owned by households or government units are grouped with corporations in the non-financial or financial corporate sectors. The purpose of this treatment is to separate from their owners those unincorporated enterprises that are sufficiently self-contained and independent, and hence they behave in the same way as corporations (2025 SNA, Chapter 5, Section B, paragraph 5.51).

39. The requirement for having (or the potential to produce) a set of accounts is essential in the definition of institutional units because it provides a recognised indication of the existence of an economic decision-making unit. The definitions do not require that the unit be autonomous. Therefore, wholly owned

subsidiaries have legal identity and are separate institutional units from their parent units, even when all decisions are effectively made by another unit.

Box 2.2. SNA: classification of institutional units

The definition of institutional units covered in this *Benchmark Definition* is fully in line with the concept of the SNA (1993 and subsequent updates) whereby an institutional unit *is an economic entity that is capable, in its own right, of owning assets, typically able to incur liabilities, and engaging in economic activities and in transactions with other entities.*

The main attributes of an institutional unit are:

- it is entitled to own goods or assets in its own right; it is, therefore, able to exchange the ownership of goods or assets through transactions with other institutional units
- it is able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law
- it is able to incur liabilities on its own behalf, to take on other obligations or future commitments and to enter into contracts
- either a complete set of accounts, including a balance sheet, exists for the unit, or it would be possible and meaningful, from an economic viewpoint, to compile a complete set of accounts if they were to be required.

As classified by the SNA, there are two main types of institutional units:

1. **Households** are defined in the SNA as *a single person or a group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food.* A person who pools income with the household in one economic territory, but is resident of another economic territory, is not classified as a member of that household. Households can be direct investors but not direct investment enterprises (DIEs).
2. **Legal and social entities** are recognised by law or society independently of the natural persons, or other units, that may own or control them. Such entities include corporations, non-profit institutions and government units. Some unincorporated enterprises belonging to households or government units may behave in much the same way as corporations, and such enterprises are treated as quasi-corporations when they have complete sets of accounts, or such a set of accounts can be constructed. Only business enterprises can be both direct investors and DIEs; governments and non-profit enterprises can be direct investors but not DIEs.

Note: Only a summary of SNA and BPM concepts is included in this section. For a more detailed discussion of the items therein, the reader should refer to SNA and BPM.

Source: Based on United Nations et al. (Forthcoming^[1]), 2025 *System of National Accounts*.

40. An *ancillary corporation* is a wholly-owned subsidiary whose productive activities are confined to providing services to the parent corporation and/or other affiliates owned by the same parent corporation. The kinds of services which may be produced by an ancillary unit are transportation, purchasing, sales and marketing, various kinds of financial or business services, computing and communications, security, maintenance, and cleaning. In some cases, the ancillary unit is located in a different economy from the companies it serves. An ancillary corporation is recognised as a separate institutional unit when it is resident in a different economy from that of any of its owners, even if it is not, in practice, autonomous.

Enterprises

41. An *enterprise* is a sub-group of the broad *SNA* category legal and social entities. It is defined as *an institutional unit engaged in production of goods and/or services*. An enterprise may be a corporation (including quasi-corporations), a non-profit institution, or an unincorporated enterprise. Incorporated enterprises and non-profit institutions are complete institutional units. An unincorporated enterprise, however, refers to an institutional unit – a household or government unit - only in its capacity as a producer of goods and services. It covers only those activities of the unit that are directed towards the production of goods or services.

42. Institutional units that have the sole function of holding financial assets on behalf of their owners provide a service to their owners, so they are enterprises, even though there may be no explicit service charges. For example, some mutual funds, holding companies, trusts, and special purpose entities may not receive payment from their owners for the services they provide. However, in these cases, a service is recognised as being provided to the owner, payable out of the property income or assets. Box 2.3 presents some structures related to enterprises.

Quasi-corporations

43. An unincorporated enterprise is a producer unit that is not a legal entity separate from the owner (household, government or foreign resident); the fixed and other assets used in unincorporated enterprises do not belong to the enterprises but to their owners, the enterprises as such cannot engage in transactions with other economic units nor can they enter into contractual relationships with other units nor incur liabilities on their own behalf. In addition, their owners are personally liable, often without limit,⁴ for any debts or obligations incurred in the course of production (*2025 SNA, Chapter 5, Section B, paragraphs 5.51-5.56*). An unincorporated enterprise attached to a non-resident is always considered as a quasi-corporation.

44. Even though a branch is not a separate legal entity, it is statistically identified as a quasi-corporation if it operates in an economy separate from that of its owner and undertakes production of goods and/or services on a significant scale in that economic territory.⁵

45. To avoid the multiplication of artificial units, the definition of branches requires several indicators of substantial economic activity and separate accounts.

46. The identification of branches has implications for the statistical reporting of both the branch and the legal entity from which the branch has been created. The operations of the branch should be excluded from the institutional unit of its head office in its home territory and its activities should be reported consistently in both of the economies to which it is connected. Each branch is a DIE if the FDI criteria are satisfied.

47. Construction of major specific projects (bridges, dams, power stations, etc.) may take several years to complete and be carried out and managed by non-resident enterprises through site offices in the territory where the project is being executed. In most instances, the operations managed from the site office satisfy the criteria to be a branch. In other cases, for example, for a short-term project (less than one year) or a project managed from the territory of the non-resident provider rather than a local office, the work provided to customers resident in the territory of those operations is classified as international trade in construction (i.e., an import of construction services by the territory of operations).

48. Some production processes may involve mobile equipment that operates in more than one economic territory, such as ships, aircraft, drilling rigs and platforms, and railway rolling stock. Some of these operations may take place outside any territory, such as ships operating on the high seas. Moreover, services such as consulting, maintenance, training, technical assistance and healthcare can also be delivered on-site by a branch or from a home base. The criteria for recognition of a branch apply in these

cases. For example, the existence of a branch would be recognised if a shipping company has a secondary base for servicing its fleet that is substantial, permanent, and has its own accounts. However, in many instances, the activity can be seen as having been undertaken from a home base of operations, so that the operations are attributed to that unit, and the recognition of an additional unit for non-resident operations is not appropriate. In this case, the operation will give rise to international trade in services.

Box 2.3. Structures related to enterprises

An enterprise group consists of all the enterprises under the control¹ of the same owner or groups of owners. When a single owner or group of owners has control of more than one enterprise, the enterprises may act in a concerted way and the transactions between them may not be driven by the same concerns as “arm’s length” transactions. The framework for direct investment relationships can be used to determine which enterprises are under control or influence of the same owner.

There are two concepts of enterprise groups:

- A multinational enterprise group consists of all the enterprises – regardless of their economies of residence – under the control of the same ultimate controlling parent.
- A local (i.e., economy-specific) enterprise group consists of the investor and the legal entities controlled or influenced by that investor that are resident in the same economy. Ownership links that are external to the economy are not recognised in the formation of local enterprise groups.

A joint venture involves the establishment of a corporation, partnership or other institutional unit in which each party legally has joint control over activities of the unit. The units operate in the same way as other units except that a legal agreement between two or more parties establishes joint control over the unit. As an institutional unit, the joint venture may enter into contracts in its own name and raise financing for its own purposes. A joint venture maintains its own accounting records. Joint ventures are typically established for the purpose of executing a business undertaking in which the parties agree to share the profits and losses of the enterprise as well as the capital formation and contribution of operating inputs or costs. It is similar to a partnership (see Glossary), but typically differs in that there is generally no intention of a continuing relationship beyond the original purpose.

A joint venture may not involve the creation of a new legal entity. Whether a quasi-corporation is identified for the joint venture without a separate legal status depends on the arrangements of the parties and legal requirements. The joint venture is a quasi-corporation if it meets the requirements for an institutional unit, particularly by having its own records. Otherwise, if each of the operations is effectively undertaken by the partners individually, then the joint venture is not an institutional unit, and the operations would be seen as being undertaken by the joint venture partners separately (2025 SNA, Chapter 5). Because of the ambiguous status of joint ventures, there is a risk that they could be omitted or double-counted, so particular attention needs to be paid to them.

Note: 1. Control of a corporation refers to the ability to determine general corporate policy of a corporation, where general corporate policy is understood in a broad sense to mean the key financial and operating policies relating to the corporation’s strategic objectives as a market producer. In practice, control is determined to exist if an investor has more than 50 percent of the voting power in an enterprise. The control may be direct (through ownership of voting power or other arrangements) or indirect (through ownership of enterprises that in turn have voting power).

Source: Based on OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>; and United Nations et al. (Forthcoming^[1]), *2025 System of National Accounts*.

49. Similarly to mobile equipment, a multi-territory pipeline that passes through a territory, but is not operated by a separate legal entity in that territory would be recognised as constituting a branch or not,

depending on whether there is substantial presence, availability of separate accounts, etc. Where such operations are not separate entities, there may be a multi-territory enterprise as described below.

50. When a branch is identified, there are direct investment flows to and from the territory of its location, but the provision of goods or services to customers in that territory are resident-to-resident transactions. In contrast, if the operations are not substantial enough to qualify as a branch, the provision of goods or services to customers in that territory are imports of that territory.

51. Prior to its incorporation, a resident enterprise is imputed when preliminary expenses, such as those associated with mining rights, license fees, local office expenses and legal costs, are first incurred as steps prior to establishing a legal entity. As a result of identifying a quasi-corporation, the preparatory expenses are recorded in the economy of the future operations as being resident-to-resident transactions that are funded by a foreign direct investment inflow, rather than as the sale of non-produced assets to non-residents, exports of legal services, etc. Because of the limited scale of these activities, the assembly of data for these enterprises is feasible prior to incorporation. If the project does not subsequently go into operation, the value of the direct investment is eliminated by an entry for other changes in volume of assets and liabilities.

52. A resident notional unit (a kind of a quasi-corporation) is identified for statistical purposes for direct non-resident ownership of immovable assets such as land and buildings and other structures. The notional resident unit is recorded as owning the land, buildings and/or other structures and receiving the rent or rentals that accrue to that asset. The non-resident owner holds equity in the notional resident unit and then receives income from the notional resident unit in the form of property income. This treatment is designed so that the relevant non-financial assets are always assets of the economy in whose territory they are located; otherwise, the land or buildings would appear in another economy's national balance sheet.

53. Consistent with this treatment, a notional unit is imputed for the ownership by non-residents of natural resources such as subsoil assets, non-cultivated biological resources, and water, and long-term rights to use these assets. The notional unit is nearly always a DIE.⁶ However, it is usually the case that ownership of land and other natural resources and rights to use these assets through a lease or permit over long periods of time are associated with a branch.

54. *A multi-territory enterprise operates as a seamless operation over more than one economic territory.* Such an enterprise, even though it has substantial activity in more than one economic territory, cannot be separated into a parent and branch(es) because it is run as a seamless operation and cannot supply separate accounts for each territory. Multi-territory enterprises are typically involved in cross-border activities and include shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables.⁷ Some non-profit institutions serving households (NPISH) may also operate in this way.

55. It is preferable that a parent and branch(es) be identified separately in the case of a multi-territory enterprise. If possible, enterprises should be identified in each territory according to the principles for identification of branches. If that is not feasible because the operation is so seamless that separate accounts could not be developed, it is necessary to prorate the total operations of the enterprise into the individual economic territories. The factor used for prorating should be based on available information that reflects the contributions to actual operations. The prorating of the enterprise implies that every transaction needs to be split into each component economic territory, a process which may be difficult to implement by compilers. Hence, for the economy of residence, each apparently domestic transaction would be split into resident and non-resident components. Equally, non-resident entities of those economies outside the territories of the multi-territory enterprises that have transactions and positions with such entities need to make the same split, so as to capture the counterparty claims in a consistent manner. Bilateral agreements between compilers will help to minimise possible asymmetries. This treatment has implications for other macroeconomic statistics and its implementation should always be coordinated with other statistical

interests for consistency. Compilers in each of the territories involved are encouraged to cooperate in order to develop consistent data, avoid gaps, and minimise respondent and compilation burden.

56. Analogous treatments can be applied to enterprises operating in zones of joint jurisdiction – the enterprise will need to be split into entities that are resident in each economy having jurisdiction over the zone, with flows into and out of the enterprise prorated between these entities. Positions and flows between the entities may also need to be developed.

57. Estates, other trusts, and partnerships are treated as separate institutional units if they are constituted in a different territory from that of their owners or beneficiaries.

58. Special corporate structures, such as those with little or no physical presence, holding companies, and nominees, are discussed in more detail in Chapter 6.

2.2.3. Institutional sectors

59. *BPM7* recommends the standard presentation of direct investment in the balance of payments (BOP) and international investment position (IIP) be broken down by resident institutional sectors. The *Benchmark Definition* does not require as part of the standard data components a classification of direct investment statistics by institutional sectors: the emphasis is given instead to industry classification because it enables more in-depth analysis of globalisation and the impact of FDI on host economies than the sectoral breakdown. The institutional sectors of the *SNA* group together similar kinds of institutional units because the economic objectives, functions, and behaviours of corporations, non-profit institutions, government units and households are intrinsically different from each other. Classification principles for resident and non-resident institutional sectors are based on the nature of the economic activity undertaken by the institutional unit, which are production of goods and services, consumption to satisfy human wants, and accumulation of various forms of capital.

60. All residential institutional units are allocated to one and only one of the following institutional sectors: non-financial corporations, financial corporations, general government, non-profit institutions serving households (NPISH), and households. Any of the five sectors identified by the *SNA* to cover all the activities of an economic territory may include entities that are direct investors, because any resident unit may own or control a non-resident unit that qualifies as a DIE. On the other hand, all DIEs are classified either in the non-financial corporation sector or the financial corporation sector. This is because governments and households cannot be owned by non-resident units. Also, although NPISH can be established or owned by non-residents, financial transactions/positions involving NPISH are generally not driven by investment considerations and, therefore, they are generally not regarded as DIEs unless they qualify under the direct investment criteria.

61. The *SNA* also recommends subsectors of the institutional sectors to provide information on particular groups of units for policymaking purposes. Annex 2.C provides further information on institutional sectors and, in particular, the subsectors of the financial corporation sector.

62. For the BOP and IIP, the sectoral breakdown reflects the sectors and subsectors most relevant for cross-border transactions and positions and includes the following sectors:

- Central bank
- Deposit-taking corporations, except the central bank
- General government
- Other financial corporations
- Non-financial corporations
- Households and NPISH.

Table 2.1. Standard components, memorandum, and supplementary items of direct investment

	Balance of payments		International investment position	
	Net acquisition of financial assets	Net incurrence of liabilities	Assets	Liabilities
Direct investment				
Equity and investment fund shares				
Central bank				
Deposit-taking corporations, except the central bank				
General government				
Other sectors				
Other financial corporations				
Non-financial corporations				
Households and NPISH				
<i>Of which, reinvestment of earnings (only BOP)</i>			n.a.	n.a.
Debt instruments				
Central bank				
Deposit-taking corporations, except the central bank				
General government				
Other sectors				
Other financial corporations				
Non-financial corporations				
Households and NPISH				
Memorandum items:				
Direct investment				
Direct investor in direct investment enterprises				
Direct investment enterprises in direct investor (reverse investment)				
Between fellow enterprises				
<i>if ultimate controlling parent is resident</i>				
<i>if ultimate controlling parent is non-resident</i>				
<i>if ultimate controlling parent is unknown</i>				
Of which debt securities				

Notes: Items in italics are supplementary. n.a. Not applicable.

63. Table 2.1 presents the standard breakdown of direct investment financial transactions and income in the BOP and positions in the IIP. It includes the standard components, which are items that are fully part of the framework and contribute to the totals and balancing items; memorandum items, which are part of the standard presentation, but are not used in deriving totals and balancing items; and supplementary items, which are outside of the standard presentation but are compiled depending on circumstances in the particular economy. The standard presentation recommended in the *BPM6*, which was used to convert the asset/liability presentation to the directional presentation, is now a memorandum item (see Section 2.5.4 and Annex 2.B for additional information on the asset/liability and directional presentations of direct investment). For this conversion, a number of details on reverse investment and investment between

fellows are needed. Regardless of the presentation used, these details are also helpful in shedding light on the general FDI trends of a given country. Therefore, both *BPM7* and the *Benchmark Definition* continue to recommend that countries compile the details necessary to convert the aggregate FDI statistics on an asset/liability basis to the directional presentation. There is value in presenting aggregate FDI statistics on a directional basis as this facilitates the analysis of the most recent FDI trends, and, given that BOP FDI aggregate statistics are produced on a quarterly basis, it allows for the timely analysis of the nature and motivation of FDI, which is particularly beneficial where there are significant differences between the two presentations.

64. For FDI statistics, it can be useful to collect and compile data at the local enterprise group level; for example, if direct investment is initially channelled to a holding company and then to a manufacturing subsidiary, then it may clarify to classify the direct investment in manufacturing rather than a holding company operation. However, the implications of combining entities in different institutional sectors need to be carefully considered. In particular, it is important to collect and compile information for those parts of the local enterprise group that are classified to the financial intermediaries subsectors separately from those parts that are not classified to the financial intermediaries subsectors, not only for correct attribution by sector but also from the treatment of debt between affiliated financial intermediaries discussed in Annex 6.A. Box 2.3 provides further information for compilers on structures related to enterprises.

2.3. Foreign direct investment

65. Foreign direct investment reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power⁸ of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. Some compilers may argue that in some cases an ownership of as little as 10% of the voting power may not lead to the exercise of any significant influence while on the other hand, an investor may own less than 10% but have an effective voice in the management. Nevertheless, the recommended methodology does not allow any qualification of the 10% threshold and recommends its strict application to ensure statistical consistency across countries.

66. The 10% threshold represents an investment of substantial magnitude that is considered sufficient evidence of the intended level of influence to distinguish between direct and portfolio investment. It also implies a long-term investment as it can be difficult to sell quickly. While financial accounting standards generally use a higher threshold of 20% to identify related parties, *BPM7* and the *Benchmark Definition* retained the existing 10% threshold for several reasons. First, there are many ways in which economic accounting standards differ from financial accounting standards, such as what is considered capital or how to measure depreciation. There are other domains that do not follow financial accounting standards to identify influence relationships; for example, stock exchanges may have rules requiring shareholders to identify when they have a holding large enough to exert a certain level of influence, and those thresholds are often lower than 20%. Finally, there is little evidence that the 10% threshold is too difficult for compilers to implement, while changing the threshold would create breaks in time series and disruptions to compilation systems.

67. Direct investment includes the initial equity transaction that meets the 10% threshold and all subsequent financial transactions and positions between the direct investor and the DIE, as well as qualifying FDI financial transactions and positions between incorporated and unincorporated fellow enterprises included under the FDIR (see Section 2.4). Direct investment is not solely limited to equity investment but also relates to reinvested earnings and inter-company debt (see Chapter 3).

68. Direct investment includes inward and outward financial transactions/positions between directly and indirectly owned incorporated and unincorporated enterprises.⁹ The extent of the direct investment relationship is determined according to the framework for direct investment relationships (see Section 2.4.3).

69. Some relationships may exist between enterprises that may exhibit the characteristics of direct investment even though there are no links that qualify as direct investment. Such borderline cases should not be treated as direct investment (see Annex 6.A).

2.4. The direct investment relationship

70. The classification of financial positions and transactions to direct investment requires that the two institutional units directly involved be resident in different economies and that they be in a direct investment relationship. This section presents the framework that has been developed to establish when two or more institutional units are in a direct investment relationship. While direct investment measures a wide variety of instruments as described in Chapter 3, direct investment relationships are determined using the voting power criterion only.

2.4.1. Foreign direct investor

71. *A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the following:*

- an individual
- a group of related individuals
- an incorporated or unincorporated enterprise
- a public or private enterprise
- a group of related enterprises
- a government body
- an estate, trust or other societal organisation
- any combination of the above.

72. For two or more individuals or other entities to be considered a combination, and thus be regarded as a single direct investor, they must be in a direct investment relationship or have a family relationship (in the case of individuals). The different individuals or other entities must be resident in the same economy as each other. They cannot include any investor that is a resident of the same economy as the DIE. Equity ownership in an enterprise held by a group of related investors acting in combination can be summed to establish either control or influence.

73. In the case where two enterprises each own 10% or more of each other's voting power, each is a direct investor in the other.

2.4.2. Foreign direct investment enterprise

74. *A direct investment enterprise is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly, 10% or more of its voting power if it is incorporated or the equivalent for an unincorporated enterprise.*

75. The numerical threshold of ownership of 10% of the voting power determines the existence of a direct investment relationship between the direct investor and the direct investment enterprise. An ownership of at least 10% of the voting power of the enterprise is regarded as the necessary evidence that the investor has sufficient influence to have an effective voice in its management. In contrast to some other statistical measures such as those on the activities of multinational enterprises (AMNE), direct investment does not require control by the investor (i.e., more than 50% owned by the investor and/or its related enterprises). Direct investors may have direct investment enterprises in one economy or in several economies.

76. To facilitate international comparisons and to achieve global consistency of FDI statistics, the *Benchmark Definition* recommends a strict application of the 10% rule. Therefore, compilers should not qualify the 10% threshold further by applying other criteria. The *Benchmark Definition* does not recommend the use of other considerations such as representation on the board of directors; participation in policy-making processes; material inter-company transactions; interchange of managerial personnel; provision of technical information; and provision of long-term loans at lower than existing market rates.

2.4.3. Framework for direct investment relationships (FDIR)

77. The definitions of direct investors and DIES above highlight the immediate relationship between two enterprises. As noted earlier, the legal structures of related enterprises can consist of many enterprises linked through complex ownership chains.

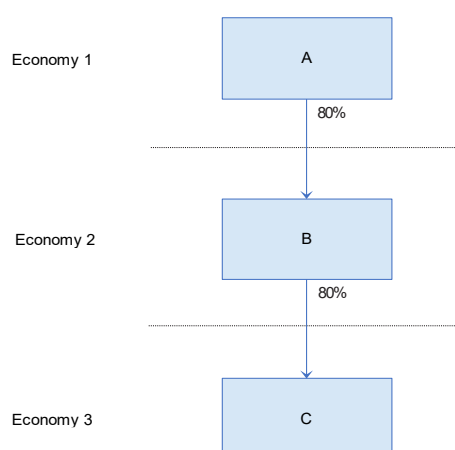
78. The FDIR is a generalised methodology for identifying and determining the extent and type of direct investment relationships. In other words, the FDIR allows compilers to determine the population of direct investors and DIES to be included in FDI statistics.

79. For a compiling economy, the FDIR identifies all enterprises related to a particular enterprise whether it is a direct investor or a DIE or both. For example, within a group, it is possible that a DIE itself owns 10% or more of the voting power of another non-resident enterprise, in which case the DIE is itself a direct investor in a further DIE. The question is therefore whether there is a direct investment relationship between the further enterprise and the original enterprise.

80. In Figure 2.1, enterprises A, B and C are in different economies. Enterprise A owns 80% of the voting power in enterprise B and is a direct investor in B. Enterprise B, in turn, owns 80% of the voting power in enterprise C and is a direct investor in C. A has control over B, and through its control over B, has indirect control over C. As a result, financial transactions between A and C are also relevant to FDI even though A directly holds no equity in C, and A and C are therefore considered to be in the direct investment relationship that embraces A, B and C. Financial transactions and positions as well as associated income transactions between A, B and C should be included in direct investment statistics.

81. In relatively simple cases such as that in Figure 2.1, where each link in the ownership chain is a single equity holding and there is majority ownership (control) at each stage, it is clear that the direct investment relationship continues down the chain of ownership. However, when some links are non-controlling links and voting power of an enterprise is held by more than one member of a direct investment relationship, the extent of the relationship may be less obvious.

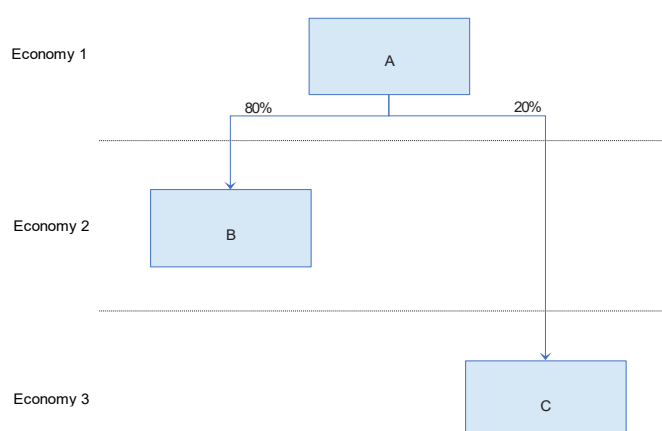
Figure 2.1. Continuation of control



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

82. It is not uncommon for an entity to be a direct investor in more than one DIE. In Figure 2.2, enterprises A, B and C are each in different economies. Enterprise A owns 80% of the voting power in enterprise B and is a direct investor in B. Enterprise A also owns 20% of the voting power in enterprise C and is a direct investor in C. Enterprise A controls B and has significant influence over C. As a result, financial transactions and positions between B and C are also relevant to FDI statistics even though there is no equity participation between them. For example, B may raise capital that it then lends to C at a concessional rate due to the control by A. It is reasonable to consider A, B and C to be in the same direct investment relationship in which B and C are considered ‘fellow enterprises’ of one another.

Figure 2.2. Fellow enterprises

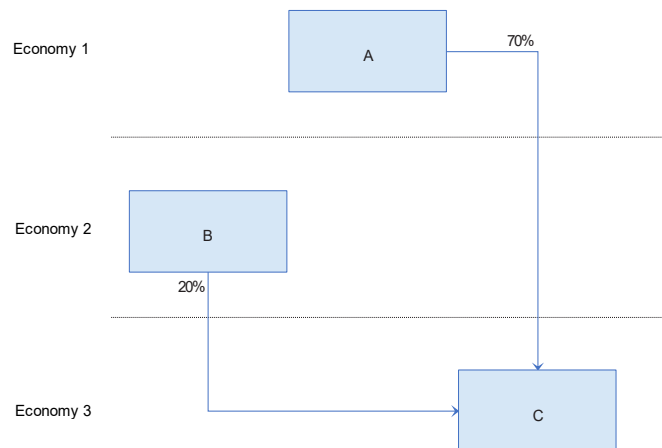


Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

83. In Figure 2.3, there are two overlapping direct investment relationships, one with enterprise A as the direct investor and the other with enterprise B as the direct investor. The DIE, C, is in a direct investment

relationship with both A and B. Enterprise C is controlled by direct investor A, which owns 70% of the voting power of C, and C is significantly influenced by direct investor B, which owns 20% of the voting power of C. Despite their common ownership of C, enterprises A and B are not in a direct investment relationship with each other.

Figure 2.3. Multiple direct investors



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

84. The FDIR aims to identify all enterprises over which the investor has significant influence under the 10% voting power criterion for FDI. In this determination, it is necessary to establish whether each enterprise under consideration is a subsidiary, an associate, or is not relevant in FDI – all three categories when combined being exhaustive and individually mutually exclusive. Those enterprises that are subsidiaries or associates are included in the direct investment relationship, while those categorised as not influenced are not included.

Subsidiaries in FDI

85. Subsidiaries in FDI are described as follows:

1. A subsidiary is an enterprise in which an investor owns more than 50% of its voting power, i.e., it is controlled by the investor.
2. Where an investor and its subsidiaries combined own more than 50% of the voting power of another enterprise, this enterprise is also regarded as a subsidiary of the investor for FDI purposes.
3. In determining the scope of a direct investment relationship, the degree of influence that may be exercised through controlling links (more than 50% of voting power) is not diminished by the existence of multiple links in an ownership chain.
 - a. An enterprise controlled by a subsidiary of an investor or by a group of subsidiaries (which may also include the investor) is itself regarded as a subsidiary for FDI purposes.
 - b. However, for clarification, it should be stressed that an enterprise controlled by an associate or by any group including an associate is regarded as an associate in the context of FDI.

Associates in FDI

86. Associates in FDI are described as follows:

1. An associate is an enterprise in which an investor owns directly at least 10% of the voting power and no more than 50%.
2. Where an investor and its subsidiaries combined own at least 10% of the voting power of an enterprise but no more than 50%, the enterprise is regarded as an associate of the investor for FDI purposes.
3. Where an associate, either as an individual or in combination with its subsidiaries, own more than 50% of an enterprise, this enterprise is regarded for FDI purposes as an associate of the higher-level investor.
4. In determining the scope of a direct investment relationship involving associates, the degree of influence that may be exercised through a single or cumulative influencing link (from 10% to 50%) along an ownership chain is diminished by one degree. Thus, an enterprise that is an associate of a subsidiary - or of a group of the investor's subsidiaries (which may include the investor) - is regarded as an associate of the investor for FDI purposes.

Not relevant in FDI

87. The following are not relevant in FDI:

1. An enterprise in which an investor owns less than 10% of its voting power is regarded as not influenced by the investor and is therefore out of the scope of the FDIR. However, it should be stressed that a particular investor in a chain of ownership within the FDIR may indirectly hold less than 10% (but more than 0%) of an enterprise's voting power; this enterprise should be included in the FDIR as a subsidiary or an associate of the investor if the relevant criteria described earlier are fulfilled; that is, influence is maintained through a chain of influence and control as in the description of associates in the preceding section.
2. It should be also noted that an enterprise that is an associate of an enterprise associated to an investor is not influenced by this investor in the context of FDI, i.e., it is not regarded as an associate of the investor within the FDIR.

Fellow enterprises in FDI

88. The coverage of subsidiaries and associates within the FDIR along what might be termed 'vertical' FDI ownership chains is generally relatively straightforward. However, an enterprise in one economy may be related through the FDIR to another enterprise in the same economy, or in a different economy, without either being a direct investor in the other, but through both being directly or indirectly influenced by the same enterprise in the ownership hierarchy. This 'common parent' must be a direct investor in at least one of the enterprises in question. Such enterprises can be considered to be related through a 'horizontal' linkage within the FDIR – not involving FDI equity of 10% or more – and are called fellow enterprises. It should be noted, however, that for FDI statistics, only cross-border transactions and positions between FDI-related enterprises should be recorded. Where there is no voting power acquired in a fellow enterprise, or where less than 10% of the enterprise's voting power is obtained, all the investment made by one fellow enterprise in one economy in its fellow in another economy is included in FDI statistics but needs to be distinguished in compiling the data to facilitate the preparation of FDI data on both the asset/liability and directional presentational bases referred to in Section 2.5.4. Therefore, for a particular compiler, fellow enterprises may be considered as those resident and non-resident enterprises related within the FDIR other than those that have a direct investor-direct investment enterprise relationship (i.e., under the "10% or more" voting power criterion) with one another.

89. It is likely that many fellow enterprises will be DIES in their own right but, clearly, some will not. For example, if a resident direct investor, A, has a DIE abroad, B, as well as a resident subsidiary, C, then C, by definition, is not a DIE of A, but B and C are fellow enterprises within the FDIR covering A, B and C.

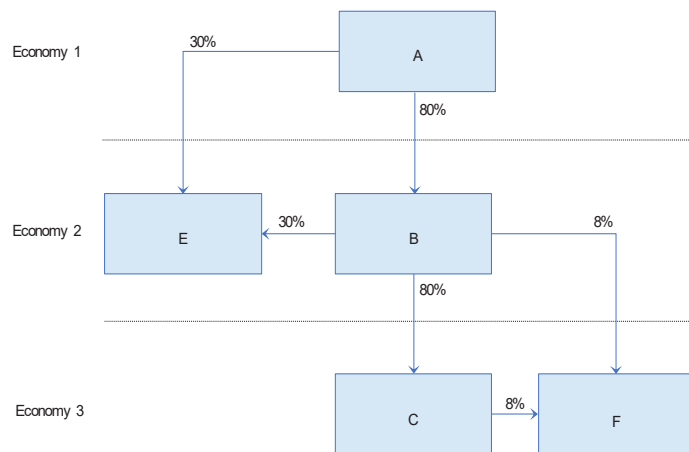
90. The direct investment relationship extends in both directions along an ownership chain from an enterprise to cover all of its subsidiaries and associates and all of the investors within the FDIR for which the enterprise is a subsidiary or an associate. It also covers ‘across chain’ relationships as described below and in Figure 2.4 (see also Annex 2.A).

91. It should be noted that identifying the extent of a direct investment relationship from an investor, B, which is an associate of another investor, A, may identify enterprises in a direct investment relationship with enterprise B that are not in a direct investment relationship with enterprise A. Determining the existence of one or more direct investment relationships under the FDIR depends largely on whether a common parent exists for enterprises in different ownership chains.

92. It must be stressed that direct investment is only recorded when there is a financial transaction or position between entities in different economies that are in a direct investment relationship (including fellow enterprises). However, it should also be noted that the residence of units is not a feature of the definition of subsidiaries and associates for FDI purposes. The FDIR may include within the relationship enterprises that are resident in the same economy. For example, a domestic subsidiary of a direct investor is a fellow enterprise of the non-resident DIES of that direct investor, and any transactions and positions between them are relevant to FDI.

93. Figure 2.4 also highlights that equity positions within one economy may be important in determining the extent of a direct investment relationship. Despite being resident-to-resident positions, the equity positions between enterprises B and E and between enterprises C and F are part of the equity determining the relationship between enterprises A and E and between enterprises A and F.

Figure 2.4. Joint ownership



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

94. Box 2.4 summarises the principles and norms that determine the extent of a direct investment relationship.

95. Recognising practical difficulties compilers may encounter in fully applying the FDIR, two alternative methods may be applied: the “participation multiplication” method, and the “direct

influence/indirect control” method. Should compilers choose to apply either of these alternative methods due to practical difficulties in implementing the FDIR, they should include this information in their metadata. However, such countries should endeavour to move towards applying the FDIR over time.

96. Annex 2.A provides more information and further examples concerning the determination of the extent of the direct investment relationship under the FDIR along with the two alternative methods. It also describes the practical implementation of the FDIR for measuring investment income transactions, and for classifying financial account transactions and international investment positions.

Box 2.4. Direct investment relationships

Basic types of enterprises:

- A subsidiary is an enterprise in which the investor has control of more than 50% of the voting power.
- An associate is an enterprise in which the investor has control of at least 10% of the voting power and no more than 50%.
- Fellow enterprises are enterprises which do not have enough (or any) voting power in each other to constitute FDI influence but have a common parent.

Principles for extending the relationship through indirect ownership:

- A series of subsidiaries can continue as long as control exists at each stage in the ownership chain – a chain such as that in Figure 2.1 can continue indefinitely.
- Any subsidiary can extend the FDI relationship to an associate by owning from 10% to 50% of the voting power of that enterprise.
- An associate can extend the FDI relationship to another associate of the higher-level investor only by owning more than 50% of the voting power of that enterprise. Such a chain of associates can be extended as long as majority ownership of voting power exists at each stage.

Basis for extending the relationship through joint ownership:

- Where the investor and its subsidiaries combined own more than 50% of the voting power of an enterprise, this enterprise is a subsidiary of the investor.
- Where the investor and its subsidiaries combined own at least 10% of the voting power of an enterprise but no more than 50%, this enterprise is an associate of the investor.
- Where an investor's associate and the associate's subsidiaries combined own more than 50% of the voting power of an enterprise, the enterprise is an associate of the investor.

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

2.5. Accounting principles

2.5.1. Time of recording

97. In principle, FDI financial transactions are to be recorded when a change of equity ownership occurs between a resident and a non-resident and while a FDI relationship exists between the two. The creation, change or extinguishing of foreign direct investment positions results from these transactions. As

stated in the System of National Accounts (2025 SNA, Chapter 4, Section A, paragraph 4.7), “a transaction is... an interaction between two institutional units by mutual agreement...” It follows that transactions should be recorded on an accrual basis (see 2025 SNA, Chapter 4), that is when the economic event giving rise to them occurs rather than when they are settled. While the accrual basis is close to business accounting, it may not always be possible to obtain data on an accrual basis. Often the sources of information determine the time at which the transactions may be recorded.

2.5.2. Valuation

98. Market prices are the appropriate principle for valuation of transactions and positions data. Market prices reflect the command that entities have currently over resources (for assets) and the current charge on their resources required for the liquidation of their liabilities. The use of market prices also serves as the only basis under which all parties can calculate their assets and liabilities consistently, and thereby helping to reduce asymmetries between the creditor and debtor. Market prices are used for transactions as they best reflect the mutual exchange of value between two unrelated entities.

99. Holdings included in the direct investment position may be denominated in a foreign currency. When these positions are translated into the compilation currency of the reporting economy, the closing mid-point between the buy and sell spot exchange rate relevant at the date to which balances relate should be used. Similarly, transactions should be converted at the mid-point of the buy and sell spot exchange rates at the time of the transaction.

100. Details on the market valuation of FDI positions is provided in Chapter 4. Market valuation of FDI equity positions is often not available because the equity is unlisted; in these cases, the compiler may need to approximate the market value. Chapter 4 and Annex 4.A discuss methods to make these approximations.

2.5.3. The debtor/creditor principle

101. In compiling and presenting FDI statistics, account must be taken that information on the funding received or provided or on the associated FDI income transactions may be collected by different means and from different sources. The geographical allocation of the amounts involved, firstly determining whether they are between residents and non-residents and then, for the latter, determining the specific economy involved, depends on the allocation method used. This *Benchmark Definition* strongly recommends the use of the debtor/creditor principle. A debtor is a person or an entity that has a financial obligation to another person or entity. Conversely, a creditor is a person or entity that has a financial claim on another person or entity. Therefore, a debtor has a financial liability to a creditor and a creditor has a financial claim (an asset) on a debtor. For FDI statistical purposes, under the debtor/creditor principle, the FDI assets (both transactions and positions) of the compiling economy are allocated to the economies of residence of the non-resident debtors; its FDI liabilities are allocated to the economies of residence of the non-resident creditors allocated on the basis of the debtor/creditor principle. Therefore, adherence to this principle – although in some cases it may be difficult to implement – results in a complete and conceptually consistent set of transaction and position data at an economy or regional level. Use of other allocation approaches (such as the economy of the transactor) can lead to incorrect results between transactions and positions at bilateral (economy or regional) level.

2.5.4. The asset/liability principle and the directional principle

102. This *Benchmark Definition* recommends that FDI data be presented in two ways: on a straightforward asset/liability basis (i.e., under the asset/liability principle) and reflecting the direction of

direct investment influence within the context of the FDIR (i.e., under the directional principle). The two principles are described as follows:

- **Asset/liability principle:** Under this approach, a compiling economy reports for resident institutional units classified under the FDIR as direct investors, DIEs or as fellow enterprises, all FDI financial claims on and obligations to non-residents using the normal balance sheet data showing gross assets and liabilities for positions, and net transactions for each category. The data presented on this basis, while compiled distinguishing the nature of the relationship between the FDIR counterparts, do not incorporate any offsetting of reverse direct investment transactions or positions in equity or debt between a DIE and its direct investor. Similarly, the asset/liability presentation does not incorporate any offsetting of any transactions or positions between fellow enterprises.
- **Directional principle:** Presentation of the FDI data on a directional basis is designed to provide users with information reflecting the direction of influence underlying the direct investment. This requires a compiling economy to determine whether the investment was inward foreign direct investment, i.e., that the influence giving rise to it originated abroad, and that it resulted in the establishment by a non-resident direct investor of a DIE resident in that economy; or that it was outward foreign direct investment, i.e., that the influence giving rise to it originated within the compiling economy, and that it resulted in the establishment by a resident direct investor of a DIE abroad. Under the directional principle, the determination by a compiling economy of the direction of the investment (inward or outward) transactions and positions between a resident fellow enterprise and a non-resident fellow enterprise is made by reference to whether the ultimate controlling parent of the fellow enterprises is resident or non-resident. If the ultimate controlling parent is a resident of the compiling economy, then the transactions and positions between the two fellow enterprises are categorised as outward foreign direct investment; if the ultimate controlling parent is not a resident of the compiling economy, then the transactions and positions between the two fellow enterprises are categorised as inward foreign direct investment.
- **Difference of the two presentations.** The two presentations differ in their treatment of reverse investment. Reverse investment occurs when a DIE invests in its parent. Under the asset/liability presentation, the asset side includes assets of both resident parent companies and of resident DIEs, and the liability side includes all liabilities of resident parents and resident DIEs. Under the directional presentation, reverse investment is subtracted to derive the amount of total outward or inward investment of the reporting economy.
- Annex 2.B provides more information on the asset/liability and directional presentations of direct investment, including detailed conversion matrices between the two presentations for FDI positions, financial transactions and income.

103. The asset/liability basis facilitates macroeconomic analyses, such as examining the composition and size of an economy's liabilities and assets to assess its vulnerability to crises and examining the cross-border links between resident companies and non-resident companies. By providing consistent information on the composition and size of assets and liabilities by functional category of investment (e.g., direct investment or portfolio investment) and by instrument (e.g., equity or debt), an economy's IIP provides important insights into how vulnerable its economy is to external market conditions. For example, assessing the share of total debt liabilities in direct investment is important because the returns to creditors in direct investment depend on the performance of the debtor. In contrast, the returns to creditors on debt liabilities in portfolio investment do not depend on the performance of the debtor but are required even if the debtor is in difficulty, and, hence, pose a greater risk to the economy. That is, the creditor in a direct investment relationship is likely to be more patient because of their relationship with the debtor.

104. The statistics on a directional basis are used when presenting the detailed statistics, such as those by partner economy or by sector of economic activity. They are useful for studying the nature and

motivation for foreign direct investment because they differentiate between those making the investment decision and those receiving the investment, and, so, they can be used to identify the most important source economies for direct investment as well as assessing market access in recipient economies. Directional statistics can answer questions about the economic activities attracting the greatest amounts of direct investment in an economy. Identifying the direction of investment is key to analysing the impact of inward and outward direct investment on the economy, such as analysing the role of foreign-owned enterprises in the host economy and the foreign investment of resident parent companies on the home economy. It is also needed when using data-linking between FDI and other statistics to measure the activities of multinational enterprises or greenfield investment (using the capital approach).

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- United Nations et al. (Forthcoming), *2025 System of National Accounts*, United Nations et al., New York. [1]

Annex 2.A. Identifying direct investment relationships

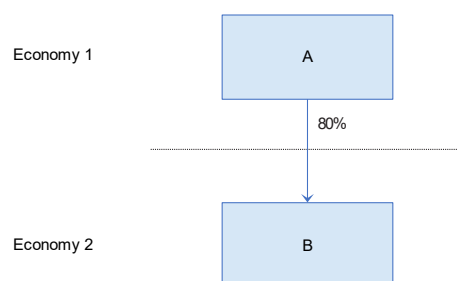
105. This annex presents the framework for direct investment relationships (FDIR), the preferred method for identifying the extent and type of direct investment relationships. It also provides information on two alternatives to the FDIR – the participation multiplication method (PMM) and the direct influence/indirect control method (DIIC). The methods are compared in terms of inclusions and exclusions from direct investment. Practical implementation of the FDIR for measuring investment income and classifying financial transactions and positions is also discussed.

Framework for direct investment relationships

106. The FDIR includes in direct investment all subsidiaries and associates of an investor.

- A subsidiary is an enterprise in which an investor owns more than 50% of the voting power. In Annex Figure 2.A.1, B is a subsidiary of A.

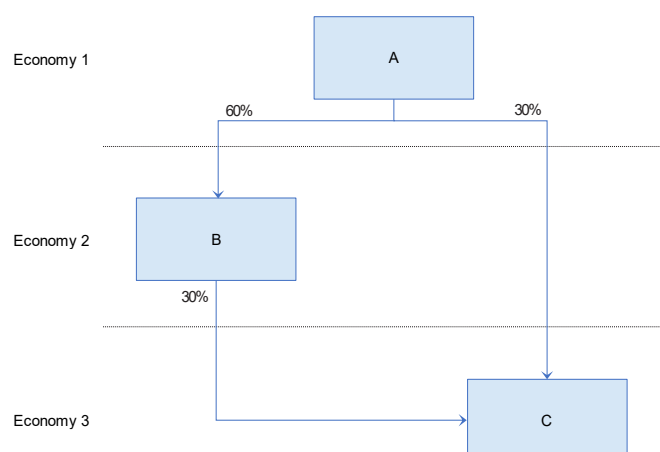
Annex Figure 2.A.1. Subsidiary



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

- Where an investor and its subsidiary(s) combined own more than 50% of the voting power of an enterprise, the owned enterprise is also regarded as a subsidiary of the investor. In Annex Figure 2.A.2, C is a subsidiary of A.

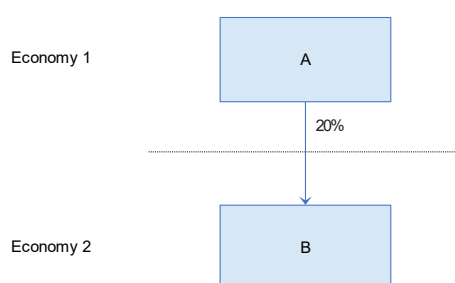
Annex Figure 2.A.2. Subsidiary



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

- An associate is an enterprise in which an investor owns at least 10% and no more than 50% of the voting power. In Annex Figure 2.A.3, B is an associate of A.

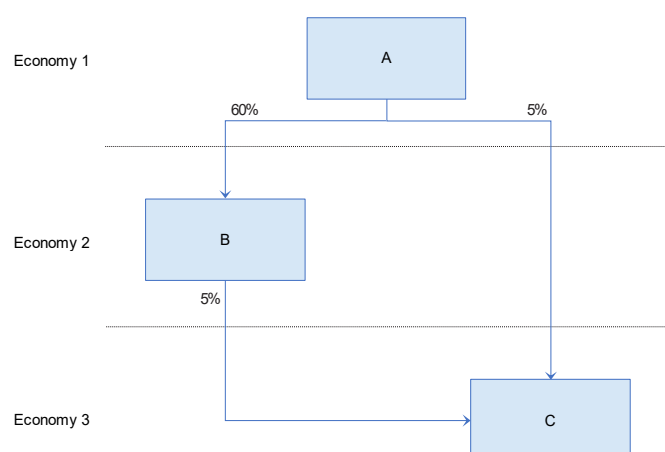
Annex Figure 2.A.3. Associate



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

- Where an investor and its subsidiary(s) combined own at least 10% but no more than 50% of the voting power of an enterprise, the owned enterprise is regarded as an associate of the investor. In Annex Figure 2.A.4, C is an associate of A.

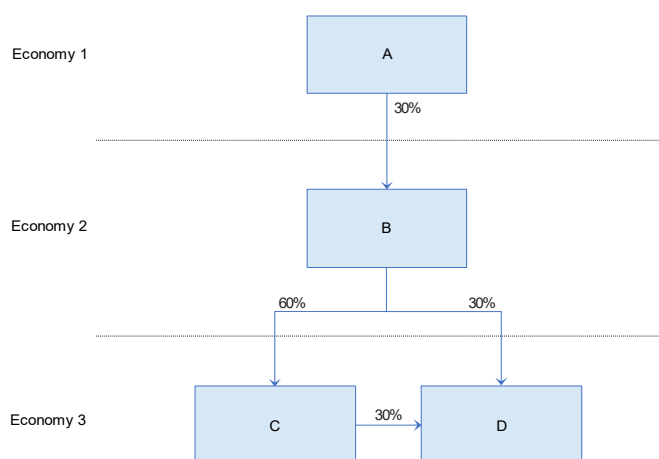
Annex Figure 2.A.4. Associate



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

- Where an investor's associate (and its subsidiaries combined) own more than 50% of an enterprise, the owned enterprise is regarded as an associate of the investor. In Annex Figure 2.A.5, D is an associate of A.

Annex Figure 2.A.5. Associate



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

107. The FDIR aims to identify all enterprises over which the investor has significant influence following the 10% voting power criterion for FDI. The degree of FDI influence that may be exercised through controlling links (where more than 50% of the voting power is held) is not diminished by the existence of multiple links. Thus, an enterprise controlled by a subsidiary or by a group of related subsidiaries (which may also include the investor) is itself regarded as a subsidiary. An enterprise controlled by an associate is also regarded as an associate. The degree of FDI influence that may be exercised through a single or cumulative non-controlling link (where from 10% to 50% of the voting power is held) is diminished by one

degree. Thus, an associate of a subsidiary or a group of subsidiaries (which may include the investor) is regarded as an associate. An enterprise that is an associate of another associated enterprise is not, in any FDI sense, influenced by the investor in question, and, therefore, is not included in the FDIR. A chain of ownership is followed until the degree of influence that may be exercised by the investor is diminished to the point where an enterprise can be categorised as not influenced. Under the FDIR, the direct investment relationship extends from an investor to cover all of its subsidiaries and associates.

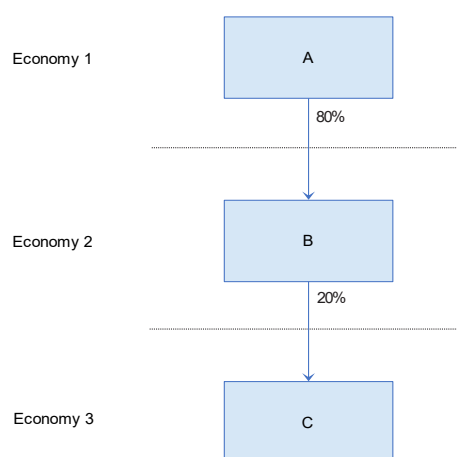
108. In summary, under the FDIR the direct investment relationship extends in both directions along an ownership chain from an enterprise to cover all of its subsidiaries and associates and all of the investors within the FDIR for which the enterprise is a subsidiary or an associate. It also covers 'across chain' relationships. Where more than one ownership chain originates from the same direct investor, all entities in all chains are in a direct investment relationship with one another. Note that some of the links in a chain may be within one economy.

Participation multiplication method

109. The participation multiplication method (PMM) for direct investment includes all enterprises in which an investor has voting equity participation of at least 10%. The calculation of the participation percentage is based on a straight multiplication and summation of direct and indirect participation percentages.

110. More specifically, an indirect participation in a given enterprise at the bottom of a chain of ownership is calculated by taking the investor's participation in the first enterprise, multiplied by the first enterprise's participation in the next enterprise, multiplied by the corresponding percentages for all other intervening enterprises in the chain, multiplied by the last intervening enterprise's participation in the given enterprise. In Annex Figure 2.A.6 according to this method, A has a 16% participation in C (20% of 80%). Because this participation is at least 10%, A and C are regarded as being in a direct investment relationship.

Annex Figure 2.A.6. Participation multiplication method

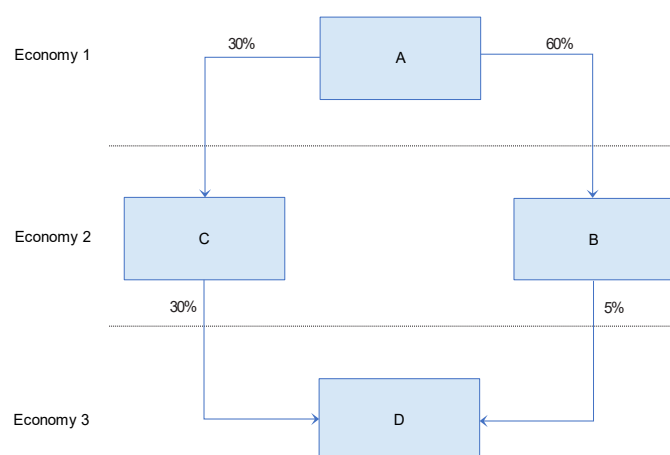


Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

111. If the investor's interest is held through more than one participation chain, then the percentages of direct and indirect participation in all chains are summed to determine the investor's total participation

percentage. If the combined direct and indirect participation percentage is less than 10% in an enterprise in another economy, then that enterprise is not considered to be in a direct investment relationship with the investor. In Annex Figure 2.A.7, A holds 3% of D indirectly through B and 9% of D indirectly through C, so A holds a total of 12% of D from its combined holdings through B and C and, as a result, D is a DIE of A.

Annex Figure 2.A.7. Participation multiplication method



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

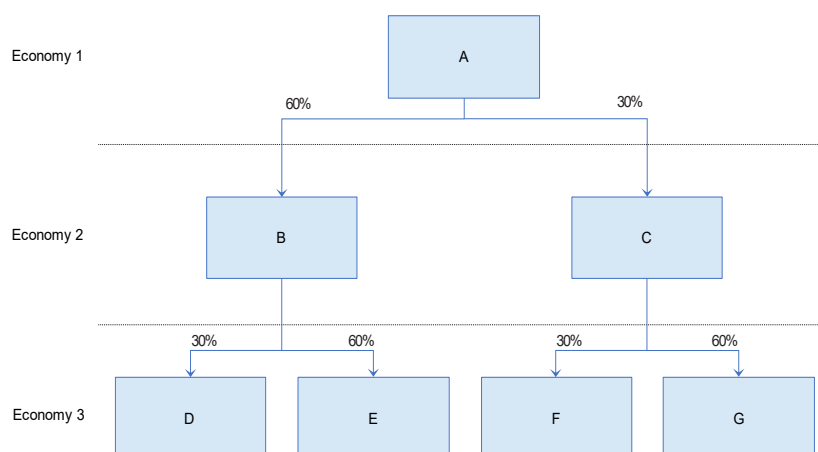
112. It should be noted that under the FDIR, D would not be considered to be in a direct investment relationship with A.

Direct influence/indirect control method

113. The direct influence/indirect control method (DIIC) for direct investment includes all enterprises of which the voting power is 10% or more directly owned, plus all enterprises that are controlled by them (ownership of more than 50% of the voting power), plus all other enterprises in a continuous chain of majority ownership.

114. This method allows the first link in an ownership chain to be a non-controlling link, but all subsequent links must be controlling links. Thus, the DIIC breaks the ownership chain at the second non-controlling link (as in the FDIR) where the first link from the investor is a non-controlling link. On the other hand (and contrary to the FDIR), the DIIC breaks the ownership chain at the first non-controlling link where the first link from the investor is a controlling link. As such, the DIIC will always identify the enterprises in a direct investment relationship as a subset of those identified by the FDIR. In Annex Figure 2.A.8 according to this method, B and C are in a direct investment relationship with A and with each other; E and G are also in a direct investment relationship with A (indirectly), B and C and with each other, while enterprise D is only in a direct investment relationship with B and E, and enterprise F is only in a direct investment relationship with C and G.

Annex Figure 2.A.8. Direct influence / indirect control method



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

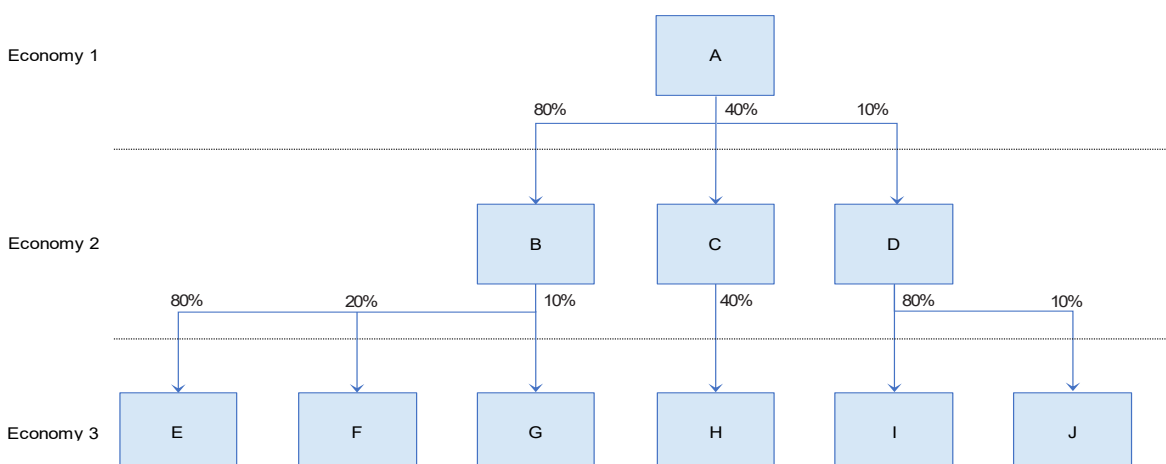
115. It should be noted that under the FDIR, A would be in a direct investment relationship with all of the other enterprises except enterprise F.

116. Consistent with the indirect control principles of the FDIR, the DIIC includes in the direct investment relationship cases where combined control is exercised by a number of affiliated enterprises when their first links are controlling links.

Comparing the three methods

117. Annex Figure 2.A.9 presents six different relationships between an indirectly held enterprise and an ultimate investor. These relationships are analysed in Annex Table 2.A.1 in terms of whether the indirectly held enterprise is in a direct investment relationship with enterprise A.

Annex Figure 2.A.9. Comparing the three methods



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Annex Table 2.A.1. Comparing the three methods

Relationship with A	E	F	G	H	I	J
FDIR	Direct	Direct	Direct	None	Direct	None
PMM	Direct	Direct	None	Direct	None	None
DIIC	Direct	None	None	None	Direct	None

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

118. From the above examples, it can be seen that the DIIC will always identify a subset of the enterprises in a direct investment relationship as being in that relationship. It does not recognise the relationship between enterprise A and enterprises F and G as being a direct investment relationship. The DIIC will never identify two enterprises as being in a direct investment relationship where none exists according to the FDIR.

119. The PMM may also fail to recognise a direct investment relationship where one exists according to the FDIR; for example, the PMM does not recognise the direct investment relationship between enterprise A and enterprises G and I because its voting power falls below the 10% threshold. Even where a chain of control exists, the PMM may fail to recognise a direct investment relationship between enterprises sufficiently separated in the chain. Unlike the DIIC, the PMM may also identify enterprises as being in a direct investment relationship where none exists according to the FDIR; for example, the PMM considers enterprise H to be in a direct investment relationship with enterprise A because its voting power is 16% and, thus, exceeds the 10% threshold.

Relationship with enterprise groups

120. Given that other related statistics are using the enterprise group as a basic unit, it is interesting to show how direct investment relationships may relate to enterprise groups. The example in Annex Figure 2.A.10 is offered to help understand these relationships.

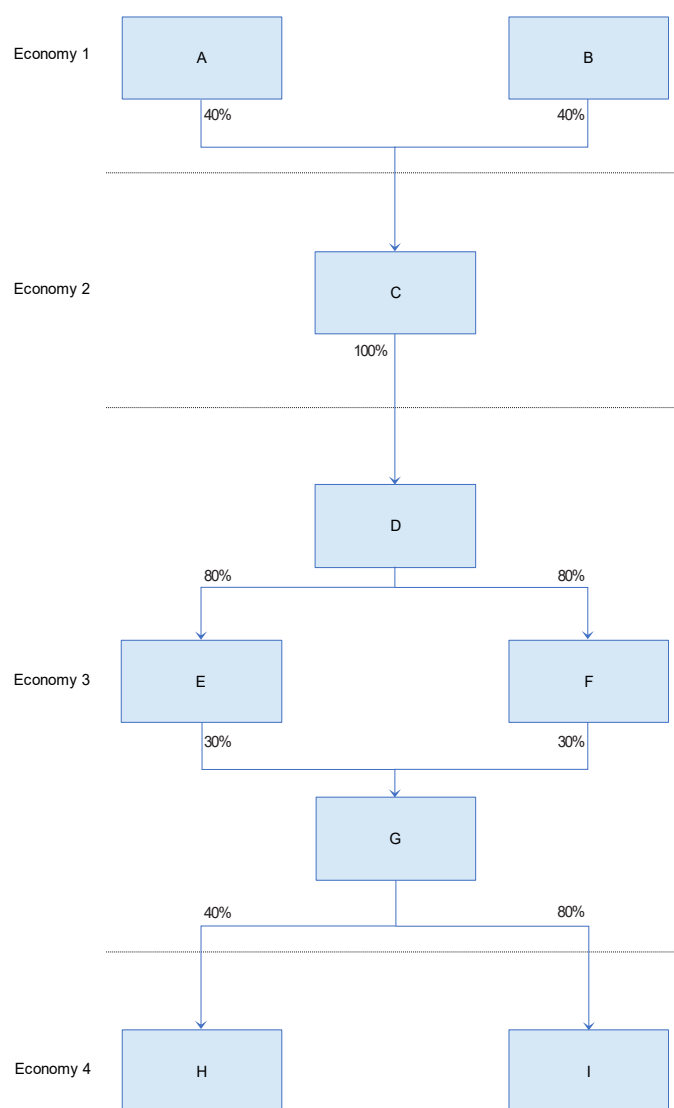
121. In this example, there are three FDI relationships under the FDIR, one global enterprise group and one local enterprise group comprised of the following units:

- FDI Relationship based on A: A, C, D, E, F, G, I (= for PMM and DIIC)
- FDI Relationship based on B: B, C, D, E, F, G, I (= for PMM and DIIC)
- FDI Relationship based on C: C, D, E, F, G, H, I (= for PMM, DIIC excludes G)
- Global Enterprise Group: C, D, E, F, G, I
- Local Enterprise Group: D, E, F, G

122. The following points may be noted:

- The purpose of the diagram and the FDI relationships described above is to show direct investment relationships based around different direct investors and how they overlap, but only looking down the investment chain (the 'up-the-chain' relationship, e.g., concerning the inclusion of enterprises A and B in the full FDIR based on enterprise C is ignored for this particular purpose);
- Enterprise H is not in a direct investment relationship with either A or B because, under the FDIR, C is an associate of A, and therefore D is an associate of A, and E and F are associates of A, and G is an associate of A, but H, as it is an associate of an associate, is therefore not influenced by A and is not covered by the FDIR based on A (and similarly for the FDIR based on B).

Annex Figure 2.A.10. FDIR and enterprise groups



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

123. Economies 2 and 3 have to identify all three FDI relationships to fully articulate the potential FDI counterparties that need to be considered in measuring FDI. In the case of economy 3, it is important not to stop at enterprise C, but to also identify the two direct investors, A and B.

124. One could also note that:

- C is the ultimate controlling parent for D, E, F, G and I
- C is the parent of D, E, F and G
- The local enterprise group (D, E, F and G) is the parent of I.

Measuring income on direct investment equity using the FDIR

125. Income on direct investment equity is measured on the basis of current operating performance and accrues to the direct investor as it is earned. The operating performance of a DIE includes the earnings accruing to it from any enterprises in which it holds equity which are also in a direct investment relationship with the direct investor, be it through direct or indirect ownership.

126. When measuring income credits/revenues, the entity resident in the reporting economy that has a non-resident DIE is treated as the direct investor in ownership chains. Any income accruing to the resident entity includes the proportional accrued income of all entities in chains of ownership with the resident as the direct investor. All income should be 'equity-accounted' in accordance with accrual principles.

127. When measuring income debits/expenditures, the degree of influence recognised between the non-resident direct investor and the resident DIE is the critical factor:

- If the resident DIE is a subsidiary of the non-resident direct investor, ownership chains from the resident DIE are followed past the first associate encountered in a chain and broken when the second associate is reached; while
- If the resident DIE is an associate of the non-resident direct investor, ownership chains from the resident DIE are broken when the first associate in a chain is reached.

128. In some cases, it may be necessary to go further up the chain of ownership than the immediate investor to identify cases of cumulative ownership.

129. The earnings accruing to the non-resident direct investor are its proportion of the accrued consolidated earnings of the resulting ownership chain.

Classifying financial transactions and positions

130. In compiling FDI statistics, any financial transaction or position between entities in a direct investment relationship is classified as a direct investment transaction or position (with the exception of the exclusion from FDI statistics of debt transactions and positions between financial intermediaries in a direct investment relationship and of financial derivatives). Only transactions and positions between FDI-related enterprises which are resident in different economies are included in FDI statistics.

131. When classifying positions and transactions, all ownership chains of which the resident enterprise is a member must be considered. The ownership chains are those for which the resident enterprise is treated as the direct investor, and any ownership chains in which the resident enterprise is an associate or a subsidiary. The latter chains are identified by moving "up" the chain from the resident enterprise, through the first non-controlling link, and stopping at the highest enterprise before the next non-controlling link above that point is encountered. The resident enterprise is then in a direct investment relationship with all enterprises that are in a direct investment relationship with any enterprise above it in an ownership chain. Note that there may be multiple chains and multiple direct investors identified in this process. This may also result in a number of fellow enterprises being identified through going up a chain and coming down another chain originating at the same investor, i.e., 'horizontal' or across-chain links between such fellow enterprises (which may invest in one another but for which such investment involves no voting power or, where it does, it is limited to less than 10% ownership).

132. For example, considering Annex Figure 2.A.8 above, direct investment positions and transactions for each economy would be recorded according to FDIR as shown in Annex Table 2.A.2.

Annex Table 2.A.2. Classifying financial transactions and positions

Economy	Resident enterprise	Record direct investment with
1	A	B, C, D, E, G
2	B	A, D, E, G
	C	A, D, E, F, G
3	D	A, B, C
	E	A, B, C
	F	C
	G	A, B, C

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Annex 2.B. Asset liability and directional presentations of FDI statistics

Introduction

133. There are two presentations of FDI statistics: the asset/liability presentation and the directional presentation. Historically, FDI was shown according to the directional principle, which organises the transactions and positions according to the direction of investment for the reporting economy – either outward or inward. Therefore, for a particular economy, all transactions and positions of direct investors resident in that economy are shown as outward investment, and all transactions and positions for direct investment enterprises (DIEs) resident in that economy are shown as inward investment. The presentation of aggregate FDI statistics changed with the *Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6, (IMF, 2009^[4]))* and the fourth edition of the *Benchmark Definition*, both of which recommended that aggregate FDI statistics be shown on an asset/liability basis, which organises FDI statistics according to whether the investment relates to an asset or a liability for the reporting economy. For example, an economy's assets include equity investment by direct investors resident in that economy in their non-resident DIEs because that investment corresponds to a claim that they have on assets in other economies. Similarly, an economy's liabilities include non-resident direct investors' equity investment in DIEs resident in that economy because that investment represents a claim that non-resident investors have on assets in the reporting economy. The change to recording aggregate FDI statistics on the asset/liability basis was recommended to make FDI statistics consistent with other macroeconomic statistics in general and with the statistics for other functional categories of investment in the balance of payments and international investment position.

134. Data presented on a directional basis are better suited to examine the nature and motivations of FDI. The directional principle is the preferred presentation for FDI data broken down by industry and by partner economy because it allows for the identification of the main sources and main destinations of FDI. However, under the asset/liability measures, this is not possible because, for example, the acquisition of assets combines both investment by resident direct investors in their non-resident DIEs and loans by resident DIEs to their foreign direct investors. The directional presentation is also helpful for FDI data on an aggregate level as it sheds light on the motivations behind FDI trends in a timely manner (as aggregate data are released on a quarterly basis). For these reasons, the *Benchmark Definition* continues to recommend that countries compile the details necessary to convert aggregate FDI statistics from the asset/liability presentation to the directional presentation (see Section 2.5.4 Annex 2.B and Annex B).

Recording under the asset/liability and directional presentations

135. The two presentations differ in their treatment of reverse investment and investment between fellow enterprises, which can occur in both equity and debt. Reverse investment occurs when a DIE invests in its direct investor. Under the asset/liability presentation, the asset side includes assets of both resident direct investors and of resident DIEs, and the liability side includes all liabilities of resident direct investors and resident DIEs. Under the directional presentation, reverse investment is subtracted to derive the amount of total outward or inward investment of the reporting economy. Therefore, if a resident direct investor borrows money from one of its non-resident DIEs, this is subtracted in calculating the reporting economy's outward investment because it reduces the amount of money that that economy's direct investors have invested in their non-resident DIEs. Similarly, if a resident DIE lends money to its non-

resident direct investor, this is subtracted when calculating inward investment because it reduces the amount of money that the non-resident direct investor has invested in that economy. While reverse equity investment is to be treated the same way as reverse debt investment, it is so rare that most of the difference between the two presentations is due to differences in the treatment of reverse debt investment.

136. The treatment of transactions and positions between fellow enterprises deserve special attention under the directional presentation. To reflect the direction and degree of influence exerted by resident and non-resident direct investors in the reporting economy, it is important to recognise that a resident fellow does not achieve any influence over a non-resident fellow if it made a loan to that non-resident fellow—the influence remains with the direct investor common to both fellows. Similarly, a non-resident fellow did not achieve any influence over a resident fellow by extending a loan to it—the influence remained with the direct investor common to the fellows.

137. Under the directional principle, the recording of transactions and positions between fellow enterprises in a reporting economy depends on the residence of the ultimate controlling parent (UCP) of the fellow enterprises because it is the UCP that ultimately controls the transactions of the fellows. While this treatment applies to both equity and debt investment between fellows, equity investment is rare so it is debt that has the biggest impact on the statistics. If the UCP of the fellow enterprise is resident in the economy, then loans by and to the fellow enterprise are treated as outward investment. Any loan from a fellow enterprise to a fellow enterprise resident in another economy is treated as an increase in outward investment by the reporting economy because it represents an increase in the influence that a resident direct investor (the UCP) has on the DIE in another economy. Similarly, if the fellow enterprise receives a loan, it reduces outward direct investment just as it would if the UCP had received a loan because such investment reduces the total amount the resident direct investor – the UCP – has invested abroad.

138. If the UCP is not resident in the economy, then transactions and positions are treated as inward investment. If the fellow enterprise makes a loan to a fellow in another economy, that is treated as a reduction in inward investment to the reporting economy as funds that flowed into the reporting economy from the non-resident UCP have now flowed to another economy, reducing the amount of foreign direct investment in the reporting economy. It should not be treated as outward investment as making a loan to a fellow enterprise in another economy does not give the resident fellow any influence over the operations of the fellow in the other economy; instead, it is the UCP that still has the influence. If the fellow resident in the reporting economy receives a loan from a fellow in another economy, it increases inward investment as the non-resident UCP's influence in the reporting economy has increased.

Reconciling under the asset/liability and directional presentations

139. Six classes of direct investment assets and six classes of direct investment liabilities can be defined that will serve as the building blocks for the presentations of FDI statistics described in this section:

- Direct investment assets: (FDI Assets = A1+A2+A3+A4+A5+A6)
 - A1: Equity assets of direct investors in direct investment enterprises
 - A2: Debt instrument assets of direct investors in direct investment enterprises
 - A3: Equity assets of direct investment enterprises in their direct investors (reverse investment)
 - A4: Debt instrument assets of direct investment enterprises in their direct investors (reverse investment)
 - A5: Equity assets in fellow enterprises abroad
 - A5.1: If ultimate controlling parent is resident
 - A5.2: If ultimate controlling parent is non-resident
 - A6: Debt instrument assets in fellow enterprises abroad

- A6.1: If ultimate controlling parent is resident
- A6.2: If ultimate controlling parent is non-resident
- Direct investment liabilities: (FDI Liabilities = L1+L2+L3+L4+L5+L6)
 - L1: Equity liabilities of direct investment enterprises to direct investors
 - L2: Debt instrument liabilities of direct investment enterprises to direct investors
 - L3: Equity liabilities of direct investor to their direct investment enterprises (reverse investment)
 - L4: Debt instrument liabilities of direct investor to their direct investment enterprises (reverse investment)
 - L5: Equity liabilities to fellow enterprises abroad
 - L5.1: If ultimate controlling parent is non-resident
 - L5.2: If ultimate controlling parent is resident
 - L6: Debt instrument liabilities to fellow enterprises abroad
 - L6.1: If ultimate controlling parent is non-resident
 - L6.2: If ultimate controlling parent is resident

140. In the first category, the financing flows in the same direction as the influence or control, from the direct investor to the DIE (A1 and A2; L1 and L2). This is in line with the core principle for direct investment that a direct investor acquires influence or control through the provision of financing.

141. In the second category of reverse investment, financing flows in the opposite direction as the influence or control (A3 and A4; L3 and L4). This category reflects the reverse of the standard FDI financing flows as the direct investor uses its influence to have its DIES provide equity or debt financing for its own operations. Such investment is limited to cases where the acquisition of voting power by a DIE in its direct investor does not meet the 10% criterion for establishing a separate direct investment relationship in its own right.

142. The last category shows financing involving fellow enterprises that have no direct investment influence upon one another (i.e., the 10% voting power criterion is not met as there is not sufficient equity ownership in each other) but have a common parent (A5 and A6; L5 and L6). The classes of assets and liabilities in or to fellow enterprises are further subdivided into two sub-classes according to the residence of the ultimate controlling parent (UCP), i.e., the direct investor at the top of the control chain (A5.1, A5.2, A6.1 and A6.2; L5.1, L5.2, L6.1 and L6.2).

143. These building blocks can be arranged in different presentations suitable for a variety of analytical requirements. Macroeconomic accounts, balance of payments and the national accounts present financial data primarily on an asset and liability basis. Thus, FDI data on this basis are useful when analysing direct investment in relation to other macroeconomic variables of the external sector of the economy. In addition, most FDI data are compiled as part of the balance of payments programmes in each country, bridging macroeconomic accounts and other presentations of FDI statistics.

FDI positions

144. To illustrate the asset/liability approach for FDI positions, the six classes presented above are to be grouped as shown in Annex Table 2.B.1 below.

Annex Table 2.B.1. FDI positions according to the asset/liability principle

Assets	Liabilities
<i>Of direct investors in direct investment enterprises</i>	<i>Of direct investment enterprises to direct investors</i>
A1 Equity	L1 Equity
A2 Debt instruments	L2 Debt instruments
<i>Of direct investment enterprises in direct investors (reverse investment)</i>	<i>Of direct investors to direct investment enterprises (reverse investment)</i>
A3 Equity	L3 Equity
A4 Debt instruments	L4 Debt instruments
<i>In fellow enterprises</i>	<i>To fellow enterprises</i>
A5 Equity	L5 Equity
A5.1 If ultimate controlling parent is resident	L5.1 If ultimate controlling parent is non-resident
A5.2 If ultimate controlling parent is non-resident	L5.2 If ultimate controlling parent is resident
A6 Debt instruments	L6 Debt instruments
A6.1 If ultimate controlling parent is resident	L6.1 If ultimate controlling parent is non-resident
A6.2 If ultimate controlling parent is non-resident	L6.2 If ultimate controlling parent is resident

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition*, <https://doi.org/10.1787/9789264045743-en>.

145. The *Benchmark Definition* stresses the use of two terms when presenting FDI statistics according to the directional principle: outward FDI and inward FDI. Outward FDI includes the net assets of resident enterprises exerting control or influence on non-resident enterprises (net assets of resident direct investors and net assets in fellow enterprises abroad when the UCP is resident). Inward FDI includes the net liabilities of resident enterprises controlled or influenced by non-resident enterprises (net liabilities of resident DIES to direct investors and net liabilities to fellow enterprises abroad when the UCP is non-resident). The components of outward and inward FDI are schematically shown as in Annex Table 2.B.2 below.

Annex Table 2.B.2. FDI positions according to the directional principle

Outward Foreign Direct Investment	Inward Foreign Direct Investment
<i>Outward equity position:</i>	<i>Inward equity position:</i>
A1 Equity assets of direct investors in DIES	L1 Equity liabilities of DIES to direct investors
-L3 Equity liabilities of direct investors to DIES* (reverse investment)	-A3 Equity assets of DIES in direct investors* (reverse investment)
A5.1 Equity assets in fellow enterprises abroad (if ultimate controlling parent is resident)	L5.1 Equity liabilities to fellow enterprises abroad (if ultimate controlling parent is non-resident)
-L5.2 Equity liabilities to fellow enterprises abroad* (if ultimate controlling parent is resident)	-A5.2 Equity assets in fellow enterprises abroad* (if ultimate controlling parent is non-resident)
<i>Outward debt instruments position:</i>	<i>Inward debt instruments positions:</i>
A2 Debt instruments assets of direct investors in DIES	L2 Debt instruments liabilities of DIES to direct investors
-L4 Debt instruments liabilities of direct investors to DIES* (reverse investment)	-A4 Debt instruments assets of DIES in direct investors* (reverse investment)
A6.1 Debt instruments assets in fellow enterprises abroad (if ultimate controlling parent is resident)	L6.1 Debt instruments liabilities to fellow enterprises abroad (if ultimate controlling parent is non-resident)
-L6.2 Debt instruments liabilities to fellow enterprises abroad* (if ultimate controlling parent is resident)	-A6.2 Debt instruments assets in fellow enterprises abroad* (if ultimate controlling parent is non-resident)

Note: * entered as a deduction in outward or inward FDI.

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition* (BD4), <https://doi.org/10.1787/9789264045743-en>.

- *Outward direct investment* = $A1-L3+A5.1-L5.2+A2-L4+A6.1-L6.2$
- *Inward direct investment* = $L1-A3+L5.1-A5.2+L2-A4+L6.1-A6.2$

146. FDI asset positions under the asset/liability principle are (generally) greater than FDI outward positions calculated according to the directional principle. In the same manner, FDI liability positions under the asset/liability principle are (generally) greater than the FDI inward positions calculated according to the directional principle.

147. The difference between the asset position and the outward FDI position is equal to:

$$(A1 + A2 + A3 + A4 + A5 + A6) - (A1 - L3 + A5.1 - L5.2 + A2 - L4 + A6.1 - L6.2)$$

which simplifies to:

$$A3 + A4 + A5.2 + A6.2 + L3 + L4 + L5.2 + L6.2.$$

The difference between the liability position and the inward FDI position is equal to:

$$(L1 + L2 + L3 + L4 + L5 + L6) - (L1 - A3 + L5.1 - A5.2 + L2 - A4 + L6.1 - A6.2)$$

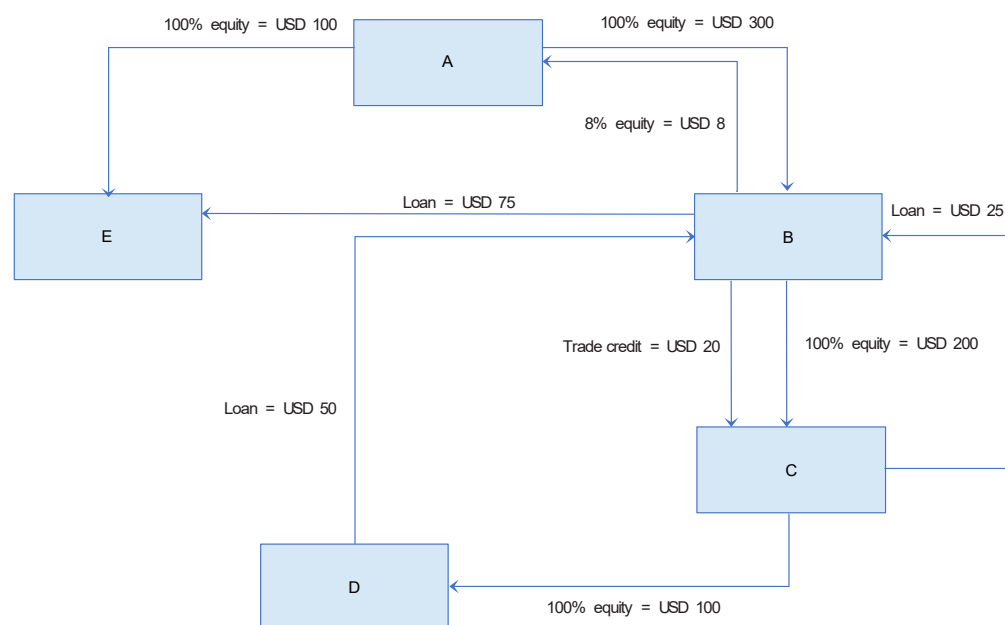
which simplifies to:

$$A3 + A4 + A5.2 + A6.2 + L3 + L4 + L5.2 + L6.2.$$

148. The net position (outward FDI less inward FDI and assets less liabilities) is the same for both presentations, i.e., the difference between FDI assets and FDI liabilities is equal to the difference between outward FDI and inward FDI.

149. Annex Table 2.B.3 and Annex Table 2.B.4 illustrate the differences in FDI presentations moving from the asset liability/principle to the directional principle based on the example of a multinational enterprise group given in Annex Figure 2.B.1.

Annex Figure 2.B.1. Example of equity and debt positions within a multinational enterprise group



Note: In this example each of the enterprises A through E is in a different economy.

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Annex Table 2.B.3. Recording the example: Asset liability principle

Taking B as the reporting economy. Net FDI liability position: USD 72.

Assets	USD 303	Liabilities	USD 375
<i>Of direct investors in direct investment enterprises</i>		<i>Of direct investment enterprises to direct investors</i>	
A1 Equity		L1 Equity	
Equity in C	USD 200	Equity from A	USD 300
A2 Debt instruments		L2 Debt instruments	
Trade Credit in C	USD 20		
<i>Of direct investment enterprises in direct investors– Reverse investment</i>		<i>Of direct investors to direct investment enterprises– Reverse investment</i>	
A3 Equity		L3 Equity	
Equity in A	USD 8		
A4 Debt instruments		L4 Debt instruments	
		Loan from C	USD 25
		Loan from D	USD 50
<i>In fellow enterprises</i>		<i>To fellow enterprises</i>	
A5 Equity		L5 Equity	
A6 Debt instruments		L6 Debt instruments	
A6.2 Loan to E	USD 75		

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Annex Table 2.B.4. Recording the example: Directional principle

Taking B as the reporting economy. Net inward FDI position: USD 72.

Outward Foreign Direct Investment	USD 145	Inward Foreign Direct Investment	USD 217
<i>Outward equity position:</i>		<i>Inward equity position:</i>	
A1 Equity assets of DI in DIE	USD 200	L1 Equity liabilities of DIE to DI	USD 300
-L3 Equity liabilities of DI to DIE		-A3 Equity assets of DIE in DI	USD -8
A5.1 Equity assets in fellow enterprises (<i>if ultimate controlling parent is resident</i>)		L5.1 Equity liabilities to fellow enterprises (<i>if ultimate controlling parent is non-resident</i>)	
-L5.2 Equity liabilities to fellow enterprises (<i>if ultimate controlling parent is resident</i>)		-A5.2 Equity assets in fellow enterprises (<i>if ultimate controlling parent is non-resident</i>)	
<i>Outward debt instruments position:</i>		<i>Inward debt instruments positions:</i>	
A2 Debt instruments assets of DI in DIE	USD 20	L2 Debt instruments liabilities of DIE to DI	
-L4 Debt instruments liabilities of DI to DIE	USD -25 USD -50	-A4 Debt instruments assets of DIE in DI	
A6.1 Debt instruments assets in fellow enterprises (<i>if ultimate controlling parent is resident</i>)		L6.1 Debt instruments liabilities to fellow enterprises (<i>if ultimate controlling parent is non-resident</i>)	
-L6.2 Debt instruments liabilities to fellow enterprises (<i>if ultimate controlling parent is resident</i>)		-A6.2 Debt instruments assets in fellow enterprise (<i>if ultimate controlling parent is non-resident</i>)	USD -75

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

- The same component entries appear in both accounts but the entries shown as negative amounts in the directional table correspond to the relevant positive entries on the opposite side of the asset/liability table.
- Gross values of assets and liabilities are presented
- In both presentations net FDI is the same (USD 72)

Under the directional principle:

- The reverse investment asset position with A effectively reduces the aggregate headline inward FDI position of B (it is netted out)
- There is a negative inward FDI debt liability position into E resulting from the recording of loans with fellow enterprises (as the ultimate controlling parent of B is non-resident). This also reduces the aggregate headline inward FDI position of B.
- The outward FDI position is effectively reduced as a result of the recording of the reverse investment loans from C and D.

Under the asset/ liability principle:

- There is an asset position with A that contributes to the gross total.
- There is a liability position with C that contributes to the gross total.
- The notion of inward and outward FDI is replaced by the notion of FDI asset and FDI liability.

150. Where reverse investment exists or where investment occurs between fellow enterprises, the overall inward direct investment position for an economy will generally be lower in magnitude than the overall direct investment liability position presented on an asset/liability basis. The equivalent outcome to that for overall inward direct investment will also result for the overall outward direct investment position data compared to the overall direct investment assets.

FDI financial transactions

151. For transactions, the asset/liability principle is schematically shown as in Annex Table 2.B.5 below.

Annex Table 2.B.5. Foreign direct investment transactions according to the asset/liability principle

Transactions in assets	Transactions in liabilities
Of direct investors in direct investment enterprises	Of direct investment enterprises to direct investors
A1 Equity	L1 Equity
A1.1 Equity transactions	L1.1 Equity transactions
A1.2 Reinvestment of earnings	L1.2 Reinvestment of earnings
A2 Debt instruments	L2 Debt instruments
Of direct investment enterprises in direct investors- Reverse investment	Of direct investors to direct investment enterprises – Reverse investment
A3 Equity	L3 Equity
A4 Debt instruments	L4 Debt instruments
In fellow enterprises	To fellow enterprises
A5 Equity	L5 Equity
A5.1 If ultimate controlling parent is resident	L5.1 If ultimate controlling parent is non-resident
A5.2 If ultimate controlling parent is non-resident	L5.2 If ultimate controlling parent is resident
A6 Debt instruments	L6 Debt instruments
A6.1 If ultimate controlling parent is resident	L6.1 If ultimate controlling parent is non-resident
A6.2 If ultimate controlling parent is non-resident	L6.2 If ultimate controlling parent is resident

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

152. To illustrate the directional principle for transactions, the FDI elements are schematically shown as in Annex Table 2.B.6 below.

Annex Table 2.B.6. Foreign direct investment transactions according to the directional principle

Outward foreign direct investment	Inward foreign direct investment
<i>Outward equity transactions</i>	<i>Inward equity transactions</i>
A1 Equity assets of direct investors in DIEs	L1 Equity liabilities of DIEs to direct investors
A1.1 Equity transactions	L1.2 Equity transactions
A1.2 Reinvestment of earnings	L1.2 Reinvestment of earnings
-L3 Equity liabilities of direct investors to DIEs (reverse investment)*	-A3 Equity assets of DIEs in direct investors (reverse investment)*
A5.1 Equity assets in fellow enterprises abroad (if ultimate controlling parent is resident)	L5.1 Equity liabilities to fellow enterprises abroad (if ultimate controlling parent is non-resident)
-L5.2 Equity liabilities to fellow enterprises abroad* (if ultimate controlling parent is resident)	-A5.2 Equity assets in fellow enterprises abroad* (if ultimate controlling parent is non-resident)
<i>Outward debt instruments transactions</i>	<i>Inward debt instruments transactions</i>
A2 Debt instruments assets of direct investors in DIEs	L2 Debt instruments liabilities of DIEs to direct investors
-L4 Debt instruments liabilities of direct investors to DIEs (reverse investment)*	-A4 Debt instruments assets of DIEs in direct investors (reverse investment)*
A6.1 Debt instruments assets in fellow enterprises abroad (if ultimate controlling parent is resident)	L6.1 Debt instruments liabilities to fellow enterprises abroad* (if ultimate controlling parent is non-resident)
-L6.2 Debt instruments liabilities to fellow enterprises abroad* (if ultimate controlling parent is resident)	-A6.2 Debt instruments assets in fellow enterprises abroad* (if ultimate controlling parent is non-resident)

Note: * entered as a deduction in outward or inward FDI.

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

153. These differences essentially involve transposing reverse transactions and transactions between fellow enterprises in the two presentations.

FDI income

154. For direct investment income under the asset/liability principle, elements are schematically shown as in Annex Table 2.B.7 below.

Annex Table 2.B.7. Foreign direct investment income according to the asset/liability principle

Receivables	Payables
<i>Of direct investors from direct investment enterprises</i>	<i>Of direct investment enterprises to direct investors</i>
A1 Earnings on equity	L1 Earnings on equity
A1.1 Distributed earnings	L1.1 Distributed earnings
A1.2 Reinvested earnings	L1.2 Reinvested earnings
A2 Interest (on debt instruments)	L2 Interest (on debt instruments)
<i>Of direct investment enterprises from direct investors- Reverse investment</i>	<i>Of direct investors to direct investment enterprises- Reverse investment</i>
A3 Distributed earnings	L3 Distributed earnings
A4 Interest (on debt instruments)	L4 Interest (on debt instruments)
<i>From fellow enterprises abroad</i>	<i>To fellow enterprises abroad</i>
A5 Distributed earnings	L5 Distributed earnings
A5.1 If the ultimate controlling parent is resident	L5.1 If the ultimate controlling parent is non-resident
A5.2 If the ultimate controlling parent is non-resident	L5.2 If the ultimate controlling parent is resident
A6 Interest (on debt instruments)	L6 Interest (on debt instruments)
A6.1 If the ultimate controlling parent is resident	L6.1 If the ultimate controlling parent is non-resident
A6.2 If the ultimate controlling parent is non-resident	L6.2 If the ultimate controlling parent is resident

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

155. To illustrate the directional principle for direct investment income, elements are schematically shown as in Annex Table 2.B.8 below.

Annex Table 2.B.8. Foreign direct investment income according to the directional principle

Income on outward foreign direct investment	Income on inward foreign direct investment
<i>Income on outward equity</i>	<i>Income on inward equity</i>
A1 Earnings on equity	L.1 Earnings on equity
A1.1 Distributed earnings	L1.1 Distributed earnings
A1.2 Reinvested earnings	L1.2 Reinvested earnings
-L3 Distributed earnings of direct investors to DIEs (reverse investment)*	-A3 Distributed earnings of DIEs from direct investors (reverse investment)*
A5.1 Distributed earnings from fellow enterprises abroad (<i>if ultimate controlling parent is resident</i>)	L5.1 Distributed earnings to fellow enterprises abroad (<i>if ultimate controlling parent is non-resident</i>)
-L5.2 Distributed earnings to fellow enterprises abroad* (<i>if ultimate controlling parent is resident</i>)	-A5.2 Distributed earnings from fellow enterprises abroad* (<i>if ultimate controlling parent is non-resident</i>)
<i>Interest on outward debt instruments</i>	<i>Interest on inward debt instruments</i>
A2 Interest receivable from DIEs	L2 Interest payable to direct investors
-L4 Interest payable by direct investors to DIEs (reverse investment)*	-A4 Interest receivable by DIEs from direct investors (reverse investment)*
A6.1 Interest receivable from fellow enterprises (on debt instruments) (<i>if ultimate controlling parent is resident</i>)	L6.1 Interest payable to fellow enterprises (on debt instruments) (<i>if ultimate controlling parent is non-resident</i>)
-L6.2 Interest payable to fellow enterprises (on debt instruments)* (<i>if ultimate controlling parent is resident</i>)	-A6.2 Interest receivable from fellow enterprises (on debt instruments)* (<i>if ultimate controlling parent is non-resident</i>)

Note: * entered as a deduction in outward or inward FDI.

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

156. To help communicate with users on the two presentations of FDI statistics, the OECD's Working Group on International Investment Statistics developed the template shown in Annex Table 2.B.9. The table begins with the asset/liability figures and shows the net direct investment calculated as assets less liabilities. It then shows the figures on a directional basis and includes several footnotes explaining the relationships between the two presentations. It ends with the net direct investment on a directional basis, calculated as outward less inward, to emphasise that the balances are the same under the two presentations.

Annex Table 2.B.9. Reconciliation template between AL and DP: communication with users

By principle and type of capital

Asset/liability principle			Directional principle													Direct investment, net
			Reporting country direct investment abroad							Foreign direct investment in reporting country						
Direct investment assets ¹	Direct investment liabilities ²	Direct investment, net	Total	Equity capital			Lending and debt securities (net) ³			Total	Equity capital			Lending and debt securities (net) ⁵		
				Total	Equity assets of resident direct investor in direct investment enterprise	Equity liabilities of resident direct investor to direct investment enterprise	Total ⁴	Assets	Liabilities		Total	Equity liabilities of resident direct investment enterprise to direct investor	Equity assets of resident direct investment enterprise in direct investor	Total ⁶	Assets	Liabilities

Notes:

- Sum of the following four components: Reporting country direct investment abroad, equity assets of resident direct investor in direct investment enterprise (DIE) + Reporting country direct investment abroad, lending and debt securities (net), assets + foreign direct investment in the reporting country, equity assets of resident DIE in direct investor + foreign direct investment in reporting country, lending and debt securities (net), assets.
- Sum of the following four components: foreign direct investment in reporting country, equity liabilities of resident DIE to direct investor + Foreign direct investment in reporting country, lending and debt securities (net), liabilities + Reporting country direct investment abroad, equity liabilities of resident direct investor to DIE + Reporting country direct investment abroad, lending and debt securities (net), liabilities.
- Net lending of reporting country direct investor to DIE and other related companies abroad. Other related companies are those companies which are in the same multinational enterprise group as the reporting country direct investor, but which are neither its directly or indirectly owned affiliates nor its direct or indirect investors (i.e., fellow companies).
- Assets minus liabilities.
- Net lending of DIE in the reporting country to foreign direct investor and other related companies abroad. Other related companies abroad are those companies which are in the same multinational enterprise group as the resident direct invest enterprise, but which are neither its direct or indirect investors nor its direct or indirectly owned affiliates (i.e. fellow companies).
- Liabilities minus assets.

Annex 2.C. Classification of financial corporations in the System of National Accounts

157. The *System of National Accounts* (SNA) recommends subsectors of the institutional sectors to provide information on particular groups of units for policymaking purposes. This annex provides further information on institutional sectors and, in particular, the subsectors of the financial corporation sector.

Central banks

158. The central bank is the national financial institution (or institutions) that exercises control over key aspects of the financial system.

Deposit-taking corporations except the central bank

159. Deposit-taking corporations except the central bank have financial intermediation as their principal activity. To this end, they have liabilities in the form of deposits or financial instruments (such as short-term certificates of deposit) that are close substitutes for deposits.

Money market funds

160. Money market funds (MMFs) are collective investment schemes that raise funds by issuing shares or units to the public. The proceeds are invested primarily in money market instruments, MMF shares/units, transferable debt instruments with a residual maturity of less than one year, bank deposits and instruments that pursue a rate of return that approaches the interest rates of money market instruments. MMF shares can often be transferred by cheque or other means of direct third-party payments.

Non-money market funds

161. Non-money market investment funds are collective investment schemes that raise funds by issuing shares or units to the public and investing predominantly in longer-term financial assets, such as equity shares, bonds, mortgage loans, and non-financial assets.

Other financial intermediaries except insurance corporations and pension funds

162. Other financial intermediaries except insurance corporations and pension funds (ICPFs) consist of financial corporations that are engaged in providing financial services by incurring liabilities, in forms other than currency, deposits or close substitutes for deposits, on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market. It is a feature of a financial intermediary that transactions on both sides of the balance sheet are carried out in open markets.

Financial auxiliaries

163. Financial auxiliaries consist of financial corporations that are principally engaged in activities associated with transactions in financial assets and liabilities or with providing the regulatory context for these transactions but in circumstances that do not involve the auxiliary taking ownership of the financial assets and liabilities being transacted.

Captive financial institutions and money lenders

164. This sub-sector consists of institutional units providing financial services, where most of either their assets or liabilities are not transacted on open financial markets. It includes entities transacting within only a limited group of units such as with subsidiaries or subsidiaries of the same holding corporation or entities that provide loans from their own funds provided by only one sponsor. Other financial intermediaries except insurance corporations and pension funds are distinguished from captive financial institutions and money lenders in that the latter serve a limited group only for at least one side of the balance sheet.

Insurance corporations

165. Insurance corporations consist of incorporated, mutual or other entities whose principal function is to provide life, accident, sickness, fire or other forms of insurance to individual institutional units or group of units or reinsurance services to other insurance corporations. Captive insurance is also included, i.e., an insurance company that serves only its owner.

Pension funds

166. Pension funds included here are only those social insurance funds that are institutional units separate from the units that create them. They are established for purposes of providing benefits on retirement for specific groups of employees. They have their own assets and liabilities, and they engage in financial transactions in the market on their own account.

Notes

¹ For a more detailed discussion of these broad statistical concepts, see *BPM7* (IMF, Forthcoming^[2]).

² FDI transactions consist of transactions in equity, debt, and income. Throughout the manual, FDI financial transactions is used to refer to transactions in equity, covering equity capital transactions and reinvestment of earnings, and debt transactions. FDI income transactions is used to refer to income transactions, including dividends and withdrawals from income of quasi-corporations, reinvested earnings, and income on debt.

³ Citizenship and plans for future location are non-economic connections to an economic territory.

⁴ However, some unincorporated enterprises may have limited liability such as a limited liability partnership.

⁵ The common usage of the term branch is broader, where a “branch” may also mean establishments, incorporated subsidiaries, or industrial classification group.

⁶ Instances may occur when land and buildings are owned (wholly or in part) by unrelated non-residents, wherein some (or all) of the non-resident owners hold less than 10% of the equity in the (notional) unit. In those cases, the 10% threshold is still applicable so that some (or all) of the owners may not be direct investors.

⁷ Similar issues may arise for a *Societas Europaea*, that is, a company created under European Union law that is able to operate in any member state.

⁸ In general, ordinary shares are the same as voting power. However, there may be instances that the voting power is not represented by ordinary shares. In such cases, compilers must determine the voting power.

⁹ DIEs are also referred to as “foreign affiliates” (subsidiaries, associates, unincorporated businesses) that are either directly or indirectly owned by the direct investor or their non-resident branches. See Glossary for a definition of affiliated entities.

3

FDI financial and income transactions

This chapter describes two of the main accounts for foreign direct investment (FDI) statistics: FDI financial transactions and FDI income transactions. Chapter 4 discusses another account for FDI positions, and Chapter 5 covers the other changes in volume and revaluation accounts and the reconciliation of FDI transactions, other flows and FDI positions.

The first part of this chapter discusses FDI financial transactions, including the types of financial instruments involved. This is followed by a discussion of FDI income transactions, with a focus on the importance of measuring income on equity according to the current operating performance concept (COPC). For both of these accounts, there is a brief overview of the presentations according to the asset/liability and directional principles. Finally, the valuation of transactions under transfer pricing is discussed.

3.1. Introduction

167. This chapter begins by describing the FDI financial transactions account. It discusses the two types of financial instruments covered (equity and debt) as well as the recording according to the asset/liability and directional presentations. This is followed by a discussion of the FDI income transactions account. It emphasises the need to measure income on equity according to the current operating performance concept (COPC) and explains the adjustments needed to move from income from company financial accounting statements to income on the COPC basis. The last section discusses the valuation of transactions under transfer pricing.

3.2. FDI financial transactions

168. Direct investment financial transactions are all transactions in financial instruments between entities in a direct investment relationship through mutual agreement or through operation of law.¹ The main financial instrument components of foreign direct investment (FDI) are equity and debt instruments (see Box 3.1). In the case of transactions, equity is further subdivided into two sub-components: equity other than the reinvestment of earnings and reinvestment of earnings. Direct investment equity and debt are: (a) financing provided by a direct investor to a directly or indirectly owned direct investment enterprise (DIE); or (b) financing received from a directly or indirectly owned DIE by a direct investor; or (c) financing provided by or to fellow enterprises. It is recommended that separate figures be collected and published for transactions in equity capital, reinvestment of earnings and debt for both direct investment assets and direct investment liabilities. Therefore, these will be discussed separately in the following subsections. This will be followed by a brief description of the presentation of financial transactions according to the asset/liability and the directional principles.

169. Transactions in financial derivatives between entities in a direct investment relationship should be excluded from direct investment.

3.2.1. Equity and reinvestment of earnings

170. Equity includes common and preferred shares (exclusive of non-participating preference shares which should be included under debt), reserves, capital contributions and reinvestment of earnings. Reinvested earnings and reinvestment of earnings are separately identified components of equity in the FDI income account and in the FDI financial transactions account, respectively. All cross-border transactions in equity between FDI-related enterprises are included in FDI. Transactions by a direct investor in the equity of its DIEs include both reinvestment of earnings and other equity transactions. Transactions by a DIE in the equity of its direct investor or in the equity of a fellow enterprise do not include reinvestment of earnings.

Equity other than the reinvestment of earnings

171. Equity is defined as all instruments and records acknowledging claims on the residual value of a corporation or quasi-corporation after the claims of all creditors have been met. Ownership of equity is usually evidenced by shares, stocks, participations, depository receipts or similar documents.

172. Equity increases result from a direct investor's establishment of a new DIE through:

- its initial acquisition of equity that represents a 10% or more voting power interest in an existing enterprise
- its acquisition of an additional voting share ownership interest in an existing enterprise which takes the accumulated holding to at least the 10% voting power threshold

- its equity contributions to an existing DIE.

173. Equity decreases result from:

- the liquidation of a DIE²
- the partial or total sale of an ownership interest in a DIE
- the return of capital contributions
- liquidating dividends, which are considered to be a withdrawal of equity rather than a distribution of income.

174. For a given category of equity transactions, decreases in assets are deducted from increases in assets to derive the net transactions in assets within a given period, and similarly for liabilities. Equity transactions exclude changes in equity that result from the reinvestment of earnings, which constitute a separate sub-component of the accounts.

Box 3.1. Financial instruments related to foreign direct investment

Equity comprises: (i) equity in branches; (ii) all shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and included under direct investment, debt instruments); and (iii) other contributions of an equity nature. Ownership of equity is usually evidenced by shares, stocks, participations, depositary receipts or similar documents. Shares and stocks have the same meaning while depositary receipts are securities that represent ownership of securities by a depositary. This category includes proprietors' net equity in quasi-corporations, as well as shares and equity in corporations. It also includes preferred stocks or shares that provide for participation in the residual value on dissolution of an incorporated enterprise. Reinvestment of earnings comprises the claim of direct investors (in proportion to equity held) on the retained earnings of direct investment enterprises (DIEs). Reinvestment of earnings represents financial account transactions that contribute to the equity position of a direct investor in a DIE.

Deposits: Typical forms of deposits include savings deposits, term deposits, transferable and non-transferable deposits in local or foreign currencies (see the *2025 System of National Accounts (2025 SNA*, (United Nations et al., Forthcoming^[1])) for a more specific definition of deposits).

Debt securities include non-participating preferred shares, bonds, debentures, commercial paper, promissory notes and other non-equity securities.

Loans: Loans are financial assets that are created when a creditor lends funds directly to a debtor through an instrument that is not intended to be traded. This category includes all loans and advances (except accounts receivable/payable which are treated as a separate category of financial assets). It also covers the treatment of financial leases and repurchase agreements.

Trade credit (receivables and payables) between FDI-related enterprises. It represents short-term credit in the ordinary course of business by suppliers/buyers of goods and services. These credits are registered from the time the goods or services are provided until payment is received (or vice versa).

Other accounts receivable/payable includes miscellaneous other items due to be paid or received.

Note: Financial derivatives are not included in direct investment.

Source: IMF (Forthcoming^[2]), *Integrated Balance of Payments and International Position Manual, Seventh Edition (BPM7)*.

175. Equity transactions may arise either from transactions between a direct investor and its DIE (such as contributed surplus or liquidations), or from transactions between a direct investor and a third party

(such as purchases (sales) of stock in a DIE by a direct investor from (to) an unaffiliated third party). Note that these third-party transactions may need to be based on the records of the direct investor rather than on the records of the DIE, because data on these transactions may not be available from the records of the DIE.

176. The sale and purchase of a non-resident DIE between two resident institutional units are domestic transactions. Such transactions, however, affect the external asset positions of the two resident units involved and should, for example, be recorded in the external accounts as a reclassification of sectors of holding (i.e., in the other changes in financial assets and liabilities account) in the sectoral breakdown of the international investment position (IIP). Similarly, when a resident DIE is sold and purchased between non-residents, no transactions are recorded in the balance of payments and there is no change in overall external liabilities of the compiling economy. However, compilers in economies that are members of economic or currency unions may record two offsetting transactions in the statistics in these cases. For example, if a DIE resident in a member of an economic union is sold and purchased between non-residents, then the compilers in the economy of the DIE may record two transactions of opposite signs that will entirely offset each other to ensure bilateral symmetry in the statistics for the economic union (see Annex 8.C).³

Reinvestment of earnings

177. Reinvestment of earnings of DIEs reflects earnings accruing to direct investors (proportionate to the ownership of equity) during the reference period less earnings declared for distribution in that period. The retention of some or all of the earnings in a DIE is deemed to be a deliberate decision of the direct investor. While reinvested earnings are not actually transferred to the direct investor, the recording shows them remitted to the direct investor as property income and then reinvested in the DIE, increasing the direct investor's investment in its DIE. Therefore, an entry that is equal to that made in the direct investment income account, but that flows in the opposite direction, is made in the direct investment financial transactions account. In the direct investment income account, this form of income is referred to as "reinvested earnings." However, in the direct investment transactions account, "reinvestment of earnings" is the term that is used, to more clearly differentiate between the income and financial transactions (see the discussion of reinvested earnings in the direct investment income account for more details, Section 3.3).

3.2.2. Debt instrument transactions

178. Debt instruments include marketable securities, such as bonds, debentures, commercial paper, promissory notes, non-participating preference shares and other tradable non-equity securities as well as loans, deposits, trade credit and other accounts payable/receivable. All cross-border transactions related to these instruments between enterprises covered by a FDI relationship, other than between related financial intermediaries, are included in FDI.

179. Debt financing can flow in the same direction as the influence or control, i.e., from the investor to the DIE. In addition, a DIE may raise loans that they on-lend to their direct investor or may make loans to their direct investor from their own resources, so-called reverse investment. Such loans should be treated as direct investment debt and be included in the direct investment statistics.

180. Similarly, loans involving fellow enterprises should be included under debt in direct investment statistics. For example, B, a DIE of A, may raise funds that, under instructions from A, it lends to C, another DIE of A. Such transactions should be considered direct investment between the economy of B and the economy of C, even though there is no equity participation between B and C. Similarly, if a resident direct investor, A, has a DIE abroad, B, as well as a resident subsidiary, C, then C is, by definition, not a DIE of

A, but B and C are fellow enterprises within the framework for direct investment relationships (FDIR) covering A, B, and C. Therefore, transactions between B and C should be recorded as direct investment.

181. Direct investors may make loans to or borrow funds from their indirectly owned DIEs. An indirect ownership interest exists when a DIE that is directly owned, in turn, has an equity holding in another non-resident DIE, thereby making the first DIE a direct investor in the second DIE. In this example, the direct investor at the top of the ownership chain holds an indirect ownership interest in the enterprise at the bottom of the ownership chain. Debt transactions between all these directly and indirectly owned enterprises should be included in direct investment if they meet the requirements of the FDIR (see Section 2.4.3).

182. Under the FDIR, if the indirect ownership in DIEs is not included in direct investment relationships, then some transactions between the direct investor and its indirectly owned DIEs may be excluded from the direct investment statistics as well as the corresponding earnings. While world-wide consolidated data cannot be used to construct FDI statistics, it is the case that economies that do not require their companies to produce world-wide consolidated company accounts may have difficulties in obtaining information on all indirectly owned subsidiaries and associates in order to produce direct investment statistics according to the FDIR.

183. A DIE or a fellow enterprise may also have loans or balances due to or from fellow enterprises abroad. None of these related enterprises needs to hold a 10% or more voting power in the other as long as they have, directly or indirectly, a common parent.

184. For each category of debt instrument, decreases in assets are deducted from increases in assets to derive the net transactions in assets within a given period, and similarly for liabilities. However, debt transactions between FDI-related financial intermediaries (such as commercial banks, savings institutions, credit unions, mutual funds or finance companies) are excluded from direct investment (see Annex 6.A).

- For debt instrument assets, included are transactions that increase or decrease:
 - the resident direct investor's debt instrument claims on the DIE
 - the resident DIE's debt instrument claims on direct investors
 - other resident fellow enterprises' debt instrument claims on fellow enterprises abroad, distinguishing whether the ultimate controlling parent is resident or non-resident.
- For debt instrument liabilities, included are transactions that increase or decrease:
 - the financial obligations of a resident DIE to direct investors
 - the financial obligations of a resident direct investor to DIEs
 - the financial obligations of other resident fellow enterprises to fellow enterprises abroad distinguishing whether the ultimate controlling parent is non-resident or resident.

185. When a direct investor lends funds to its DIE, the level of the direct investor's claims (receivables) on the enterprise increases. Subsequently, when the DIE repays the principal owed to its direct investor, the level of the direct investor's receivables from the enterprise is reduced. Similarly, when a direct investor borrows funds from its DIE, the level of the direct investor's liabilities (payables) to the enterprise increases and when the direct investor repays the principal, the level of the direct investor's payables is reduced. The same applies to fellow enterprises.

186. Increases in the resident's receivables from, or reductions in the resident's payables to, its foreign direct investor or fellow enterprises abroad give rise to outflows on inter-company debt accounts. Reductions in the resident's receivables from, or increases in the resident's payables to, its foreign direct investor or fellow enterprises abroad give rise to inflows.

187. The net change in inter-company debt includes changes in the value of financial (or capital) leases between direct investors and their related enterprises abroad. Financial leases are treated as loans. A

financial lease is a contract under which a lessee contracts to pay rentals for the use of a good for most or all of its expected economic life. The rentals enable the lessor to recover most or all of the costs of goods and the carrying charges over the period of the contract. While there is not a legal change of ownership of the good, under a financial lease the risks and rewards of ownership are, de facto, transferred from the legal owner of the good, the lessor, to the user of the good, the lessee. For this reason, under statistical convention and standard accounting rules, the total value of the good is imputed to have changed ownership. So, the debt liability at the inception of the lease is defined as the value of the good and is financed by a loan of the same value, a liability of the lessee. The loan is repaid through a series of payments (which comprise a blend of the accrued interest since the last payment and principal payment elements) and any residual payment at the end of the contract (or alternatively, by the return of the good to the lessor).

3.2.3. FDI financial transactions according to the asset/liability and directional principles

188. The asset/liability principle is used to present the standard components related to direct investment where the investment is organised according to whether it relates to an asset or liability of a resident entity (i.e., a resident direct investor, resident DIE, or a resident fellow enterprise). Direct investment assets and liabilities for both equity and debt can be further classified by the nature of the relationship between the resident and non-resident FDI counterpart to the FDI transaction.

- Direct investment assets can be ascribed to the following three categories:
 - investment by resident direct investors in non-resident DIEs
 - reverse investment by resident DIEs in non-resident direct investors
 - investment by resident fellow enterprises in non-resident fellow enterprises.
- Direct investment liabilities can be ascribed to the following three categories:
 - investment of non-resident direct investors in resident DIEs
 - reverse investment of non-resident DIEs in resident direct investors
 - investment of non-resident fellow enterprises in resident fellow enterprises.

189. The presentation of FDI statistics according to the directional principle requires the rearrangement of some of these building blocks. The presentation of outward foreign direct investment transactions is different to that of foreign direct investment assets. Similarly, the presentation for inward foreign direct investment transactions is different to that for foreign direct investment liabilities. These differences essentially involve transposing reverse transactions and transactions between fellow enterprises in the two presentations so that the directional presentation presents results from the perspective of the home economy of the parent company (see Annex 2.B).

3.3. Direct investment income

190. Direct investment income is part of the return on the direct investment position; that is, it is the return on equity and debt investment. Direct investment income includes all investment income arising from direct investment positions between resident and non-resident institutional units; it consists of earnings on equity investment (for example, a resident direct investor's share in the net income or earnings of its DIEs) plus income on debt between direct investors and DIEs and between fellow enterprises. Direct investment income payables are calculated in a similar way. Direct investment income is recorded as it accrues. However, as debt instruments involving FDI-related financial intermediaries are excluded from direct investment, so is the debt income between them (see also Section 3.2.2).

191. Direct investment earnings are measured before deduction (or gross) of withholding taxes on distributed earnings and interest. Withholding taxes are viewed as being levied on the recipient of the

distributed earnings or interest to which the taxes are applied, and thus as being paid across borders even though, as an administrative convenience, the tax payments are actually made by the company whose disbursement gave rise to them. Thus, foreign withholding taxes on distributed earnings and on interest received by a resident direct investor are recorded as if they were paid by the direct investor, not by the DIE. Similarly, the resident economy's withholding taxes of the reporting country on interest payments by resident direct investors or resident DIEs are recorded as if they were paid by the non-resident, not by the resident.

192. While company accounts are typically the source of data on the earnings of DIEs, there are notable differences between the measurement of net income from business accounting and income measured in macroeconomic statistics. Therefore, data collected from the financial statements of enterprises needs to be adjusted so that income is measured consistently across macroeconomic statistics. This is especially important given the role that cross-border income payments play in linking gross domestic product (GDP) and gross national income (GNI). The GNI of an economy is the total income earned by all residents within an economic territory during an accounting period. The difference between the GNI and GDP is equal to the difference of earned income receivable from non-residents and earned income payable to non-residents, often described as “net income from abroad”. FDI income can be a significant share of the “net income from abroad”, and, so, it is important in measuring GNI consistently across economies. To ensure this consistency, the *Benchmark Definition* recommends that compilers measure the earnings of DIEs according to the current operating performance concept (COPC). The COPC adjusts net income from business accounting to align with distributable income used in the *System of National Accounts (SNA)* and the *Balance of Payments and International Investment Position Manual (BPM)*.

193. This section will begin with a discussion of the adjustments necessary to measure a DIE's earnings according to the COPC, including the exclusion of holding gains and losses and adjustments to depreciation; it will also include a description of the application of the COPC to financial companies. Then, it will discuss how the earnings are recorded in the FDI income account that shows distributed and reinvested earnings separately. Finally, the section describes the measurement of income on debt.

3.3.1. Measuring direct investment earnings

194. Direct investment earnings need to measure earnings from current operations. However, business accounting, which is often the source data, likely measures income on an all-inclusive basis. All-inclusive income is the amount remaining after all items, including holding gains and losses and write-offs, are included in the income statement. Therefore, direct investment earnings should be calculated before recognition of holding gains and losses and certain other items. Operational earnings of the DIE should be reported after deducting provisions for depreciation and for corporate taxes charged on these earnings by the government in the host economy. Depreciation should, in principle, be measured at current replacement cost, particularly if market values are available for stock figures. If data on depreciable assets and on depreciation are available only on a book value or historical cost basis, those values should be adjusted wherever possible to a current replacement cost basis. Therefore, direct investment earnings measured according to the COPC need two key adjustments to net income measured in business accounts to align them with income in other macroeconomic statistics: i) the exclusion of holding gains and losses and certain other non-recurring items, and ii) adjustment of depreciation (including provisions for this purpose) to align financial or tax depreciation with economic depreciation. These will be discussed separately below.

Exclusion of holding gains and losses and other non-recurring items

Holding gains and losses

195. The earnings of DIES reported using the COPC exclude holding gains and losses because they reflect changes in prices and do not arise from production. Examples of holding gains and losses and other items that should be excluded from FDI income on a COPC basis are:

1. any gains or losses arising from valuation changes, such as inventory write-offs, write-downs, or write-ups
2. gains or losses on plant and equipment from the closure of part or all of a business
3. writing-off of intangible assets, including goodwill, due to unusual events⁴
4. provisions for losses on long term contracts
5. exchange rate gains and losses incurred by the DIE both from its trading activities and from its holding of foreign currency assets and liabilities
6. unrealised gains or losses from the revaluation of fixed assets, investment and liabilities
7. realised gains or losses made by the enterprise from the disposal of assets or liabilities.

196. Earnings exclude currency exchange gains and losses and other holding gains and losses, whether or not such gains and losses are included in net income for financial accounting, tax, or other purposes. However, these earnings include the impact of changes in foreign currency exchange rates on the operating revenues and expenses of DIES because these are not due to holding gains and losses. This treatment is intended to make earnings correspond to the current operating performance of the relevant enterprises in the ownership chain, in accordance with international guidelines.

197. The exclusion of realised and unrealised holding gains and losses is applicable to all DIES, including financial corporations, such as banks and securities dealers, for whom the making of such gains is an important or even the main part of their business. This promotes consistency with the calculation and treatment of earnings in the national economic accounts, prepared pursuant to the *SNA*. Box 3.2 provides details on the items that should be excluded from the profit and loss statements of financial corporations to put their earnings on a COPC basis.

198. The treatment of provisions on financial assets is another case where business accounting can differ from economic accounting. In the *SNA*, provisions are defined as “funds set aside by an economic unit to cover future liabilities of uncertain timing or amount.” As a consequence, provisions are not treated as liabilities in macroeconomic accounting (with the exception of standardised guarantees) because there is no corresponding financial asset held by a counterparty. Some accounting standards, such as the international financial reporting standard 9 (IFRS 9), require that changes in impairment allowances for credit losses be reported in the profit and loss statement. If this is the case, in contrast to the treatment of current provisions, these impairment charges should be excluded under the COPC. The COPC seeks to measure earnings from current operations, which means only including revenues and expenses that arise from current operations. In the case of impairment allowances for credit losses, they represent a probable future expenditure and anticipate the amount of that expenditure; therefore, they should not impact earnings from current operations. In the case of banks, if this kind of provisions is covered by a reduction in the equity capital, as allowed by IFRS 9, the amount of the reduction should be excluded from the calculations of earnings on a COPC basis.

199. This treatment can result in large differences between income reported in the financial statements of financial and non-financial corporations and that recorded in direct investment; for example, when financial conditions are deteriorating, FDI income will likely exceed income reported by credit institutions while FDI income will likely fall below income reported by credit institutions when financial conditions are

improving. Compilers in economies where these differences are significant may want to publish a memorandum item on provisions for financial instruments to help users interpret the statistics.

200. It should be noted that the *System of National Accounts 2008 (SNA 2008)*, (United Nations et al., 2009^[3]) and the *Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)*, (IMF, 2009^[4]) both distinguished trading margins earned by companies for services they provide as market-makers from holding gains and losses. “Dealers, market makers, foreign exchange bureaux, and other intermediaries producing this kind of [financial] service are distinguished from other traders by their characteristic of generating a buy-sell spread, which shows that they serve the market in a somewhat similar way to a wholesaler, by providing liquidity and inventory” (*Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, (IMF, Forthcoming^[2]), *Chapter 11, Section F, paragraph 11.122*). Therefore, for consistency in the measurement of income, conceptually these trading margins should be considered ordinary earnings and hence, included in FDI income and not treated as holding gains and losses. However, practically it is very difficult to compile such trading margins. Therefore, *BPM7* recommends only including trading margins in trade in financial services when they are significant. Similarly, compilers should only include them in their FDI income where they are significant to their economies.

Box 3.2. How to move from the financial statement to a statistical concept (COPC)

In applying the COPC to financial corporations, some expenses and revenues that are part of the ordinary activity of the company must be adjusted in line with what is included in the following table.

Table 3.1. Moving from the financial statement to the COPC

		Benchmark Definition recommendation	Items also in the financial statement (examples)
A		<i>Ordinary earnings</i>	<i>Profit and loss (all-inclusive concept)</i>
B	+	Provisions for losses and long-term contracts	Impairment allowances for losses on loans and advances Impairment allowances for loss on property, plant, equipment, and intangible asset
C	-	Realised gains or losses made by the enterprise from the disposal of assets and liabilities	Gains (losses) from other financial securities. Income on sales or liquidation of fixed assets, intangible assets, and assets for disposal.
D	-	Gains or losses arising from valuation changes: write-ups, unrealised gains or losses from the revaluation of fixed assets, investment and liabilities	Gain on acquisition of enterprises. Net trading income and revaluation.
E	+	Share of profits of associates that is not distributed	Should be calculated as share of investment in the associate: “Share of voting rights of direct investor in DIE $Z \times (A_z + B_z - C_z - D_z)$ – dividend received”, with A_z representing the Ordinary Profit for company Z (concept A in this Table); B_z representing the provisions for losses for company Z (concept B); and so on.
=		<i>Direct Investment earnings (COPC)</i>	

Other non-recurring items

201. While it is clear that some items, such as holding gains and losses, should be excluded when measuring COPC earnings, other cases are less clear. While it may be necessary to exclude certain other non-recurring items to derive COPC earnings, it is necessary to consult with the national accounts to ensure consistent treatment. For example, while the payment of a fine or penalty may be extraordinary for the company, it should not necessarily be excluded from their COPC earnings. When cross-border fines and penalties are imposed on multinational enterprises, they are relevant to FDI. Due to the increasing

frequency and size of such fines and penalties in recent years, the international standards were updated to provide additional guidance on their recording. Fines and penalties are defined as being punitive in nature and are treated as miscellaneous current transfers; they are distinguished from major compensation payments that are intended to recover losses incurred over a multi-year period or to replace an asset (financial or non-financial) and that should be recorded as capital transfers. While it may appear that fines, penalties, and major compensation payments are not part of the ordinary operations of a DIE and, so, should be excluded from COPC earnings, it is not clear that should be the case.

202. Compilers should base their determination about whether to include fines or penalties as part of COPC earnings on the specific characteristics of the fine or penalty and in close coordination with national accountants. For example, consider the case where a wholly-owned DIE in country A is fined 100 by the government of A. The payment of this fine by the DIE would be a domestic transaction; if it is recorded as a current transfer from the corporate sector to the government, then the fine should reduce the earnings of the DIE (that is, should not be excluded from the COPC earnings). In this way, the gross domestic income (GDI) of economy A is not impacted by the imposition of the fine as the drop in domestic corporate profits of 100 is completely offset by the 100 increase in transfers to the government of A. This treatment would increase GNI because income payments to the rest of the world decreased due to the fine. These results are logical as an economy should not be able to increase GDI by imposing a fine on a resident enterprise, but GNI would increase as the non-resident direct investor no longer has a claim on the amount of the fine that has been transferred to the government of A. In summary, whether fines, penalties, and major compensation payments are excluded from COPC earnings would depend on a number of factors, including whether the payment is treated as a current or capital transfer. Close coordination with national accounts is needed to ensure consistency in recording and preventing unreasonable impacts on key macroeconomic aggregates.

Depreciation in direct investment income

Depreciation

203. Depreciation methods favoured in business accounting and those prescribed by tax authorities almost invariably deviate from the concept of depreciation used in macroeconomic statistics. In national accounts, depreciation is measured by the value, at current replacement cost, of the fixed assets used up (as a result of physical deterioration, normal obsolescence, or normal accidental damage) during an accounting period. In the calculation of depreciation, the expected economic life of an individual asset should be taken into account (expected life and normal obsolescence or damage do not include losses due to wars or major natural disasters). Depreciation used in the business accounts is not necessarily the same as depreciation used in the national accounts as the business accounts may base depreciation on historic cost or book values, or may use a different depreciation model from the models recommended in the national accounts. Therefore, compilers should make adjustments to depreciation based on business accounts where the calculation of depreciation rates diverge from the rates used in the national accounts.

Capitalisation of research and development expenditures

204. Another issue is that the national accounts capitalise some expenditures that may be treated as operating expenses in business accounting. One example of this is research and development (R&D). The 2008 SNA recognises expenditures for both purchased and own-account (in-house) R&D as gross fixed capital formation (GFCF) and the depreciation of these assets as consumption of fixed capital (CFC).

205. Capitalisation of R&D impacts FDI earnings through:

- expenses on purchased R&D that should be treated as gross fixed capital formation (GFCF) rather than intermediate consumption

- the recognition of output and GFCF from own-account (in-house) R&D
- the consumption of fixed capital (CFC) from R&D assets.

206. The two main international business accounting standards differ in their treatment of R&D. The international financial reporting standards (IFRS), which replaced the international accounting standards (IAS), set out the criteria under which intangible assets can be capitalised in IAS 38. A key criterion is the identifiability of the asset, which means that it is either separable or arises from contractual or other legal rights. This is, for instance, possible if R&D has led to patent-protected innovations. IAS 38 clearly limits the scope for recognising R&D as an asset, as it requires a clear probability that future economic benefits of the R&D asset would flow to the company, and it also requires that the cost of the asset can be measured accurately. The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset. IAS 38 makes a distinction between the research phase, which is to be expensed, and the development phase, which is seen as an investment. If the development phase cannot be separated from the research phase, the total is to be treated as research, i.e., considered as a current expense.

207. In contrast, under the other main international business accounting standard, United States generally accepted accounting principles (US GAAP), R&D costs are expensed as incurred because this standard considers the future benefits of these activities as uncertain. Both business accounting standards generally allow for R&D to be recognised as an asset when it is acquired, provided that the assets can be separated, and a value can be assigned to it.

208. Beside these two main international accounting standards, there are many national accounting standards and practices. There is no standard treatment of R&D across these national accounting standards. Therefore, compilers need to investigate how corporate R&D expenditures are recorded in companies' responses to determine if an adjustment for the capitalisation of R&D is needed.

209. If it is verified that the individual enterprises' data are following IAS 38 (hence, they are mostly consistent with *SNA 2008* principles in terms of capitalisation of R&D expenses and depreciation), then the FDI compiler can assume that the capitalisation and depreciation of R&D is included in the source data as long as the costs of the research phase are negligible compared to the costs of development phase.⁵ However, if the costs of the research phase are significant, then an adjustment to reflect the capitalisation and depreciation of R&D may be needed because the costs of the research phase are treated as expenses under IAS 38. These adjustments will require that the expenses of the research phase are no longer treated as current expenses in the profit and loss statement but are treated as capital formation. However, depreciation of the R&D capital should be included in the profit and loss statement.

210. If the verification of respondents' data indicates that business accounts diverge from IAS 38, such as US GAAP or potentially other national accounting standards, further adjustments and estimations are needed to measure FDI earnings on the COPC basis. Compilers are encouraged to adjust the data using one of the following options:

1. collect the COPC earnings, including capitalisation and depreciation of R&D, via annual FDI surveys, providing guidelines to the reporters
2. apply conceptual adjustments for R&D capitalisation and depreciation at the macro level to the aggregated microdata on COPC earnings
3. introduce specific statistical surveys on R&D
4. apply the capitalisation of R&D at the microlevel and the depreciation at a semi-aggregated level.

The choice of which option to use is left to the compiler given the resources and the information available to them.

3.3.2. Recording income on equity in the FDI income account

211. Direct investment income on equity consists of “distributed earnings” and “reinvested earnings”. For investment by a DIE in its direct investor or investment between fellow enterprises, income on equity consists only of distributed earnings because reinvested earnings are not included. The reason for this is that the DIE does not hold 10% or more of the voting power in its direct investor. Consequently, the enterprise is not considered able to influence the savings and distribution policies of the direct investor or fellow enterprise. If, however, the DIE does hold 10% or more of the voting power in its direct investor, it then becomes a direct investor in its direct investor, and reinvested earnings are attributed to it.

Distributed earnings

212. Distributed earnings consist of dividends and withdrawals from income of quasi-corporations, i.e., distributed branch profits. Dividends include those to shareholders, both common and participating preferred stock, whether voting or non-voting, according to the contractual relationship between the enterprise and these various types of shareholders, before deduction for withholding taxes. Dividends exclude liquidating dividends and bonus shares (which are dividends in the form of additional shares of stock). Liquidating dividends are excluded because they are a return of equity rather than a remittance of earnings (liquidating dividends are included instead as transactions in the direct investment equity). Bonus shares are excluded because they are a capitalisation of retained earnings – a substitution of one type of equity (capital stock) for another (retained earnings). In an accounting sense, they reduce the amount of retained earnings available for distribution but leave total owners’ equity unchanged.

213. Distributed earnings can be paid out of current or past earnings and may result in negative reinvested earnings if the distribution of dividends exceeds COPC earnings in a particular reference period. Dividends paid by corporations to their shareholders and withdrawals from income of quasi-corporations do not include withdrawals of funds realised by the sale or disposal of the corporation’s or quasi-corporation’s assets in the reference period or in the past (e.g., the sale of inventories, fixed assets, or land or other natural resources). Transmittal of funds resulting from such disposals of assets is recorded as a withdrawal from the equity in the financial account. Therefore, if distributed earnings in a period exceed COPC earnings in that period and are not proceeds from the sale of a financial or non-financial asset, then accumulated COPC earnings should be used as the source of those distributions if they are large enough to support the distribution.⁶

214. This treatment of dividends in excess of current period earnings is unique to FDI. In the *2025 System of National account (2025 SNA*, (United Nations et al., Forthcoming^[1])) and *BPM7*, the term superdividends is used to refer to “large and irregular payments or payments that exceed the entrepreneurial income of the year. They are funded from accumulated reserves or sales of assets and are recorded as withdrawal of equity equal to the difference between the payment and the entrepreneurial income of the relevant accounting period”. While these manuals note that the concept of superdividends does not apply to foreign direct investment where only exceptional payments due to sales of assets are recorded as withdrawal of equity, they do suggest that it may be useful to separately identify exceptional payments from accumulated reserves to direct investors from other distributed earnings on a voluntary basis. This would enable users to construct consistent measures of dividends and withdrawals from income of quasi-corporations across the statistics.

215. In rare cases, companies may distribute earnings to their shareholders before a company has determined its full-year earnings and the annual general meeting has taken place. Companies may follow two different treatments:

- Interim dividend: they are considered to be regular dividends, however, they are paid before the final earnings are known and before the financial statements of the current year are approved and released. As a result, the values may be set lower than the final dividend to avoid problems if the

annual earnings are less than expected, and the enterprise may be required to have sufficient retained earnings to cover the interim dividend. Any necessary adjustments to the interim dividends can either be made in any subsequent interim dividend or in the final dividend. Interim dividends may also be declared to distribute exceptional earnings or if there is some advantage in distributing income at a particular point in time, such as a change in the law.

- Advanced dividend: they are considered a binding distribution to shareholders from current earnings before the end of the financial year and are treated as loans to shareholders, which are settled with the dividend payments.

216. In other words, in terms of bookkeeping and from the point of view of the distributing enterprise, an interim dividend is an income distribution whereas an advanced dividend is a financial asset. Table 3.2 illustrates the recording under direct investment from the point of view of the direct investor. Assume that the DIE has COPC earnings of USD 1 000 in period T and USD 1 500 in period T+1 and that it distributed USD 100 in dividends to its shareholders before the full year earnings and their allocation had been officially determined in T; it does not pay any dividends in period T+1. Depending on whether the DIE treats them as advanced or interim dividends, the recording will differ. In the case that the DIE treats it as an interim dividend, it is recorded as a dividend in the period in which it is paid, and there are no additional entries. In the case that the DIE treats it as an advanced dividend, an account payable to the DIE from the direct investor is recorded in the period they are distributed; this liability is extinguished once the earnings are determined and the shareholder's meeting determining the final dividend that will be paid by the DIE has taken place.

Table 3.2. Recording of interim and advanced dividends

	Case 1: Interim		Case 2: Advanced	
	T	T+1	T	T+1
Income on equity (COPC earnings)	1 000	1 500	1 000	1 500
Dividends (interim or advanced)	100	0	0	100
Reinvested earnings	900	1 500	1 000	1 400
Financial account				
Reinvestment of earnings	900	1 500	1 000	1 400
Debt instruments	0	0	-100	100

Note: All values in USD.

217. The compiler should record the interim or advanced dividend in accordance with how the transaction is recorded by the company. That is, whether it is considered an advance to the shareholders (and, thus, is recorded as a financial asset that is settled when the final dividend is paid) or whether it is considered as paid and so, the final dividend will be lower.

Reinvested earnings

218. Reinvested earnings of DIEs reflect earnings on equity accruing to direct investors less distributed earnings, proportionate to the percentage ownership of the equity owned by the direct investor(s). As noted in the discussion of "reinvestment of earnings", reinvested earnings are included in direct investment income because the earnings of the DIE are deemed to be the income of the direct investor (proportionate to the direct investor's holding of equity in the DIE), whether they are reinvested in the enterprise or remitted to the direct investor. However, because reinvested earnings are not actually distributed to the direct investor but rather increase the direct investor's investment in its affiliate, an entry that is equal to that made in the direct investment income account but of opposite sign is entered in the direct investment

transactions account. In the direct investment income account, this transaction is referred to as “reinvested earnings”.

219. These transactions are identified only between the DIE and its immediate direct investors (although the value of these transactions should reflect income earned from directly and indirectly owned DIEs through the COPC, see Annex 3.A). In cases where the equity asset holder has less than 10% voting power (reverse investment and investment in fellow enterprises), reinvested earnings and reinvestment of earnings are not recorded.

220. Reinvested earnings are measured after the DIE’s earnings in a period are measured on the COPC basis, by subtracting distributed earnings in the same period, or:⁷

$$\begin{aligned} & \text{Reinvested earnings}_t \\ &= \text{COPC earnings}_t - \text{dividends and withdrawals from income of quasi corporations}_t \end{aligned}$$

221. When a direct investment ownership chain exists, direct investment earnings should reflect income from direct and indirect enterprises. All earnings from an ownership chain are geographically allocated to the enterprises directly owned. However, these earnings should include the claims of directly owned enterprises on the earnings of enterprises below them in the ownership chain, proportionate to the immediate direct investor’s ownership of shares. For example, if A (resident in Country A) owns 100% of B (resident in B), which, in turn, owns 100% of C (resident in C), B’s FDI earnings will include all of the earnings from its current operations, including its investment income, which, by definition, includes all of C’s reinvested earnings (as C is 100% owned by B, B will be deemed to receive all of C’s reinvested earnings). As a consequence, the reinvested earnings receivable by A from its ownership of all the shares in B will include C’s reinvested earnings. Therefore, A does not need to seek the information on C’s reinvested earnings directly from C, in order for that income to be measured correctly, but it is recommended that the compiler of direct investment data in Country A makes sure that B understands that it should report C’s reinvested earnings, even though it is an imputed transaction.

222. In instances where the direct investors do not hold 100% of the equity in an immediate DIE, their reinvested earnings receivable should be in accordance with the proportion of the shares they own (see Annex 3.A on reinvested earnings for another example of calculation of reinvested earnings along a chain of related enterprises). The compiler will often find that the information required in order to determine a direct investor’s share of the reinvested earnings of indirectly owned DIEs becomes more difficult to determine once its share of indirect ownership falls below 50%. In that instance, it is recommended that it be impressed upon respondents to direct investment surveys the importance that this information be collected. Additional data sources, such as other business surveys, administrative data, and quarterly/annual company financial statements, may also help in the compilation of reinvested earnings.

3.3.3. Direct investment income on debt

223. Direct investment interest payables (on liabilities) and interest receivables (on assets) are separately recorded. Thus, interest receivables comprise interest accruing to residents (direct investors, DIEs and fellow enterprises) on their debt receivables, and interest payables comprise interest accruing to non-residents (DIEs, direct investors and fellow enterprises) on debt payables.

224. No direct investment interest receivables or payables are recorded when both parties are related financial intermediaries (such as commercial banks, savings institutions, credit unions, mutual funds or finance companies).

225. Interest includes the interest component of transactions under financial leases between enterprises in a direct investment relationship, assuming the outstanding capitalised value of such leases is included in the debt component of the direct investment position at discounted value.

226. The interest component of direct investment income reflects accruals of interest on debt in the current period (i.e., interest accrued), whether or not paid.⁸ Interest receivable and payable should be compiled separately. Interest receivable by direct investors from their DIES, receipts from DIES from their direct investors and receipts from fellow enterprises are included. Payables are calculated in an analogous manner.

227. Interest accruals on marketable securities should be calculated under the debtor basis, not the creditor basis. Under the debtor basis, interest accruals on fixed interest rate securities reflect the amount of interest that the debtor is contractually obligated to pay, and changes in market interest rates, since the debt was issued, are not taken into account. In contrast, under the creditor basis, interest accruals on fixed interest rate securities reflect market interest rates in the current period, not the interest rates in effect at the time(s) that the debt securities were originally issued.

228. Interest on debt accrues continually over the life of the debt and adds to the principal. Thus, actual payments of the debt (as opposed to accruals) are investment transactions and not income. Therefore, they should be recorded in the FDI financial transactions account.

229. At inception, future cash flows are determined in the relevant currency. Interest expressed in foreign currency is to be converted into the domestic currency units at the mid-point market exchange rate for the periods in which the interest accrues.

FDI income recorded according to the asset/liability and directional principles

230. Under the asset/liability presentations, direct investment income should be shown separately for assets and for liabilities. Income on direct investment assets should be recorded under income receivables, and income on direct investment liabilities should be recorded under income payables. When, during a reference period, a DIE pays a dividend that is larger than the earnings from current operations during that period (or where it incurs an operational loss), negative reinvested earnings will result. The latter should be recorded as a negative credit/revenue for income on direct investment assets and as a negative debit/expenditure for income on direct investment liabilities. All income credits/revenues on reinvested earnings (whether negative or positive) should have an equal and opposite entry in the FDI financial transactions account (under “FDI assets, reinvestment of earnings”). Similarly, all income debits on reinvested earnings (whether negative or positive) should have an equal and opposite entry in the FDI financial transactions account, (under “FDI liabilities, reinvestment of earnings”).

231. Just as for FDI financial transactions, FDI income can also be recorded according to the directional measurement principle. Similar to the recording under the asset/liability principle, all income credits/revenues on reinvested earnings (whether negative or positive) should have an equal and opposite entry in the FDI financial transactions account (under “outward FDI, reinvestment of earnings”). Similarly, all income expenditures/debits on reinvested earnings (whether negative or positive) should have an equal and opposite entry in the FDI financial transactions account, (under “inward FDI, reinvestment of earnings”). For details, see Annex 2.B.

3.4. Valuation of FDI financial transactions and transfer pricing

232. When a transaction in goods or services occurs between two enterprises, this transaction is to be recorded at market prices. *BPM7* defines market prices as “amounts of money that willing buyers pay to acquire something from willing sellers ... on commercial considerations only” – sometimes called at “arm’s length”.

233. Due to the nature of the relationship between enterprises related under the FDIR, the transaction value for a good or service between related enterprises may not always reflect market values. ‘Transfer

pricing' refers to this distortion between transaction values and market values. It can be motivated by income distribution or equity injections or withdrawals.

234. Identification of instances of transfer pricing and selection of the best market value equivalents to replace reported transaction values is an exercise calling for cautious and informed judgement. In most cases, sample surveys, contacts with enterprises and government agencies engaging in international transactions on a large scale, exchanges of information between compilers in partner countries, or similar statistical research will be necessary to provide the basis for such judgement. Adjustments for transfer pricing have implications for the data of the counterpart economy; therefore, it is useful to exchange information with compilers in counterpart economies (to the extent possible) to avoid asymmetries.

3.4.1. Hidden dividends

235. Where a DIE is over-invoiced on a good or service provided by the direct investor, the difference in payment between the market value and the invoice price is effectively a distribution by the DIE to the direct investor (a 'hidden dividend'). Distributed earnings and total earnings of the DIE should be adjusted upwards by the difference (in the balance of payments, this would be balanced by an adjustment to the value of trade in goods or services).

3.4.2. Hidden withdrawals of equity

236. Where a direct investor is under-invoiced on a good or service provided by the DIE, the difference in payment between the market value and the invoice price is effectively a return of assets by the DIE to the direct investor (goods) or a rundown of the assets of the DIE by the direct investor (services). This is a withdrawal of equity and equity transactions should be adjusted by the difference. In addition, the earnings of the DIE should be adjusted upwards by the same amount.

3.4.3. Hidden injections of equity

237. Where a DIE is under-invoiced on a good or service provided by the direct investor, or a direct investor is over-invoiced on a good or service provided by the DIE, the difference between the market value and the invoice price is effectively an injection of equity into the DIE by the direct investor. This injection takes the form of provision of additional assets (under-invoiced goods), improvement in the operational capacity (under-invoiced services) or cash (over-invoices). Equity transactions should be adjusted to remove the impact of the transfer pricing. Also, the earnings of the DIE should be adjusted downwards by the same amount.

238. While compilers are encouraged to make adjustments to remove the impact of transfer pricing when the distortion is significant and data are available to do so, the complexities involved to arrive at a consistent recording of the adjustments should be recognised. The availability of relevant information on the distortions in the observed exchange values mean that national accounts and international accounts often refrain from trying to approximate true market prices. Here, one can also add that the actually observed exchange values, which may be motivated by global tax avoidance or other reasons, also represent an economic reality of its own, albeit not one that is based on market prices and other commercial considerations.

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Annex 3.A. Reinvested earnings and reinvestment of earnings

Definition

239. In a relationship between a direct investor and a direct investment enterprise (DIE), the net current earnings of a DIE that are not distributed as dividends to the shareholders (or the equivalent in the case of quasi-corporate enterprises) are deemed distributed, as investment income, to the direct investor, proportionate to its (their) holdings of shares (or equivalent) in the DIE.⁹ As this is an imputed transaction, a counterpart imputation (of equal value, but opposite direction) is required in the financial account representing the reinvestment of the funds back into the DIE. The income imputation is referred to as reinvested earnings (RIE) (Annex Box 3.A.1), while the financial account entry is referred to as reinvestment of earnings, to differentiate it from the income transaction.

Annex Box 3.A.1. Reinvested earnings on direct investment

The income earned by the production of goods and services (operating revenue *minus* operating expenses and depreciation)

plus:

property income receivable¹ (including dividends or withdrawals from income of quasi-corporations, reinvested earnings, interest and similar returns, rent and other property income) and current transfers receivable

minus:

property income payable (including dividends payable to direct investor(s)),² current transfers payable,³ including current taxes payable on the income, wealth, etc., of the direct foreign investment enterprise, but excluding withholding taxes⁴ and taxes on holding gains.

times

the direct investor's share of the DIE's equity (or equivalent)

equals

reinvested earnings payable

Notes:

1. For a DIE, the property income receivable includes reinvested earnings from any DIE in which it is a direct investor.
2. Including branch profit remittances.
3. Capital transfers, e.g., investment grants received, should not be included.
4. Withholding taxes are deemed to be paid by the non-resident owner, not by the resident entity.

Source: Based on OECD (2009^[5]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

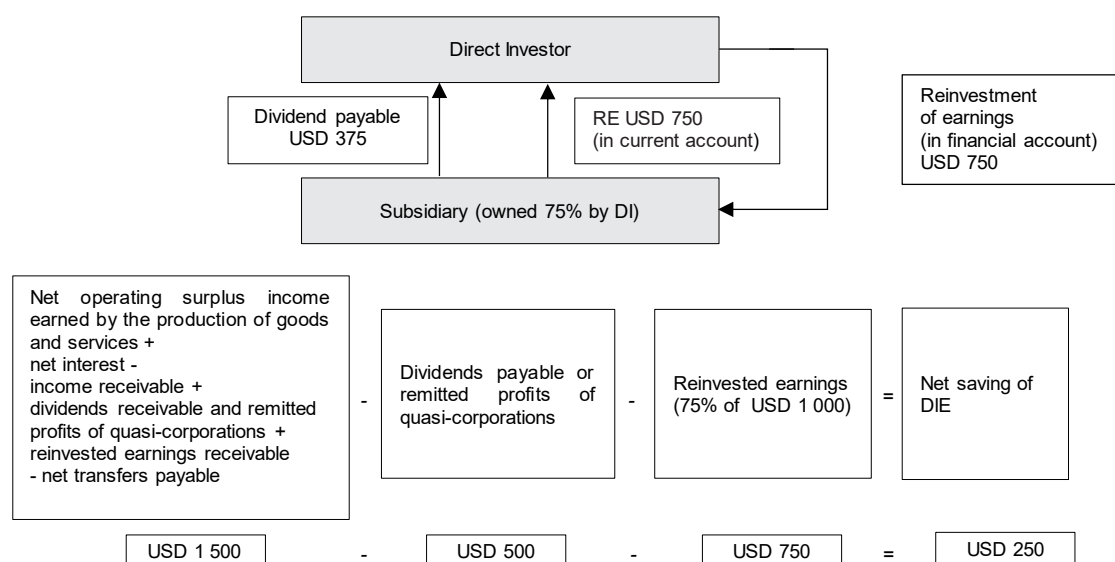
240. It should be noted that RIE (and reinvestment of earnings) can be both negative or positive in sign for both the direct investor and the DIE. Typically, RIE will be a debit/expenditure for income payable by

the DIE to the direct investor, and a credit/revenue for such income receivable by the direct investor (with the offsetting entries for reinvestment of earnings in the direct investment financial transactions account reflecting the opposite directions for these flows). However, if a DIE generates a loss from its current operations (that is, the sum of its operating surplus and its net property income is negative), or if it declares a dividend for more than it has earned in the reference period, a negative debit/expenditure should be recorded in the direct investment income account under RIE for the DIE (and, correspondingly, a negative credit/revenue for the direct investor). An offsetting negative entry should also be recorded in the direct investment financial transactions account (and also be reflected in the direct investment positions account) of the DIE's economy for the reinvestment of earnings; correspondingly, a positive entry for the same amount should appear in the same accounts of the direct investor's economy. These entries should be made for both the asset/liability and the directional presentations for both economies. Where a DIE is 100% owned by its direct investor(s), it will have no net saving of its own, but where there are shareholders not in a FDI relationship with the DIE (whether portfolio investors, if residents of economies other than that of the DIE, or other shareholders who are residents of the same economy of the DIE), the DIE will have savings of its own.

241. To illustrate the recommended treatment, take for example, a DIE that is 75% owned by a direct investor and the remaining 25% of the equity is held by small investors (resident or non-resident). If the profits (calculated as described) in a reference period are USD 1 500 and USD 500 in dividends are paid out to all investors, the direct investor's share of reinvested earnings is calculated as 75% of profits (i.e., direct investment income on equity amounts to $0.75 \times \text{USD } 1\,500 = \text{USD } 1\,125$) less 75% of dividends (i.e., $0.75 \times \text{USD } 500 = \text{USD } 375$), which equals USD 750. This is shown below in Annex Figure 3.A.1.

242. The savings of the DIE are therefore USD 250, i.e., $\text{USD } 1\,500 - \text{USD } 500 \text{ (dividends)} - \text{USD } 750 \text{ (reinvested earnings attributable to the direct investor)}$.

Annex Figure 3.A.1. Example of a DIE with 75% direct investor holdings



Source: OECD (2009^[5]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Components

243. The calculation of reinvested earnings begins with the entrepreneurial income of a corporation or quasi-corporation, which is equal to the income from the production of goods and services plus net interest income receivable plus dividends and distribution of profits of quasi-corporations receivable. Entrepreneurial income is used in the calculation of distributable income of the corporation, which is equal to entrepreneurial income plus net current transfers receivable minus the adjustment for the change in pension entitlements relating to the pension scheme of that corporation.¹⁰ Reinvested earnings are then calculated from this distributable income by subtracting dividends and withdrawals from income of quasi-corporations payable.

Income earned by the production of goods and services

244. It is recommended that this income be recorded on the same basis as in the national accounts, that is, all value added from the operations of the enterprise (that is, gross output less intermediate inputs) less consumption of fixed capital. Income from the production of goods and services does not include property income (receivable or payable) or any realised or unrealised holding gains or losses arising from valuation changes, exchange rate changes, write-offs, etc.

Net interest income receivable

245. Net interest income receivable is the difference between the accrual, during the current period, of interest receivable on all interest-bearing financial assets less the accrual, during the current period, of interest payable on all interest-bearing liabilities, regardless of whether any payments have been made. Included is all interest payable or receivable to/from direct investors and/or DIES.

Dividends and distribution of profits of quasi-corporations receivable and payable

246. Dividends are paid to a company's shareholders from its earnings and are recorded in FDI statistics as of the date they are declared payable. Dividends may be declared payable from current period operations, but they may also be financed from other sources, e.g., from reserves developed during a longer period or from capital sales or realised capital gains. However, if the dividend is from a capital sale or realised capital gain, it is recorded as a financial transaction (a reduction in equity) rather than as a dividend. Dividends may be declared payable even if the enterprise is losing money. For quasi-corporations, remitted profits are treated in the same manner.

Net current transfers receivable

247. Net current transfers are the difference between current transfers receivable and current transfers payable. They cover all items for which there is no quid pro quo of a current nature. Most common are corporate income taxes and other kinds of tax payable but withholding taxes and taxes on capital gains are not included. These are deemed payable by the shareholders.

Current operating performance concept

248. Direct investment income on equity as defined under the current operating performance concept (COPC) covers the sum of income earned on the production of goods and services plus net interest receivable plus dividend income receivable *plus* reinvested earnings receivable plus net current transfers receivable. It does not include any realised or unrealised holding gains or losses arising from valuation changes, exchange rate changes, write-offs, etc. See Section 3.3 for the full definition.

Accounting practices

249. Accounting practices vary across the world, so it is recommended that direct surveys of both DIES and direct investors be conducted to obtain the data on the appropriate conceptual basis, as set out in Annex Box 3.A.1. However, in some instances, it may not be possible to conduct direct surveys and recourse may have to be made to other sources of information, most notably, the annual reports of enterprises. However, in many cases annual reports do not include an aggregate that fully complies with the COPC, even though income for the year is calculated and published with a number of sub-components and sub-aggregates. Accordingly, it will be necessary for the compiler to make adjustments in order to express the published aggregates on a COPC basis.

250. If, for example, companies publish an aggregate of profit/loss after financial items, the link to the COPC will be as shown in Annex Box 3.A.2.

Annex Box 3.A.2. Profit/loss after financial items

Profit/loss after financial items¹

plus share of profits of associates (proportionate to holdings of shares on issue)²

minus realised capital gains

minus unrealised capital gains

plus realised capital losses

plus unrealised capital losses

minus realised exchange rate gains

minus unrealised exchange rate gains

plus realised exchange rate losses

plus unrealised exchange rate losses

plus write-down/write-offs (excluding consumption of fixed capital as a charge has already been made for this in the calculation of “net profit/loss after financial items”)

minus any extraordinary or exceptional income included in profit/loss after financial items and not included in the adjustments above

plus any extraordinary or exceptional expense included in profit/loss after financial items and not included in the adjustments above

minus net interest receivable on financial derivative contracts³

plus net interest payable on financial derivative contracts³

minus current taxes on profit for the period (excluding withholding taxes and taxes on holding gains)

= income for the period, using the COPC

Notes:

1. This item is obtainable from company accounts and normally represents, for the reference period, all revenue arising from trading activity including revenue from extraordinary and exceptional items as well as relevant capital or currency exchange gains/losses and interest or other income receivable from financial assets; less associated expenses arising from such trading activity including extraordinary and exceptional expenses as well as any interest payable or other expenses on loans or other debt. It is calculated before deduction of any taxes.
2. It is assumed that the profit/loss of controlled enterprises has already been included in the profit/loss after financial items. If this is not the case, it should be included in this line.
3. In compiling FDI income, net interest receivable and payable on financial derivative contracts are not treated as income. This is in line with the balance of payments and national accounts recording of income. The treatment here is to remove them from the books of those enterprise accounts that treat them as if they were income.

Source: OECD (2009^[5]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

251. If there is no sub-aggregate available, the calculations may have to be made from the total profit published (the so-called “all-inclusive”), which adds some more variables as in Annex Box 3.A.3.

Annex Box 3.A.3. Net profit/loss for the year

Net profit/loss for the year

minus realised capital gains

minus unrealised capital gains

plus realised capital losses

plus unrealised capital losses

minus realised exchange rate gains

minus unrealised exchange rate gains

plus realised exchange rate losses

plus unrealised exchange rate losses

plus write-downs/write offs (excluding consumption of fixed capital as a charge has already been made for this in the calculation of “net profit/loss”)

minus certain non-recurring income,

plus certain non-recurring expenses,

minus other current taxes (excluding withholding taxes and taxes on holding gains)

= income for the period, using the COPC

Source: Based on OECD (2009^[5]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Recording in FDI statistics

252. In principle, income on direct investment is recorded at the time it is earned.¹¹ However, actual data for the calculation of income are often only available on an annual basis, with a considerable time lag; in the meantime, it is necessary to provide estimates of the net disposable income (equivalent to COPC earnings) for the current period, often on a quarterly basis. In that case, information should be sought directly from the DIEs and the direct investors resident in the economy, from which indicators may be developed to calculate dividends payable and reinvested earnings. These indicators might include estimates of gross and net value added, net income receivable, and net current taxes. In addition, an indication from past practice of dividend payments might also be used – companies often maintain the same dividend payments, regardless of the underlying earnings of the enterprise, for many years. But as both dividends and reinvested earnings are components of income, approximating the totality of dividends and reinvested earnings is more important than approximating the components. While preliminary and subject to revision, this approach is preferable to merely extending the data for past year(s) to the current period (and dividing by four to provide quarterly estimates), until the information is available from the respondents’ complete annual reports and/or tax returns.

Consolidation

253. In line with the framework for direct investment relationships (FDIR) (see Annex 2.A), the RIE of each enterprise down the ownership chain should be attributed to each of the direct investors up the chain. Accordingly, if A (Level 1) is owned 100% by B (Level 2), B is owned 50.01% by C (Level 3), and C is 40% owned by D (Level 4), then A's RIE represent part of the net investment income of B, and, as a result, they are part of the sources of revenue that form part of the RIE that are deemed distributed to C by B, and then as part of C's RIE that are deemed distributed to D (Annex Table 3.A.1). Where ownership is less than 100%, the proportional ownership should be applied, even when there is more than one direct investor. This principle applies whether A, B, and C are each in separate economies from D, or are in the same economy, but separate from D.

Annex Table 3.A.1. Calculation of reinvested earnings along an ownership chain

	Level 1	Level 2	Level 3	Level 4
	A	B	C	D
Ownership by next level	100 %	50.01 %	40 %	
Income earned on the production of goods and services	200	250	300	350
<i>Minus Corporate taxes payable</i>	-50	-60	-70	-90
<i>Plus Dividends receivable from DIE</i>	0	+50	+60	+100
<i>Minus Dividends payable to all shareholders</i>	-50	-120	-250	0
<i>Plus Reinvested earnings receivable from DIE</i>	0	+100	+110	+60
<i>Minus Reinvested earnings payable to direct investor</i>	-100	-110	-60	0
Equals Net saving	0	110	90	420
In direct investment transactions and positions account				
Direct investment liabilities: reinvestment of earnings	+100	+110	+60	0
Direct investment assets: reinvestment of earnings	0	-100	-110	-60

Note: All values are in USD. The offsetting reinvestment of earnings entries in the direct investment transactions and positions accounts should be reflected in both the asset/liability and directional presentations.

Source: OECD (2009^[5]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

254. In the situation where enterprise C owns 50% or less of B, then enterprises A and B are not in a direct investment relationship with enterprise D under the FDIR. As enterprise D is not considered to have significant influence over enterprise B, enterprise D cannot be considered to have significant influence over the earnings distribution and savings decisions of enterprise B. As a result, the reinvested earnings that accrue to enterprise C from enterprise B are not considered part of enterprise C's current operating profit that accrues to enterprise D. The calculation in Annex Table 3.A.1 would show USD 16 in reinvested earnings accruing to enterprise D from enterprise C (rather than USD 60, calculated as $0.4 \times (300 - 70 + 60 - 250 + 110)$) with USD 16 being reinvested by enterprise D in enterprise C (this is calculated as $0.4 \times (300 - 70 + 60 - 250) = 16$).

255. Normally, when companies perform elimination of group transactions, they use data on the total profits, including holding gains and losses, foreign exchange gains and losses, write-offs and write-downs, and dividends. It is, therefore, imperative that clear instructions be provided to respondents to enable them to report on the required basis.

Notes

¹ Operation of law would cover transactions like the payments of taxes or purchases of licenses.

² The recording of the liquidation of a direct investment enterprise will be more fully described in Chapter 5 where the distinction between transactions and other changes in volume will be delineated.

³ The recommendation that no transactions be recorded in the balance of payments when a resident DIE is sold and purchased between non-residents follows the application of the transactor principle as recommended in the *2008 SNA* and *BPM6*. While no change in this principle was made for the *2025 SNA* and *BPM7*, the need for clarification has become particularly important in the context of from-whom-to-whom matrices, which have emerged as a key analytical element in macroeconomic analysis. As such, more research into the transactor versus the debtor-creditor principle needs to be conducted to explore the options and to arrive at guidance that balances conceptual and practical considerations. Therefore, this issue has been placed on the joint *SNA* and *BPM* research agenda.

⁴ The standard amortisation of intangible assets is, however, included as an expense under the COPC.

⁵ As opposed to the treatment following IAS 38, in the National Accounts the costs of both the research and development phases should be capitalised.

⁶ Distributed earnings follow the complete chain of ownership. If the distributed earnings from direct investment enterprise (DIE) A to B are the proceeds from the sale of an asset, and thus, recorded as a withdrawal of equity, then it should also be recorded as a withdrawal of equity when the proceeds are distributed from DIE B to direct investor C. However, in practice it may be difficult for compilers to identify distributions representing proceeds from the sales of assets further down the chain.

⁷ In practice, compilers are confronted with a time mismatch, as dividends distributed in period *t* (and therefore reported when announced, i.e., in period *t*) are usually related to earnings generated in *t*-1. In the standard case, earnings from the past business year can only be distributed once the shareholders' meeting has taken place, the accounts have been approved, and the use of the recent earnings has been decided upon. All this does not occur until the following year, hence period *t*. In the absence of additional information, it is accepted as a general practice to calculate reinvested earnings by deducting from the current earnings the dividends announced and paid in the reference period of the calculation.

⁸ Accrual accounting records flows at the time economic value is created, transformed, exchanged, transferred or extinguished. This means that flows that imply a change of economic ownership are entered when ownership passes and services are recorded when provided. In other words, the effects of economic events are recorded in the period in which they occur, irrespective of whether cash was received or paid or was due to be received or paid (*2025 SNA, Chapter 4*).

⁹ That is, shares on issue for an incorporated enterprise, or the equivalent for an unincorporated enterprise. Where the shares issued (or equivalent) differ from voting power, the same principle for the distribution of

dividends should be used. For the most part, it is the direct investor's percentage holding of shares on issue (or equivalent) that determines the ratio under which reinvested earnings are deemed distributed, not the level of voting power.

¹⁰ Adjustments for the change in pension entitlements relating to the pension scheme of that corporation is included in the calculation of distributable income of corporations in the national accounts. As employers' social contributions are made for the benefit of their employees, their value is recorded as one of the components of remuneration of employees together with wages and salaries in cash and in kind and, therefore, the actual contributions of the corporation and quasi-corporation will be reflected in the operating expenses reported by companies. In the case of defined contribution employer pension schemes, the actual amounts payable by employers reflect the amount of the social contribution, and no adjustment is needed. For defined benefit pension schemes, including unfunded pension schemes, the amount of employers' social contributions should be determined on the basis of actuarial calculations that yield contributions required to secure the de facto entitlements to the social benefits; this amount may differ from the actual contribution of the company and, so, needs to be adjusted. Therefore, the need for this adjustment depends on the type of pension scheme, and its size depends on the actuarial calculations. For practical reasons, the *Benchmark Definition* does not recommend including any adjustments for pension entitlements in the calculation of FDI income.

¹¹ The recording is identical in the balance of payments.

4

FDI positions

FDI positions are the value of FDI assets and liabilities at a specific point in time. FDI equity positions cover all components of shareholders' funds. The equity position in a directly held direct investment enterprise should reflect the equity held down the ownership chain. The conceptually correct valuation of FDI equity positions is market value. However, because so much equity in direct investment is unlisted, it is necessary for compilers to estimate the market value; there are three preferred methods to estimate the market value of unlisted equity: recent transaction price, own funds at book value, and the market capitalisation method, FDI debt positions include payables and receivables between enterprises in a direct investment relationship arising from loans, deposits, debt securities, suppliers' (trade) credit, financial leases, and non-participating preference (preferred) shares. Nominal values are used as a proxy for market value for all debt positions other than debt securities.

4.1. Introduction

256. This chapter describes the direct investment position account. It covers the breakdown of foreign direct investment (FDI) positions between equity and debt. This is followed by a discussion of issues around the valuation of FDI equity. Because much of the equity in FDI is unlisted, there is not a readily available market value; in such cases, compilers must estimate the market value. Different methods to estimate the market value are briefly discussed in this chapter. Finally, some issues with basing the valuation on financial accounting data are described.

4.2. FDI positions

257. FDI positions are the levels of FDI assets and liabilities at a particular point in time.¹ FDI positions are disaggregated into equity and debt instruments; the accumulation of reinvestment of earnings (or the closing balance of retained earnings in proportion to the equity held) is not recorded separately in positions data as it is included in the overall calculation of “equity” when recorded at market value.

4.2.1. Equity positions

258. Equity positions cover all components of shareholders’ funds (proportionate to the percentage of shares held). They, therefore, include equity, contributed surplus, reinvestment of earnings, revaluations, as well as any reserve accounts. Reinvested earnings/reinvestment of earnings apply only between a direct investment enterprise (DIE) and its immediate direct investor. Reinvestment of earnings is not recorded for either reverse investment or for investment between fellow enterprises where neither party holds 10% or more of the voting power in the other. The reason for not imputing reinvested earnings/reinvestment of earnings in these cases is that, as these parties do not have at least 10% of voting power in the other, none of them can exert influence over the earnings distribution policy of the enterprise.²

259. As noted earlier, equity positions may arise from reverse investment that occurs when a DIE acquires an equity claim on its direct investor without holding 10% or more of the voting power. In addition, as stated above, equity assets and liabilities arising from reverse investment consist solely of equity capital, i.e., reinvestment of earnings is excluded when the level of the equity investment is less than 10% of the voting securities of the direct investor. This exclusion would apply only if equity investment is recorded at book value. Since the *Benchmark Definition* recommends market value as the valuation of FDI positions, in principle this differentiation does not apply.³

260. In instances where a DIE, holding less than 10% of the voting power in its direct investor, increases that voting power to 10% or more, the DIE becomes, in its own right, a direct investor and a separate direct investment relationship is established with its direct investor. Similarly, when a fellow enterprise, holding less than 10% of the voting power in a non-resident fellow enterprise, increases that voting power to 10% or more, the acquiring enterprise becomes a direct investor in the foreign affiliate. How these transactions and the related changes in FDI positions are to be recorded is discussed further in Chapter 5.

261. It should therefore be emphasised that where a resident DIE acquires a 10% or more voting power interest in its direct investor or in a fellow enterprise resident in a different economy, it is not treated as reverse (equity) investment in the first case but rather as a direct investment asset in both cases, as the threshold of 10% of voting power has been reached to create a direct investor. Similarly, where a FDI enterprise holds 10% or more of the voting power of the resident direct investor, or in fellow enterprises resident in different economies than itself, the investment should be recorded as direct investment liabilities by the economies receiving the investment, as, by reaching 10% of the voting power in the resident enterprise, the non-resident enterprise itself becomes a direct investor.

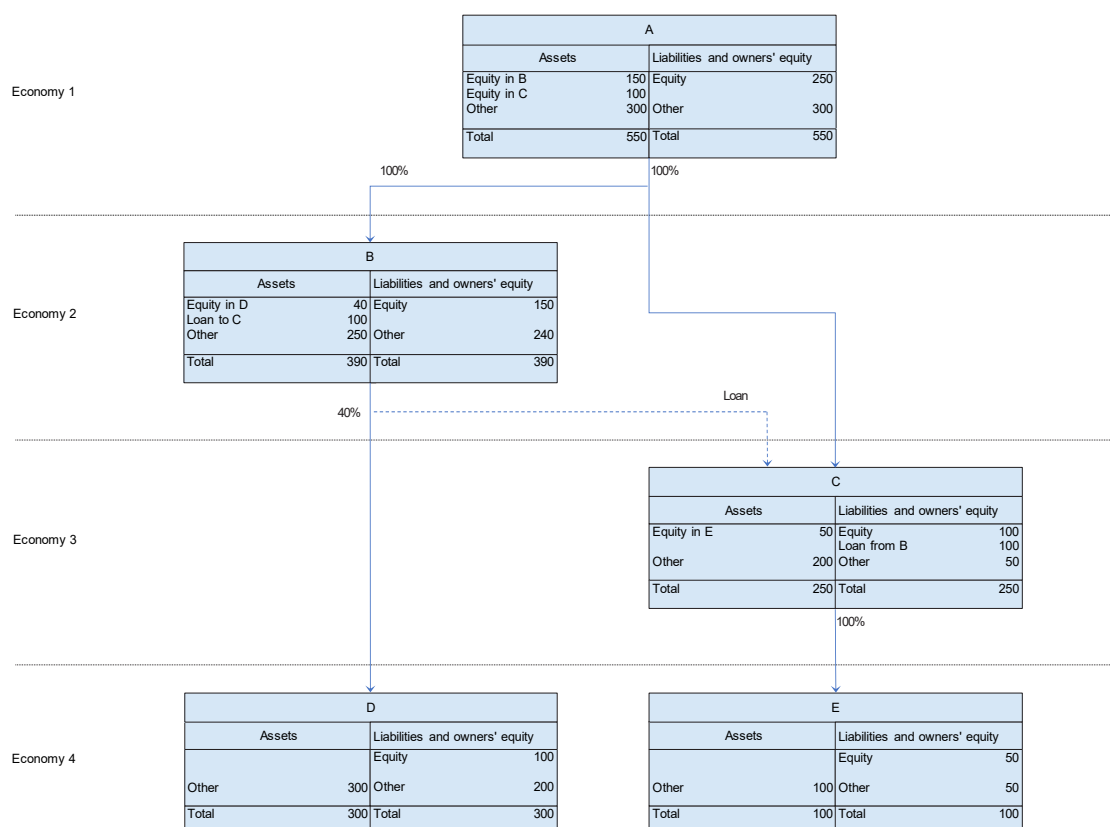
4.2.2. Debt instruments positions

262. Inter-company accounts should be separately recorded for assets and liabilities. Debt positions include payables and receivables between enterprises in a direct investment relationship arising from loans, deposits, debt securities, suppliers' (trade) credit, financial leases, and non-participating preference (preferred) shares.⁴ However, debt positions between FDI-related financial intermediaries (such as commercial banks, savings institutions, credit unions, mutual funds or finance companies) are excluded from direct investment (though this exclusion does not apply if one of the parties is a holding company). The reason for this is that they are taken to represent "normal banking-type business", so that their very nature is quite different from that of other DIEs. Consequently, it is felt that the inclusion of debt instruments between such related financial intermediaries would produce misleading results.

4.2.3. Positions along a chain of related direct investment enterprises

263. As discussed in Section 2.4.3 on the framework for direct investment relationships (FDIR), many direct investors own their DIEs through complex ownership chains. The equity position in a directly held DIE should reflect the equity held down the ownership chain. Figure 4.1 presents a simple multinational enterprise (MNE) structure consisting of five different enterprises in four different economies; A (in Economy 1) is the ultimate controlling parent (UCP), and it owns B and C directly and D and E indirectly. For each entity in each economy, the figure shows an abridged balance sheet consisting of total assets (with the equity investment in foreign affiliates broken out), total liabilities and owners' equity. The figure also shows the ownership chains and the percentage of ownership.

Figure 4.1. Pass-through funds in a simple example of an MNE ownership structure



Note: All values are in USD.

264. Table 4.1 shows the inward and outward FDI positions that would be recorded under the directional principle by the immediate partner economy. While Economy 1 would only record outward FDI positions with economies 2 and 3, the DIES B and C would reflect the equity they hold in economy 4 (in DIES D and E). Under the directional principle, the loan between fellow enterprises B and C is treated as a reduction in inward investment in B as the funds that flowed into economy 2 from the fellow enterprises' common direct investor (enterprise A) have flowed to another economy (economy 3). This loan does not give B any influence over the operations of C, and, so, should not be recorded as an outward investment. However, because it is recorded against the immediate partner economy, it does lead to an asymmetry in the bilateral inward and outward FDI positions reported by the two countries.

265. These complex ownership chains pose difficulties for both compilation and interpretability of FDI statistics and will be discussed further in Chapter 6 and Annex 6.D on pass-through funds.

Table 4.1. Inward and outward FDI positions under the directional principle

Partner economy	Reporting economy							
	Economy 1		Economy 2		Economy 3		Economy 4	
	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward
1	0	0	0	150	0	100	0	0
2	150	0	0	0	0	100	0	40
3	100	0	0	-100	0	0	0	50
4	0	0	40	0	50	0	0	0

Note: All values are in USD.

4.2.4. FDI positions according to the asset/liability and the directional principles

266. Just as for FDI financial transactions and income, FDI positions can be recorded according to either the asset/liability or directional presentation. Under the asset/liability presentation, direct investment positions should be shown separately for assets and for liabilities. The presentation of outward foreign direct investment positions is different to that of foreign direct investment assets, and the presentation for inward foreign direct investment positions is different to that for foreign direct investment liabilities. These differences essentially involve transposing reverse positions and positions between fellow enterprises in the two presentations so that the directional presentation shows results from the perspective of the home economy of the parent company (see Annex 2.B). FDI asset positions under the asset/liability principle are (generally) greater than FDI outward positions calculated according to the directional principle. In the same manner, FDI liability positions under the asset/liability principle are (generally) greater than the FDI inward positions calculated according to the directional principle.

4.3. Valuation of foreign direct investment positions

4.3.1. Valuation of FDI equity positions

267. As discussed in Section 2.5.2, market prices are the appropriate principle for valuation of position data. However, there may be no observable market prices for positions in equity not listed on stock exchanges. Therefore, compilers must estimate market values in these cases.

268. The methodological guidance for the valuation of direct investment in the *Benchmark Definition* reflects the synthesis of three fundamental goals:

1. to use market value as the preferred conceptual basis for measuring all positions and transactions

2. to provide practical guidance to enable compilers to implement the recommendations in ways that are not unduly burdensome or costly
3. to facilitate the compilation of statistics that are comparable across economies.

269. Market valuation places all assets at current prices rather than when last purchased or re-valued and promotes consistency in the value of assets of different vintages. It also promotes consistency when comparing positions, transactions and other flows of different enterprises, industries, and economies. However, it is accepted that sometimes compromises may have to be made between pure concepts and other goals such as those of practicality and comparability.

270. Although market value is the recommended basis for valuation, it is recognised that, in practice, values based on the books of DIEs (or investors) are often used to determine the values of direct investment positions. This is because enterprise balance sheet values – whether they are regularly re-valued on a current value basis, reported on a historical cost basis, or reported on some other basis – may represent the only source of information on valuation available in many economies, particularly for unlisted shares. However, the collection of data from enterprises on a current market value basis is strongly encouraged whenever feasible.

271. When valuing equity positions, a distinction is made between the valuation of listed equity and unlisted equity. This is because listing on an organised stock market provides a good basis for calculating the market value of equity, while, in many cases, an approximation will be necessary for unlisted equity. In either case, if there has been a material change in the financial position of an enterprise since the date to which the valuation applies (up to and including the reference date), an adjustment may have to be made. Examples of such material events may include an unexpected decision in a lawsuit, credit downgrade or upgrade, major new invention or mineral discovery, or bankruptcy.

272. Although some methods are not recommended as endpoints in valuing direct investment equity for the main accounts, they may nonetheless serve as appropriate starting points. Indeed, such methods may serve as the only basis upon which information can be collected from direct investors and DIEs.

273. For economies that begin their valuation process via the collection of book value⁵ information, the books of the DIE should serve as the starting point. The books of the DIE are usually more comprehensive than those of the direct investor. This is because, under tax and financial accounting rules followed by most economies, the books of the DIE will typically reflect current period earnings, from which retained earnings can be readily derived. Availability of DIE accounting data, therefore, facilitates the compilation of inward direct investment. In contrast, the books of direct investors may not reflect the current period earnings of their DIEs; particularly in the case where these DIEs are not majority owned (this investment is sometimes carried at cost on the investor's books). Such shortcomings can have an adverse impact on the compilation of outward direct investment.

274. The discussion on the valuation of direct investment equity positions focuses on methods that may be used to value quoted shares, unquoted shares, and equity in unincorporated enterprises (including joint ventures and branches) at market values.

Listed (or quoted) shares

275. Listed (or quoted) shares are equity securities that are listed on an organised stock exchange. Their values can, therefore, be determined by multiplying the number of shares held by the direct investor(s) by the most recent bid/ask prices or at the price at which the shares were last traded. In this manner, a market price value of the holdings of the shares held by the direct investor(s) – and thus the value of the share liability of the DIE to its direct investor(s) – can be determined. Usually, the equity securities of only a relatively small proportion of DIEs are publicly traded on organised stock exchanges because most DIEs are either 100% owned by the direct investor or are held by a small group of investors.

276. Compilers should estimate the market value of listed DIES by using the mid-point between the most recent bid and ask prices, or by using the prices at which the quoted shares were last traded on the stock exchange relative to the reference period. The use of actual market prices guarantees that each share in a given company is valued at the same price, regardless of the extent of the ownership of shares by the direct investor.

Unlisted (or unquoted) shares

277. Unlisted (or unquoted) shares represent equity not listed on an organised or public stock exchange. By their nature, a market valuation estimate is not regularly available for unlisted equity and an approximation to the market value is required to measure direct investment. Several methods, three of which are preferred, to proxy market value are acceptable and are discussed in detail in Annex 4.A.

278. In practice, the choice of the method to be used by a compiler will depend on four factors:

1. the type of information available on which to base an approximation
2. how well the method approximates market value
3. the need to allow for comparability across economies and for symmetrical recording by creditors and debtors
4. practicality of implementation.

279. In most cases, these arguments are also applicable to the valuation of equity in unincorporated DIES. To assist users, compilers should state clearly the method(s) they employ in compiling their FDI statistics at the aggregate level.

280. While flexibility in valuing unquoted equity is recommended, the *Benchmark Definition* follows the *2025 System of National Accounts (2025 SNA)*, (United Nations et al., Forthcoming^[1]) and the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, (IMF, Forthcoming^[2]), *Chapter 7, Section B.1, paragraphs 7.15–7.17*), in recommending three preferred methods to approximate the market value of unlisted equity positions; these methods are most widely used in practice. The goal of identifying preferred methods is to enhance international comparability and to reduce bilateral asymmetries resulting from differences in national practices for valuing unlisted equity. These preferred methods are:

- recent transaction price
- own funds at book value
- market capitalisation.

The above three preferred methods, as well as additional methods, though not preferred, to estimate market value (i.e., net asset value, price to earnings ratio, and apportioning global value) are described in Annex 4.A. In addition, Annex 4.A includes a decision tree to help clarify for compilers the methods available for the valuation of unlisted equity given the information available to them.

281. There are other valuation methods not recommended by this *Benchmark Definition* even though they may be the only methods available to compilers due to the sources of information accessible to them. They could only serve as a starting point to collect FDI equity data and are not recommended as a proxy to market value. These are the following:

- historic or acquisition cost
- accumulation of foreign direct investment equity capital transactions
- stock market price index applied to accumulated direct investment equity capital flows
- book value.

These methods are also briefly described in Annex 4.A.

Equity in unincorporated enterprises (including branches)

282. As noted, the above discussion of unlisted shares is also applicable to the equity in unincorporated DIEs (including branches, unincorporated joint ventures, and limited liability partnerships). Equity in quasi-corporations should be valued as equal to the market value of the quasi-corporations' assets less the market value of liabilities other than equity to both residents and non-residents (this method would mean that quasi-corporations have no residual net worth). Alternatively, equity in quasi-corporations may be valued using one of the three preferred methods discussed above. Compilers should clearly state in their methodologies what major assumptions and methods they apply in developing estimates of direct investment equity positions.

Reconciling financial and economic accounting valuations of equity

283. In practice, own funds at book value (OFBV) is the most widely used method to value unlisted equity in direct investment. In addition, it is often the base for the market capitalisation method. OFBV values the enterprise at the value appearing in the books of the DIE according to international accounting standards (IAS). The reliance on financial accounting can lead to issues in the compilation and interpretation of equity positions.

284. One issue, as discussed in FDI income (Section 3.3), is the treatment of loan loss provisions. In macroeconomic accounting, loan loss provisions are not treated as liabilities and because they are not subject to the sort of (legal) contract associated with a liability (*BPM7, Chapter 7, Section E.1, paragraph 7.54*). Even though provisions more generally may be earmarked for specific purposes, the amounts designated as provisions remain part of the net worth of the corporation (*2025 SNA, Chapter 14*), and, therefore, the provisions remain in the equity value of the corporation. In corporate accounting, the provision is recorded as a liability in the balance sheet and the counterpart is recorded as an expense in the profit and loss account, both identified as provisions and possibly with a description of the nature of the underlying transaction. In the financial sector, provisions may not be recorded as a liability but as a reduction of the corresponding asset and covered by a loss, implying a reduction of the equity capital. Under some financial accounting standards, such as international financial reporting standard (IFRS) 9, provisions may impact the valuation of the enterprise. While OFBV is mostly calculated as the sum of items such as paid-up capital, all types of reserves, and the value of undistributed profits, provisions are not directly included in this sum; however, recognition of any provisions, including for loan losses (at least for non-financial corporations) may lead to changes in some of these items through the profit and loss statement. For the financial corporations, especially banks, the OFBV valuation is also impacted due to the reduction in equity capital due to the different accounting approaches.

285. Despite the possibility that changes in provisions could impact the OFBV valuation of the enterprise, this *Benchmark Definition* recommends that compilers do not make any adjustments to the OFBV valuation for the treatment of provisions. This recommendation is completely consistent with the method that calls for using the values appearing in the books of the DIE under IAS. Rather, the impact of changes in provisions would be reflected in revaluations. This is consistent with the valuation of unlisted equity which, for example, recommends calculating the value of the equity in quasi-corporations as the balance of assets less liabilities and, thus, calculating the holding gains as the sum of holding gains on assets less the holding gains on liabilities. This recommendation also helps to preserve one of the advantages of the OFBV valuation—that it is thought to minimise bilateral asymmetries because compilers in counterpart economies use the same information to value unlisted equity; the introduction of adjustments could possibly introduce asymmetries due to compilers in different economies using different adjustments. Finally, it must be noted that this issue is not widespread across industries but more pronounced in some industries, such as financial intermediaries.

286. For many types of special purpose entities (SPEs), it would be expected that the value of their assets and liabilities should balance out.⁶ However, when applying OFBV method, this is not always the case because the SPE's assets are valued according to the accounting standards of the economy of residence of the affiliates it holds while the SPE's liabilities are valued using the books of the SPE itself. Hence, the values of the SPE's assets and liabilities are different while they should, in theory, be equal. These differing valuations will have an impact on the economy's net international investment position while it would be expected that the impact of hosting SPEs would be neutral for the economy's net international investment position. Therefore, to align the value of the SPE's assets and liabilities from the compilers' perspective in an economy hosting SPEs, either the SPE's liabilities should be valued using the value of the SPE's assets or the SPE's assets should be valued using the SPE's liabilities. However, this can lead to bilateral asymmetries between the economy hosting the SPE and the economy of residence of the direct investor of the SPE. Therefore, adjustments to the valuation of SPEs should be shared with compilers in counterpart economies to the extent possible under confidentiality and resource constraints to mitigate bilateral asymmetries.

287. OFBV can result in negative equity positions, which simply means that the enterprise's liabilities exceed its assets. This can result from the nature of financial accounting, which values assets conservatively and omits certain types of intangible assets, such as brands, that can contribute greatly to the valuation of an enterprise. Negative equity can also result from the financing decisions of the direct investors, such as a preference for debt financing over equity financing for a particular DIE, or strategic decisions, such as the decision to maintain an unprofitable affiliate to gain market share or facilitate transfer pricing. Negative equity is clearly reasonable and should be recorded in the case of unlimited liability entities because the owner can be held legally responsible for the debts of their DIEs.

288. In the case of limited liability enterprises, if negative equity is reported, it should be recorded as the default. The only exception is for cases where the compiler knows that the direct investor's liability is strictly limited. This recognises that there are cases in direct investment where the direct investor would be expected to pay the debts of its DIE. This includes when the direct investor has a formal responsibility to cover the debts of its DIE due to legal obligations, bilateral arrangements with the authorities, or following decisions of the tax authorities. It is also recognised that when the negative equity results from loans provided by the direct investor, it makes sense to record negative equity (up to the amount of loans provided by shareholders) when the shareholders would be subject to loan losses in case of bankruptcy. Finally, it is recognised that the direct investor may assume the liabilities of its DIE for reputational reasons; for example, a direct investor may cover the debt obligations of its DIE to avoid paying higher borrowing costs in the future (*BPM7, Chapter 7, Section B.1, Box 7.1*). To provide operational guidance for compilers to determine when reputational risk exists, the statistical manuals generally assume that significant reputational risks exist when a shareholder's ownership share is at least 10%; that is, all direct investors are assumed to face reputational risks.

4.3.2. Debt instruments positions

289. While the basic principle is that the market value of debt should be used, international standards recommend the use of nominal values as a proxy for market value for all debt positions other than debt securities for pragmatic reasons.⁷ The use of nominal values in valuing direct investment loans is consistent with international standards for valuation of loans with parties related under the FDIR. The *Benchmark Definition* recommends that the values of all debt outstanding be inclusive of accrued interest, with foreign currency debt converted to the national currency using the rate of exchange (mid-point of the buy and sell rates) at the close of business on the reference date. The use of nominal values is partly influenced by pragmatic concerns about data availability and the need to maintain symmetry between debtors and creditors. In addition, because loans are not intended to be negotiable and do not have an active market, a market price can be somewhat subjective. Nominal value is also useful because it shows actual legal liability and the starting point of creditor recovery behaviour. In some instances, loans may

also be traded, often at discount, or a fair value may exist or would be possible to estimate. It is recognised that nominal value provides an incomplete view of the financial position, particularly when the loans are impaired. Therefore, supplementary information on the fair value of the claims in loans is useful if it is available.

References

IMF (Forthcoming), *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, International Monetary Fund, Washington D.C. [2]

United Nations et al. (Forthcoming), *2025 System of National Accounts*, United Nations et al., New York. [1]

Annex 4.A. Valuation of unlisted equity

Overview

290. The underlying principle for the valuation of equity is the market value of that equity. Listing in an organised stock exchange market provides a good basis for valuing listed equity. However, it can be more difficult to determine a market value for unlisted equity and illiquid listed equity. In any case, if there has been a material change in an enterprise's financial position since the date to which the valuation applies (but before the reference date), an adjustment may need to be made. Examples of such material events include an unexpected decision in a lawsuit, credit downgrade or upgrade, major new invention or mineral find, or bankruptcy.

291. This manual recognises three preferred methods for approximating market value for unlisted equity:

- recent transaction price
- own funds at book value (OFBV)
- market capitalisation method.

The reason for identifying preferred methods is to mitigate bilateral asymmetries arising solely from the use of different valuation methods by compilers in different economies.

292. The choice of the method depends primarily on having sufficient information available to apply the method but also how well the method approximates market value, that it results in comparable estimates between counterpart economies and simplicity in application. In choosing a method, compilers need to consider the trade-offs between methods that might mitigate asymmetries, like OFBV, and those that might produce a better approximation to market value, like the market capitalisation method. In practice, one or more of these methods could be ruled out because of a lack of information available to apply them. Among the methods that could be implemented, the primary consideration should be how well the method approximates market value. A further consideration is the stringency of the requirement for symmetric recording by debtors and creditors.

293. Each method is described in more detail in the section below, giving information on what is needed to apply the method and caveats on its use. This is followed by a section describing other methods that can produce good approximations of market value but that are not among those identified as preferred because they tend to be used less often due to the type of information required. Next, methods that are specifically not recommended in this *Benchmark Definition* are described. Finally, a decision tree to help compilers determine the methods available to value unlisted equity is presented.

Preferred methods recommended by the *Benchmark Definition*

Recent transaction price

294. Unlisted equity may trade from time to time, and recent prices at which the equity exchanged hands may be used. The transaction price must represent an “arm's length” price between an independent buyer and seller, where neither party is under compulsion or duress to engage in the transaction. More recent transactions are preferable, and it is desirable that the transaction should have occurred within the

past year. If the most recent transaction is more than one year old, compilers may wish to consider an alternative method.

- Usage: a recent, arm's length transaction price is required.
- Caveats: not often available due to the low frequency of trades in unlisted equity. When a transaction price has been used in the past to value the equity, but the information is becoming dated, a strategy is required to splice the valuation with a valuation calculated from another method.

Own funds at book value

295. OFBV involves valuing an enterprise at the value appearing in its books following international accounting standards (IAS). OFBV is based on the books of the direct investment enterprise (DIE) and can be seen on its balance sheet as shareholder's equity. The definition of OFBV contains paid-up capital, all types of reserves and net value of non-distributed profits and losses (including results for the current year). IAS require most assets to be revalued, at least, on an annual basis. A capitalisation ratio may be calculated and applied (with or without liquidity adjustments) if sufficient information is available (see Section "Market capitalisation method" below).

296. In some cases, the books of the DIE are recorded according to a national generally accepted accounting principles (GAAP) rather than the IAS. If the national GAAP used is closely aligned with the IAS regarding the valuation of enterprises, then these valuations should be close to the OFBV valuation based on the IAS.

- Usage: this method may be used where books are kept on the basis of IAS (or a national GAAP closely aligned with IAS regarding the valuation of enterprises), and access is available to the books of the DIE.
- Caveats: IAS prohibit the recognition of certain intangible assets (e.g., brands, mastheads, publishing titles, customer lists). Goodwill can only be bought; it cannot be internally generated. Moreover, intangible assets that are booked on the balance sheet may be recorded at historical costs, which may be far from a fair representation of their current market value. Assets in some asset classes (loans, assets held to maturity and non-trading liabilities) may be valued at nominal or historic cost. These will all cause distortion from the market valuation.

297. The issues with intangible assets could be even greater under some national GAAP that could diverge from the IAS in recognising intangible assets and for some types of companies, such as start-ups that are undertaking research and development (R&D) but may not yet have sales. In addition, the valuation of real estate under some national GAAP may not represent its market value if it requires more conservative valuation methods than IAS.

298. To address the shortcoming of the OFBV with regards to certain types of intangible assets and real estate, an item on the development of an enhanced OFBV method that would adjust OFBV with market estimates of intangible assets and real estate when available has been added to the research agenda (Annex D). In addition, application of a well-based market capitalisation ratio (discussed next) may dampen the impact of the caveats of the OFBV method.

Market capitalisation method (price to book ratio)

299. This method proposes the use of a capitalisation ratio as the ratio of the stock exchange market capitalisation to "own funds at book value" calculated for the same set of listed companies; it is recommended to calculate market capitalisation ratios by industry groups because the ratios likely vary systematically across different industries. In constructing the capitalisation ratio under this method, stock market data for an individual country may be used when the stock market in that country is broad and the trading volume is relatively high; broad regional indices should be used when these circumstances do not

exist. The estimate of market values of direct investment equity in unlisted companies is calculated by multiplying own funds at book value (owners' equity) of unlisted DIES by the capitalisation ratio (that is, by the stock exchange market capitalisation [numerator] to the own funds at book value of listed companies [denominator]). The market capitalisation ratios can be applied at the company-by-company level or to the aggregate book value of equity in unlisted companies in an industry.

300. Capitalisation ratios developed from broad stock exchange data should be adjusted, or individual ratios should be developed for separate industry groups, if the industries represented in the stock exchange for a given economy are not representative of the industry mix of DIES located in the same economy. Book values that are based on another set of accounting standards – such as the United States generally accepted accounting principles (US GAAP) – that contain major attributes of IAS (inclusion of cumulative reinvested earnings; revaluation of financial instruments in current period prices; and inclusion of cumulative depreciation of plant and equipment, including write-offs of worthless assets) may also be used with the capitalisation ratio method.

- Usage: useful exercise if the overall enterprises listed in the stock exchange are good representatives of the national industry.
- Caveats: For inward positions, some very large local foreign direct investment unlisted enterprises might represent almost the entire industry. Another strategy is then required to better reflect the market valuation of that enterprise. For outward positions, it would be necessary to develop the ratios from information on foreign stock exchange indices for several countries. For both inward and outward positions, some other considerations could be seen as caveats of this method; for example, some specialists question the assumption that quoted and non-quoted companies should use the same ratio to own funds. Being quoted in a public market means that a company has to comply with more strict rules, provide more detailed information to market participants, etc. Moreover, a liquid asset (quoted shares) may have a higher value from being liquid. Finally, calculation of capitalisation ratios requires a reasonably broad stock market with high trading volume.

301. Further research on the market capitalisation method is included in the research agenda (Annex D). First, it suggests the development of an international database of market capitalisation ratios to assist compilers in its application and to mitigate bilateral asymmetries. Second, the development of liquidity discount rates is included in recognition that listed shares should be more valuable than unlisted shares because they are highly liquid assets.

Other methods recognised by the *Benchmark Definition*

302. This *Benchmark Definition* recognises additional methods that yield good approximations to market value but are not among the preferred methods largely because the information to implement them is often not available. These methods are:

- net asset value (NAV)
 - including goodwill and intangibles
 - excluding goodwill and intangibles
- present value/price to earnings ratio
- apportioning global value.

Net asset value (NAV), including goodwill and identified intangibles

303. Net asset value (NAV) is total assets at current value less total liabilities (excluding equity) at market value. Under this valuation method, all financial and non-financial assets and liabilities of the

enterprise, including intangible assets, are stated in terms of current period prices. The valuations should be based on very recent appraisals – they must be within the prior year. Appraisals may be conducted by knowledgeable management or directors of the company, and/or provided by independent appraisers. A capitalisation ratio may be calculated and applied (with or without liquidity adjustments) if sufficient information is available (see market capitalisation method).

- Usage: at a minimum, this method requires an asset and liability valuation to be undertaken by the enterprise.
- Caveats: NAV provided by an enterprise may exclude some classes of assets (e.g., intangibles), while other assets may be valued using a method that is a distortion from the current market value (e.g., historic cost or nominal value). To the extent that valuations are poor or assets are excluded from the NAV, this method can be a poor approximation of market value and other methods may be more appropriate. Collecting data needed to implement the NAV may also be difficult, requiring the adaptation of existing FDI surveys. The calculation of capitalisation ratios requires a reasonably broad stock market with high trading volume.

Net asset value (NAV), excluding goodwill and identified intangibles

304. Under this valuation method, all financial and non-financial assets and liabilities of the enterprise, excluding intangible assets, are stated in terms of current period prices. The valuations should be based on very recent appraisals – they must be within the prior year. Appraisals may be conducted by knowledgeable management or directors of the company, and/or provided by independent appraisers.

305. Note that the difference between this method, and the one immediately above, is that this method excludes, whereas the earlier discussed method includes, goodwill and identified intangibles. However, it is often very difficult to estimate the value of these assets. Compilers who can develop relatively accurate estimates of unquoted equity that include goodwill and identified intangibles are encouraged to do so. This promotes consistency between the estimates for quoted shares (these shares trade at prices that reflect the value of intangible assets) and the estimates for unquoted shares.

- Usage: Compilers who cannot accurately provide estimates that include goodwill and identified intangibles may use this method.
- Caveat: Goodwill and intangible assets may account for much or most of the current value of many DIES. This valuation might not be representative of market value.

Present value / price to earnings ratio

306. The value of unlisted equity can be estimated as the present value of the forecast stream of future earnings. This method has at its heart the issue of choosing an appropriate discount rate, which can be inferred from the implicit discount rate obtained for listed equity, and forecasting the future profits. At its simplest, this method can be approximated by applying a market or industry price-to-earnings ratio to the (smoothed) recent past earnings of the unlisted enterprise to calculate a price. In this case, the recent past earnings are used as the basis to forecast the future earnings, and the market price-to-earnings ratio implies the discount rate.

- Usage: this method is most appropriate where there is a paucity of balance sheet information, but earnings data are more readily available. It also requires an appropriate discount rate or reasonably broad-based price-to-earnings ratio to be calculated.
- Caveats: earnings for an individual enterprise can have a highly irregular component and can be negative (leading to negative equity valuations). As a result, if earnings information over a longer period of time is available, the earnings of the enterprise should be smoothed. If earnings for only

one period are available or discount rates or price-to-earnings ratios are based on a narrow market, other methods are preferable.

Apportioning global value

307. If the equity in a particular DIE is unlisted, but the enterprise belongs to a global enterprise group whose equity is listed, the current market value of the global enterprise group can be calculated and apportioned to the operations in each economic territory. The current market value of the global enterprise group should be based on its market price on the stock exchange on which it is traded, and the apportionment of this value to each economic territory should be based on an appropriate indicator (e.g., sales, net income, assets or employment).

- Usage: current market capitalisation of the global enterprise group is required. As such, this method may only be feasible for outward investment. An indicator that is well-correlated with market value and readily available is also necessary. This is more likely to occur in enterprise groups that are horizontally integrated.
- Caveats: weaknesses in the correlation between market value of equity and the variable used for apportioning the global value will lead to distortions – sensitivity to the distortion is greatest when the proportion allocated to an economic territory is small or when different activities take place in different economic territories. In this case, other methods are preferable. The use for outward investment only may lead to asymmetries in bilateral comparisons.

Methods not recommended by the *Benchmark Definition*

308. As stated in Chapter 4, there are other methods to value equity that are not recommended by the *Benchmark Definition*, however, they may be the only methods available to compilers from the information available to them. These methods include:

- historic or acquisition cost
- accumulation of foreign direct investment equity capital transactions
- stock market price index applied to accumulated direct investment equity capital transactions
- book value.

These are briefly described below.

Historic or acquisition cost

309. Historic cost as defined here represents the original cost of purchasing a DIE, and acquisition cost represents an enterprise's original cost for acquiring major assets and liabilities. These costs are usually based on the books of the investor, and may not reflect cumulative reinvested earnings, current period charges for depreciation, foreign currency exchange rate changes, or the impact of other economic events that may have resulted in substantial changes in the value of DIEs since their initial establishment or acquisition.

Accumulation of foreign direct investment equity capital transactions

310. Direct investment equity positions could be compiled by accumulating (or summing) direct investment equity capital transactions, and perhaps adjusting this amount for changes in foreign currency exchange rates. This method is not recommended as it does not take account of cumulative reinvested earnings, depreciation on fixed assets, DIE holding gains or losses, and other factors that often will have a substantial impact on current period values of direct investment equity.

Stock market price index applied to accumulated direct investment equity capital transactions

311. Direct investment equity positions could be compiled by accumulating direct investment equity capital transactions, adjusted as appropriate for changes in foreign currency exchange rates, and then applying changes in a related stock market price index to this amount. Under this method, changes in stock market indices for large countries or broad regions would be applied to the direct investment equity position. Country indices would be used when stock markets in the individual country are broad and the trading volume is relatively high; broad regional indices would be used when these circumstances do not exist.

312. This method is similar to “accumulation of foreign direct investment equity capital transactions”, except that it includes an adjustment for changes in stock market price indices. This method is not recommended as it does not take account of depreciation of fixed assets, DIE holding gains or losses, and other factors that often will have a substantial impact on current period values of direct investment equity. In fairness, this method does take account of cumulative reinvested earnings to some extent, because a stock market price index will tend to rise due to reinvestment of earnings by companies included in the index. However, the earnings and reinvested earnings of companies in the index may be poorly correlated with the earnings and reinvested earnings of DIEs.

Book value

313. Book value is a term that broadly encompasses many different accounting methods. It represents the values that appear on someone’s books. It could represent the values on the books of direct investors or on the books of DIEs. In fact, in common usage, the term may encompass any of the valuation methods described in this annex, whether or not recommended for use in the main accounts.

314. For countries that begin their valuation process via the collection of book value information, the *Benchmark Definition* recommends that the books of the DIE serve as the starting point. International comparability of direct investment earnings and direct investment positions is only possible if both the investing and host countries use the same set of books as their starting point for deriving estimates of market values.

315. The books of the DIE are usually more comprehensive than those of the direct investor. This is because, under tax and financial accounting rules followed by most countries, the books of the DIE will typically reflect current period earnings and reinvested earnings. In contrast, the books of direct investors may not reflect the current period earnings or reinvested earnings of their DIEs, particularly in the case where ownership interests are less than 20% (because this type of investment is frequently carried at cost on the investor’s books).

Decision tree

316. Annex Figure 4.A.1 presents a decision tree to clarify for compilers the methods available to value unlisted equity depending on the information available to them. The decision tree focuses on the valuation of a single company since that is the basis for valuing unlisted equity. The decision tree encourages the use of the three preferred methods for valuing unlisted equity when information is available (these methods are in the green boxes in the decision tree) but does recognise that one of the other methods may be more appropriate given information available to the compiler (these methods are in the orange boxes).

317. While the decision tree provides valuable guidance to compilers in selecting a method to value unlisted equity, its use should be flexible to allow compilers to select a method that best represents economic reality in the specific circumstances of their economy.

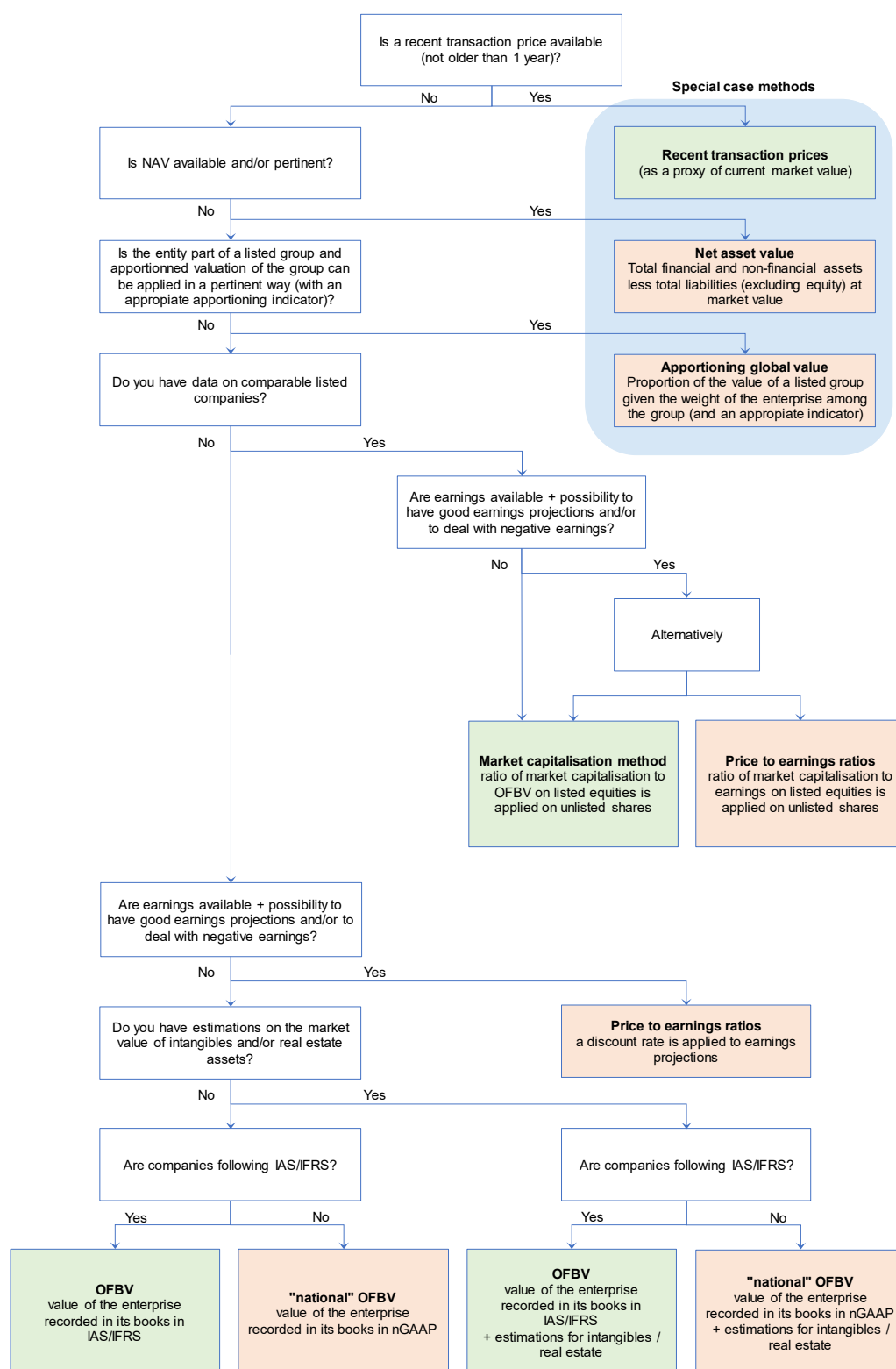
318. The decision tree, first, indicates that if a recent transaction price exists, then, it equals market price by definition at the time of transaction (except for a potential control premium to deal with), so it is a value that one may want to favour. If this method is used, the question of the duration of its use arises as well as the transition to other valuation methods.

319. In other cases, the decision tree recognises the possibility of using specific methods (which cannot be extended to all unlisted companies) if data are of good quality and relevant. By order (on the right-hand side of the tree), it is possible to use:

- Net asset value, even if it is rare in practice to have such an estimate
- Apportioning global value if the entity is part of a listed group and if an apportioned valuation of the group can be applied in a pertinent way (with an appropriate apportioning indicator)
- Price to earnings ratio can be used if the compiler has both data on comparable listed companies as well as earnings data, including good projections of earnings, but it is also possible to use the market capitalisation method in this case.

320. The left side of the tree includes more widely applicable methods: market capitalisation method, OFBV, and the enhanced OFBV discussed above if market values of intangible assets and/or real estate are available.

Annex Figure 4.A.1. Decision tree to identify valuation methods allowing for available information



Notes

¹ For the level of financial assets, such as FDI, the term position is usually used while the term stock is often used for the level of non-financial assets/liabilities, e.g., the stock of fixed assets. Nevertheless, sometimes FDI positions are referred to as the stock of foreign direct investment at a point in time.

² If countries are compiling the supplementary recording of reinvestment of earnings on portfolio investment discussed in the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7, (IMF, Forthcoming^[2]))*, then reinvestment of earnings on reverse investment and between fellow enterprises would be included in that supplementary series.

³ While reinvestment of earnings is not included in FDI transactions for reverse equity investment and equity investment between fellow enterprises, the reinvestment of earnings would be reflected in the market value of the enterprise and, thus, would be reflected in revaluations.

⁴ Positions in derivative financial instruments are excluded because they are not considered to be part of direct investment.

⁵ Book value is a term that broadly encompasses many different accounting methods. It represents the values that appear on the books of an entity. It could represent the values on the books of direct investors or on the books of direct investment enterprises. In fact, in common usage, the term may encompass any of the valuation methods described in Annex 4.A, whether or not recommended for use in the main accounts.

⁶ See Annex 6.B for a description of the different types of SPEs.

⁷ While the basic valuation method for debt securities component of inter-company lending is market value, it could be compiled at nominal value as a supplementary item in cases where the economy is significantly impacted by direct investment (see *BPM7, Chapter 7, Section B.4, paragraph 7.25*).

5 Integrated FDI position statement

The integrated foreign direct investment (FDI) position statement reconciles the opening and closing FDI positions through the accumulation accounts. The accumulation accounts consist of the financial transactions from the balance of payments and of the other changes in financial assets and liabilities account, which records revaluations and other volume changes. Direct measurement of the other changes in financial assets and liabilities account can provide information on important events affecting the value of FDI positions other than transactions and can improve the quality of positions and transactions data. Revaluations are holding gains and losses and are broken down between exchange rate changes and other price changes. Other changes in volume are changes in the value of assets or liabilities that are neither transactions nor revaluations. They include, amongst others, cancellations and write-offs of debt, uncompensated seizures, changes in functional category, and entities changing their economy of residence.

5.1. Introduction

321. A direct investment position can change due to transactions and to other changes, where other changes consist of revaluations and other changes in volume. Revaluations consist of exchange rate changes and other price changes. Exchange rate changes generally reflect the impact on the position of exposure of the instrument to a currency other than that in which the accounts are compiled. Other price changes reflect all other changes in the market value of the instrument as expressed in the compilation currency. Other changes in volume include events like debt cancellation, uncompensated seizures, and reclassifications between functional categories.

322. The other changes in financial assets and liabilities account is an important component of direct investment statistics as it allows transactions to be reconciled with positions by showing the impact on the value of the positions from events other than transactions. For example, they serve to demonstrate significant changes in the value of foreign direct investment (FDI) positions from events like the cancellation of debt, holding gains and losses, and liquidations. As such, it provides a method of validating and testing the consistency of transactions and positions. While other changes are sometimes derived residually, they should be measured directly because they are economic events that are important in their own right. In addition, it is through direct measurement of this account (and its components) that improvements to the quality of transactions and positions data are made possible.

323. This chapter begins with a discussion on reconciling the beginning and end of period positions with transactions recorded in the financial account and revaluations and other changes in volume recorded in the other changes in financial assets and liabilities account. It next discusses the definitions and concepts underlying the other changes in financial assets and liabilities account and presents several cases relevant to FDI. Finally, it discusses the implications of complex ownership chains and the recording of reinvested earnings for the other changes account. Annex 5.A provides some numerical examples of the reconciliation of changes in positions with transactions and other flows.

5.2. The integrated FDI position statement

324. FDI positions gain or lose value and appear or disappear as a result of transactions, other volume changes, and revaluations. This relationship can be expressed as the following identity:

Beginning of period position

+ Transactions during the period

+ Revaluations during the period:

Of which, due to:

- exchange rate changes and
- other price changes

+ Other changes in volume during the period

= End of period position.

This relationship applies to the positions of all functional categories included in the international investment position (IIP). Table 5.1 shows the direct investment entries in the integrated IIP statement; for the full statement, see the *Integrated Balance of Payment and International Investment Position Manual, Seventh Edition (BPM7, (IMF, Forthcoming^[1]), Chapter 7, Section A, table 7.1)*. This reconciliation for direct investment, called the integrated FDI position statement, is one of the standard presentations of FDI statistics recommended in this *Benchmark Definition* (see Table A B.4 in Annex B). While the statement is

presented according to the asset/liability principle in Table 5.1 and Table A B.4, it could also be presented according to the directional principle.

Table 5.1. Direct investment entries in the integrated IIP statement

	Beginning of period position	Accumulation accounts							End of period position
		Transactions from the balance of payments financial account	Other changes in financial assets and liabilities account						
			Revaluations			Other changes in volume			
			Total	Exchange rate changes	Other price changes	Total	Of which: debt cancellation and write-offs	Of which: reclassifications	
Assets									
Direct investment									
Liabilities									
Direct investment									

Source: Based on IMF (Forthcoming⁽¹⁾), *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*.

325. The accumulation accounts cover changes in assets and liabilities and changes in net worth (the difference for an institutional unit or group of units between its assets and liabilities). In external sector statistics, these accounts consist of the financial account and the other changes in financial assets and liabilities account.

5.3. Other changes in financial assets and liabilities account

326. The other changes in financial assets and liabilities account shows changes in financial positions that are not transactions. These changes are also called “other flows” and consist of revaluations and other changes in the volume of financial assets and liabilities.

5.3.1. Revaluation

327. Revaluations consist of holding gains and losses. They arise from changes in the monetary value of a financial asset or liability due to changes in the level of prices. As the term suggests, holding gains or losses are changes in the value of an asset that accrue purely as a result of holding assets over time without transforming them in any way. A holding gain occurs when an asset increases in value or a liability decreases in value; a holding loss occurs when an asset decreases in value or a liability increases in value. Revaluation takes into account all price changes during the period, whether realised or not. Holding gains and losses are realised when the asset is sold or the liability extinguished. Holding gains and losses on unsold assets and unpaid liabilities are unrealised but are recorded as revaluations in the other changes in financial assets and liabilities account. Common causes of revaluation for equity are changes in expectations of future incomes and, for debt securities, changes in market yields and the creditworthiness of the debtor.

328. Revaluations are separated into exchange rate changes and other price changes. These impacts should not be included in the earnings of an enterprise when calculating income transactions (see Section 3.3.2, sub-section on distributed earnings discussing the exclusion of holding gains and losses from the measurement of FDI earnings).

Exchange rate changes

329. Exchange rate changes reflect the impact that changes in exchange rates have on instruments that are denominated in a currency other than that in which the accounts are compiled. The currency of denomination of equity is generally the domestic currency of the economy in which the issuer is resident. In this case, if the accounts are compiled in the local currency, then the exchange rate changes for equity liabilities will be zero. However, when equity is issued in a currency other than the local currency, then there can be exchange rate changes even if the local currency is used to compile the accounts. Debt securities are denominated in the currency in which they are to be redeemed except in the case where the principal is indexed to another currency. When the principal of a debt security is linked to another currency, the debt security is treated as though it was denominated in that currency. In all other cases, reference should be made to the contractual arrangements of the debt position to determine in which currency it is denominated.

330. Exchange rate changes may be referred to by enterprises as realised or unrealised exchange rate or foreign exchange gains or losses.

331. It should be noted that operating revenues and expenses denominated in units of a foreign currency will also translate into different amounts, expressed in the compilation currency, solely as a result of exchange rate changes. However, these impacts should be included in direct investment earnings in the current period because they result from actual on-going operations in the current period rather than from holding gains.

332. Transactions are converted to the compilation currency at the rate prevailing when they took place, and positions are converted at the rate prevailing on the reference date. The mid-point between the buying and selling rates should be used at the time of transaction (for transactions) and at the close of business on the reference date for positions. The impacts of changes in the exchange rate on this conversion are recorded as exchange rate changes.

333. If the accounts are compiled in the local currency, and the local currency appreciates against the currency of denomination of a financial instrument, exchange rate changes will reflect a decrease in the value of the instrument in the local currency. This is the case whether the instrument is an asset or a liability.

Other price changes

334. Other price changes reflect all changes to the market value of an instrument as expressed in the compilation currency that are not exchange rate changes or attributable to transactions. Many factors can affect the value of a direct investment enterprise, and these factors should jointly be considered other price changes on its equity. Other price changes reflect the change in the market value of an instrument in the currency in which it is denominated. This market price change is then converted to the currency of compilation and may also give rise to exchange rate changes if the exchange rate changes over the period during which the market price change occurred (see next sub-section on separating revaluations into exchange rate and other price changes).

335. There can be differences between transaction prices and the values recorded in the position data for financial instruments. One example is when a direct investor sells its direct investment enterprise (DIE) for more (or less) than the value recorded in the direct investment position. The difference can be recorded as an 'other price change'. However, unlisted equity can sometimes be traded at values that deviate significantly from the value reflected in the position. In such cases, compilers should use all the information available to improve the quality of the estimated positions when they become aware that they are under- or over-valued by implementing backward revisions in the position according to their national revision policy.

336. External factors can influence the market value of a debt position. For example, if the credit rating of the issuer of a debt instrument is changed, then this may have an impact on the value of the debt instrument.

337. Other price changes may be recorded under any of the recommended methods for valuing unlisted equity in terms of current period prices. For example, when market prices are used for listed equity or the market capitalisation method is used for unlisted equity, an increase (decrease) in the value of equity listed on resident markets will generally be reflected as an increase (decrease) in the value of equity liabilities. Likewise, an increase (decrease) in the value of equity listed on non-resident markets will be reflected in an increase (decrease) in the value of equity assets. See Section 5.4 and Box 5.1 for more information on recording other price changes when market prices are used to value listed equity and the market capitalisation method is used to value unlisted equity.

338. Where debt positions between related enterprises are in the form of debt securities, the market value of these positions will be affected by changes in interest rates. If resident interest rates are generally increasing, this will be reflected in a decrease in the value of debt securities issued in the local economy; while if non-resident interest rates are generally increasing, this will be reflected in a decrease in the value of debt securities issued abroad. To determine the impact of these changes on the values of positions, it is necessary to understand whether debt security assets/liabilities between related enterprises are issued locally or abroad.

Separating revaluations into exchange rate and other price changes

339. It is not unusual for positions to change due to both exchange rate changes and other price changes. It is analytically useful to separate the causes of the changes in valuation.

340. For instruments denominated in a currency other than that in which the accounts are compiled, the opening position (or position at creation) is converted to the compilation currency at the exchange rate prevailing at the time, and similarly for the closing position (or position when extinguished). The difference between these two values consists of both exchange rate changes and other price changes.

341. The other price changes should be calculated in the currency of denomination. This is converted to the compilation currency using a mid-point exchange rate. The mid-point exchange rate is calculated as the mid-point between the exchange rate at the start of the period (or at the time when the position was created if this was during the period) and the exchange rate at the end of the period (or at the time when the position was extinguished if that occurred during the period).

342. The exchange rate changes can then be calculated as the difference between total valuation changes and the other price changes (for more information, see *BPM7, Chapter 9, Section B.3, Box 9.1*).

343. Under the international financial reporting standards (IFRS), enterprises may keep their books in a currency other than the local currency or the currency in which the accounts are compiled. The IFRS refer to this currency as the currency of account. When these enterprises report information to the compiling authority, it will need to be converted to the domestic currency (or the compilation currency). Exchange rate changes are calculated as the impact of changes in the exchange rate between the currency in which an instrument is denominated and the currency in which the accounts are compiled; other valuation changes identified during the conversion process should be recorded as price changes, regardless of movements in the exchange rates used in the conversion.

5.3.2. Other changes in the volume of financial assets and liabilities

344. *Other changes in the volume of financial assets and liabilities are changes in the value of these assets or liabilities that are neither transactions nor revaluations. They include, amongst others, economic appearance and disappearance of financial assets and liabilities¹, catastrophic losses, cancellations and*

write-offs of debt, uncompensated seizures, reclassifications, and the changes in financial assets arising from units changing their economy of residence (BPM7, Chapter 9, Section C, paragraphs 9.7- 9.24). Because of the heterogeneous nature of other changes in volume, analysts may sometimes wish to identify the major components. While other changes in volume are part of the standard presentation, “of which” items for cancellations and write-offs of debt and reclassifications are included as supplementary items.

Debt cancellation and write-offs

345. Changes in claims resulting from debt cancellation or write-offs are treated as volume changes and are not treated as financial transactions. Specifically, a creditor may recognise that a financial claim can no longer be collected from the debtor and may remove the claim from its balance sheet. Debt cancellations and write-offs are either unilaterally determined by the creditor or by courts, arbitrators and related out-of-court settlements; unilateral cancellation of a financial claim by a debtor (debt repudiation) is not recognised.

346. Debt forgiveness and debt assumption are both treated as capital transfer transactions. Debt forgiveness usually involves the intention by the creditor to convey a benefit to the debtor. Debt assumption (including one-off guarantees) usually involves a third party with which there may be transactions.

347. Partial write-offs (write-downs) of debt assets by creditors are not considered to change the volume of financial claims of the creditor on the debtor. Partial write-offs are treated as a revaluation of the claim and are classified as other price changes. If a bankruptcy process results in all debt being written off, then the loss is recorded as a volume change; if the bankruptcy process results in even a token return to the creditor, then the debt is reduced as a valuation change with a transaction to extinguish the debt.

Liquidations and failed exploration activities

348. When a DIE is ultimately liquidated, the equity investment in the enterprise is often written off by the direct investor and removed from its balance sheet. This situation is treated as a volume change as the equity claim is considered to have disappeared. If there is a partial return to the direct investor, then this should be treated as a valuation change with a transaction to extinguish the claim.

349. In practice, the process of liquidating an enterprise can be lengthy, and, during this period, the value of the equity in the enterprise may decline due to a loss in the value of its assets. If this is the case, it should be recorded as a revaluation. A liquidator will try to sell the assets, pay the creditors, and distribute the residual amount (if any) to the shareholders. Only then, the enterprise will be removed from the legal register of active enterprises. In most cases, by the time the liquidated enterprise is officially dissolved, the value of the equity will be very low. Any debts written off during the liquidation process would be recorded as other changes in volume. For equity, only transactions and/or other price changes can be recorded during the liquidation process. Other changes in volume may be recorded at the final liquidation of shares with a near-zero value.

350. Mineral exploration activities present a special case of equity write-offs. The purchase of a mineral exploration licence is a sufficient criterion to recognise a notional unit within the economy where the mineral exploration is to take place. As activity takes place and equipment is purchased or provided to the exploration operations, a branch is considered to be established. The provision of equipment is recorded as a transaction reflecting the injection of equity in the branch. Valuation changes may also occur depending on the expectations of a find. If the exploration fails to identify a viable resource discovery and the operator ‘walks away’ from the activities, the investment in the branch is extinguished through a volume change. This is a borderline case – where there are assets that are sold, the appropriate treatment is to revalue the investment to the value received for the assets and then extinguish the investment through a transaction reflecting the sale of the assets and withdrawal of equity.

Uncompensated seizure

351. DIEs may also be subject to seizure by national governments on occasion (for example where a government decides to nationalise certain industries within its jurisdiction without compensation). This extinguishes the equity that the direct investor has in the enterprise in the economy, with the equity position being reduced to zero through a volume change. When entities are only indirectly impacted by uncompensated asset seizures through their ownership of entities that had their assets seized, then the impact should be recorded as other price changes rather than other changes in volume (see Section 5.4).

Catastrophic losses

352. Catastrophic losses are the result of large scale, discrete, and recognisable events that may destroy a significantly large number of assets within any of the asset categories. Such events will generally be easy to identify. They include major earthquakes, volcanic eruptions, tidal waves, drought, exceptionally severe hurricanes, and other natural disasters; acts of war, riots, and other political events; and industrial accidents, such as major toxic spills or release of radioactive particles into the air. Catastrophic losses mostly occur for non-financial assets, but they may also arise for financial assets and are recorded as other changes in volume. Major losses, such as deterioration in the quality of land caused by abnormal flooding or destruction of buildings in earthquakes, are relevant to direct investment because branches or notional units are identified when non-residents own real estate and other natural resources. If the property's value is completely wiped out, the loss should be recorded under direct investment as other changes in volume on the asset side for the economy of the direct investor and on the liability side for the economy of the direct investment enterprise as the notional unit effectively ceases to exist. However, if some value remains, the loss should be recorded under direct investment as an 'other' price change on the asset side for the economy of the direct investor and on the liability side for the economy of the direct investment enterprise (see also *BPM7, Chapter 9, Section B.2a, paragraph 9.31a*). This is because the direct investor technically owns equity in the notional unit and not the real estate itself. In addition, where evidence of ownership of financial assets depends on written records and these records are destroyed, it may not be possible to re-establish ownership, and other changes in volume should therefore be recorded.

Treatment of assets declared under tax amnesty

353. A case of the economic appearance of an asset that is relevant to FDI is that of tax amnesty. A tax amnesty is a limited-time opportunity for a specified group of taxpayers to report undeclared income and assets relating to an earlier tax period and pay an amount in exchange for forgiveness of the tax liability, without fear of criminal prosecution. If the declared income and assets were not estimated and considered significant for the economy, or significantly differ from the current estimates, adjustments should be undertaken to record data on the corresponding instruments. Such adjustments should ideally be implemented as transactions in the relevant periods, ensuring that adjustments for both income and assets are consistent. However, if it is not possible to adjust historical series on assets declared under tax amnesties, as a second best these assets can be recorded in the IIP in the current period through other changes in volume.

Reclassifications

354. A reclassification entry is necessary when a financial instrument changes its characteristics without there having been a cross-border transaction. Two types of reclassifications particularly relevant to direct investment are a change in functional category and a change of residence.

Change in functional category

355. For direct investment, a common issue is how to treat an existing equity position when a further purchase is made to take the total position to one that represents at least 10% of the voting power in an organisation. The original equity position is reclassified to direct investment through a volume change to include it in the direct investment equity position. Similarly, any pre-existing debt positions are reclassified to direct investment debt positions through a volume change. When voting power is reduced, equity and debt positions are removed from direct investment through volume changes. It should be recognised that there does not need to be any transactions for voting power to cross the 10% threshold – for example, a position can increase in proportion due to share buybacks; while positions can decrease due to the issuance of additional shares.

Change in residence

356. When persons and other entities change their economy of residence, their existing assets and liabilities are added or removed from the IIP through reclassifications rather than by imputing transactions. The change in the residence does not involve a transaction between two entities, but a change in the status of a single entity. When a person changes residence, this is considered to be a reclassification of their residence – any direct investment assets held in the economy to which the person has moved are reclassified out of the direct investment position as a volume change (as the position has become one between two residents of the same economy). Direct investment assets held by the person in their former place of residence are reclassified into the direct investment position as a volume change.

357. Corporations sometimes change residence (i.e., corporate re-domiciliation). Most cases labelled as corporate migration involve transactions between entities. However, in the case when a corporate change of residence occurs, the change in the residence of the owner of financial assets and liabilities is treated as a reclassification, in the same way as a change of residence of individuals. Corporations with a European legal form (SE, *Societas Europaea*) can change residence from one economy to another within the European Union (EU) without the need to change financial contracts with debtors and creditors when they migrate. As a result, the incidence of corporate re-domiciliation may be particularly relevant for EU member states. When corporate re-domiciliations are observed, the exchange of information between compilers, to the extent allowed under confidentiality rules, can help ensure consistent recording of the move.

358. On occasion, land can change from being part of one economy to being considered part of another economy, whether through mutual agreement or annexation, or be considered to be a new economy. This may create or extinguish direct investment positions that residents of either economy had with residents of the area of land that changed jurisdiction. The creation and extinction of the direct investment positions are treated as volume changes.

359. A similar situation arises with the change of membership in country groups. For example, the EU has changed its membership on a number of occasions. This can result in the positions between the country group and the new member being extinguished (in statistics for the country group as a whole), and positions between the country group and other countries being created. These should be treated as volume changes.

5.4. Implications of ownership chains and retained earnings for other flows

360. Other changes in financial assets and liabilities will sometimes impact the value of an entity. For example, the value of a DIE may change due to exchange rate movements if it holds external assets and liabilities denominated in foreign currencies. These changes should be recorded as exchange rate changes by the economy of the DIE. The value of a DIE is also likely to change if its financial assets in a specific

economy are seized with no compensation. These changes should be recorded as other changes in volume by the economy of the DIE. Conversely, the economy of the direct investor should record such changes in the value of (directly or indirectly owned) DIEs as other price changes. The economy of an investor should only record exchange rate changes if there is a change in the equity value resulting directly from the currency denomination of the DIE's equity. Similarly, it should only record other volume changes when there is change in the value of its equity holdings that is neither due to transactions nor due to revaluations, e.g., if the shares it holds in the DIE have been seized.

361. Reinvested earnings are imputed for direct investor's equity in their DIEs. However, reinvested earnings are not recorded for equity investment between fellow enterprises or for reverse equity investment (see Section 3.3.2). When reinvested earnings are recorded, they contribute to the change in the value of the position through transactions. In cases where reinvested earnings are not recorded, these earnings contribute to revaluations. A similar treatment should be followed for the distribution of the proceeds from the sales of assets. These will be treated as negative equity transactions for the direct investor's investment in its DIEs but as negative price changes for investment between fellow enterprises and reverse investment.

Box 5.1. Calculating other price changes when market prices are used to value equity

The calculation of other price changes when reinvested earnings are not recorded (i.e., equity investment between fellow enterprises and reverse equity investment as well as other functional categories, such as portfolio investment) is:

$$Price\ change = Position\ (t - 1) * \left(\frac{MP(t)}{MP(t - 1)} \right) - Position\ (t - 1)$$

where MP is market price.

In this case, the impact of reinvested earnings and the distributions of proceeds from the sales of assets on the market price of equity are treated as revaluations.

In the case of the direct investor's equity in its direct investment enterprise, the calculation of other price changes is:

$$Price\ change = Position\ (t - 1) * \left(\frac{MP(t)}{MP(t - 1)} \right) - Position\ (t - 1) - Transactions\ (t)$$

where

$$Transactions\ (t) = reinvestment\ of\ earnings\ (t) + distribution\ of\ proceeds\ from\ sales\ of\ assets\ (t)$$

This isolates the impact of these transactions from the rest of the change in the market price. It is consistent with the recommendation that other price changes reflect all changes to the market value of an instrument as expressed in the compilation currency that are not exchange rate changes or attributable to transactions.

362. When market prices are used to value listed equity or the market capitalisation method is used to value unlisted equity, the value of reinvested earnings and the distribution of the proceeds from the sales of assets will impact the market prices and the market price indices used in these methods. Therefore, the value of reinvested earnings and the distributed proceeds from the sales of assets should be removed from the calculation of other price changes. Box 5.1 explains how to do this.

363. Table 5.2 summarises the recording of the different cases above. Because the recording depends on the specific relationship, it distinguishes between the recording in the economy of the direct investor in the DIE, in the economy of the DIE, and between fellow enterprises and reverse investment.

Table 5.2. Summary of recording

	Economy of direct investor in directly held DIE	Economy of DIE	Between fellow enterprises and reverse investment
Impact of movements in exchange rates on financial instruments denominated in a currency other than the currency of compilation	ERC*	ERC	ERC
Change in market price of listed equity (or unlisted equity valued using the market capitalisation method)	OPC	OPC	OPC**
Direct investor sells a DIE for more or less than the value recorded in the position	OPC***	OPC***	OPC***,***
Debt securities held between related parties impacted by changes in interest rates or credit ratings	OPC	OPC	OPC
Complete debt cancellation or debt write-off	OCV	OCV	OCV
Partial debt cancellation or debt write-off	OPC	OPC	OPC
Debt forgiveness or debt assumption	T	T	T
Liquidation of a DIE with no return to the investor	OPC and OCV	OPC and OCV	OPC and OCV
Liquidation of a DIE with partial return to the investor	OPC and T	OPC and T	OPC and T
Investor walks away from a failed mineral exploration	OPC and OCV	OPC and OCV	OPC and OCV
Failed mineral exploration with partial return	OPC and T	OPC and T	OPC and T
Uncompensated seizure (total)	OPC****	OCV	OPC**
Catastrophic loss (e.g., buildings destroyed in an earthquake)	OPC and OCV	OPC and OCV	OPC and OCV**
Assets declared under a tax amnesty	T and OCV*****	T and OCV*****	T and OCV*****
Change in functional category	OCV	OCV	OCV
Change in residence	OCV	OCV	OCV
Reinvested earnings	T	T	OPC**
Distribution of proceeds from sales of assets	T	T	OPC**

Notes: T = transactions; ERC = exchange rate changes; OPC = other price changes; and OCV = other changes in volume

* The economy of a direct investor should only record ERC if there is a change in the equity value of the DIE resulting directly from the currency denomination of the DIE's equity. Changes in the equity value of indirectly held enterprises resulting from ERC would be recorded as OPC by an indirect investor.

**Applies to equity investment between fellow enterprises and reverse equity investment.

***However, if the difference is significant, compilers are encouraged to revise the positions backward to better reflect its market value.

****Recorded as OPC unless the shares that the direct investor holds in the DIE have been seized; then it should be recorded as OCV.

*****Compilers are encouraged to revise transactions backward to reflect the acquisition of the assets, but, if this is not possible, they can be recorded as OCV instead.

References

IMF (Forthcoming), *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, International Monetary Fund, Washington D.C. [1]

Annex 5.A. Numerical examples of reconciliation of positions and flows

364. This annex presents several numerical examples of the recording of transactions, revaluations, and other changes in volume as part of the reconciliation of the opening and closing foreign direct investment (FDI) positions. The examples and recording shown in the tables are considered from the point of view of the direct investment enterprise (DIE). The economy of the direct investor will usually record the cases in the same way although there are exceptions; however, the increase or decrease in value of the DIE will generate the same change in value of the direct investor's assets.

Construction company selling real estate

365. A DIE in the construction industry has an opening position of USD 100. In period 1, the DIE generates earnings (USD 300) coming from construction services provided on various projects; these earnings are measured according to the current operating performance concepts (COPC). The direct investor chose to reinvest all of these earnings in the DIE; as a result, the economy of the DIE will record reinvestment of earnings of USD 300.

366. In period 2, the DIE sells a piece of real estate that it had held for several years without improving it, realising a holding gain of USD 200. Before considering the impact of this sale, the COPC earnings of this DIE were USD 400 (operational earnings coming from construction services provided during the period). The direct investor chooses to reinvest all of the COPC earnings and the proceeds from the sale of the real estate in the DIE. As a result, the economy of the DIE will record reinvestment of earnings of USD 400 and a revaluation (other price changes) on the sales of the asset because the holding gain is excluded from the COPC earnings of the DIE. Annex Table 5.A.1 shows the reconciliation of the opening and closing positions of the DIE.

Annex Table 5.A.1. Example of a DIE in the construction industry selling real state

Period	Beginning of period: FDI liabilities	Accumulation Accounts						End of Period: FDI liabilities	
		Financial account T	Revaluations	Due to:		OCV	Of which:		
				ERC	OPC		Cancellation and write-offs		Reclassifications
1	100	300	0	0	0	0	0	0	400
2	400	400	200	0	200	0	0	0	1 000

Note: All values are in USD. T = transactions; ERC = exchange rate changes; OPC = other price changes; and OCV = other changes in volume.

367. The economy of the direct investor would record the same entries as the DIE for its FDI assets (i.e., reinvestment of earnings and other price changes). The recording would be the same for holding gains and losses on any asset sold by the DIE—the holding gain or loss would be excluded from COPC earnings and recorded as a revaluation (other price changes); the treatment also applies to the holding gains or losses from the sale of an asset by a DIE in any industry. If the direct investor had chosen to distribute some or all of the proceeds from the sale of the asset, it would be recorded as an equity capital withdrawal because the proceeds are not part of the DIE's COPC earnings.

Tax credit

368. In period 1, a DIE has an opening position of USD 100 and has recorded negative COPC earnings of USD -10. As a result of this loss, the DIE can carry forward a tax credit to the next period. During period 1, USD -10 of reinvestment of earnings is recorded, and there are no other transactions. Thus, the closing position of period 1 is USD 90.

369. In period 2, the tax is determined by the current income of the DIE in that period and also by the tax credit earned in the previous period. The tax credit is included in the COPC earnings. Assume the DIE generates COPC earnings equal to USD 8, including the tax credit of USD 1. The direct investor chooses to reinvest all of these earnings in the DIE, and thus reinvestment of earnings equal to USD 8 are recorded. Annex Table 5.A.2 shows the reconciliation of the opening and closing FDI positions of this DIE. The economy of the direct investor would record the same entries for FDI assets.

Annex Table 5.A.2. Examples of tax credits due to carrying forward losses

Period	Beginning of period: FDI liabilities	Accumulation Accounts							End of Period: FDI liabilities
		Financial account T	Revaluations	Due to:		OCV	Of which:		
				ERC	OPC		Cancellation and write-offs	Reclassifications	
1	100	-10	0	0	0	0	0	0	90
2	90	8	0	0	0	0	0	0	98

Note: All values are in USD. T = transactions; ERC = exchange rate changes; OPC = other price changes; and OCV = other changes in volume.

Partial impairment of an asset

370. Assume a DIE has an opening position of USD 100. The DIE is facing difficulties operating amid deteriorating conditions in the host country. Therefore, the projected future cash flows from the asset are less than its current carrying value. As a result, the DIE records an impairment of its assets of USD 20 in its financial statements. The impact of this impairment on the DIE's earnings are excluded from the COPC earnings; in this case, assume the earnings of the DIE after the exclusion are zero. The recording of the impairment will lead to a decrease of USD 20 in the equity value of the DIE to USD 80 in the DIE's books. This decrease will be recorded as a revaluation (other price changes). Annex Table 5.A.3 shows the reconciliation of the opening and closing position of the DIE. The economy of the direct investor would make the same entries for FDI assets.

Annex Table 5.A.3. DIE recording of impairment of assets

Period	Beginning of period: FDI liabilities	Accumulation Accounts							End of Period: FDI liabilities
		Financial account T	Revaluations	Due to:		OCV	Of which:		
				ERC	OPC		Cancellation and write-offs	Reclassifications	
1	100	0	-20	0	-20	0	0	0	80

Note: All values are in USD. T = transactions; ERC = exchange rate changes; OPC = other price changes; and OCV = other changes in volume.

Group restructuring

371. Multinational enterprises can restructure their operations. Even though these restructurings are internal to the enterprise group, they often need the agreement of the parties involved, and, thus, qualify

as transactions. They will also sometimes result in the issuing of new financial instruments. This section will illustrate the recording for several examples of enterprise group restructuring.

Revaluation prior to a group restructuring

372. At the beginning of the period, a DIE has a value of USD 100. During the current period, some assets of this DIE (for example, a revaluation of intellectual property) increase their value, and a revaluation of USD 500 is recorded. There is no impact on COPC earnings because there is no registration in the profit and loss account. This revaluation occurs prior to a group restructuring that will lead this DIE to be relocated to a different country. Annex Table 5.A.4 shows the reconciliation of the opening and closing FDI position for the DIE. The economy of the direct investor would record the same entries for its FDI assets.

Annex Table 5.A.4. Example of revaluation of intellectual property rights before group restructuring

Period	Beginning of period: FDI liabilities	Accumulation Accounts							End of Period: FDI liabilities
		Financial account T	Revaluations	Due to:		OCV	Of which:		
				ERC	OPC		Cancellation and write-offs	Reclassifications	
1	100	0	500	0	500	0	0	0	600

Note: All values are in USD. T = transactions; ERC = exchange rate changes; OPC = other price changes; and OCV = other changes in volume.

Shutting down a DIE and moving some of its business to a DIE in another economy

373. The head of a banking group, A, in economy A decides to reorganise its structure by closing DIE B in economy B and to move its foreign repurchase agreement (i.e., repo) business to a newly created DIE C in economy C. Enterprises A and B sign the agreement to close B, and, therefore, all the operations in equities based on that agreement should be treated as transactions. In period 1, direct investor A has an equity position in DIE B of USD 100, and DIE C does not yet exist. DIE B holds deposit liabilities of USD 50 with unaffiliated non-residents that will be repaid when DIE B is shut down. It also has loans of USD 150 it made to unaffiliated non-residents as part of the foreign repo business. The clients of DIE B must be informed of the change from DIE B to DIE C as the creditor for solvency reasons and can cancel the instruments before they reach maturity.

374. In period 2, direct investor A signs an agreement to establish DIE C, and the acquisition of equities is recorded as a transaction. DIE B has disappeared, and the balance sheet is 0. DIE C is performing the repo business, and it takes over some of the repo business from DIE B (i.e., for those who decided not to cancel the instrument) and has also gained new clients.

375. Annex Table 5.A.5 shows the reconciliation of the opening and closing external positions for economies A, B, and C. For economy A, there is no change in total FDI assets, but these positions have moved from economy B to economy C. This move was achieved through a negative transaction of USD 100 with economy B that is completely offset by a positive USD 100 transaction with economy C in period 2. These transactions are shown in the panels for economies B and C. The deposits (USD 50) are repaid and are not moved to DIE C; this is recorded as a transaction under other investment. The foreign repo business is recorded under other investment; the movement of USD 70 of the foreign repo business corresponding to the business transferred to DIE C out of the original asset of USD 150, the loss of USD 80 in clients, and the acquisition of USD 40 of new clients would be shown as transactions because the customers had to agree to the change from DIE B to DIE C under other investment in Annex Table 5.A.5; these transactions would represent the net acquisition of financial assets of USD -150 in economy B (USD -70 + USD -80) and the net acquisitions of financial assets of USD 110 in economy C (USD 70 + USD 40).

Annex Table 5.A.5. Example of shutting down a DIE and moving a business line to another DIE

Period	Account	Beginning of period:	Accumulation Accounts							End of Period:
			Financial account T	Revaluations	Due to:		OCV	Of which:		
					ERC	OPC		CWO	R	
Economy A records:										
1	FDI assets	100	0	0	0	0	0	0	0	100 (B)
2	FDI assets	100	0	0	0	0	0	0	0	100 (C)
Economy B records:										
1	FDI liabilities	100	0	0	0	0	0	0	0	100
1	OI liabilities	50	0	0	0	0	0	0	0	50
1	OI assets	150	0	0	0	0	0	0	0	150
2	FDI liabilities	100	-100	0	0	0	0	0	0	0
2	OI liabilities	50	-50	0	0	0	0	0	0	0
2	OI assets	150	-150	0	0	0	0	0	0	0
Economy C records:										
1	FDI liabilities	0	0	0	0	0	0	0	0	0
1	OI assets	0	0	0	0	0	0	0	0	0
2	FDI liabilities	0	100	0	0	0	0	0	0	100
2	OI assets	0	110	0	0	0	0	0	0	110

Note: All values are in USD. T = transactions; OI=Other Investment; ERC = exchange rate changes; OPC = other price changes; and OCV = other changes in volume; CWO=Cancellations and write-offs; R=Reclassifications.

Shifting a line of business from one DIE to another but the first DIE continues to exist

376. This case is much like above, but instead of shutting down DIE B in economy B, direct investor A decides to keep its DIE B in business after transferring some of the foreign repo business to DIE C. In period 1, direct investor A has an equity position in DIE B of USD 100, and DIE C does not yet exist. DIE B holds deposit liabilities of USD 50 and loans of USD 120 with unaffiliated non-residents. The clients of DIE B must be informed of the change from DIE B to DIE C as the creditor for solvency reasons and can cancel the instruments before they reach maturity.

377. In period 2, direct investor A signs an agreement to establish DIE C and another one to reduce the capital of DIE B, and, so, the transfer of equities is recorded as a transaction. Direct investor A moves half of the equity in DIE B (USD 50) to DIE C, and both DIEs B and C are performing the repo business. DIE C has taken over some of the financial assets of DIE B (repo business from DIE B) for a value of USD 50 that is also recorded as a transaction.

378. Annex Table 5.A.6 shows the reconciliation of the opening and closing external positions for economies A, B, and C. For economy A, there is no change in total FDI assets, but half of the initial position of USD 100 in economy B has moved to economy C. This move was achieved through a negative transaction of USD 50 with economy B that is completely offset by a USD 50 transaction with economy C in period 2. These transactions are shown in the panels for economies B and C.

379. The movement of part of the foreign repo business would be shown as transactions under other investment in Annex Table 5.A.6. For economy B, there is no change in its deposits during the two periods, but USD 50 of the loans are moved to economy C, which is recorded as a transaction.

Annex Table 5.A.6. Example of splitting a line of business between an existing DIE and a new DIE

Period	Account	Beginning of period:	Accumulation Accounts							End of Period:
			Financial account T	Revaluations	Due to:		OCV	Of which:		
					ERC	OPC		CWO	R	
Economy A records:										
1	FDI assets	100	0	0	0	0	0	0	0	100 (B)
2	FDI assets	100	0	0	0	0	0	0	0	100 (50 with B and 50 with C)
Economy B records:										
1	FDI liabilities	100	0	0	0	0	0	0	0	100
1	OI liabilities	50	0	0	0	0	0	0	0	50
1	OI assets	120	0	0	0	0	0	0	0	120
2	FDI liabilities	100	-50	0	0	0	0	0	0	50
2	OI liabilities	50	0	0	0	0	0	0	0	50
2	OI assets	120	-50	0	0	0	0	0	0	70
Economy C records:										
1	FDI liabilities	0	0	0	0	0	0	0	0	0
1	OI assets	0	0	0	0	0	0	0	0	0
2	FDI liabilities	0	50	0	0	0	0	0	0	50
2	OI assets	0	50	0	0	0	0	0	0	50

Note: All values are in USD. T = transactions; OI=Other Investment; ERC = exchange rate changes; OPC = other price changes; and OCV = other changes in volume; CWO=Cancellations and write-offs; R=Reclassifications.

DIE suffers a large loss in value of its assets and then is liquidated

380. At the start of period 1, direct investor A in economy A has a position in its DIE B in economy B of USD 100. During period 1, the value of the equities held by DIE B in its portfolio is reduced by USD 30. DIE B holds in its portfolio only foreign securities that were valued as USD 50, and the change is recorded as a revaluation (other price change) by economy B in portfolio investment during period 1, reducing the value to USD 20. In addition, DIE B recognises that a financial claim of USD 40 on unaffiliated non-residents can no longer be collected. This change is recorded as other change in volume in other investment. As a consequence of the reduction in value of these assets, the value of the equity liabilities of DIE B calculated at own funds at book values (OFBV) is reduced to USD 30. This reduction of 70 will be recorded as revaluations (other price changes) by both economies A and B when reconciling the FDI positions.

381. During period 2, DIE B is liquidated. The assets (including the remaining foreign securities of USD 20) are sold for a total of USD 80; of this, USD 50 is used to pay unaffiliated resident creditors, leaving a residual value of USD 30. To liquidate the company, a transaction in equity between A and B is recorded equal to the residual funds (USD 30). Annex Table 5.A.7 shows the recording of economies A and B to reconcile the opening and closing FDI positions as well as of the other functional categories relevant to the case.

Annex Table 5.A.7. Example of loss in value of assets of a DIE that is then liquidated

Period	Account	Beginning of period:	Accumulation Accounts							End of Period:
			Financial account T	Revaluations	Due to:		OCV	Of which:		
					ERC	OPC		CWO	R	
Economy A records:										
1	FDI assets	100	0	-70	0	-70	0	0	0	30
2	FDI assets	30	-30	0	0	0	0	0	0	0
Economy B records:										
1	FDI liabilities	100	0	-70	0	-70	0	0	0	30
1	Portfolio investment assets	50		-30		-30				20
1	Other investment assets	40	0		0		-40	-40	0	0
2	FDI liabilities	30	-30	0	0	0	0	0	0	0
2	Portfolio investment assets	20	-20	0	0	0	0	0	0	0
2	Other investment assets	0	0	0	0	0	0	0	0	0

Note: All values are in USD. T = transactions; ERC = exchange rate changes; OPC = other price changes; and OCV = other changes in volume; CWO=Cancellations and write-offs; R=Reclassifications.

Notes

¹ *BPM7* discusses two types of appearance and disappearance of financial assets and liabilities (*BPM7, Chapter 9, Section C.2*). The first of these is the monetisation and demonitisation of gold bullion, which is not relevant to FDI. The second is the treatment of assets declared under a tax amnesty, which may be relevant to FDI (see *BPM7, Chapter 9, paragraph 9.12b*).

6 Special cases

This chapter describes several special cases where it is not obvious whether a particular type of enterprise or activity qualifies as foreign direct investment. These cases include special purpose entities; investment in and by collective investment institutions; investment in land, buildings and other immovable objects; construction enterprises; mobile equipment, such as aircraft, ships and drilling rigs; insurance companies; and cash-pooling services. Each case is described and recommendations are made for its recording.

6.1. Introduction

382. There are a number of special cases where it may be unclear whether or why a particular type of enterprise or activity qualifies as a direct investment enterprise (DIE) or direct investor. The following cases are discussed below: special purpose entities (SPEs) and pass-through funds more generally; collective investment institutions (CIIs); land, structures and other immovable objects; construction enterprises; mobile equipment; insurance companies; and cash-pooling services.

6.2. Special purpose entities and pass-through funds

383. Multinational enterprises (MNEs) often have complex ownership structures to create and manage their regional and global production networks but also to minimise their tax burdens and overcome regulatory barriers. These complex structures can make it difficult to interpret foreign direct investment (FDI) statistics. This section will first describe SPEs, which are often embedded in the ownership structure. It then discusses the topic of pass-through funds, which result from these complex ownership structures, more generally. Many of the standard and supplementary FDI series presented in subsequent chapters are meant to address some of the issues with the interpretation of FDI statistics raised by SPEs and pass-through funds.

6.2.1. Special purpose entities

384. MNEs often diversify their investment geographically, through organisational structures that may include a SPE. A SPE is defined as: *A formally registered and/or incorporated legal entity recognised as an institutional unit and resident in an economy, with no or little employment, up to a maximum of five employees, no or little physical presence, and no or little physical production in the host economy. SPEs are directly or indirectly controlled by non-residents. SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services; and/or (ii) isolate owner(s) from financial risks; and/or (iii) reduce regulatory and tax burdens; and/or (iv) safeguard confidentiality of their transactions and owner(s). SPEs transact almost entirely with non-residents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities (Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7, (IMF, Forthcoming^[1]), Chapter 5, Section 2, paragraph 5.86)).* SPEs used by MNEs can include captive and specialised financial entities, such as financing subsidiaries, conduits, holding companies, shell companies, shelf companies, brass-plate companies, factoring and invoicing companies and securitisation vehicles, as well as non-financial entities, such as royalty and licensing companies, and merchanting companies (Box 6.1).

385. As legal devices, SPEs may be relatively cheap to create and to maintain. Incorporation or registration of SPEs is often associated with offshore financial centres¹, but they may also be found in other jurisdictions.

386. SPEs are residents of the economies in which they are incorporated or registered and, therefore, they may be direct investors or DIEs, even if they are shell companies or pass-through entities without any other productive economic activity of their own. If a shell company is incorporated abroad but all of its physical assets, operations, or management activities are in a second foreign economy, then it is classified as a direct investment holding company in its country of incorporation, and its activities in the second foreign economy would be evaluated to determine whether a separate institutional unit exists and, thus, be treated as a DIE. Similarly, if a shell company is incorporated abroad and has some physical assets or operations in two or more other foreign economies, the resident unit in the country of incorporation is classified as a holding company, and the activities in each foreign economy are evaluated individually to determine whether they meet the criteria for treatment as DIEs.

Box 6.1. A typology of SPEs

In its final report, the International Monetary Fund (IMF) Task Force on Special Purpose Entities provided a typology of SPEs. The typology was intended to help compilers to identify and classify SPEs based on their economic functions, but it should be noted that not all entities of the types included in the typology are SPEs; only entities meeting the definition of a SPE using the decision tree (Box 6.2) should be classified as such.

Captive financial entities

- conduits that raise or borrow funds, often from unaffiliated enterprises, and remit those funds to its direct investor or another affiliated enterprise
- holding companies that own or control equity in other enterprises on behalf of its owner without actively directing them
- shell companies, also known as shelf or brass plate companies, are formally registered, incorporated, or otherwise legally organised in an economy but do not conduct any operations in that economy other than in a pass-through capacity; these tend to be conduits or holding companies
- captive factoring and invoicing companies
- captive financial leasing companies
- intra-group lending companies

Financial entities

- captive insurance companies
- securitisation vehicles
- companies holding financial and non-financial assets (including real estate) for affiliated companies

Corporate groups non-financial entities

- ancillary companies that are wholly owned subsidiaries whose productive activities are confined to providing services to the parent corporation or other affiliated enterprises
- operational leasing companies
- merchanting companies
- royalty and licensing companies
- companies that legally hold intangible assets for affiliated enterprise(s)

Wealth management entities

Wealth management entities manage family trusts, foundations, and personal holding companies.

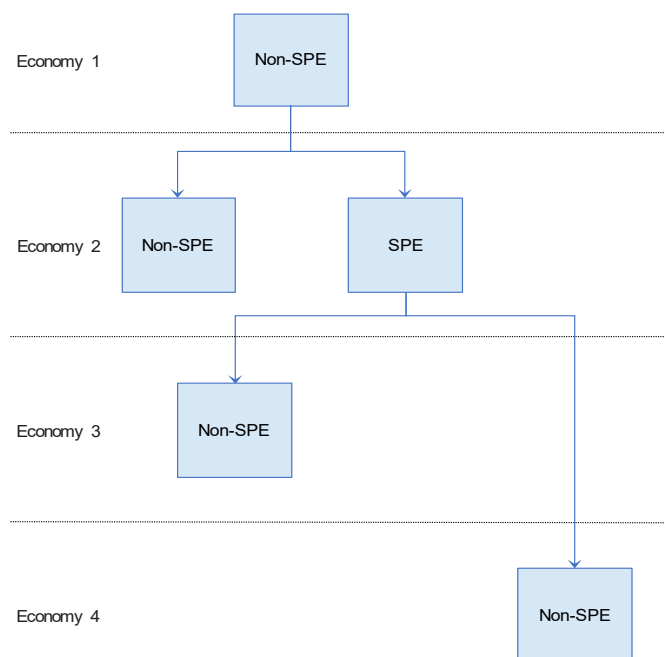
Government-owned financial entities

Central, state, or local governments are direct investors if they hold a 10% or more ownership interest in a non-resident enterprise. SPEs owned by governments for fiscal purposes are entities that raise or borrow funds on behalf of a non-resident general government.

Source: IMF BOPCOM (2018^[2]), *Final Report of the Task Force on Special Purpose Entities*, <https://www.imf.org/external/pubs/ft/bop/2018/pdf/18-03.pdf>.

387. SPEs qualify as part of a direct investment relationship (and are included with the framework for direct investment relationships – FDIR) by virtue of being resident in one economy and being owned by, or owning, an enterprise in a different economy in compliance with the 10% voting power criterion. In Figure 6.1, for instance, the SPE in economy 2 is used by its parent in economy 1 to indirectly hold enterprises in economy 3 and economy 4. Consequently, economy 2 should include in its FDI assets and liabilities presentation all the FDI investment held by or in resident SPEs as well as the FDI investment held by or in resident non-SPEs.

Figure 6.1. Positions held via an SPE



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

388. Direct investors use SPEs for the purpose of channelling funds to, and for borrowing funds from, third economies, and for the purpose of holding ownership interests in DIEs. As a result, when an economy hosts SPEs and includes them in its FDI statistics, an increasing part of transactions and positions merely reflects the channelling of funds via this economy. This can lead to a significant overstatement of FDI activity. FDI transactions passing through a SPE generally do not have the expected impact of direct investment, such as through technology transfers and access to competitive markets in the SPE host economies, although even their low levels of employment or physical production can be significant in very small economies. As a consequence, users are interested in series excluding transactions and positions of SPEs, which are purely pass-through funds, and which render these data difficult to interpret for policy or other decision-making purposes. Therefore, as explained further in Chapter 7, countries that host SPEs should explicitly separate FDI statistics on resident SPEs and non-SPEs in standard presentations of FDI according to the directional principle, disaggregated by geography and by industry.

389. In its final report, the International Monetary Fund (IMF) Task Force on SPEs provided a decision tree to help compilers identify these entities (Box 6.2). When reporting to the OECD, compilers should follow the IMF decision tree to identify resident SPEs in their FDI universe.

Box 6.2. Internationally agreed criteria to assist compilers to identify SPEs

Following the decision tree in the final report of the IMF Task Force on SPEs, an enterprise is usually considered as a SPE if it meets all of the following criteria:

1. The entity is a formally registered or incorporated institutional unit.
2. The entity is directly or indirectly controlled by a non-resident parent.
3. The entity is established with one or more of the four objectives identified in the definition. To answer this, the compilers will often need to use their knowledge of the legal and institutional setting in their economy to know if entities would gain these advantages.
4. The entity has no or up to five employees.
5. The entity has little or no physical production in the host economy and little or no physical presence.
6. The entity transacts almost entirely with non-residents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.

Source: IMF BOPCOM (2018^[2]), *Final Report of the Task Force on Special Purpose Entities*, <https://www.imf.org/external/pubs/ft/bop/2018/pdf/18-03.pdf>.

6.2.2. Pass-through funds

390. *Pass-through funds are defined as funds that pass through a direct investment enterprise resident in an economy to an affiliate in another economy, so that the funds do not stay in the economy of the first enterprise.* While SPEs play an important role in channelling investment from one economy to another, the phenomenon is not limited to SPEs. In some instances, MNEs may use operational companies to perform functions usually associated with SPEs. Beyond that, the definition above captures any funds that pass-through a DIE to another economy; as such, this definition encompasses pass-through funds arising not just from tax or regulatory motivations but that arise from a number of reasons, including mergers and acquisitions (M&A) and the establishment of regional headquarters (see Annex 6.D).

391. Pass-through funds ‘inflate’ FDI financial transactions, income and positions as each flow into and out of each economy is counted even if the funds are just passing through. As mentioned above, this overstatement of FDI activity can make it difficult to interpret FDI statistics in the sense that the pass-through funds do not represent investment that has a significant impact on the host economy. Moreover, pass-through funds can obscure the ultimate sources and destinations of FDI when the statistics are compiled by immediate partner country. This *Benchmark Definition* makes several recommendations to address pass-through funds to enhance the interpretability of FDI statistics by recommending that countries compile:

- Separate FDI statistics for resident SPEs to estimate a lower bound on the amount of pass-through
- FDI position statistics by the ultimate partner economy as well as by the immediate partner economy
- FDI statistics according to the residency of the ultimate controlling parent to estimate an upper bound on the amount of pass-through funds.

These presentations are discussed further in Chapter 7.²

6.3. Collective investment institutions

392. The *Benchmark Definition* recommends that when a CII owns at least 10% of the voting power in a non-resident entity that is not a CII, this should be considered as direct investment. However, in a change from the fourth edition of the *Benchmark Definition*, when an investor in one economy acquires at least 10% of the voting power in a CII in another economy, this investment should be regarded as portfolio investment. More precisely, investment by CIIs, such as mutual funds, hedge funds and distressed funds, should be included in FDI data if the standard 10% voting power threshold is met, but investment into CIIs should always be treated as portfolio investment. This treatment reflects that no single non-resident investor in a CII would likely exert influence over the investment strategy and day-to-day operations due to their collective legal nature. On the other hand, a CII, as a statistical unit, should be regarded as the investor that makes investment decisions, including the possibility that it could influence the operations of an enterprise if it meets the direct investment threshold (see Annex 6.C for examples of CIIs).

6.4. Land, structures and other immovable objects

393. Ownership of land and structures, including natural resources, in the compiling economy by an entity resident in another economy establishes a direct investment relationship. The one-year rule that is usually used to define the centre of economic interest (see Section 2.2.1) does not apply to land and buildings. Land (defined in Box 6.3) is always considered to be the property of the residents of the economy in which it is located; therefore, a notional enterprise is created when land is acquired by a non-resident, and this is the FDI asset recorded in the international accounts. The only exception to this general concept is the ownership of land and buildings by foreign governments in the form of embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, etc.³

394. An entity resident in one economy may acquire direct ownership (that is, without the creation of a separate legal entity) of land or buildings in another economy. The relevant financial transactions, positions and associated income should be recorded in the direct investment statistics of both economies. However, given the specific nature of the assets acquired, a notional DIE is created by the relevant compilers as the immediate owner of the assets in question. This notional enterprise is deemed to be resident in the economy where these assets are located. The actual owner of the assets, i.e., the direct investor resident in another economy, is deemed to own the notional enterprise. In other words, land, structures, and other immovable assets in the host economy that are indirectly owned by a non-resident entity should be regarded as owned by a notional DIE, even if the period of ownership is less than one year. Acquisitions of land, mineral rights, and associated assets, and preparatory expenses for future direct investment units should be regarded as direct investment transactions.

395. Within the context of the previous paragraph, land and buildings owned for personal use but not for production or other business purposes are also considered as direct investment. Holiday and second homes owned by non-residents should therefore be treated in the same way as described above. Similarly, where an investor resident in one economy acquires at least 10% of the ownership of property in another economy for commercial purposes (e.g., rental residence or office accommodation) this investment constitutes FDI.

396. FDI income on these assets includes income from notional DIEs created for holding land and buildings. This income would include rent earned from these assets. When the land or building is rented by the non-resident owners of the notional unit, then an imputation for rent (in the case of use of land), or travel services (such as a holiday home used by non-residents), or operational leasing (if non-resident enterprises own the asset for their own use) should be made. This income is measured net of expenses, such as for upkeep and maintenance of the property and the payment of local taxes. Income from notional DIEs is recorded in FDI income under withdrawals of income from quasi-corporations.

397. In accordance with the *2025 System of National Accounts (2025 SNA)*, (United Nations et al., Forthcoming^[4]), in contrast to an operational lease, the existence of a financial lease on land and buildings gives rise to the creation of a notional DIE with the understanding that it should be for a very long period rather than for a few years.

Box 6.3. Definition of land

Land consists of the ground, including the soil covering and any associated surface waters, over which ownership rights are enforced and from which economic benefits can be derived by their owners by holding or using them. The value of land excludes any buildings or other structures situated on it or running through it; cultivated crops, trees and animals; mineral and energy resources; non-cultivated biological resources and water resources below the ground. The associated surface water includes any inland waters (reservoirs, lakes, rivers, etc.) over which ownership rights can be exercised and that can, therefore, be the subject of transactions between institutional units. However, water bodies from which water is regularly extracted, against payment, for use in production (including for irrigation) are included not in water associated with land but in water resources.

Source: United Nations et al. (Forthcoming^[4]), *2025 System of National Accounts*.

398. Where a DIE is established for the purposes of natural resource exploration, its exploration expenditures should be capitalised (even if the exploration does not prove sufficient economic resources to be viable) as part of the equity investment in the DIE and written off (or written down) as appropriate. This promotes consistency with the *SNA*, which treats these expenditures as fixed capital formation.

399. For example, assume an oil company incorporates a DIE that drills an oil well. Assume also that the direct investor makes an equity investment in its DIE of 100 in period 1 (including expenditure on bonus preliminary fee payments made by the direct investor to a resident of the host country, usually the government for the right to undertake exploration for natural resources), 30 in period 2, and then closes down the operation at the end of period 2 when the well proves to be dry. There is a financial transaction from the direct investor to the DIE of 100 in period 1 and 30 in period 2 in direct investment accounts of both economies. No further entries for cross-border transactions are recorded after the shutdown of the operation in period 2. Instead, a negative stock adjustment of 130 is made in the direct investment asset position of the economy where the oil company parent is located, and an equal reduction is made in the direct investment liability position of the economy where the affiliate was located.⁴

400. Assume in contrast that the direct investor makes an equity investment in its DIE of 100 in period 1 (including expenditure on bonus preliminary fee payments made by the direct investor to a resident of the host country, usually the government, for the right to undertake exploration for natural resources), 30 in period 2, and receives natural resources (payments in-kind) as 40 of dividend in periods 3 to 5 and 10 of disinvestment in the last period. In this scenario, there are receipts of direct investment income and a withdrawal of direct investment (equity capital transaction) by the direct investor; a decrease in the direct investment asset position is recorded accordingly.

6.5. Construction enterprises

401. A construction enterprise in one economy may undertake the construction of plant, buildings, etc. in another economy through subsidiary or associate companies in that economy, through a foreign branch in that economy, or by directly undertaking the work itself. The construction work abroad is to be regarded as a direct investment activity in the economy in which it is being carried out in the first two circumstances.

If the construction enterprise undertakes the work itself (such as through an unincorporated site office or a branch), its activities may be regarded either as a direct investment activity or as an export of construction services by that enterprise, depending on circumstances. If certain criteria are met – such as the project extending over a period of at least one year; the maintenance of a complete and separate set of accounts for the activity (i.e., income statement, balance sheet, transactions with the parent company, etc.); the activity being subject to tax and other legislation in the host country; the existence of a substantial physical presence; the receipt of funds for its work for its own account, etc. – the work undertaken is to be treated as having involved the creation of a separate institutional unit, a branch, resident in the economy where the activity is being carried out and, therefore, a DIE. If these criteria are not met, the activity is to be treated as an export of services by the construction enterprise. Construction involved with major projects (bridges, dams, power stations, etc.) that are carried out through unincorporated site offices, in most cases, meet the criteria that requires treatment as the production of a resident unit, i.e., a DIE, and thus, as part of the production of the host economy, not as an export of services to that economy.

402. Where an enterprise resident in one economy installs machinery and equipment in another economy, the *Benchmark Definition* recommends that the work be regarded as services provided to another economy if the installation is carried out entirely, or primarily, by employees of the enterprise who travel abroad to do the work and they complete the installation in less than one year (that rule to be applied flexibly).

6.6. Mobile equipment

403. The operator of mobile equipment (such as ships, aircrafts, gas and oil drilling rigs) that operate within a single economy for at least one year and that fulfil the criteria for treatment as an unincorporated DIE should be treated as a direct investment branch (see also Chapter 2).

404. Various entities may be involved in the provision of shipping and other transportation services. For shipping, the following entities may be involved:

- Owner – holds an asset (the ship) and may be engaged solely in a leasing activity, i.e., the leasing of the ship to an operator
- Operator – is involved in shipping activities such as fishing, drilling or transporting freight and/or passengers
- Ticket sales or business promotion offices – established either by the owner of the ship (who is seeking operators) or by the operator of the ship (who is seeking passengers, freight, or other business).

405. The flag of a ship determines the authority that is responsible for overseeing the operations of the ship and may help determine the jurisdiction where business disagreements are litigated. The flag is often a “flag of convenience” – that is, neither the ship owner nor its operator may have any business operation in the country whose flag is flown. Therefore, the country of registration of the mobile equipment (e.g., of the ship) is not considered in determining the residency of any of the units involved in the shipping activity (that is, the owner or operator of the ship, and the ticket sales and business promotion offices), and so it is not relevant to the discussion of whether there may be a direct investment relationship.

406. If the owner and the operator are the same entity and the owner operates the ship in its own economy of residence, then there is no direct investment. If the owner and the operator are not the same entity (or are not related), then they are separate institutional units. The owner will typically receive a fee from the operator, reflecting the payment (rental services) for the use of the vessel. In this case, the owner is a lessor and is not a provider of transportation services. The operator of the vessel provides transportation services; it receives revenues for transporting passengers and/or freight, pays wages to crew members (who often are residents of a different economy than the operator), and incurs other

transportation-related expenses including port expenditures. The relationship between the owner and the operator of the ship is essentially that of a lessor and its lessee, not that of direct investor and a DIE if the owner and the operator reside in different economies and are not related; although, it is possible that they could be in a direct investment relationship. If the lessor owns at least 10% of the voting power in the lessee, any related transaction is recorded in FDI and not trade.

407. An owner may establish an incorporated or unincorporated enterprise that operates the ship. The country of the (affiliated) operator may differ from that of the owner, in which case a direct investment relationship exists. When the ship operations occur in international waters, the activities should be attributed to the economy in which the operator maintains residence.

408. The classification of management offices on the one hand, and business promotion and ticket sales offices on the other, also depends upon the criteria listed for the determination of, firstly, the existence of an institutional unit and then for a DIE. In some circumstances, they will qualify for classification as direct investment and, in other circumstances, they will not. Under the criteria used to determine the existence of direct investment (see Chapter 2), a distinction should be made between those enterprises that engage in real economic activities and have income and other financial statements, and units that are set up to increase sales of the institutional units that established them but that have no sales of their own, such as ticket sales offices and business promotion offices.

409. Determining the residence of shipping companies is often a difficult issue. Different types of leasing arrangements may make it difficult to determine whether the ship is being used under an operational lease or whether it has been effectively sold to the enterprise that operates it (that is, under a financial lease). Also, a ship may operate entirely in an economy outside the one in which its operator is incorporated. In this circumstance, the activity in the economy where the ship operates is a DIE (if it meets the criteria of a branch) that is owned by a direct investor located in the economy where the operator is incorporated.

410. Issues related to owners and operators of ships and complex leasing arrangements and their solutions are applicable to other types of mobile equipment, such as aircraft.

6.7. Insurance

411. The treatment of insurance raises many complex methodological questions. Most of these questions have applicability beyond direct investment, such as to portfolio investment, other investment, other investment income, and services trade (see *Integrated Balance of Payment and International Investment Manual, Seventh Edition (BPM7)*, (IMF, Forthcoming^[1])). The *Benchmark Definition* is fully consistent with the other major international standards where cross-cutting questions concerning the handling of insurance and insurance enterprises are more thoroughly discussed.

412. In general, the *Benchmark Definition* recommends that direct investment statistics for insurance companies be defined in the same way as those for industrial and commercial companies. However, compilers should take special steps for their appropriate treatment as positions and transactions involving insurance companies may be quite significant, and the accounting principles they follow may not always be fully consistent with preferred direct investment concepts.

413. One complex area involves the treatment of non-life insurance company technical reserves (prepayments of premiums and reserves against unsettled claims). Normally, these reserves should not be included in the direct investment equity position because these amounts are considered to belong to policyholders. In the special case of a captive insurance affiliate, however, the policyholder may be affiliated with the insurance enterprise. Businesses may establish or acquire a “captive” insurance company in order to obtain insurance coverage for unusual types of risk, or for lower premiums than may be available commercially. In this case, a 10% or more ownership level often is reached, and the captive

insurance company then meets the criteria for treatment as a DIE. In this circumstance, the technical reserves should be included in the direct investment debt component of the position.

414. For clarification, non-life insurance companies tend to classify insured losses according to general types. The first type includes losses that arise from events that are expected (from an actuarial perspective) to occur sometime in the future. Insurance companies establish and maintain sizable technical reserves largely for the purpose of satisfying losses from these future events. The second type includes losses that are “incurred but not reported”. These are losses from insured events (such as natural disasters) that have already occurred, but the insurance company does not know the size of the losses because claims have not yet been filed (that is, these losses were incurred but were not reported to the insurer). The third are known losses (incurred and reported to the insurer). To be consistent with the treatment of technical reserves (these belong to policyholders and not to stockholders or owners), liabilities arising from all three types of losses should be regarded as debt obligations of the insurance company to its policyholders and not as equity. As noted, in the case of a captive insurance affiliate, the policyholder is the direct investor, and so the debt of affiliated enterprises should be recorded in direct investment.

415. Mutual insurance companies are owned by their policyholders who tend to be unrelated to one another. Typically, no one resident owns at least 10% of the voting power (or the equivalent, for an unincorporated business enterprise) of a mutual insurance company, and, so, these companies do not usually meet the criteria for treatment as DIEs.

6.8. Cash-pooling arrangements

416. Cash-pooling arrangements provided by banks allow corporations to externalise the intra-group cash management, and thus, manage their global liquidity more effectively and with lower costs. Financial innovation has responded to the needs of company groups to manage funds in a centralised way by creating different cash-pooling arrangements. These are agreements between a bank and the entities of a group, which can be located in the same or in different economies, allowing for pooling of cash in real time. Cash-pooling appears to have become more popular after the 2007 global financial crisis and is currently very relevant in certain European countries.

417. The main types of cash-pooling arrangements are as follows:

1. Single legal account: Consists of (a) a set of virtual transactions/operational sub-accounts, which are used directly by the individual companies (part of a group), as well as the parent company, for their day-to-day operations; and (b) a top/master group account (usually held by the parent company), which constitutes an obligation of the pooling bank vis-à-vis the beneficiary, and concentrates the funds of the group. The virtual sub-accounts only track the intra-group positions and are not in a direct relationship with the bank. The information on virtual transactions usually is part of the service provided by the pooling bank to the client but are not necessary for the bank's accounting system. From the point of view of the bank, only changes in the top/master account should be reported as this will reflect changes in its claims vis-à-vis the parent company, the only direct client in this type of cash-pool.
2. Physical cash-pool: Each company that participates in the cash-pooling arrangement holds an account with the pooling bank. In addition, there is a master account that usually is held by the parent company. The balances of the surplus accounts are transferred to the master account on a regular basis (e.g., on a daily basis at close of business). Conversely, the parent company transfers liquidity from the master account to the accounts in deficit at the end of the period (day). In that sense, they are all counterparties of the bank, and the deficit balances from pooling participants appear only temporarily as assets on the bank's balance sheet.

There are two types of physical cash-pools. In a zero-balancing cash-pool, the full balance of the surplus accounts is transferred to the master account on a regular basis. The target-based cash-pooling specifies a (positive) threshold whereby liquidity is transferred to the master account from individual accounts when the balances of individual accounts exceed the threshold, and conversely, liquidity is transferred from the master account to individual accounts when their balances are below the threshold.

3. Notional cash-pool: As in the physical cash-pool, all the bank accounts represent a legal relationship between the pooling bank and the participating entities, which are thus direct counterparties of the bank. The pooling is performed by the bank by creating a notional top/master account that virtually consolidates the positions of the pooling participants but does not represent a resource or an obligation of the bank. As a result, no liquidity transfers resulting in inter-company loans take place. The funds will remain in the assets of the bank as a loan to a particular participating entity. However, following the structure of the cash-pooling, the loan is guaranteed by the cash-pooling members, subject to lower charges, restrictions and implicit interest, and typically can only be drawn upon to the extent that the overall pool has a positive net balance.

418. Following the debtor/creditor principle, the recording of cash-pooling arrangements in the balance of payments is complex and depends on the identification of the actual debtor and creditor instead of the payment service provider. The parent company and its subsidiaries should be able to report the internal booking entries as inter-company lending (assets and liabilities) depending on the direction of the funds, that is, if they become creditors or debtors. The presence of cash-pooling arrangements between affiliated parties needs to be identified via direct investment surveys when they take the form of single legal account or physical cash-pool.

Table 6.1. Summary of the treatment of the participation of a subsidiary in a cash-pooling arrangement

Types of cash-pooling arrangements		Instrument/functional category		Counterpart
		Asset	Liability	
Single legal account (SLA)		Debt instruments/FDI ¹	Debt instruments/FDI ¹	Owner of SLA
Physical cash-pool with a master account (MA)	Zero-balancing	Debt instruments/FDI ¹	Debt instruments/FDI ¹	Owner of MA
	Target-based	Deposits (up to the target)	Loan/Other investment	Bank
		Debt instruments/FDI ¹	Debt instruments/FDI ¹	Owner of MA
Notional cash-pooling		Deposits/Other investment	Loan/Other investment	Bank

Note: 1. Except for the debt between affiliated financial intermediaries that should be included under other investment. Debt instruments refer only to deposits and loans following the convention that if a bank is the debtor, the instrument takes the form of deposits, otherwise the instrument is a loan.

419. Table 6.1 above summarises the proposed statistical treatment for the different types of cash-pooling arrangements from the perspective of the compiling economy of the participant subsidiaries. If an overdraft or loan is received by a pooling participating subsidiary and covered by a single legal account or a physical cash-pool, the creditor is the parent company (the holder of the top/master account) and the recording is done as intra-group loans in FDI (except for the debt between affiliated financial intermediaries). However, if the overdraft or loan is based on a notional cash-pool, the creditor is the pooling bank and, thus, the recording is done as 'other investment' between the pooling bank and participating entities.

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Annex 6.A. List of borderline cases and exclusions from FDI

List of borderline cases

SPEs and pass-through funds

420. Financial corporations such as special purpose entities (SPEs) or conduits that raise funds in open markets on behalf of their parent corporation or fellow enterprises are usually encompassed in the *SNA* definition of “Other financial corporations”. Therefore, non-equity transactions/positions between these financial corporations should be included in FDI. A more detailed discussion of SPEs and related issues may be found in Annex 6.B.

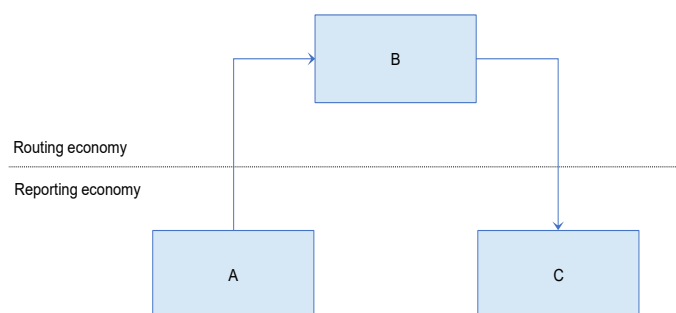
421. Fiscal SPEs are entities owned or controlled by general government that are resident in another territory and used to support government revenue or expenditure. Such entities are resident in their economy of incorporation or registration, not in the economy of their owner. For example, a government may use a non-resident special purpose or other entity to issue securities to fund its expenditures. The *Benchmark Definition* recommends that fiscal SPEs should be treated as DIEs. All financial transactions and positions between them and their parent government should be recorded as direct investment.

422. More generally, cross-border transactions/positions that are pass-through funds via structures put in place to facilitate the financing and transfer of investment within multinational enterprises are included in direct investment as they are integral parts of a direct investment relationship identified according to the framework of direct investment relationships (FDIR). Nevertheless, these transactions often transit through an economy without producing the same impact as FDI in operating affiliates in this economy when the final destination of investment is in a different economy. Since these transactions may distort the analysis of direct investment positions/transactions, this edition of the *Benchmark Definition* recommends that countries in their standard FDI presentation i) exclude funds going through resident SPEs from the key FDI statistics but to present them as a separate series; (ii) also present inward positions statistics by ultimate investing economy. It also recommends that countries include in their supplementary FDI presentations, (i) outward position statistics by the ultimate host economy; and (ii) aggregate FDI statistics by the residence of the ultimate controlling parent (i.e., if domestic or not). These statistics should be presented according to the directional principle, and the first series should be disaggregated by economy of immediate counterpart and by industry to facilitate the economic analysis of direct investment.

Round-tripping

423. *Round-tripping is defined as the channelling abroad by direct investors of local funds and the subsequent return of these funds to the local economy in the form of direct investment.* From the perspective of the reporting economy, the simplest example of round-tripping occurs when a domestic investment involves FDI through a subsidiary or associate located abroad. For example, in Annex Figure 6.A.1, company A in the reporting economy provides FDI funds to a non-resident related company (company B) in the routing economy for it to invest them back in another company (company C) in the reporting economy.

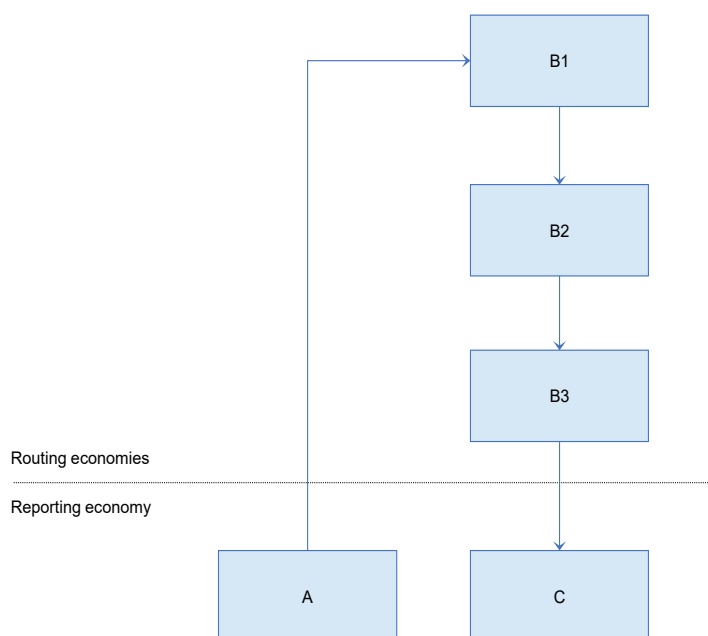
Annex Figure 6.A.1. A simple case of round-tripping



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

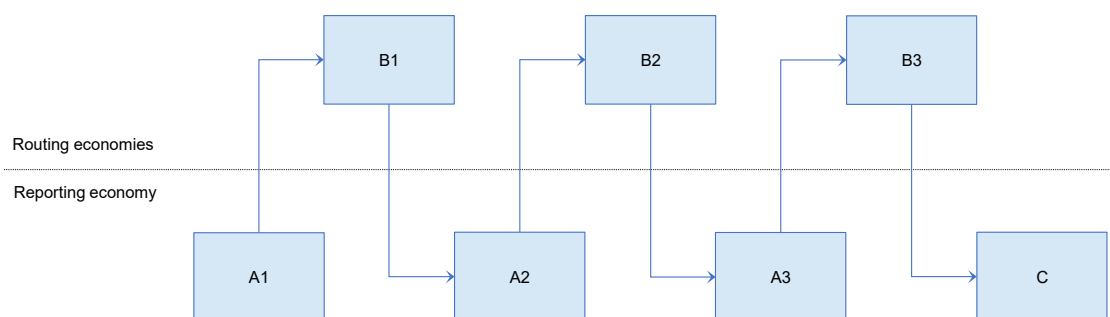
424. The simple group structure in Annex Figure 6.A.1 can be easily extended to cover other more complex group structures that are conducive to round-tripping. Two examples of such structures are included in Annex Figure 6.A.2 and Annex Figure 6.A.3 below:

Annex Figure 6.A.2. Round-tripping with many entities in routing economies



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Annex Figure 6.A.3. Round-tripping with many entities in routing and reporting economies



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

425. There are many reasons for round-tripping, such as:

- Tax and fiscal advantages: some economies provide preferential policies to attract FDI, including low taxation, favourable land use rights, convenient administrative support, etc. Since it is not always easy for local enterprises to attract foreign investors, they may channel domestic capital abroad, which is then repatriated as foreign capital for local investment to take advantage of the preferential treatments only available to foreign investors.
- Property right protection: infrastructure for property right protection in some economies is not well established. Therefore, the enterprises in these economies may have the motivation to locate their wealth in related enterprises set up in other economies having better legal and institutional settings for property right protection. As well, some investors may prefer to conceal their identities by investing through companies set up in offshore financial centres. Capital will then be brought back to host economies in the form of FDI if there are profitable investment opportunities.
- Expectations on exchange control and exchange rate: some economies have control of financial movements and exchange rates. Expectations on changes in exchange control and exchange rates may generate round-tripping for greater flexibility in foreign exchange management.
- Accessing better financial services: Financial markets of some economies are not well developed. Enterprises resident in these economies have to access overseas financial markets for better financial services, such as listing of companies in overseas stock markets. The funds raised will be brought back to host economies in the form of FDI. Round-tripping may occur as part of this process.
- From mergers and acquisitions: If a domestic company acquires control of a foreign enterprise with pre-existing links back to the domestic economy, this can create a round-tripping relationship and subsequent transactions in the newly-formed domestic multinational enterprise.
- Regional headquarters: a domestic company may control other domestic affiliates through a non-resident company to profit from knowledge and skills located abroad and by benefitting from the spillovers that similar companies can generate together.
- Reducing transaction costs: companies may provide goods and services through supply chains consisting of their affiliates, including affiliates in the domestic economy. Ownership links directly between these affiliates may help reduce transaction costs and facilitate interactions along these supply chains.

426. Round-tripping of funds flowing between subsidiaries, associates or fellow companies have to be recorded as FDI transactions/positions. For the local economy, they appear as FDI assets for the local funds channelled to routing economies, and as FDI liabilities for the subsequent return of the funds to the

local economy. For the routing economy, they appear as FDI liabilities for the funds received from the local economy, and as FDI assets for the return of these funds to the local economy.

427. It may be argued that these round-tripping funds lead to an overstatement of the genuine magnitude of FDI. The *Benchmark Definition* recommends therefore separate standard and supplementary breakdowns when this phenomenon significantly affects FDI data of an economy. From the point of view of the routing economy, round-tripping may be partly linked with pass-through funds transactions/positions. In this case, the *Benchmark Definition* recommends that round-tripping that passes through SPEs in the routing economy along with all transactions and positions to and from resident SPEs be separately distinguished. From the point of view of each reporting economy, the geographical breakdown according to the ultimate host economy (UHE) and the ultimate investing economy (UIE) could provide users with very interesting information on the extent of round-tripping into the compiling economy.

Investment funds

428. This *Benchmark Definition* recommends that investment by collective investment institutions (CIIs) that meets the operational definition of FDI be treated as direct investment (see Section 6.3) despite the fact that the motivations and investment strategies of CIIs may differ from those of other direct investors. For example, CIIs may not be interested in managing the strategic and day-to-day operations of the DIE; they may also have a shorter time horizon for their investment. This treatment is aligned with the strict application of the 10% ownership of voting power threshold and ensures consistency in recording across economies. However, in a change from the fourth edition of the *Benchmark Definition*, when an investor in one economy acquires at least 10% of the voting power in a CII in another economy, this investment should be regarded as portfolio investment. Annex 6.C provides a detailed discussion of collective investment institutions.

Payments associated with the acquisition of a right to undertake a direct investment

429. In many developing or transition economies, the government requires the payment of an agreed amount of money by direct investors for the right to undertake a direct investment in the host economy. Often, but not always, these operating or concession rights are related to the extraction of natural resources. In transition economies, compilers refer to these payments as "bonuses". They are legal transactions and should not be associated with poor governance.

430. The *Benchmark Definition* recommends that such bonus payments should be recorded as "direct investment: equity" when there is an intention to establish a DIE (such as in the case of a contractual arrangement between the investor and the government).⁵

Other borderline cases

431. In the process of globalisation of economic activities, cross-border transactions might at first appear to be foreign direct investment when in fact they do not meet the criteria. For example:

1. An enterprise undertakes to build for a foreign client, usually a government, a complete manufacturing plant, to provide technical knowhow, and to manage and operate a plant for a number of years, without an ongoing on-site managerial presence and without other criteria for the existence of a DIE being met. It has complete control over day-to-day operations and receives a management fee, paid either in cash or in goods produced by the plant. However, the enterprise has no equity stake in the plant and is performing a cross-border service.
2. An enterprise has a long-term contract with a foreign company, provides it with technical knowhow, and has considerable influence over the quality and quantity of output. The enterprise may provide

a loan to the foreign company and sometimes will have a member on the company's board. However, there is no equity stake. It is once again a cross-border service.

3. Some host countries have made agreements with a number of foreign enterprises where the host country supplies factory accommodation, electricity, staff accommodation, administration and labour. The foreign enterprise supplies all production machinery, fixtures and fittings for the building and production materials, and is responsible for the initial training of the labour force. The foreign enterprise then pays an agreed piecework rate for each item produced. Where the production machinery and fixtures and fittings remain the property of the foreign enterprise, there is technically a direct investment branch, though the branch's profits will be zero. There is no direct investment interest if the machinery becomes the property of the host country.
4. Some professional companies operate much like a multinational enterprise, but do not hold equity in one another. For example, unrelated (in an equity sense) accounting or management consulting firms may operate globally under a single name, refer business to one another and receive fees in return, share costs (or facilities) for such items as training or advertising, and may have a board of directors to plan business strategy for the group. This is not direct investment and would be difficult or impossible to account for as such, but it does have much in common with direct investment.
5. Other cases might include foreign sales and representative offices, as well as foreign stations, ticket offices, and terminal or port facilities of domestic airlines or ship operators. Such offices or activities can be treated as direct investment only if they meet the requirements of residence and the attribution of production in an economy as described in Chapter 2.

List of exclusions from FDI

Transactions/positions/income between related financial intermediaries

432. The *Benchmark Definition* recommends that all inter-company flows – with the exception of those pertaining to equity finance – between certain types of related financial intermediaries should be excluded from FDI financial and income transactions and positions. Deposits and other amounts lent by a financial intermediary to its financial intermediary subsidiary or associate located abroad, as well as deposits and other borrowings between such companies, should be classified as "other investment" rather than direct investment. A similar treatment applies to investment between fellow enterprises that are financial intermediaries. Debt securities between related financial intermediaries are classified as "portfolio investment".

433. The definition of the scope of enterprises included under "financial intermediary" should be equivalent to the 2025 SNA definitions. The SNA classifies financial corporations under three categories, namely financial intermediaries, financial auxiliaries and other financial corporations. Financial intermediaries are institutional units that incur liabilities on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market. Financial auxiliaries are institutional units principally engaged in serving financial markets, but that do not take ownership of the financial assets and liabilities they handle. Other financial corporations are institutional units providing financial services, where most of their assets or liabilities are not available on open financial markets.

434. The financial corporation sector can be divided into nine sub-sectors according to its market activity and the liquidity of its liabilities (see Annex 2.C). Hence, non-equity transactions/positions (and investment income) between two related financial intermediaries that are part of deposit-taking corporations, money market funds (MMFs), non-MMF investment funds or other financial intermediaries, except insurance corporations and pension funds (ICPFs), would be excluded from FDI. While they are financial intermediaries, insurance corporations and pension funds are not treated in the same manner as other financial intermediaries for the purposes of this exclusion.

435. Annex Table 6.A.1 summarises the transactions/positions included in or excluded from FDI statistics for financial corporations:

Annex Table 6.A.1. Overview of transactions/positions included in and excluded from FDI

	INVESTEES	Financial intermediaries		Financial auxiliaries	Captive financial institutions and money lenders
INVESTOR		Except ICPFs	ICPFs		
Financial intermediaries					
Deposit-taking corporations, MMFs, non-MMF investment funds, other financial intermediaries (except ICPFs)	Equity finance	Included	Included	Included	Included
	Debt	Excluded	Included	Included	Included
ICPFs	Equity finance	Included	Included	Included	Included
	Debt	Included	Included	Included	Included
Financial auxiliaries	Equity finance	Included	Included	Included	Included
	Debt	Included	Included	Included	Included
Captive financial institutions and money lenders	Equity finance	Included	Included	Included	Included
	Debt	Included	Included	Included	Included

Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Financial derivatives

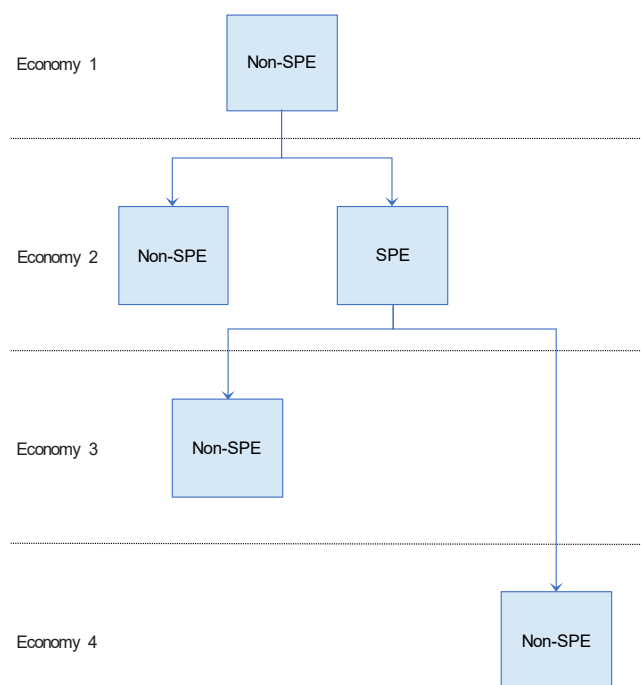
436. A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risk, etc.) can be traded in their own right in financial markets. There are two broad types of financial derivatives: forwards (including futures and swaps, other than gold swaps) and options. Financial derivatives are excluded from FDI statistics.

Annex 6.B. Special purpose entities

Introduction

437. The purpose of this annex is to assist compilers to identify some common types of special purpose entities (SPEs) relationships. The identification of SPEs allows foreign direct investment (FDI) compilers to segregate transactions and positions that hardly affect domestic economic activity and do not reflect genuine investment activities in or of the reporting economy itself.

Annex Figure 6.B.1. Direct investment positions held via an SPE



Source: OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

438. Referring to Annex Figure 6.B.1, this *Benchmark Definition* addresses problems with the interpretation of FDI statistics caused by SPEs as follows:

1. for the standard presentations:
 - a. economy 2 should report separate transactions and positions vis-à-vis economy 1 (inward) and 3 (outward) of its resident SPEs and non-SPEs;
 - b. economies 3 and 4 should report their inward investment positions by the ultimate investing economy (economy 1);
2. for supplementary presentations:
 - a. economy 1 is recommended to reallocate its outward investment position in the SPE in economy 2 to the ultimate host economies of 3 and 4;
 - b. economy 2 is recommended to report its aggregate FDI statistics according to the residency of the ultimate investor to estimate the upper bound of the total pass-through funds.

439. FDI statistics under points (1) and (2) above are based on the directional principle to facilitate the economic analysis of foreign direct investment.

440. The next section of this annex will provide some guidance for the implementation of the definition of SPEs. The last section will provide a few examples of SPEs in ownership structures that may pose difficulties for compilers and explain the recommended recording (IMF, 2022^[5]).

Implementing the definition of SPEs

441. An entity must meet six criteria to be classified as a SPE (Box 6.2). This section will consider each of these criteria and offer some advice for applying them.

A formally registered or incorporated resident institutional unit

442. There are two aspects to this criterion: i) that it be resident in the economy, and ii) that it be an institutional unit. As SPEs have little or no physical presence, their residence is determined according to the economic territory under whose laws it is incorporated or registered (*BPM7, Chapter 4, Section 2, paragraph 5.86*). An institutional unit is responsible and accountable for the decisions and actions that it takes. Consequently, SPEs that do not meet the criterion of autonomy of decision should in principle be regarded as part of the parent and be consolidated with it for statistical purposes. However, *BPM7 (Chapter 4, Section 2, paragraph 5.93)* states that “An entity of this type that cannot act independently of its parent and is simply a passive holder of assets and liabilities... is not treated as a separate institutional unit unless it is resident in an economy different from that of its parent...” Therefore, the residence of a SPE and its parent is a critical determinant of its statistical treatment. If a SPE is resident in the same economy as its parent, even if indirectly foreign-controlled, then it will likely not meet the definition of a statistical unit and would be consolidated with its parent. This case is discussed further in Section ‘Types of SPEs relationships’ below.

Directly or indirectly controlled by a non-resident

443. While FDI covers both influence and control relationships, for identifying SPEs, the entity must be controlled by the direct investor. Control is determined to exist if the non-resident direct investor owns more than 50% of the voting power in the DIE either directly or indirectly through a chain of FDI relationships following the FDIR.

Objectives of the SPE

444. The definition of a SPE requires that the SPE be established to benefit from advantages offered by the host economy. Specifically, the direct investor is seeking to achieve at least one of four objectives in establishing the SPE to:

- gain access to capital markets or sophisticated financial services
- isolate owners from financial risk
- reduce tax or regulatory burden
- safeguard confidentiality of transactions and owner(s).

445. To apply this criterion, the compiler will likely need to rely on their expert knowledge of the legal and institutional setting in their economy; it may also be useful to discuss with regulatory and supervisory authorities to determine if their economy offers these advantages to foreign investors. In addition, non-governmental organisations, international organisations, and private sector companies may publish information identifying the attractiveness of various economies as hosts for SPEs.

Employment up to five employees

446. A maximum of five employees is used in the definition to establish that the SPE has little or no employment; this limit applies both to those directly employed and those employed through employment service agencies. This criterion is easy for compilers to implement if they have access to information on employment. However, some care should be taken to the stability of the SPE population in applying this limit. For example, if an entity that has five employees and meets the other criteria to be classified as a SPE temporarily increases its employment to six employees, it can still be classified as a SPE as long as it has no more than five employees most of the time.

Little or no physical presence or production

447. Physical production is any activity that uses inputs, such as employees, physical capital, and goods and services to produce outputs that are delivered or supplied to other institutional units. Little physical presence implies the absence of physical assets, such as property, plant, equipment, and sub-soil assets, in the host economy. The physical presence of a SPE is usually expected to be limited to having a physical address, electronic communication addresses, and, if legally required or otherwise necessary, small-scale premises.

Transacts almost entirely with non-residents

448. The purpose of this criterion is to identify entities that have limited links to the domestic economy. For SPEs that engage in pass-through, this criterion implies that the majority of their financial assets and liabilities will be with non-residents (the case of a chain of SPEs is considered in Section 'Types of SPEs relationships' below). For other types of SPEs, such as royalty and license fee companies, captive insurers, those engaged in merchanting, and those engaged in operational leasing, this criterion may be more difficult to apply as it requires an understanding of the business model of the SPE.

Types of SPE relationships

SPEs in direct relationships with non-resident entities

449. Many SPEs are directly foreign-owned and only have assets and liabilities vis-à-vis non-residents, such as enterprise B in Annex Figure 6.B.2. In this case, the classification as a SPE is straightforward.

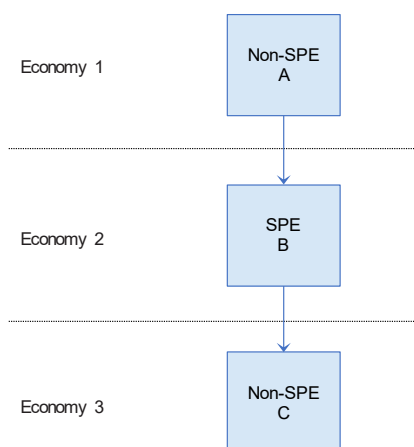
Resident chains of SPEs and mixed groups of SPEs and operating entities

450. The part of a chain of FDI passing through a country may also consist of two or more entities as illustrated in Annex Figure 6.B.3. While the entity B1 meets the criteria to be a SPE, it holds both a SPE (B2) and an operating entity (B3) in the domestic economy (economy 2). Therefore, its classification as a SPE will depend on a number of factors. If the chain consisted solely of the two SPEs B1 and B2, then the classification of B1 as a SPE would be straightforward because the assets it holds in B2 are not relevant to the domestic economy. When the chain also includes an operating entity like B3, then one of the key factors in determining if B1 should be classified as a SPE is the composition of its balance sheet; the relative importance of the resident and non-resident assets in its total assets are one consideration for the compiler. Another important consideration is the extent to which the operating entity has links with the domestic economy. If the compiler finds few links between B3 and the domestic economy and/or that the resident assets are only a small proportion of the balance sheet, then B1 should be classified as a SPE.

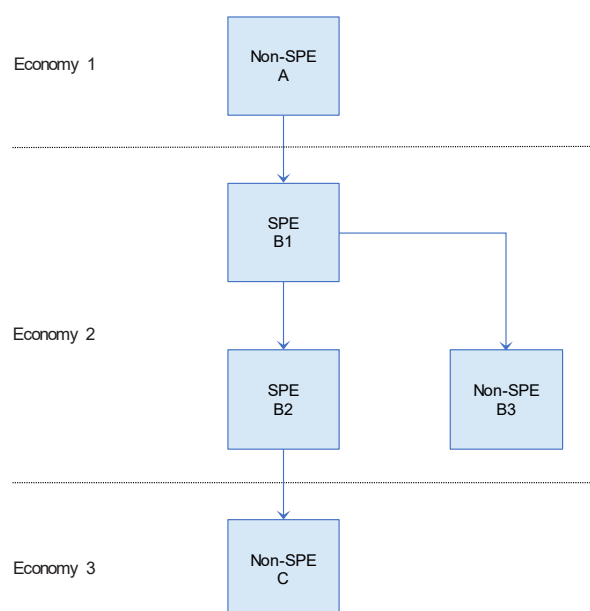
451. In the case where B1 is an operating entity rather than a SPE, then it is likely that B2 would be consolidated with it, as B2 would not meet the criteria to be considered a separate institutional unit.⁶

Nevertheless, compilers are encouraged to identify the cross-border positions and transactions of B2 separately from its parent B1, if it is possible to do so, and to classify them as SPE-related to provide a more complete picture of the cross-border activities of SPEs.

Annex Figure 6.B.2. SPE in direct relationship with non-residents



Annex Figure 6.B.3. Chain of entities



452. From the above examples, it may be concluded that for an appropriate classification as SPEs of enterprises owned by non-residents and related with each other in chains or groups, compilers may want to use additional criteria. In the case of resident chains of entities, compilers should take into account whether assets in resident entities, such as those of B1 and B2, are really relevant to the domestic economy. If not, these enterprises would be considered as potential SPEs.

Annex 6.C. Collective investment institutions

Description of collective investment institutions

453. The term *collective investment institution (CII)* generally refers to incorporated investment companies and investment trusts, as well as unincorporated undertakings (such as mutual funds or unit trusts), that invest in financial assets (mainly marketable securities and bank deposits) and/or non-financial assets using the funds collected from investors by means of issuing shares/units (other than equity). Other terms referring to CII may also be used, e.g., collective investment scheme, collective investment vehicle, collective investment undertaking, and in certain cases, investment fund.

454. The CII can be open-ended or closed-ended. If open-ended, there is no limit to the number of shares/units on issue and the shares/units can be, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking's assets. If closed-ended, the number of shares/units on issue is fixed and investors entering or leaving the fund must buy or sell existing shares. The shares/units can be quoted or unquoted. The CII may pay periodic dividends, capitalise the income or a combination of those approaches, depending on the terms set out in its prospectus.

455. CII may be constituted: (i) under the law of contract (as common funds managed by management companies); (ii) under trust law (as unit trusts); (iii) under a statute (as investment companies); or (iv) otherwise with similar effect. Some CII invest in other similar vehicles (e.g., "funds of funds"). It should be noted that occupational pension funds are not CII; they are part of the insurance companies and pension funds subsector.

456. The prospectus also sets out the investment policy or strategy of the CII in terms of the types of financial instrument or other assets to be acquired (such as bonds, equities, real estate) and their geographical (e.g., Asian, American, European, emerging markets) or currency make-up, or any other investment strategy. CII may have different objectives. For example, some CII may target capital growth and be generally characterised as "growth" funds, whereas others may be structured to produce a regular stream of income, through interest and/or dividends and be characterised as "income" funds. The prospectus indicates whether the CII can undertake any leveraging activity and how it might do so (e.g., through straight borrowing, through repurchase agreements, or by using financial derivatives). The terms and conditions for redemption (for open-ended schemes) or the means of sale (for closed-ended schemes) are also set out in the prospectus.

457. CII are generally "brass plate" enterprises and are managed by professional investors who may offer a variety of funds with their own market orientation and who make investment decisions on behalf of investors. Administration, management, custodial and trustee services may be provided to the CII by separate service providers, some of whom may be located in different jurisdictions. For example, a CII may be domiciled or registered to operate in one economy and may be managed by a service provider in another economy with custodial services being located in a third economy. The location or domicile of a CII may be decided by its promoter in the context of optimising its tax liabilities or of utilising preferential securities regulation arrangements in the process of asset management. Cross-border transactions may, and frequently do, occur.

458. At the outset, CII may be classified broadly into two main categories: (a) ordinary or retail type entities and (b) other types of CII. The ordinary/retail type CII may in turn be a contract type or a corporate type. A contract-type retail CII is generally a mutual fund or unit trust or similar vehicle, while a corporate-type CII may be an investment trust or a corporation acting as an investment vehicle. In both cases, the

assets acquired tend to be highly liquid and investment subscriptions (and, later, redemptions) are made by a large number and variety of investors. The investment is made generally to gain a short-term interest, via contract-type or corporate-type investment trusts, in portfolio securities. There may be significant diversification of the asset classes, for example, mainly by economy/economic zone, by type of financial instrument (equity, bonds, money market instruments, derivatives, etc.).

459. There is a variety of other types of CII that cannot be considered as retail in nature. The investors into these CIIs can vary from private households to corporate entities and the asset classes acquired can also vary considerably from liquid to illiquid types. Their legal structures, trading practices, investment policies and operations generally need to be considered by compilers to decide the classification for balance of payments statistical purposes of the entities involved and their investment and other economic transactions.

460. A number of different examples of financial institutions fall within the scope of the description of collective investment institution (CII).⁷ Included are:

- investment funds
- mutual funds
- unit trusts
- variable capital companies
- investment limited partnerships
- feeder/master funds, umbrella funds/sub-funds, funds of funds
- hedge funds
- professional investor funds
- private equity funds
- distressed funds
- property and real estate funds
- money market funds.

461. It must be stressed that the examples of CII listed above can exist under the same or different labels in different economies. The name or label used may give some indication of the type of scheme or its type of investment orientation, or of the main objective of the investment vehicle used (e.g., venture fund, futures and options capital protected fund, bond fund, balanced fund, growth fund, index fund, sector fund, international or regional funds, junk bond fund). However, caution is needed in interpreting from its title or label what a CII is and how it operates.

462. An investment fund is a CII that issues shares (if a corporate structure is used) or units (if a trust structure is used) to the public, and that invests the capital raised in financial and/or non-financial assets.

463. A mutual fund can be defined as an entity that issues shares or units, which are purchased by investors. The basic scheme of a mutual fund is quite common in many other CIIs. The subscriptions collected may be invested in different types of assets (non-financial as well as financial) and the investors may receive either regular income or, at redemption, holding gains (or losses) or a combination of both. The mutual fund can be open-ended or closed-ended, and the shares/units can be quoted or unquoted.

464. A unit trust operates as a CII established under a trust deed made between the fund's management company and its trustee. The legal structure of a unit trust may vary among jurisdictions but, in general, it would appear that the trustee acts as the legal owner of the fund's assets on behalf of the group of investors who are each entitled to an undivided beneficial interest in the fund. Similar to shareholders in an investment company, the unit holders are entitled to attend and vote at meetings on matters affecting the fund. The trust deed is the primary legal document that constitutes the trust, and it sets out the various rights and obligations of the trustee, the management company and the unit holders.

465. A variable capital company is normally set up to invest its funds and property with the aim of spreading investment risk. It is managed by a management company for the benefit of its shareholders who enjoy limited liability status. The characteristics of variable capital companies are that they can repurchase their own shares and that the issued share capital must at all times be equal to the net asset value of the underlying assets.

466. An investment limited partnership is a partnership of two or more persons having as its principal business the investment of its funds in financial and non-financial assets of all kinds and consisting of at least one general partner and at least one limited partner. The limited partner is equivalent to the shareholder in a company whilst the general partner is generally the equivalent of the management company in a unit trust. The investment limited partnership generally does not have an independent legal existence in the way that a company does. All of the assets and liabilities belong jointly to the individual partners in the proportions agreed in the partnership deed. Similarly, the profits are owned by the partners.

467. Feeder/master funds, umbrella funds and funds-of-funds are set up with one of the main objectives being the facilitation of access by investors to greater asset diversification than would be available through the more conventional CII. All types of structures exhibit the characteristic that one fund invests in one or more other funds. The arrangement must meet the statutory regulatory requirements of the authorities where the funds are domiciled (i.e., legally registered). In this context, the different funds in a particular investment arrangement may be domiciled in different jurisdictions and may also have different legal structures. In general, the country of registration of the entity concerned is taken to be the country of domicile of the fund.

468. Hedge fund is a term that covers a heterogeneous range of CII, typically involving high minimum investment projects, light regulation, and a wide range of investment strategies that tend to involve assets that are highly illiquid. The range of strategies include: hedging against market downturns; investing in asset classes such as currencies or distressed securities; and utilising return-enhancing tools, such as leverage, derivatives, managed futures and arbitrage (e.g., bonds, stocks and risk arbitrage). Many hedge funds target consistency rather than magnitude of return as their primary goal.

469. A professional investor fund is a fund authorised to require a relatively high level of minimum subscription from eligible investors. Borrowing restrictions applied to other more common CII may also be relaxed.

470. A private equity fund is established to enable partnerships of qualifying individual investors or groups consisting of up to 100 qualifying individual investors to participate. Such funds can include venture capital funds, as well as buying-out funds, whose investors tend to be mainly institutional investors acquiring and selling shares to gain a long-term interest through participation in the control or management of an enterprise for a specified period to enhance its value.

471. Distressed funds are established to invest at deep discounts in equity, debt, or trade claims, of companies undergoing or facing bankruptcy or reorganisation.

472. In a property or real estate fund, the term property is generally defined as a freehold or leasehold interest in any land or building, with a specified minimum unexpired lease period. Partly paid shares may be issued.

473. A money market fund (MMF) is a very special type of CII. It issues shares or units to the public that are, in terms of liquidity, close substitutes for deposits, and it invests the proceeds primarily in low-risk short-term money market instruments (treasury bills, certificates of deposit, and commercial paper), MMF shares/units, as well as in bank deposits and instruments that pursue a rate of return that approaches the interest rates of money market instruments. In some jurisdictions and depending on their set-up constraints, some MMFs are classified as monetary financial institutions.⁸

474. It should be noted that occupational pension funds (i.e., those schemes sponsored by employers on behalf of their employees) are generally not regarded as CII. The main reasons for this are: firstly, the liabilities of occupational pension funds tend to be long-term and are in the form of insurance technical reserves; the liabilities of CII are in the form of equities, shares or units. Secondly, there are very rigid conditions concerning the encashment by investors (employees principally) of their pension funds, e.g., the assets of these funds generally cannot be realised by the individual investor until he/she reaches a certain retirement age. An investor in a CII can cash in his/her investment whenever desired.

Recording of CII in external sector statistics

475. In general, on the liability side, investment into CII involves the pooling of the investment contributions of a number of investors so that the units/shares acquired by each individual account for a very small proportion (generally much less than 10%) of the total number of units/shares issued by the scheme. There are some CII, however, that may have a small number of investors (e.g., property/real estate funds, private equity funds, distressed funds) and the investors in individual cases may contribute sizeable proportions (more than 10%) of the overall capital invested. A CII may have resident investors, non-resident investors or a mixture of both. Nevertheless, the collective legal nature of the CII, that is, more than one investor, suggests that no single foreign resident has direct control of the investment strategy and day-to-day operations of the fund. Therefore, investment in a CII should always be classified as portfolio investment even if the voting power of a non-resident investor exceeds the 10% threshold.

476. On the assets side, a CII can invest in both resident and non-resident financial securities or other assets. There tends to be very little or no concentration of the pooled investment into significant proportions (10% or more) of the shares issued by individual enterprises that are acquired by the CII. In the case of FDI by a CII, the fund as a statistical unit should be viewed as the investor that takes investment decisions, suggesting the possibility of control over the strategic and day-to-day operations of the individual businesses it owns. Therefore, if the voting power of a non-resident enterprise by a CII exceeds the 10% threshold, it should be classified as direct investment.⁹

Annex 6.D. Examples of pass-through funds in FDI

Overview

477. *Pass-through funds in foreign direct investment (FDI) are defined as financing that passes through a direct investment enterprise resident in an economy to an affiliate in another economy, so that the funds do not stay in the economy of the first enterprise (BPM7, Chapter 6, Section C, paragraph 6.33).* Much pass-through funding is an outcome of the complex ownership structures of multinational enterprises (MNEs). While much attention has been placed on the role special purpose entities (SPEs) play in pass-through funds, the definition would capture funds flowing through any DIE, including an operating affiliate, in one economy to a DIE in another economy. When MNEs channel investment through several economies, FDI financial transactions, income and positions are inflated as each flow into and out of each economy is counted even if the capital, or income, is just passing through.¹⁰ Moreover, this behaviour can further obscure the ultimate sources and destinations of FDI when the statistics are compiled by immediate partner economy.

478. The next section of this annex gives some examples of the ways MNEs pass funds along their ownership structures, including the motivations for pass-through funds. It identifies those types of pass-through funding associated with SPEs and those that are more likely to happen through operating affiliates. It concludes with a section on how to differentiate among the various types of pass-through funds. Annex Figure 6.D.1 illustrates an ownership structure that would lead to pass-through; this figure will be used to illustrate some of the examples of pass-through discussed in this annex.

Examples of pass-through

479. Pass-through transactions and positions in FDI can emerge in several different ways and take various forms. This section begins to develop a taxonomy of pass-through in FDI by focusing on the motivations and features of pass-through funding, the characteristics of the economies that attract that type of pass-through, and its likely impacts on the economy hosting the entities that funds are passing through. Much of this discussion draws on (Lewellen and Robinson, 2013^[6]). Pass-through funds can take different forms and serve different purposes that are discussed below.

1. Tax minimisation. This is probably the most cited reason for pass-through funds. MNEs can channel funds through affiliates in different economies to both shift income as well as take advantage of opportunities to defer income. This activity can be done through both SPEs and operating affiliates. The importance of tax minimisation strategies through operating affiliates might be growing as a result of initiatives to encourage MNEs to better align where they report income with where they have economic activities, such as the G20/OECD framework to address base erosion and profit shifting.

Pass-through funds due to tax minimisation would be associated with economies that offered tax advantages, including special tax treatments for intellectual property. These economies could offer low tax rates and/or access to a network of taxation treaties. This type of pass-through can also impact the financial mix used by the MNE in cases where debt-financing offers tax advantages not available to equity investment. This type of pass-through funding would often be observed in entities that are characterised by high asset to employment ratios and/or significant royalty and

license fee income, but it could also be associated with certain types of entities, such as holding companies. Pass-through funds associated with tax minimisation are likely to result in significant FDI positions for the economies involved but have less direct impact on the real economy (that is, lower levels of employment, value added, and tangible capital in the foreign-owned entities). However, it can have considerable indirect impacts on the host economy by supporting industries offering services to foreign investors, such as financial services and tax planning industries; these indirect impacts can be particularly important in small economies. In Annex Figure 6.D.1, enterprise C could be an example of an entity established to help minimise taxes, especially if economy 3 offered tax advantages.

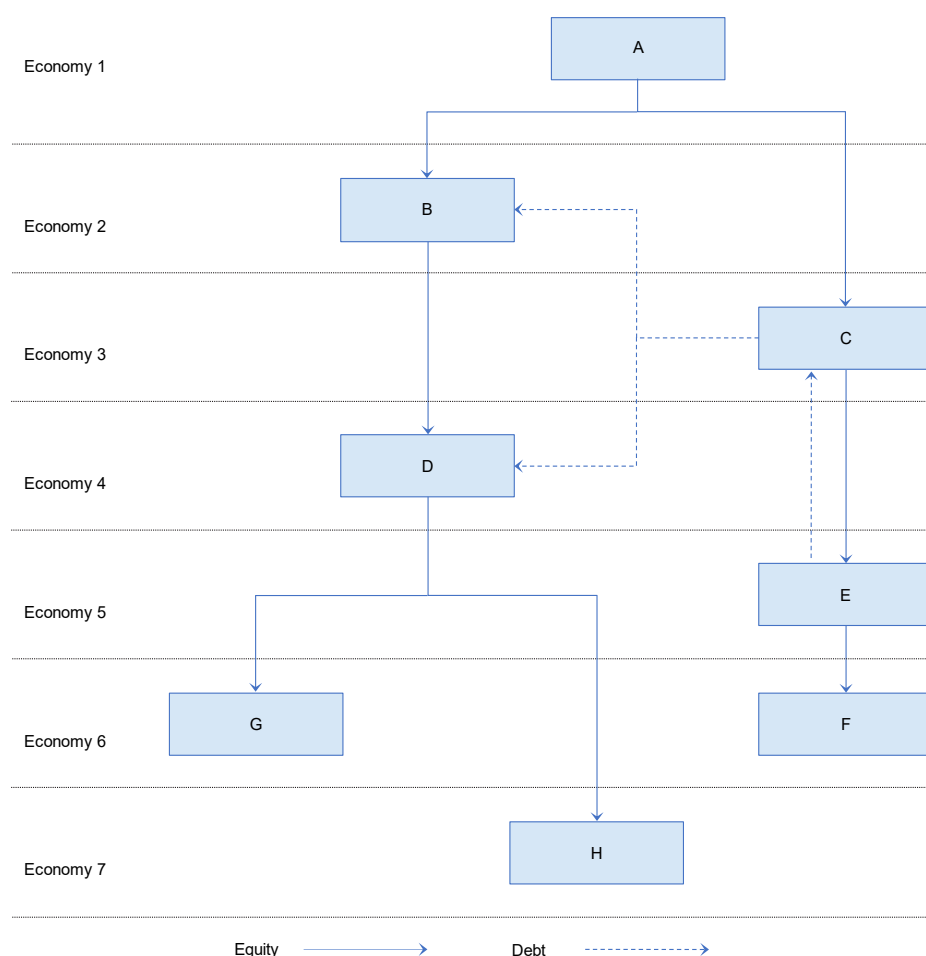
2. Managing expropriation or other risks to the value of their investment. MNEs that are worried about “political” or expropriation risk or that wish to benefit from an advantageous protection regime might decide to hold that investment indirectly through an economy that offers treaty-based protections to investors. For example, if the investor’s home economy does not have a bilateral investment treaty or equivalent arrangement with the host economy, they may choose to hold the investment indirectly through one of their DIEs in an economy that does have such a treaty with the host economy of the investment. This type of pass-through could be carried out through a SPE or an operating affiliate. As a result, this type of pass-through funds would be more likely to occur in host economies with a large network of bilateral investment treaties or in economies that have treaties with unconventional partners. It would also likely have limited direct impacts on the host economy but could possibly have indirect impacts by supporting an industry offering services to foreign investors.
3. Reduction in transaction and/or administrative costs through subgroup structures. Affiliates in the MNE’s production network that have a significant number of interactions may forge closer ownership links to reduce transaction costs and further strengthen such interactions. For example, a MNE investing in the United States may invest in Mexico and Canada through their U.S. operation, forming an integrated, regional operation. While not necessarily thought of as in the same class as the financial activities discussed above, this still involves the passing of funds through intermediate links.

This type of arrangement would be more likely to happen with more complex production processes and products, where the transaction costs would be expected to be higher. This type of pass-through capital, in which the MNE could establish regional headquarters, would be most likely to happen between DIEs with strong commercial links; thus, it is more likely to happen between affiliates in economies that share strong commercial ties as evidenced by significant trade flows and that share preferential trade agreements. It would also be more common in economies that are physically or culturally close. The entity serving as host for the regional headquarters may be expected to have a highly-skilled labour force, be better able to organise production across economies, and to conduct research and development (R&D) on their own behalf. Headquarter services, such as financial planning, may be a more important part of the activity of the regional headquarters. This form of pass through could also be based on specific corporate functions (such as R&D, marketing, or logistics). Enterprise D in Annex Figure 6.D.1 could be an example of this type of pass-through if it helps coordinate activities between itself and G and H.

With this type of pass-through funds, which are most probable to happen through operating affiliates, the financial structure overlaps with the reporting and operational structure within the MNE. As such, there is likely to be more direct impact in the host economy as the regional headquarters will have significant employment, value added, R&D, and trade in both goods and services. The regional headquarters are likely to have indirect impacts on the host economy in a number of areas, including integrating domestic suppliers into the production networks they coordinate.

4. Inherited pass-through structures. When a MNE acquires an existing MNE through a merger or acquisition (M&A), it also acquires the ownership structure and any existing pass-through positions within the acquired MNE. While the acquiring MNE can choose to change such structures either immediately or over time, it may not do so. As a result, the acquisition will create an ownership chain involving existing links through which funds are passing. This form of pass-through would be more likely to occur in economies where more of the inward FDI transactions were the result of M&A rather than of greenfield investment and, more specifically, where inward investment was in an economy hosting the MNEs that have since been acquired. This type of pass-through is likely to happen through an entity that has become an operating affiliate following the M&A, but it is hard to assess the impact of this type of pass-through capital on the host economy as it depends on what happens to those affiliates after the M&A has been completed. In Annex Figure 6.D.1, this type of pass-through could result if enterprise B had been a MNE that owned foreign affiliates D, G, and H that was then acquired by enterprise A.
5. Protection of the parent from claims against the affiliate. If the parent is concerned that a DIE is exposing them to financial claims, they may be more likely to own it indirectly to limit those claims. This might be the case, for example, with joint ventures or other cases of shared ownership. This might be more likely to happen in host economies that provide greater protections to investors as discussed above. This type of pass-through can happen through a SPE and is likely to be less associated with direct impacts on the host economy, in such terms as employment, but could have other impacts, such as generating tax revenue.
6. Intra-group lending centres. The MNE can use a DIE in one economy to borrow and lend funds to other parts of the MNE. These entities can draw on equity to lend funds to other parts of the MNE (either equity capital or reinvested earnings). They can also intermediate in loans between affiliated parties. Finally, they can raise financing from outside of the enterprise; for example, MNEs can use their foreign affiliates to raise capital by issuing debt securities or taking loan(s) and then channel the funds raised to other parts of the MNE, including back to the parent; these entities are often a type of SPE called a financial conduit. The first part of this transaction is either domestic, or either portfolio or other investment, but only the second part is a FDI transaction. In this case, pass-through capital goes beyond FDI. This form of pass-through funds would be more likely to happen in economies with deep capital markets or that offer offshore or sophisticated financial services. It would not have significant direct impacts in the host economy (e.g., in terms of employment) but could have significant indirect impacts in the financial services sector. In Annex Figure 6.D.1, enterprise C could be an example of this type of pass-through as it borrows from and lends to other affiliates.
7. Private financing vehicles. A private investor may establish an affiliate in a foreign economy for the purpose of engaging in portfolio investment from the host economy. It is the first leg of this case that brings the transaction within the scope of FDI, while the other part would be in the other functional categories of international investment. This kind of pass-through capital would be more likely to happen in economies that offer offshore or sophisticated financial services or secrecy. The home economy would likely be one with higher tax rates and that had stronger controls on outflows of portfolio capital than on direct investment. It would not have significant direct impacts in the host economy but could have significant indirect impacts in the financial services sector.
8. Corporate re-domiciliations. Corporate re-domiciliations often involve substantial FDI financial transactions that are almost completely offset by portfolio investment flows. It is possible that these kinds of transactions, when they result in offsetting flows, could be treated as a form of pass-through funding. In this case, the characteristics that would make an economy likely to host a re-domiciliation would be those offering relative tax, regulatory, and other benefits to foreign investors. The extent of the impact on the host economy would depend on the extent to which the redomiciled company actually shifted operations to its new headquarters economy.

Annex Figure 6.D.1. Example of an ownership structure that would lead to pass-through funds



Differentiating types of pass-through funds

480. In existing data collection systems, it is not possible for the statistician to ask the motivation behind the pass-through funds to determine to what extent it aligns with one of these categories listed above. It could be that pass-through funds serve several different purposes within the MNE structure at the same time. As such, it is difficult to completely differentiate between all of the different types of pass-through funding. In this *Benchmark Definition*, the separate identification of financial transactions, income, and positions of resident SPEs is considered a lower bound on pass-through funds and is likely associated with pass-through that has fewer direct impacts on the host economy. As discussed in Chapter 8, the identification of financial transactions, income, and positions based on the residency of the ultimate controlling parent can be considered an upper bound estimate of pass-through funds and would encompass all forms of pass-through.

Notes

¹ The definition and the geographical coverage of offshore centres may differ depending on the purpose of the analysis. This *Benchmark Definition* does not apply any specific description of offshore centres. The focus is rather the entity that qualifies as direct investor or direct investment enterprise (DIE) and not the geographical location.

² The fourth edition of *the Benchmark Definition of Foreign Direct Investment* (OECD, 2009^[3]) included a recommendation for supplementary series of FDI financial transactions, income, and positions looking through non-resident SPEs. This recommendation has been dropped in this edition because no OECD members disseminated these series, but this edition does include a recommendation for a supplementary series of FDI positions by ultimate host economy, which is discussed further in Chapter 8.

³ The creation or relinquishment of territorial enclaves in the rest of the world should not be included in direct investment.

⁴ Both adjustments should be recorded under “volume changes” in the international investment position. See Chapter 5 and Annex 5.A for more details.

⁵ See the *BPM7* (IMF, Forthcoming^[1]), for the treatment of such bonus payments when no DIE is or will be established.

⁶ Most SPEs owned and directly controlled by residents in the same economy would not meet the statistical definition of an institutional unit and, thus, for statistical purposes would be consolidated with those of the domestic parent.

⁷ The types of collective investment institutions described in this annex are for readers' information and mainly based on the experiences of the editor of the fourth edition of *the Benchmark Definition of Foreign Direct Investment* (OECD, 2009^[3]); thus, details or names of each type as well as legal structures and so on could differ among countries.

⁸ Monetary financial institutions cover two types of entities: (a) credit institutions whose business is to receive deposits or other repayable funds from the public and to grant credit for their own account, and (b) other financial institutions whose business is to receive deposits or close substitutes for deposits from entities other than monetary financial institutions and to grant credit for their own account or to make investment in securities.

⁹ Unless it is an investment in a CII, in which case it is recorded in portfolio investment per the guidance given above.

¹⁰ However, the balance, that is, the net FDI financial transactions, net FDI income, and net FDI positions would not be affected as the funds passing through the economy would be netted out.

Part II FDI series

7

Standard and supplementary FDI series

This chapter describes the presentations of foreign direct investment (FDI) statistics recommended in this *Benchmark Definition*. FDI statistics are provided in standard and supplementary (that is, voluntary) presentations. These presentations include aggregate FDI statistics according to the asset/liability principle as well as more disaggregated FDI statistics according to the directional principle. These disaggregated statistics include breakdowns by partner economy, by industry, and by type of FDI (e.g., greenfield investment, extensions of capacity, mergers and acquisitions, and financial and corporate restructuring).

7.1. Introduction

481. This chapter describes the presentations of foreign direct investment (FDI) statistics recommended in this *Benchmark Definition*. These statistics are broken down between standard and supplementary series.

- Standard series are series that have well-developed methodologies and interpretations. They are the foundation of the FDI framework and greatly enhance the analytical usefulness of FDI statistics.
- Supplementary series are those that have, in some cases, less well-developed methodologies, and in other cases, series that compilers may not yet be able to collect due to the data available to them. Nevertheless, supplementary series are typically valuable to users and this is why their compilation and dissemination are encouraged. By encouraging FDI statisticians to compile these series, the methodologies and interpretations will hopefully be refined.

482. Standard and supplementary presentations can, in turn, be further disaggregated by partner economy and by industry. Finally, these series are presented according to either the asset/liability or the directional principles. The standard and supplementary series are compiled using the same fundamental FDI concepts and definitions but serve different analytical uses.

483. This chapter describes the presentations recommended by this *Benchmark Definition*. Annex B presents the reporting template for each series. Chapter 8 provides the methodologies for presenting direct investment statistics disaggregated by immediate and ultimate partner economy and by industry of main economic activity under the directional principle. Chapter 9 describes the methodology for breaking down FDI financial transactions by type (i.e., new (greenfield) investment, extensions of capacity, mergers and acquisitions, and financial and corporate restructuring).

7.2. Standard FDI series

484. The standard FDI series consist of aggregate FDI statistics as they appear in the balance of payments and the international investment position. It also includes FDI series disaggregated by partner economy and by industry.

7.2.1. Aggregate FDI statistics

485. The standard aggregate FDI series recommended in this *Benchmark Definition* are:

- Aggregate FDI financial transaction, position, and income statistics compiled using the asset/liability principle with resident special purpose entities (SPEs) separately identified. These series will show detail by instrument (e.g., by equity, reinvested earnings – only for financial and income transactions – and debt instruments) as well as the breakdown necessary to convert from the asset/liability to the directional principle presentation.
- The integrated FDI position statement, showing through the accumulation accounts, the relationship between the opening and ending positions resulting from financial transactions, revaluations (broken down into exchange rate changes and other price changes), and other changes in volume. Resident SPEs should be separately identified for aggregate FDI positions. Additional detail on other changes in volume (i.e., debt cancellation and write-offs as well as reclassifications) can be reported on a supplementary basis.

486. These aggregate FDI statistics are consistent with the series appearing as direct investment in the balance of payments, the international investment position (IIP), and the integrated IIP (see Chapter 10).¹ These series provide data for an economy on the aggregate FDI assets and liabilities by type of instrument. Therefore, these series facilitate macroeconomic analyses.

7.2.2. Disaggregated FDI statistics

487. The standard disaggregated FDI series recommended in this *Benchmark Definition* are:

- FDI financial transaction, income and position statistics disaggregated by immediate partner economy according to the directional principle with resident SPEs separately identified. These series include the breakdown by instrument.
- FDI financial transaction, income and positions statistics disaggregated by industry according to the directional principle with resident SPEs separately identified. These series include the breakdown by instrument.
- Inward FDI positions disaggregated by ultimate investing economy (UIE) according to the directional principle. This series includes the breakdown by instrument.

488. Statistics presented according to the directional principle enable the analysis of FDI according to the direction of influence (i.e., inward and outward FDI). These series are useful for studying the nature and motivations for FDI. The series on an immediate partner economy basis demonstrate the FDI links between economies but the ultimate origin of the investment can be obscured if the investment passes along an ownership chain. The series of inward FDI positions by UIE help to address this issue by identifying the economy of the entity that ultimately owns the inward investment position in the reporting economy. It also helps to identify investment linkages and financial interdependencies between economies not revealed by the statistics on an immediate partner economy basis.

7.3. Supplementary FDI series

489. This *Benchmark Definition* strongly encourages the compilation of the following supplementary series:

- Outward FDI positions disaggregated by ultimate host economy (UHE). This series would include the breakdown by instrument. The compiling economy can indicate whether this series includes or excludes resident SPEs.
- Inward FDI income disaggregated by UIE with separate identification of resident SPEs. This series includes the breakdown by instrument.
- Pass-through funds by identifying outward FDI financial transactions, positions and income broken down by the residency of the ultimate controlling parent.
- Aggregate FDI financial transactions by type. This series excludes resident SPEs.² It is recommended that equity capital be broken down into greenfield (new) investment and extensions of capacity, mergers and acquisitions (M&A), financial and corporate restructuring, and unallocated. Reinvestment of earnings and debt for greenfield investment and extensions of capacity can be separately identified where meaningful for the reporting economy. The level of details provided for the breakdown of FDI financial transactions by type depends on the information available to compilers and user requirements. In addition, it is recommended to separate results for greenfield FDI from extensions of capacity if this information is available.

490. The presentation of outward FDI positions by UHE is a natural counterpart to the presentation of inward FDI positions by UIE. It helps to address the issues with interpretation and use of FDI statistics caused by complicated ownership chains. For example, the geographic allocation of outward investment can be distorted when domestic multinational enterprises (MNEs) channel investment through non-resident SPEs. The outward position statistics by UHE would show the outward position according to the geography of where the investment actually occurs, shedding light on the geographic pattern of domestic multinational enterprises' offshoring for example. This presentation also helps to better understand the financial linkages

between economies by providing important information on how the risks of domestic investors are spread across countries and regions.

491. Inward FDI income by UIE is a natural complement to the inward FDI position statistics by UIE. FDI income also flows along the ownership chain just like capital, obscuring the ultimate source and destination of the income. These statistics are important to understand the impact of globalisation on an economy by identifying where the income generated by direct investment enterprises (DIEs) in an economy ultimately accrues. In the context of extended supply/use tables and trade in value added, inward FDI income by UIE statistics also address the important issue of identifying the blurring lines between trade in services and property income, which can distort the measurement of value added (see Section 10.5.3).

492. The third series (pass-through funds) also addresses issues of interpretation and use of FDI statistics caused by complicated ownership chains by enabling the calculation of an upper bound estimate of the funds passing through an economy. While the separate identification of resident SPEs is valuable, it can be considered a lower bound on the estimate of funds passing through an economy because it is based on a subset of DIEs. Identifying the amount of funds passing through entities in the middle of the ownership chain can give an upper bound of pass-through funds by identifying all FDI passing into and out of ultimately foreign-owned direct investors resident in the reporting economy.

493. The final supplementary presentation is a breakdown of FDI financial transactions by type. It provides information on the potential benefits of FDI to the host economy. For example, new investment (i.e., greenfield investment) and extensions of capacity both act to increase the productive capacity of the host economy and may confer different benefits compared to M&A or financial and corporate restructurings. In the context of public debate, a sharp distinction is often drawn between greenfield investment, providing fresh capital and additional jobs, and M&A that are perceived to include only a change of ownership of an existing corporate entity. This theoretical distinction between the types of FDI however may not occur in practice as the acquisition of existing enterprises can provide important additional economic benefits, such as access to capital, global supply and distribution networks, and different knowledge and technology. The separate treatment of M&A and greenfield investment is part of a political reality to which investment analysts have to respond and, in light of the debate about such things as “strategic sectors”, “national champions”, the need is likely to grow. The information can also be important in the context of national security.

References

IMF (Forthcoming), *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, International Monetary Fund, Washington D.C. [1]

Notes

¹ While the aggregate statistics are consistent, it should be noted that the primary presentation recommended in the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, (IMF, Forthcoming^[1]) features the institutional sectoral breakdown of direct investment, while the primary presentation recommended by the OECD features the breakdown necessary to convert the asset/liability principle to the directional principle.

² The reporting can include resident SPEs if it is not possible to exclude them.

8 Disaggregation by geography and by industry

This chapter provides guidance for compilers to disaggregate foreign direct investment (FDI) financial transactions, positions, and income by partner economy and by industry. It is recommended that disaggregated statistics be presented according to the directional principle. This *Benchmark Definition* recommends that compilers disseminate a geographic disaggregation of inward and outward FDI statistics according to the economy of the immediate investing economy and inward positions according to the ultimate investing economy on a standard basis. It also recommends several supplementary presentations, including inward FDI income by ultimate investing economy, outward FDI position by ultimate host economy, and outward statistics by the residency of the ultimate controlling parent. For FDI by industry, it recommends that inward statistics be disaggregated by the primary economic activity of the resident direct investment enterprise. For outward statistics, it puts first priority on the statistics disaggregated by the primary economic activity of the non-resident direct investment enterprise.

8.1. Introduction

494. The data disaggregated by partner economy and by industry are the two major dimensions required in presenting more detailed analyses of foreign direct investment (FDI) statistics under the directional principle. These detailed directional data are complementary with the FDI asset/liability aggregates also recommended by this *Benchmark Definition* and published as a part of the balance of payments and international investment position statistics. This chapter describes the recommended methodologies for disaggregating direct investment statistics by partner economy and by industry under the directional principle.

495. For a reporting economy, the following series disaggregated by geography are recommended. Inward and outward FDI statistics – financial transactions, income, and positions – should be compiled by immediate partner economy using the debtor/creditor principle with resident special purpose entities (SPEs) separately identified.¹ In addition, inward FDI position statistics should be compiled on an ultimate investing economy (UIE) basis. It is also encouraged to compile three additional sets of supplementary statistics: 1) inward FDI income by UIE; 2) outward FDI positions by ultimate host economy (UHE); and 3) outward FDI statistics according to the residency of the ultimate controlling parent.

496. FDI statistics disaggregated by industrial activity should be compiled on a similar basis to that outlined for partner economy above with respect to SPE reporting. Each direct investor/direct investment enterprise (DIE) should be classified to a single industry, according to the main activity of the enterprise. As a standard requirement, industry classification of positions and financial and income transactions should be compiled according to the activity of the DIE (and on a supplementary basis according to the activity of the direct investor) for both inward and outward investment.

497. This chapter will first describe the methodologies for producing the statistics by partner economy, starting with the immediate partner economy, followed by the UIE and finishing with the UHE. The final section will discuss the disaggregation by industry. Additional details are provided in Annex 8.A and Annex 8.B.

8.2. Geographic disaggregation

8.2.1. Identifying the immediate partner economy

498. Direct investment statistics, i.e., financial transactions and positions and associated income transactions, by partner economy should be compiled under the directional principle described in Chapters 2, 3, and 4 and Annex 2.B. The statistics should be compiled for all partner economies individually as well as for major geographical regions or economic zones and currency or monetary unions. Individual economy and regional statistics are of prime importance to users of FDI statistics. In addition to supporting analysis, disaggregated bilateral data provide valuable information to compilers to identify and to examine at a more detailed level potential quality concerns when large differences arise in bilateral comparisons.

499. Notwithstanding the general guidance above for compiling FDI statistics, compilers have obligations to protect the confidentiality of individual enterprise data. Their obligations to protect data may at times limit their ability to disseminate transactions/positions at the level of an individual economy. When necessary, compilers are encouraged to combine individual economy data into higher aggregates that allow the release of as much geographical detail as their confidentiality constraints allow.

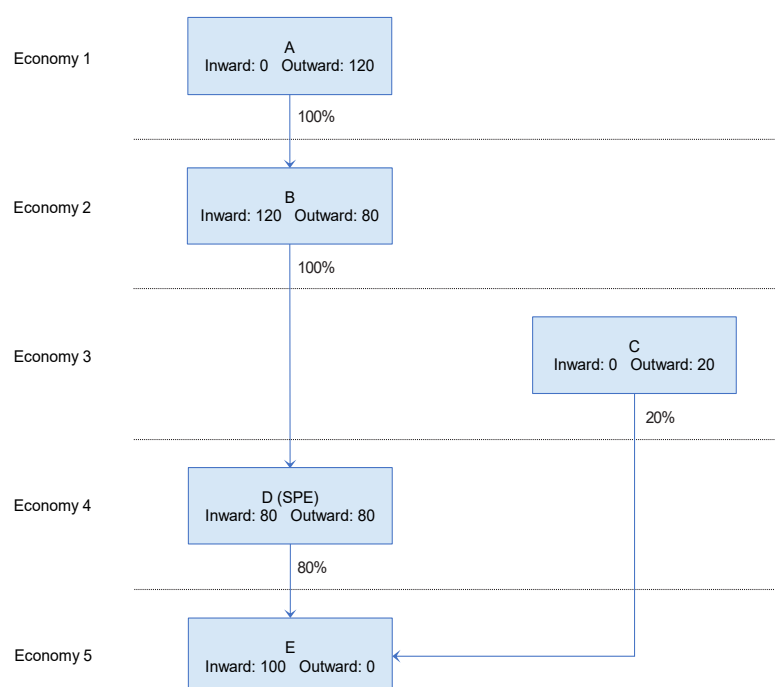
500. There are two principles that may serve as the basis for geographic disaggregation of direct investment transactions/positions: the debtor/creditor principle, which is recommended by this *Benchmark Definition*, and the transactor principle (which is not recommended). According to the debtor/creditor principle, geographic allocation is made according to the economy of residence of the DIE or direct

investor, even if the funds are paid to or received from another economy. Under the debtor/creditor basis, changes in financial claims of the reporting economy are properly allocated to the economy of residence of the non-resident debtor, and changes in liabilities are properly allocated to the economy of residence of the non-resident creditor. According to the transactor principle, which is not recommended here, direct investment transactions should be allocated to the economy to which the funds are payable or from which the funds are receivable, even if this is not the economy of the DIE or the direct investor. Under the transactor basis, changes in the claims and liabilities are allocated to the economy of residence of the non-resident party involved in the settlement of the transaction (the transactor). Therefore, this *Benchmark Definition* recommends that the immediate investing economy and immediate host economy be identified based on the debtor/creditor principle.

501. Moreover, the standard geographical presentation also requires, on the same basis, that the reporting economy presents separately FDI financial transactions, positions, and associated income transactions of all its resident SPEs. This presentation of the core data facilitates users assessing the impact of SPE activity in individual economies by helping to identify FDI that has a real impact on the host economy by excluding FDI to and from resident SPEs.

502. The example illustrated in Figure 8.1 is included to demonstrate the basic approach towards preparing standard and supplementary disaggregated geographical data under the directional principle (although in reality ownership structures may be much more complex). Each box represents a different enterprise in a different economy and shows the value of the inward and outward position associated with each direct investment relationship; the arrows show the ownership links, including the percentage of ownership. A direct investor (A) in economy 1 (E1) indirectly owns 80% of DIE (E) in economy 5 through a SPE (D) in economy 4 and an operating affiliate (B) in economy 2. A direct investor (C) in economy 3 directly holds the remaining 20% in DIE (E).

Figure 8.1. Ownership structure to illustrate immediate and ultimate partner economy concepts



Note: All values are in USD.

503. Table 8.1 shows the inward and outward positions that would be recorded for each economy on an immediate partner economy basis for non-SPEs and resident SPEs separately identified.

Table 8.1. Inward and outward FDI positions by immediate partner economy

Partner economy	Reporting economy									
	Inward FDI positions									
	Economy 1		Economy 2		Economy 3		Economy 4		Economy 5	
	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE
Economy 1	n.a.	n.a.	120	0	0	0	0	0	0	0
Economy 2	0	0	n.a.	n.a.	0	0	0	80	0	0
Economy 3	0	0	0	0	n.a.	n.a.	0	0	20	0
Economy 4	0	0	0	0	0	0	n.a.	n.a.	80	0
Economy 5	0	0	0	0	0	0	0	0	n.a.	n.a.
	Outward FDI positions									
	Economy 1		Economy 2		Economy 3		Economy 4		Economy 5	
	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE
	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE
Economy 1	n.a.	n.a.	0	0	0	0	0	0	0	0
Economy 2	120	0	n.a.	n.a.	0	0	0	0	0	0
Economy 3	0	0	0	0	n.a.	n.a.	0	0	0	0
Economy 4	0	0	80	0	0	0	n.a.	n.a.	0	0
Economy 5	0	0	0	0	20	0	0	80	n.a.	n.a.

Note: All values are in USD. 'n.a.' refers to 'not applicable', as there cannot be any inward or outward FDI with the reporting economy on an immediate partner economy basis.

8.2.2. Identifying the ultimate investing economy

504. There is considerable interest from policymakers in identifying the ultimate investors in enterprises resident in their economies for political, economic, and structural analyses. As can be seen in Figure 8.1 and Table 8.1, the ultimate sources of investment for the DIEs in economies 4 and 5 are not all shown in the statistics on an immediate partner economy basis. Therefore, this *Benchmark Definition* recommends that compilers disseminate inward position statistics by the UIE. It is recommended that the entire inward equity positions and, if possible, the entire inward debt positions be attributed to the UIE.

505. There are two main methods to attribute inward positions to the UIE. The first method is referred to as the 'winner takes all' (WTA) method while the second is referred to as the 'proportional ownership' (PO) method. These two methods will be explained, compared and contrasted below. The guidance in the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7, (IMF, Forthcoming_[1]))*, identifies the WTA as the preferred method, but the PO is acceptable. Compilers should indicate the method used in their metadata for inward position statistics by UIE. Box 8.1 discusses different concepts that have been applied to identifying the ultimate investor in FDI and activities of multinational enterprises/foreign affiliate statistics (AMNE/FATS). Annex 8.A provides practical guidance for compilers on specific situations they may encounter in compiling inward positions by UIE.

Box 8.1. Concepts of ultimate investor

Identifying the ultimate investor in an enterprise is important to better understand the financial interdependencies between economies and how the benefits and risks of globalisation are shared across economies. FDI statistics and activities of multinational enterprises/foreign affiliate statistics (AMNE/FATS) have both developed the concept of ultimate investor/ultimate owner.¹ The *Manual on Statistics of International Trade in Services 2010 (2010 MSITS)*, (United Nations et al., 2012^[2]) provides the most up-to-date international guidance for the compilation of FATS.²

The fourth edition of the *Benchmark Definition (BD4)*, (OECD, 2009^[3]) defined the ultimate investor as the enterprise that has control over the investment decision to have a FDI position in the direct investment enterprise (DIE) (paragraph 610). It recommended identifying the ultimate investor “by proceeding up the immediate direct investor’s ownership chain through the controlling links (ownership of more than 50% of the voting power) until an entity is reached that is not controlled by another enterprise” (paragraph 610).

BD4 discussed the ultimate controlling parent (UCP) in the context of the foreign direct investment relationship, saying that the direct investor could be the UCP or the immediate parent of an enterprise and stating that “there can be only one ultimate controlling enterprise, the UCP, which is at the top of the ownership chain, i.e., not controlled by any other entity” (paragraph 32). *BD4* and the IMF’s *Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)*, (IMF, 2009^[4]) both recommend identifying the UCP of the resident fellow enterprise to extend the directional principle to fellow enterprises.

The *2010 MSITS* defines the ultimate investor as the ultimate controlling institutional unit (UCI).³ The UCI is defined as “the first person in the chain – beginning with and including the first foreign parent – that is not controlled (that is, no other unit holds more than 50 per cent of the voting power of the UCI) by another person” (*2010 MSITS, Box IV.2*), where the first foreign parent is the first foreign entity in the chain of ownership. While the definition of UCI follows the ownership chain from the immediate direct investor (i.e., first foreign parent), it would identify the same UCI if it began at the DIE because FATS only cover control relationships. Thus, the *2010 MSITS* defines the economy of the ultimate investor as “the country that ultimately controls, and therefore derives most of the benefits from controlling, the direct investment enterprise” (*2010 MSITS, Chapter 4, Section H, paragraph 4.31*).

This *Benchmark Definition*, along with the *BPM7* and the *2025 System of National Accounts (2025 SNA)*, (United Nations et al., Forthcoming^[5]), defines the UCP as the entity that ultimately controls an enterprise, identified by proceeding up the ownership chain from the enterprise through the controlling links (ownership of more than 50 per cent of the voting power) until an individual, household, or company that is not controlled by another company is reached. Then, this *Benchmark Definition* identifies the ultimate investor as either the UCP of the DIE under the winner takes all method or the UCP of the immediate direct investors under the proportional ownership method. The ultimate investing economy is then defined as the economy of the entity identified as the ultimate investor.⁴

Notes:

1. For more information on AMNE/FATS statistics, see Section 10.4.
2. In addition, Eurostat provides guidance to its member states for compilation of FATS in its *European Business Statistics Compilers’ Manual for Foreign Affiliate Statistics, 2024 edition* (Eurostat, 2024^[6]), <https://doi.org/10.2785/817091...>
3. The UCI replaced the ultimate beneficial owner (UBO) used in the 2002 MSITS (United Nations et al., 2002^[7]). “The UBO is the first person in the chain - beginning with and including the first foreign parent - that is not majority owned by another person” (*2002 MSITS, Box 8*).
4. The concept of UCP is also used in application of the directional principle where the residency of the UCP of the fellow enterprise is used to determine the direction of the direct investment transaction and position; in estimating an upper bound on the amount of pass-through funds in an economy; and in defining a multinational enterprise.

Winner takes all method

506. The winner takes all (WTA) method is based on majority ownership of the DIE. The inward position is attributed to the economy of the ultimate controlling parent (UCP) of the DIE. The UCP is defined as *the entity that ultimately controls an enterprise, identified by proceeding up the ownership chain from the enterprise through the controlling links (ownership of more than 50 percent of the voting power) until an individual, household, or company that is not controlled by another entity is reached. If there is no company, individual, or household that controls the resident company, then the resident company may be considered to be its own ultimate controlling parent.* Under the WTA, there would only be one UIE identified for each DIE. While more complex ownership structures could be constructed with multiple chains of ownership, the principle that the entire FDI position in the DIE is reallocated to the UCP of the DIE should be followed.

507. FDI statistics cover both influence and control relationships, meaning that the WTA method will generally identify the compiling economy as the UIE when the DIE is not foreign-controlled.² This could be the case if there is a domestic enterprise that holds a controlling interest in the DIE, or, if domestic investors as a whole own more than 50% of the voting power even if no single domestic investor controls the enterprise. This would lead to an overstatement of the amount of round-tripping into the economy (for more information on round-tripping, see Annex 6.A).³ Economies using the WTA method that are concerned that the amount of round-tripping is overstated may choose to publish a memorandum item with their inward position statistics by UIE that uses the PO method discussed below to more accurately reflect the amount of round-tripping into the economy.

Proportional ownership method

508. Under the proportional ownership (PO) method, the UIE is identified as the economy of residence of the UCP of the immediate direct investor into the DIE. That is, the UIE is the economy where the entity that controls the decision to make the direct investment into the DIE resides. If there is no enterprise that controls the immediate direct investor, then the immediate direct investor is effectively the ultimate investor in the DIE. Under the PO, there could be more than one UIE for a DIE. This is the method that was recommended in the fourth edition of this *Benchmark Definition*. While more complex ownership structures with multiple chains of ownership emanating from the DIE could be constructed, the main principle, that the ownership chain of each immediate direct investor is traced to identify the UIE, should be followed.

509. The PO method only identifies round-tripping when the UCP of the immediate direct investor is resident in the compiling economy. Therefore, it provides a more accurate picture of the amount of round-tripping in the economy than the WTA method.

Comparing and contrasting the WTA and PO methods

510. The example in Figure 8.1 can be used to illustrate the differences in the statistics that will result from using the WTA and the PO methods. Table 8.2 presents the results. As can be seen, the WTA method attributes the entire inward positions in economies 2, 4, and 5 to economy 1. While the PO method also attributes the inward positions in economies 2 and 4 to economy 1, it distributes the position in economy 5 between economies 1 and 3. While the identification of the UCP of an entity (either the DIE or the immediate direct investor) is often straightforward, Annex 8.A provides guidance for some special cases that have been encountered by statisticians compiling inward position statistics by UIE.

511. In practice, there is usually little difference between the two methods given that wholly-owned and majority-owned DIEs are often very common in FDI statistics. However, there are a couple of situations where the methods will yield different results. First, if there are restrictions on equity investment that prevent majority investment in particular industries or sectors, then the two methods will yield different results. In particular, the WTA method will not yield any information on the ultimate source of foreign influence investment in these industries or sectors. Second, the WTA method will not identify as sources of foreign

investment economies that are more inclined to make minority investment. This could be an issue if these are economies that are of particular interest from a national security or development perspective.

Table 8.2. Inward FDI positions by ultimate investing economy under the WTA and PO methods

Partner economy	Reporting economy									
	Winner takes all									
	Economy 1		Economy 2		Economy 3		Economy 4		Economy 5	
	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE
Economy 1	0	0	120	0	0	0	0	80	100	0
Economy 2	0	0	0	0	0	0	0	0	0	0
Economy 3	0	0	0	0	0	0	0	0	0	0
Economy 4	0	0	0	0	0	0	0	0	0	0
Economy 5	0	0	0	0	0	0	0	0	0	0
	Proportional ownership									
	Economy 1		Economy 2		Economy 3		Economy 4		Economy 5	
	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE
	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE	Non-SPE	SPE
Economy 1	0	0	120	0	0	0	0	80	80	0
Economy 2	0	0	0	0	0	0	0	0	0	0
Economy 3	0	0	0	0	0	0	0	0	20	0
Economy 4	0	0	0	0	0	0	0	0	0	0
Economy 5	0	0	0	0	0	0	0	0	0	0

Note: All values are in USD.

512. There are several advantages to each of the methods. First, the WTA method uses information on the UCP of the DIE that has already been collected to implement the directional principle for fellow enterprises. Second, it promotes alignment with the attribution by economy recommended in AMNE/FATS. For example, international guidelines for compiling FATS call for attributing resident foreign-controlled enterprises to the economy of the Ultimate Controlling Institutional Unit, which is determined by proceeding up a foreign affiliate's chain of control until there is no further controlling interest. This could help the two sets of statistics to be used together although it should be noted that differences remain (see Section 10.4.7 for more information). FDI compilers could use information from AMNE/FATS as another source to identify the UIE, and it could be easier for users to understand the statistics if they are already familiar with the concept of ultimate investor from AMNE/FATS statistics. Finally, the WTA is more straightforward to implement than the PO as it is easier for the DIE to report their UCP rather than the UCP of their immediate direct investors and for the compilers to find this information using public information, commercial databases, or news reports.

513. There are also several advantages to the PO method. First, it identifies the UIE of all minority investment by identifying the UCP of the immediate direct investor. This means that it will better measure round-tripping as it will not incorrectly identify minority investment as controlled by resident investors as can happen under the WTA, but it will still correctly identify round-tripping taking place through minority investment if the UCP of the immediate direct investor is a resident of the compiling economy. Second, the PO method better reflects the financial structure of the multinational enterprise (MNE), in particular those investors that may be benefitting from investment in MNEs through minority ownership stakes. Third, the PO is more helpful for financial analysis as it accounts for all exposures to foreign risks as well as risk sharing through minority investment.

514. In summary, it could be argued that the WTA method better reflects the entity that is making the decisions regarding production in the compiling economy by identifying the entity that controls the DIE, but the PO method better reflects who is bearing the risks and reaping the rewards of the direct investment.

Inward FDI income by UIE

515. This *Benchmark Definition* recommends that economies compile statistics on inward FDI income by UIE on a supplementary basis. Just as capital can flow down an ownership structure, income can flow up it. This results in the similar issues as that of FDI positions. Specifically, presentations by immediate partner economy can obscure information on where the income is ultimately accrued within the MNE. Allocating income to the UIE reduces the influence of corporate structures on geographic disaggregation if the investment is controlled through intermediate economies. As with FDI positions, this usually reduces FDI values associated with offshore financial centres.

516. It is recommended that compilers use whichever method is used for compiling inward position statistics by UIE to also compile income statistics by UIE on a supplementary basis. Thus, if the WTA is used, it should be used for both, and likewise for the PO. While it could be argued that the PO method is more appropriate for FDI income because it reflects where the income ultimately accrues, consistency between the inward income and inward positions statistics by UIE was deemed to be more important.

8.2.3. Identifying the ultimate host economy

517. This *Benchmark Definition* recommends that economies compile outward FDI positions by UHE on a supplementary basis. As will be discussed further below, there is still more research that needs to be done on the concept of UHE, but the experiences of economies in developing these statistics will be useful in improving concepts, definitions, and methods. It is recommended that countries reallocate outward equity positions and, if possible, debt positions to the UHE. It is possible that compilers may find it feasible to produce UHE statistics for a subset of resident direct investors, such as operating entities or domestically-controlled direct investors. Given the number of issues that are still to be decided, economies that do publish outward position statistics by UHE are encouraged to include metadata that describes the definitions used and coverage of the statistics. In addition, the topic of UHE is on the Research Agenda (Annex D) for this *Benchmark Definition*.

518. Complex ownership structures can lead to distortions to the statistics of outward positions by immediate investing economy, most prominently through holding companies or SPEs in a third economy. This can make it difficult to use outward FDI statistics by immediate host economy to understand the geographic patterns of domestic MNE investment abroad.⁴ Statistics by UHE would also better illustrate the financial interdependencies between economies. For example, knowing the amount of investment broken down by UHE provides important information on how the risks of domestic direct investors are spread across economies and regions. MNEs do not always channel their investment through a single holding company or SPE but rather through a large number of companies (holding/SPE chains as well as operating units) until it reaches the entity with actual productive activities. Since the holding/SPE chains do not make an actual economic contribution to their host economy, it would be valuable to identify the economy in which operating (productive) DIEs are located.

519. To compile the outward position by UHE, the positions should be reallocated from the immediately held subsidiary to the economy(ies) of the subsidiary(ies) below it in the chain. Approaches to estimate FDI by UHE include:

- Balance sheet information and ownership shares at each link in the chain can be used to show how the influence of the ultimate direct investor flows down the investment chain. Such a method could require a considerable amount of information on the ownership structure of the entire MNE. It could also require adopting certain conventions in the recording given the fungible nature of financing. This approach would provide the most detailed information on the financial structure of the MNE.
- The value the direct investor would receive if that subsidiary were acquired by another enterprise; that is, measuring the ultimate investor's position in the DIE in the specific economy where it is

located. This presentation would provide a comprehensive view of the foreign operations of an economy's direct investors for both direct and indirect ownership. This would result in statistics by UHE that are symmetric to the UIE. It would need to be determined if the value of the subsidiary should reflect only its value or the value of any entities below it in the chain. While the latter would be easier to collect, it would result in double-counting the value of entities lower in the chain as they would be reflected not only in their host economies but in the value of the host economies of subsidiaries above them in the chain.

- Define the UHE as the last economy in the chain. This method alone would not be able to reallocate a proportion of the position in the immediate investing economy when the equity of the entity at the end of the chain is not enough to support the whole outward position. It can also attribute the position to smaller entities, such as retail operations, at the bottom of the chain, passing over larger entities, such as manufacturing facilities, further up the chain.
- Define the UHE as the first operating unit even if it is not the end of an investment chain. This is the method recommended in *BPM7 (BPM7, Annex 6)*. This would place less burden on respondents and compilers than the first two methods discussed above while still moving outward FDI from pass-through economies. A definition of operating unit would not simply be the first non-SPE but would rather identify the first unit whose purpose was not (only) administrative, management or holding assets to avoid reallocating positions to countries where these holding or administrative functions are prevalent. It would also be necessary to determine how to allocate positions across multiple affiliates when the SPE holds entities in multiple economies.

520. Annex 8.B provides more information on these possible definitions of UHE and methods to reallocate outward FDI positions using them. While it is not possible to use the example in Figure 8.1 to illustrate all four possible definitions of the UHE discussed above because more information on the balance sheet of each entity is needed for some of those methods, it is possible to illustrate the last economy in the chain and the first operating unit methods. If compilers in economy 1 used the last operating unit method, they would reallocate USD 80 of the position in economy 2 to economy 5 because its equity investment in enterprise E would support that amount; the remaining USD 40 would remain in economy 2. If economy 1 used the first operating unit method, the position would remain in economy 2 because enterprise B is an operating unit. Compilers in economy 2 may also reallocate the outward investment of enterprise B to the UHE. In this case, under both the last economy and first operating unit methods, they would reallocate the entire outward investment position to economy 5. Note that for economy 3, economy 5 is both the immediate and UHE for the outward by enterprise C. Countries that publish outward position statistics by UHE should describe the method used for the reallocation in accompanying metadata.

8.2.4. Pass-through funds

521. Pass-through funds in FDI are at the core of many of the problems that complex ownership structures pose for the use and interpretation of FDI statistics. As discussed in Chapter 6, separately identifying the financial transactions, positions, and associated income transactions to and from resident SPEs can be considered a lower bound on the amount of pass-through in an economy. This identifies funds passing through a subset of DIEs that are often established for this purpose. In Figure 8.1, the separate identification of resident SPEs would show the investment funds of the parent company A that pass through economy 4 but not those passing through economy 2 via enterprise B.

522. Presenting positions and transactions according to the residency of the UCP of direct investors can be used to estimate the extent of pass-through in an economy. Pass-through funds in an economy are carried out by direct investors that are foreign-owned and, so, are themselves DIEs. A simple breakdown of outward FDI positions and transactions based on the residency of the UCP would give an indication of the amount of outward FDI originating from that economy (i.e., the amount of outward FDI carried out by

direct investors with resident UCPs) and the amount of funds and income passing through that economy (i.e., the amount of outward FDI carried out by direct investors with non-resident UCPs).

523. For inward FDI, the residency of the UCP shows the amount of round-tripping, which is a form of pass-through investment that takes place through non-resident entities but can inflate the outward and inward FDI figures of the compiling economy in a way that is similar to pass-through investment via resident entities. Combining the information of outward investment by direct investors with non-resident UCPs with the amount of inward investment by resident UCPs gives an upper bound estimate of the amount of funds that have passed through the economy.

524. Table 8.3 shows a breakdown of inward and outward FDI positions by the residency of the UCP. Result A identifies the amount of round-tripping in the economy (i.e., inward investment that has a resident UCP). B represents the amount of outward investment by domestic MNEs. D represents the amount of outward investment by foreign-owned direct investors – an indication of the amount of the inward investment into these direct investors that has passed through them to DIEs in other economies.⁵ C represents the inward investment by foreign investors, while C less D would give an indication of how much of this inward investment remains in the host economy.

Table 8.3. Breakdown of inward and outward FDI by residency of the ultimate controlling parent

	Inward FDI position	Outward FDI position
If UCP is resident	A	B
If UCP is non-resident	C	D

525. As a result, this *Benchmark Definition* recommends that compilers produce outward FDI statistics according to the residency of the UCP of the direct investor on a supplementary basis. The topic of identifying pass-through funds is also added to the Research Agenda (Annex D).

8.3. Industry classification

8.3.1. General principles to identify industry classification

526. There is significant interest in the industry classification of both DIEs and their direct investors. DIEs and direct investors engage in a variety of economic activities. For a comprehensive economic analysis, enterprises should be grouped by type of economic or industrial activity. Under ideal circumstances, data should be available for compilers to classify both inward and outward direct investment on a dual basis to the industry of the DIE and the industry of its direct investor. Compilers are requested to present direct investment statistics on a directional basis and classified according to the economic activity of the counterparts involved.

527. If data for both inward and outward direct investment cannot be compiled on both of these bases, the *Benchmark Definition* recommends that data be compiled at least according to the activity of the DIE, for both inward and outward direct investment. In other words, inward direct investment should reflect the industry of the resident DIE and outward investment should reflect the industry of the non-resident DIE. Compilers are encouraged to provide supplementary statistics for inward and outward investment data according to the economic activity of the direct investor.

528. Each direct investor and each DIE must be classified into a single industry, even though many direct investors and DIEs are involved in a wide range of activities. The industry classification of the enterprise should be based on its principal economic activity. Ideally, the principal activity can be determined on the basis of which activity contributes most to the value added of the enterprise. In some cases, it is recognised that data on value added may not be available and that data on sales, revenues, or

payroll or other bases may serve as a proxy. The detailed requirements of the standard and supplementary FDI series are given in Annex B, including the industry codes to be used.

529. A direct investor involved in a wide range of activities may make its overseas investment in each activity through numerous separate domestic subsidiaries specialising in a given activity, or it may make all of its overseas investment through a single domestic subsidiary established to handle overseas investment projects or a mixture of these approaches. For data that are presented based on the industry of the direct investor, the industry corresponds to the main activity of the direct investor, including all of its activities in its own economy of residence. This approach avoids distortions due to different organisational arrangements.

530. Results presented based on the industry of the DIE should be based on the reporting enterprise (if the reporting unit is a DIE and, at the same time, a direct investor, its industry classification should be based on the activities that it conducts and should exclude those conducted by its own FDI enterprises). It is recommended that the industry of the enterprise represents the principal activity of that enterprise, including all of its subsidiaries, associates and branches in its economy of residence.

531. When a change in the industry classification of a direct investor or DIE occurs, the reclassification of positions from one industry to the next should be recorded as arising from volume adjustments as discussed in Chapter 5.

8.3.2. Standard industrial activity presentations

532. The two standard presentations required for the geographical analysis (see Section 7.2.2) are also required for the industrial or economic activity analysis:

1. The standard industrial activity recommended is that all FDI financial transactions, positions and associated income transactions be compiled for the reporting economy on a directional basis, according to the industrial activity of the resident DIE involved for inward investment and of the DIE abroad for outward investment.
2. As for the partner economy allocation, the standard presentation requires the reporting economy presents on the same basis all FDI financial transactions, positions and associated income flows of all its resident SPEs.

8.3.3. International Standard Industrial Classification (ISIC)

533. Countries should compile data by industries that correspond to the major tabulation categories in the United Nations' ISIC. The major categories in ISIC Revision 5 are:⁶

- A. Agriculture, forestry and fishing
- B. Mining and quarrying
- C. Manufacturing
- D. Electricity, gas, steam and air-conditioning supply
- E. Water supply, sewerage, waste management and remediation activities
- F. Construction
- G. Wholesale and retail trade
- H. Transportation and storage
- I. Accommodation and food service activities
- J. Publishing, broadcasting, and content production and distribution activities
- K. Telecommunications, computer programming, consultancy, computing infrastructure, and other information service activities

- L. Financial and insurance activities
- M. Real estate activities
- N. Professional, scientific and technical activities
- O. Administrative and support service activities
- P. Public administration and defence, compulsory social security
- Q. Education
- R. Human health and social work activities
- S. Arts, sports and recreation
- T. Other services activities
- U. Activities of households as employers; undifferentiated goods- and services-producing activities of private households for own use
- V. Activities of extra-territorial organisations and bodies

8.3.4. Holding companies

534. The classification of holding companies merits additional clarification. ISIC Rev. 5 continues to provide the ability to distinguish between two types of holding activities: financial and management activities:⁷

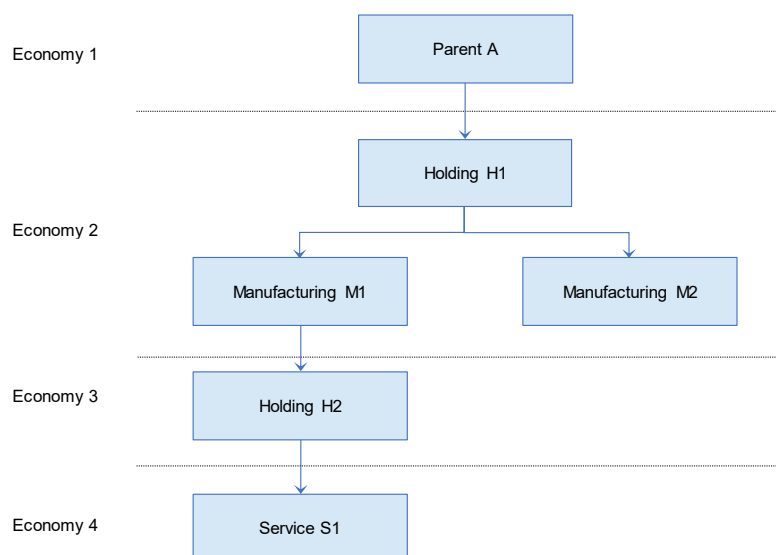
- Holding companies engaged in financial services (activities of holding companies 6421): units that hold the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is ownership of the group. The holding companies in this category do not provide any other service to the business in which the equity is held.
- Holding companies engaged in management (activities of head offices 7010): this category includes the overseeing and managing of other units of the enterprise; undertaking the strategic or organisational planning and decision-making role of the enterprise. These units exercise operational control and manage the day-to-day operations of their related units. More precisely, they include:
 - head offices
 - centralised administrative offices
 - corporate offices
 - district and regional offices
 - subsidiary management offices.

535. If a holding company has subsidiary operations in the local economy as well as abroad, the approach to classifying the holding company should be based on the predominant activity of the local enterprise group.

536. To demonstrate this approach, consider that direct investor (A – the parent company) is located in economy 1 and establishes a holding company H1 in economy 2.

Case 1: Holding Company H1 has two manufacturing subsidiaries, company M1 and company M2, both in economy 2. In turn, company M1 has a holding subsidiary H2 in economy 3. The industry classification of H1 should be manufacturing (Figure 8.2).

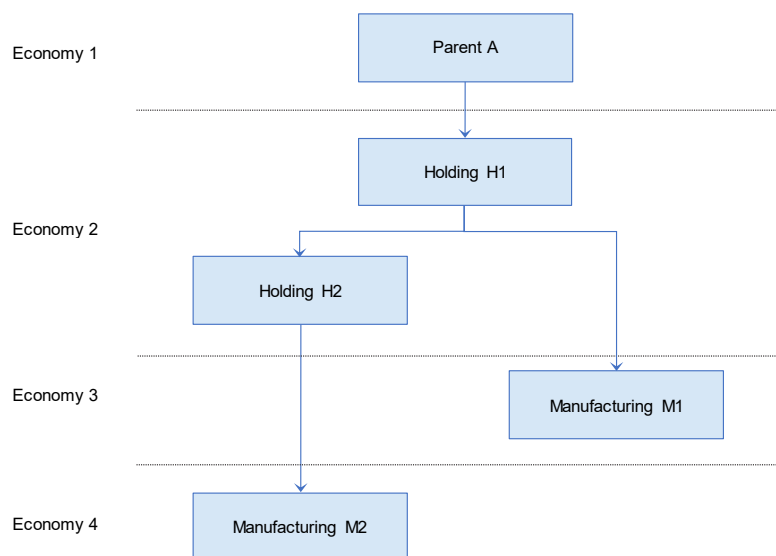
Figure 8.2. Industry classification of holding companies (1)



Source: Based on OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Case 2: Holding Company H1 has two subsidiaries of which one is a resident holding company H2 in Economy 2 and a non-resident manufacturing subsidiary M1 in Economy 3. Holding subsidiary H2 in turn has a manufacturing subsidiary in Economy 4. The industry classification of H1 should be holding activities (Figure 8.3).

Figure 8.3. Industry classification of holding companies (2)



Source: Based on OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

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Annex 8.A. Ultimate investing economy

Reallocating positions to the ultimate investing economy

537. This *Benchmark Definition* recommends that economies compile inward FDI positions by ultimate investment economy (UIE) on a standard basis and inward FDI income statistics by UIE on a supplementary basis. It presents two methods to designate the UIE. Both methods rely on identifying the ultimate controlling parent (UCP) of an entity. For the winner takes all (WTA) method, the UCP of the direct investment enterprise (DIE) needs to be identified while under the proportional ownership (PO) method, the UCP of the immediate direct investor(s) needs to be found. The UCP is identified by proceeding up the relevant entity's ownership chain through the controlling links (ownership of more than 50% of the voting power) until an enterprise is reached that is not controlled by another enterprise. While the identification of the UCP is often straightforward, there are some special cases that pose difficulties.

538. This annex will first illustrate the reallocation process for a more complicated ownership structure than discussed in Chapter 8. Then, it will provide guidance for these special cases, including special types of UCP's and multiple minority ownerships. This guidance often draws on the experience of compilers of activities of multinational enterprises and foreign affiliate statistics (AMNE/FATS).

An illustration of the reallocation process

539. In the case of inward FDI, the following presents a general example of how positions can be attributed to the economy of the ultimate investor(s) in the resident DIE.

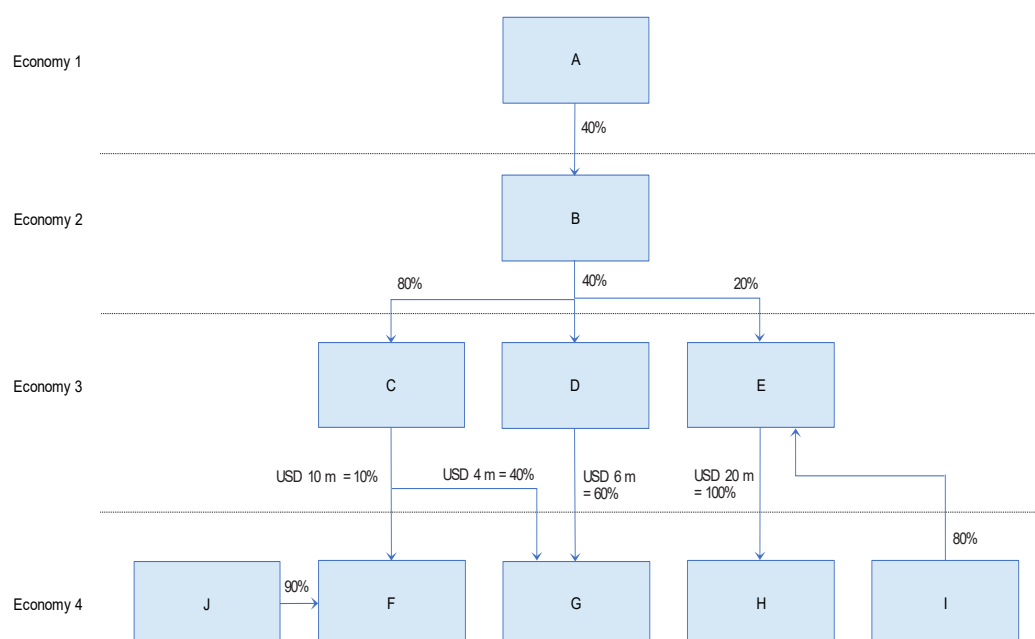
540. Under the PO method, the ultimate investor is the enterprise that has control over the investment decision to have a FDI position in the DIE. As such, the ultimate investor controls the immediate direct investor. It is identified by proceeding up the immediate direct investor's ownership chain through the controlling links (ownership of more than 50% of the voting power) until an enterprise is reached that is not controlled by another enterprise. If there is no enterprise that controls the immediate direct investor, then the direct investor is effectively the ultimate investor in the DIE.

541. The economy in which the ultimate investor is resident is the ultimate investing economy (UIE) for the investment in the DIE. It is possible that the ultimate investor is a resident of the same economy as the DIE. This is round-tripping.

542. The entire FDI position that is attributed to the economy of residence of the immediate direct investor is reallocated to the UIE.⁸ Where there is more than one immediate direct investor in a DIE, the entire inward FDI position of each immediate direct investor is reallocated to the respective UIEs based on the UCP of each immediate direct investor.

543. Annex Figure 8.A.1 illustrates ownership links for DIEs in economy 4.

Annex Figure 8.A.1. Ultimate investing economy



Source: Based on OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition*, <https://doi.org/10.1787/9789264045743-en>.

544. According to the standard presentation by economy (on an immediate investor basis), Economy 4 would show USD 40 million of inward FDI positions from Economy 3. Under the PO method, the presentation of inward positions by UIE would be as follows:

- the USD 10 million investment from C into F would be reallocated to Economy 2 as enterprise B is the ultimate investor in enterprise F (as the UCP of enterprise C)
- the USD 4 million investment from C into G would be reallocated to Economy 2 as enterprise B is the ultimate investor in enterprise G (as the UCP of enterprise C)
- the USD 6 million investment from D into G would remain allocated to Economy 3 as enterprise D is the ultimate investor in enterprise G (no enterprise exerts control over enterprise D, so enterprise D is its own UCP)
- the USD 20 million investment from E into H would be reallocated to Economy 4 as enterprise I is the ultimate investor in enterprise H (as the UCP of enterprise E).

545. The standard presentation for Economy 4 would record USD 14 million inward FDI from Economy 2 as the UIE, USD 6 million inward FDI from Economy 3 as the UIE, and USD 20 million inward FDI from Economy 4 as the UIE (round-tripping). No investment in Economy 4 is reallocated to Economy 1 as enterprise A is not the UCP of any of the immediate direct investors in Economy 4.

546. From this example, it can be seen that the entire immediate direct investment position (i.e., between the immediate direct investor and the DIE) is reallocated to the UIE – the percentage ownerships in the chain of control above the immediate direct investor do not affect the value recorded. It can also be seen that where a DIE has multiple direct investors (for example, enterprise G), the investment from each immediate direct investor is reallocated to the respective UIEs based on the UCP of each of the immediate direct investors.

547. Under the WTA, the UCP of each DIE in economy 4 would be identified and the entire inward position in that DIE would be reallocated to the economy of that UCP. A key difference between the PO and WTA is that, under the WTA, there can only be one UIE for a DIE while, under the PO, there can be more than one UIE. Under the WTA method, the presentation of inward positions by UIE would be as follows:

- the USD 10 million investment from C into F would be reallocated to Economy 4 as enterprise F is domestically controlled (this is a case where the estimated value of round-tripping is inflated)³
- the USD 4 million investment from C into G and the USD 6 million investment from D into G would be allocated to Economy 3 as D is the UCP of enterprise G
- the USD 20 million investment from E into H would be reallocated to Economy 4 as enterprise I is the UCP of enterprise H (this is a case of genuine round-tripping).

Cases of special types of ultimate investors

548. Sometimes the UCP can be identified, but the specific form that it takes or where it resides can pose difficulties for the statistics by UIE.

Tax havens, offshore financial centres, and special purpose entities

549. When the UCP is in a tax haven or offshore financial centre⁹, it is recommended that such an entity is identified as the ultimate investor only if it fulfils the definition of an institutional unit and has a substantial presence in the jurisdiction. If the UCP does not have a substantial presence in the jurisdiction, it is unlikely to be the top of the chain, and more research is needed to find the actual top, if possible.

550. If a special purpose entity (SPE) is identified as the UCP, it is unlikely to be the actual top of the ownership chain and more research is needed to find the actual top of the chain, if possible.

Ultimate investor is a natural person

551. When the UCP is a natural person, it is best to identify the UIE as the economy of residence of this person, because that is in keeping with the concept of residency in macroeconomic statistics. However, it may not always be clear where the natural person resides. In this case, the nationality of the natural person could be used as a proxy, followed, as a last resort, by the residency of the company directly owned by the natural person. Some compilers might alternatively prefer to leave the position under 'unallocated' or allocate it to the immediate investor when the residency of the ultimate owner as a natural person is not easily identifiable.

Ultimate investor is a collective investment institution

552. Sometimes, it may be difficult to determine the residence of certain direct investors even if their identity is known, as in the cases of collective investment institutions (CIIs). CIIs pool funds from individual investors that may reside in different economies and are often managed by a professional investor. Their structure is driven by tax and regulatory considerations, so they may be resident in one economy but be managed from another jurisdiction while the investment could pass through entities in another economy. In macroeconomic statistics, CIIs are institutional units, and the economy where it resides should be the UIE.

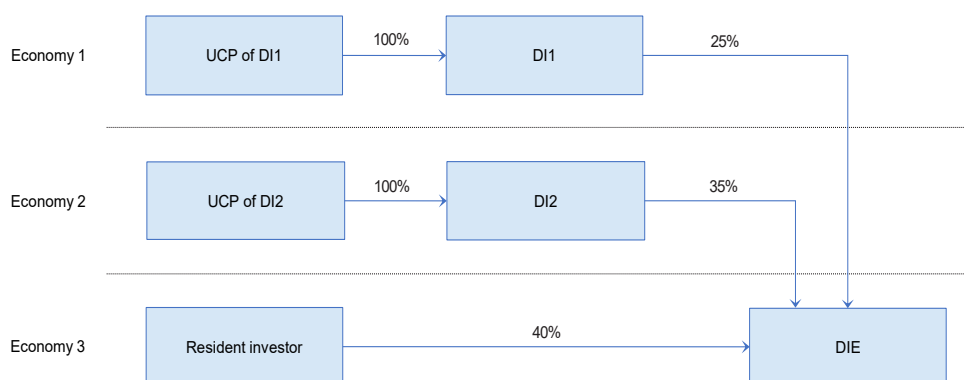
Cases of multiple minority ownership

553. In some cases, the DIE has several investors but none of them has a majority ownership. Those structures are characterised by multiple minority ownership of shareholders from abroad and in the home economy itself. A special case of multiple minority ownership is equally-owned DIEs, often in the form of joint ventures. All of these cases pose challenges for the application of the WTA as there is no immediate single non-resident or resident majority owner of the DIE. In these special cases, under the WTA, compilers might consider the DIE as being foreign-owned when looking at the combined position of its multiple (immediate) foreign direct investors. For compilers applying the PO, the immediate direct investor is considered to be the UCP if it is not controlled; therefore, these cases do not pose any specific challenge.

Case 1: Multiple minority ownership

554. In Case 1, shown in Annex Figure 8.A.2, none of the non-resident or resident investors own more than 50% of the voting rights. Hence, this case poses a challenge for the application of the WTA. While the 40% of the voting power held by investors in the same economy as the DIE represents the largest ownership share by one specific economy, it is recommended that the DIE be designated “foreign-controlled” because the majority (60%) of the voting power is held abroad. If there is evidence that both foreign economies are acting in concert and speaking in one voice, then the largest non-resident investor could be deemed the UCP (UCP of DI2 in economy 2).¹⁰ Given the difficulties that compilers may face to apply this criterion, they might still choose to allocate the position to the largest foreign investor or to leave the position unallocated (specific metadata should explain the procedure chosen).

Annex Figure 8.A.2. Multiple minority ownership (Case 1)

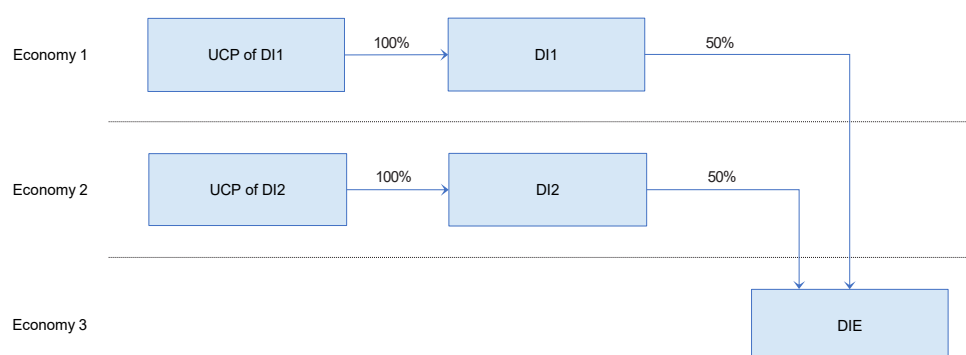


Note: 'DI' refers to direct investor.

Case 2: Equally-owned enterprises (i.e., joint ventures)

555. When the voting power in a DIE is held equally between two or more entities, it is not possible to identify the UCP of the DIE (Annex Figure 8.A.3). In some shareholding models, the capital shares differ from voting power. If in the case of equal voting power in which one of the direct investors has larger capital shares, then the UIE should be the economy of this investor. In addition, an investor is also to be classified as a de facto dominant controller if any available information (e.g., annual report, administrative sources) implies that this investor has the greatest influence on the DIE.¹¹ If any of this information is difficult to obtain for the compiler, then another alternative could be to allocate the total FDI value to the economy with the higher aggregated FDI position by UIE because the relative “misallocation” error is smaller than for the other economy. Finally, the compiler could choose to leave the position unallocated.

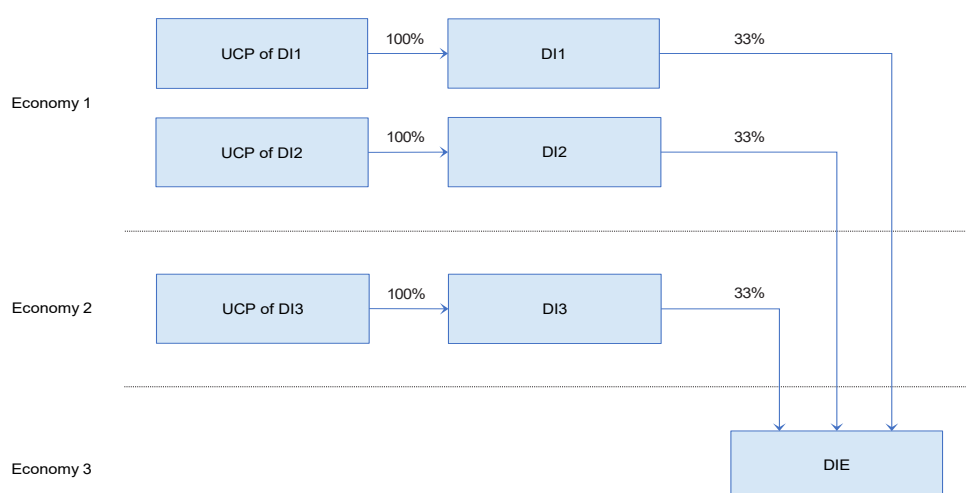
Annex Figure 8.A.3. Joint venture with two owners in different economies



Note: 'DI' refers to direct investor.

556. The presented approaches could also be used for similar enterprise structures, e.g., three times 33% or four times 25%. However, if in this case, two (three) owners of the DIE are resident in the same economy and, thereby, generating a majority for that economy overall, it is recommended that this economy should be considered as the UIE. In Annex Figure 8.A.4, UCP of DI1 and UCP of DI2 are resident in the same economy and therefore, the majority of shares (in total 66%) is in that economy (economy 1), which would be the UIE.¹²

Annex Figure 8.A.4. Joint venture with multiple owners in the same economy



Note: 'DI' refers to direct investor.

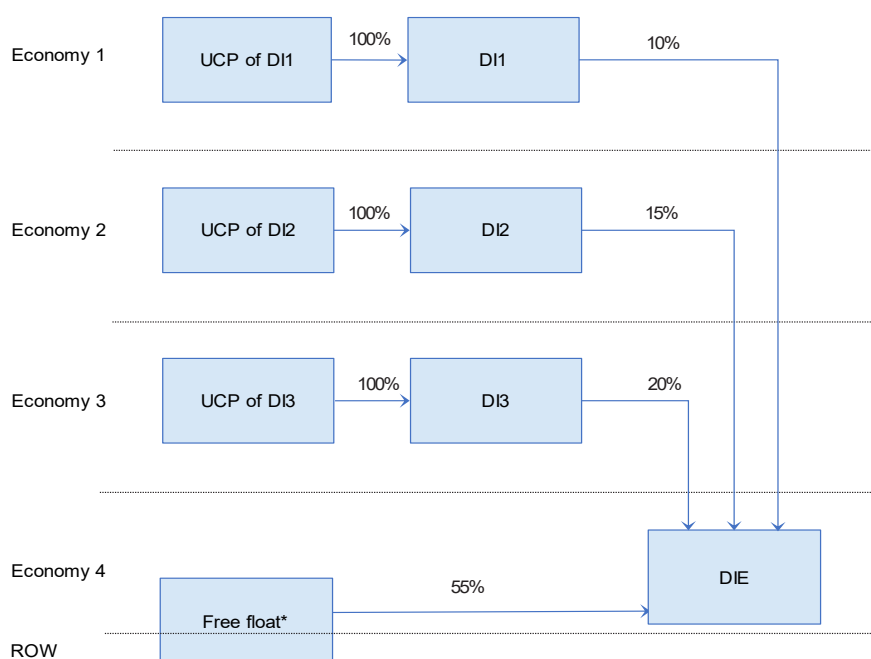
Case 3: The majority of shares in the DIE is actively traded

557. In Annex Figure 8.A.5 below, the majority of shares in the DIE is actively traded (55% of the shares are owned by resident and non-resident portfolio investors). The DIE has no foreign controlling entity as there is no single immediate or indirect foreign investor holding more than 50% of the voting power. At the same time, less than 50% is held by foreign investors, meaning there is no combined foreign control. There is also no resident investor who individually reaches 10% of the voting power, hence no resident investor can qualify as a direct investor. In this case, compilers following the WTA approach might consider leaving

these FDI positions by UIE unallocated as it cannot be argued that there is a domestic entity that can exercise any control or even influence on the DIE.

558. However, some compilers following the WTA might still prefer to allocate the 45% of the foreign-owned shares in the DIE to the country where the entity controlling the largest minority foreign direct investor resides (i.e., UCP of DI3 in Economy 3), or to the country of the largest minority foreign direct investor if the UCP cannot be identified (i.e., DI3 in Economy 3). The latter situation could arise if the UCP was resident in a different economy than DI3 as compilers of the WTA cannot generally climb the control chain for minority direct investors.

Annex Figure 8.A.5. Specific case: the majority of shares is actively traded



Note: 'DI' refers to direct investor. 'ROW' refers to the rest of the world. *In this specific case, 55% of the shares in the DIE are owned by resident and non-resident portfolio investors (free float).

Annex 8.B. Ultimate host economy

Introduction

559. This annex further elaborates on the definitions of ultimate host economy (UHE) in Chapter 8 and describes methods that could be used to produce outward direct investment statistics by UHE, which have focused on equity positions so far. When considering compiling these supplementary UHE statistics, each statistical office should balance the needs of users with the resources required and information available to determine if they should produce them and which method to use.

560. The methods to produce UHE statistics can be grouped under three major themes that are covered in more detail in the rest of this annex. The list of methods included are not an exhaustive list; as research on this topic continues, it is possible that other methods or combination of methods will be developed. In addition to the possible advantages and disadvantages discussed, confidentiality concerns could also make a compiler favour one method over the other. The extent of round-tripping could also influence which method to use.¹³ Some methods by construction might not allow for the existence of round-tripping, while others might do a better job of capturing it for economies where it is significant. For example, for some compilers the last unit, or last-operating unit, approach could lower the amount of the UHE position that gets classified in the compiling economy if the compiling economy sees significant pass-through for entities that are ultimately controlled by resident entities.

“Push-down”

561. Push-down methods, as the name implies, move (push) the position down the FDI ownership chain to a single entity, without considering intermediate or subsequent linkages, if any. These methods should allow for a reallocation, to varying extents, of the outward position from financial centres to economies where the productive activities of multinational enterprises (MNEs) are carried out. These methods should be less data-intensive and relatively easier to implement and maintain than methods that consider all the units in the ownership structure. However, complications can arise with complex ownership chains seeing multiple owners of some direct investment enterprises (DIEs) within the enterprise structure.

562. On the other hand, a drawback of these methods is that precisely because they do not consider all the units in the chain, they could lose detail on the global financial structure of MNEs, which some users and policymakers might be interested in. Another drawback of these methods is that there could be cases where the equity of the DIE further down the chain is not large enough to support the whole outward position of the directly held DIE. Push-down methods are further outlined below.

First operating unit method

563. The first-operating unit method is recommended largely for practical reasons. The first-operating unit can be the first non-holding company and/or non-special purpose entity (SPE) going down the ownership of the directly held DIE.¹⁴ It could also be one whose purpose was not (only) administrative, management and/or holding assets. While there is likely considerable overlap between all these distinctions, subtle differences between them can yield different results, empirically but also conceptually.¹⁵ Information on the purpose of a DIE can be hard for compilers to collect, especially as the reporting MNEs themselves may not know it. From a conceptual angle, looking through both holding companies and SPEs should approximate what many users think of as “true” FDI, i.e., the enterprise in the chain that is the main

reason the ownership chain exists in the first place. An example of this method is available in Deutsche Bundesbank (2023^[8]).

564. From a practical angle it might be more feasible to identify non-resident holding companies than non-resident SPEs (or vice-versa). A compiler can choose to look through just holding companies if it is more feasible than non-resident SPEs, especially if there is a lot of overlap between the two. With modern complex ownership structures, there is not always going to be a factory (or hotel, mining operation, etc.) at the end of, or somewhere along, each ownership chain. There could even be an extreme case where all of the DIEs in the chain meet the SPE definition. MNEs can set up DIEs to hold portfolio-type investment or lease intellectual property, for example, and these DIEs can account for a significant amount of the outward position that should not “disappear” when assigning positions to UHE. The existence of these entities does entail that even with UHE statistics, some of the position will remain in financial centres.

Last unit method

565. The last-unit method assigns the position of the directly held DIE, no matter whether it is operating or not, to the unit at the bottom of the chain. Similar to the first-operating method, it should re-assign part of the position in financial centres to other economies where productive activities are carried out, but some is likely to remain in the former for the same reasons as the first-operating unit method. An example of this method is found in Banco Central do Brasil (2018^[9]).

566. The last unit method is more advantageous than the first-operating method in cases where the first operating unit mixes operating and holding activities (that is, a “near-SPE”) and is followed by a chain of SPEs or holding companies before there is another non-SPE DIE at the bottom of the chain.¹⁶ That advantage also applies to cases where there is a chain of “near-SPEs” before reaching a DIE at the bottom of the ownership chain that carries out most of the operating activities. On the other hand, one potential disadvantage when compared to the first-operating method includes the possibility of attributing the position to entities at the bottom of the chain engaged in activities auxiliary to the main activity of the MNE that is carried out by entities further up the chain; for example, retail or service-providing entities at the bottom of the chain, passing over manufacturing entities further up in the chain. Another drawback of these methods is that there could be cases where the equity of the DIE at the bottom of the chain is not large enough to support the whole outward position of the directly held DIE.

Using financial structures

567. Methods that look at the financial structure of MNEs could provide the best picture in terms of how direct investors organise their global financial structure. Under these methods, the position of the directly held DIE is distributed along the DIEs in the chain, reflecting how much of the position “stays” at each tier.

568. While these methods could arguably provide a better picture of MNEs’ global financial structure, they are the most information intensive because compilers would need accurate and detailed information of all the DIEs of the MNE. These methods could also create difficulties from a statistical compilation point of view due to the complex organisational structures MNEs use. For example, distributing the ownership of the directly held DIE can be tricky if a unit along the chain has negative equity or a DIE in a lower tier is larger than the one above, so any method needs to account for these possibilities.¹⁷

Pass-through method

569. The pass-through method makes use of the direct investors’ equity position in each DIE that “passes through” to be invested in another DIE further down the chain. This method accounts for the possibility of negative positions and external financing (Leino and Ali-Yrkko, 2014^[10]; Borga and Caliandro, 2018^[11]). However, it is complex. The value of the direct investor’s pass-through equity in each DIE is a

function of the equity that the direct investor has in it (“inward equity”) and the equity the DIE has in units further down the chain (“outward equity”). Pass-through equity can then be calculated for each DIE using the conditions below for pass-through equity depending on inward equity, and outward equity. Once inward equity and pass-through equity have been calculated, the adjusted equity position of each DIE is calculated as inward equity minus pass-through equity.

$$\text{If } IE \geq 0 \text{ and } OE \geq 0, \text{ then } PTE = \min(IE, OE)$$

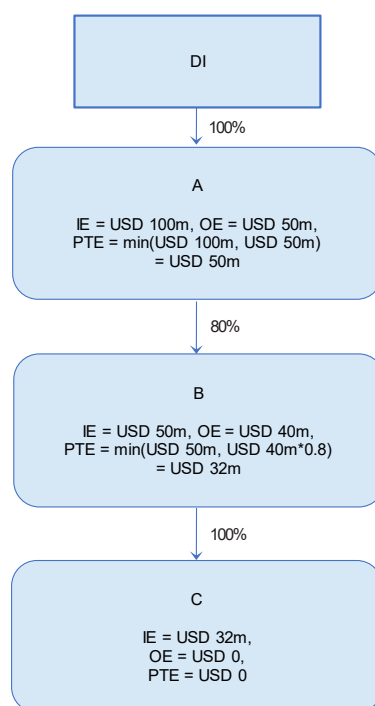
$$\text{Else if } IE \leq 0 \text{ and } OE \leq 0, \text{ then } PTE = \max(IE, OE)$$

$$\text{Else } PTE = 0$$

where IE = Inward equity; OE = Outward equity; and PTE = Pass-through equity.

570. In the example shown in Annex Figure 8.B.1, the direct investor owns DIEs A, B, and C. DIE A is 100% directly owned by the direct investor, has an equity position of USD 100 million, and has USD 50 million in equity in affiliate B. DIE A itself owns 80% of B, which has USD 40 million in the equity of C, of which it has complete control (100%).

Annex Figure 8.B.1. Illustrative example of the pass-through method



Notes: IE=Inward equity; OE=Outward equity; PTE=Pass-through equity.

571. On an immediate basis, the compiler of the resident direct investor would show USD 100 million of the outward position in the economy of DIE A. However, after applying the pass-through method, the compiler would now show USD 50 million in the economy of DIE A (inward equity less pass-through equity gives USD 100 million less USD 50 million), USD 18 million in the economy of B (USD 50 million less USD 32 million), and USD 32 million in the economy of C (USD 32 million less USD 0 million) on an UHE basis.

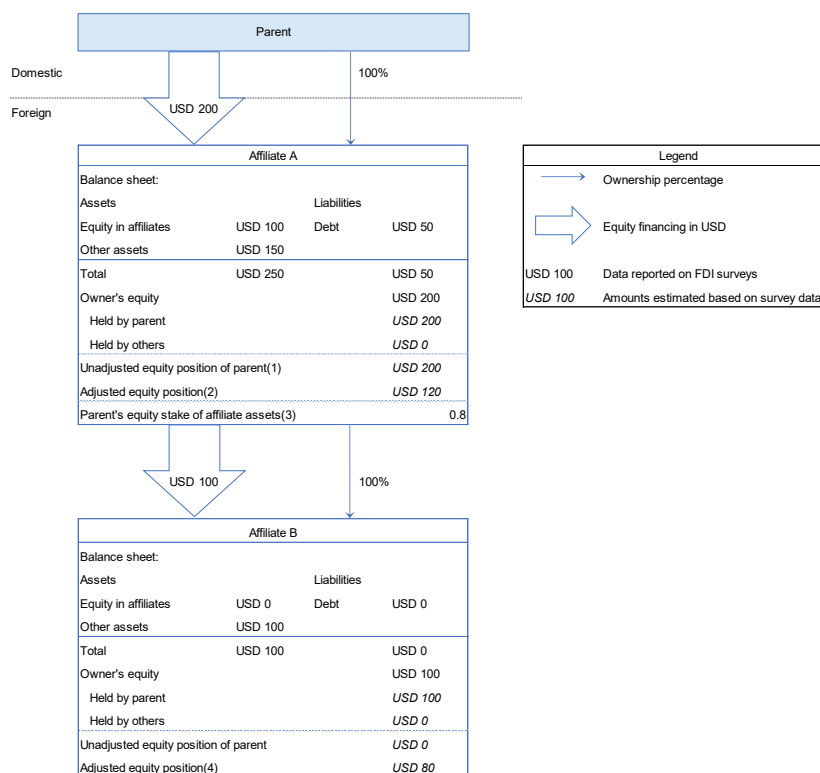
Parent's equity share of affiliates' assets method

572. The parent's equity share of affiliates' assets method makes use of the direct investor's ("parent") equity share of the DIEs' ("affiliate") assets. The reallocation method involves transferring, at each ownership tier, that proportion of the equity position in higher-tier DIEs that represents investment in lower-tier DIEs to the DIEs at the next tier down in the ownership chain.

573. The direct investor's equity position in first-tier DIEs is reallocated to lower-tier DIEs in proportion to the equity ownership shares connecting the DIEs to each other and to the direct investor. This is also done in proportion to the share of the total financing of the DIEs accounted for by equity funding supplied directly or indirectly by the direct investor. The equity position for first-tier DIEs is then adjusted by subtracting that portion of the unadjusted position that has been reallocated to the lower-tier DIEs. Where the ownership chain extends beyond the second tier, this process becomes an iterative one, in which the reallocation procedure is repeated at each tier.

574. The example depicted in Annex Figure 8.B.2 consists of a single first-tier DIE (affiliate A) and a single second-tier DIE below it (affiliate B). The parent company's (direct investor's) unadjusted equity position in affiliate A is calculated as the product of the parent's percentage equity stake (100%) and the total owners' equity of affiliate A (USD 200), which is USD 200. The other USD 50 in the total assets of affiliate A is financed by borrowing by the affiliate.

Annex Figure 8.B.2. Illustrative example of the parent's equity share of affiliates' assets method



Notes:

1. Equals parent's percentage equity stake in affiliate A times owners' equity of affiliate A.
2. Equals unadjusted equity position for affiliate A minus adjusted equity positions for affiliate B.
3. Equals (1) parent's percentage equity stake in affiliate A times owners' equity of affiliate A divided by (2) total assets of affiliate A.
4. Equals parent's percentage equity stake of affiliate A times affiliate A's percentage equity stake in affiliate B times owners' equity of affiliate B.

575. The parent's equity share of affiliate A's assets calculated as the parent's USD 200 equity investment divided by the USD 250 in total assets of affiliate A, which is 80%. This percentage and affiliate A's equity investment in affiliate B (100%) are used to compute the proportion of the parent's USD 200 direct equity investment in affiliate A that is reallocated to affiliate B.

576. Computationally, the parent's adjusted equity position in affiliate B is the product of (1) affiliate A's equity stake in affiliate B (100%), (2) affiliate A's parent's equity share of affiliates' assets (80%), and (3) the total owners' equity of affiliate B (USD 100), which is USD 80. The logic behind this formula is explained next. The product of (1) and (3) represents affiliate A's equity investment in affiliate B. However, we are trying to calculate the direct investor's indirect equity investment in affiliate B, which is less than this amount because the direct investor has a claim on (just) 80% of affiliate A's assets. Therefore, (1) times (3) must be multiplied by (2) to derive an estimate of the amount of the direct investor's equity position in affiliate A that should be reallocated to affiliate B. The parent's adjusted equity position in affiliate A is thus calculated as the USD 200 unadjusted equity position less the USD 80 adjusted equity position in affiliate B, which is USD 120. The parent's total direct investment position in affiliate A would be this amount plus any portion of the affiliate's USD 50 in debt that represented borrowing from the parent.

Apportioning using a third dataset

577. The outward position by UHE can also be produced by apportioning the position using a third dataset, such as activities of multinational enterprises/foreign affiliates statistics (AMNE/FATS). For example, if X% of an outward FATS (OFATS) related variable is in economy A, then X% of the outward position gets assigned to economy A. Related variables that could be used to scale the position include employment, physical assets, sales/turnover, or some combination of these.

578. The apportioning method is likely the easiest method to implement if the compiler already produces a dataset that can be used to apportion since it does not require the use of microdata (company-specific ownership chains). However, this method, like the push-down methods, is unlikely to provide a full picture of the financial structure of MNEs. Additionally, the resulting UHE statistics could be significantly different depending on which related variable is used to apportion. If the position is apportioned using employment, the position places more weight on economies with labour-intensive DIES, while capital-intensive DIES have higher weights with variables like physical assets.

Hybrid methods

579. It is possible to combine several aspects of the methods mentioned above to develop hybrid methods for producing UHE statistics. As also stated above, compilers should consider data and resource availability along with the needs of users when determining which method to use, and a combination of characteristics of different methods could be the best approach.

Last “operating” unit

580. The last “operating” unit method combines aspects of both push-down methods (i.e., the first-operating unit method and last unit method). Under this approach, the position of the directly held DIE is assigned to the last operating unit down the ownership chain. Looking beyond the first-operating unit could help with issues of near-SPEs towards the top of the chain that might otherwise get positions assigned to them. It also avoids assigning the position to smaller DIES at the very bottom of the chain that do not engage in productive activities, passing over larger entities further up in the chain, such as manufacturing facilities, although it could still assign the position to a smaller productive DIE at the bottom of the chain that is not large enough to support the entire position.

Micro-level apportioning

581. The outward position could also be apportioned at the micro-level, which can be particularly useful if the compiler has some information on DIEs along the chain but not enough for methods requiring detailed knowledge of MNE financial structures. For example, the position of the directly held DIE could be distributed along the chain by apportioning using a related variable available to the compiler, such as physical assets. The directly held position would then be distributed to the DIEs along the chain based on the percentage of the related variable that each DIE accounts for out of the total of that related variable for all the DIEs in the chain. Alternatively, the compiler could use the information on the ownership chain to determine the first-operating (or last) unit of the chain, and use the percentage of the related variable the DIE accounts for out of the total of that related variable for all the DIEs of the MNE (in this last case, aspects from both push-down and apportionment methods are combined).

582. The United States Bureau of Economic Analysis (2023^[12]) provides a comparison of the different methods discussed above using data on United States outward FDI.

Annex 8.C. Specific features of FDI statistics in the context of currency and economic unions

Introduction

583. Currency unions (CUs) and economic unions (EcUn) play an increasingly important role in the world's economy. This Annex summarises the specific features of the compilation and uses of CUs/EcUns' foreign direct investment (FDI) statistics.

Definition of currency and economic unions and corresponding territories

584. For statistical purposes, a CU is defined as *a group of economies that adopts a common currency and has a central decision-making body (usually a currency union central bank) with the authority to issue the legal tender of the area and conduct a single monetary policy*.¹⁸ A CU is established by means of a formal intergovernmental legal agreement (e.g., a treaty).

585. The economic territory of a CU consists of the economic territory of the CU economies that comprise the CU, plus the currency union central bank. Any other regional organisations that comprise the same or a subset of the same economies are included in the CU.

586. For statistical purposes, an economic union (EcUn) is defined as *a group of economies established by means of an intergovernmental legal agreement among sovereign economies or jurisdictions with the intention of fostering greater economic integration*. In an economic union, some of the legal and economic characteristics associated with a national economic territory are shared among the different economies/jurisdictions. These elements include: (1) the free movement of goods and services within the EcUn and a common tax regime for imports from non-EcUn economies (free trade zone); (2) the free movement of capital within the EcUn; and (3) the free movement of (individual and legal) persons within the EcUn. Also in an EcUn, specific regional organisations are created to support the functioning of the EcUn under points (1) to (3). Some form of cooperation/coordination in fiscal and monetary policy usually exists within an EcUn.

587. An EcUn territory consists of the economic territory of the member economies/jurisdictions and the regional institutions that comprise the same or a subset of the same economies.

Specific issues arising for the FDI statistics of the currency/economic union

588. The concept of FDI statistics does not differ per se for currency or economic unions, taken as a single economic entity, from that of individual economies. As other subscriptions to the capital of international organisations, the subscription to the currency union central bank, or to regional organisations is not recorded under direct investment even though these contributions may exceed 10% of the voting shares of these institutions.¹⁹ Furthermore, specific legal status may exist for groups of companies in CUs or EcUns, as illustrated by the "European Company status". Such arrangements may have consequences on national FDI statistics, e.g., by facilitating the transfer of assets and activities across economies, but the involved FDI cross-border²⁰ transactions and positions would generally be recorded according to the standard methodology as described in this *Benchmark Definition*.

589. The compilation of FDI statistics could be similar to that of individual economies, if a specific data collection were performed on the basis of the residency within the union. However, such an approach may

duplicate the data collection with the national statistics, still necessary in such situations (if only because various key national policies, e.g., tax policies, are under the national responsibility, within such unions). In this context, currency and economic union FDI statistics are usually based on the sources used for the compilation of national FDI statistics. This raises a number of specific compilation issues, which this Annex intends to briefly describe.

Contributions to currency/economic union cannot be identical to national data

Compiling “extra-currency/economic union” transactions and positions

590. The compilation of FDI statistics for the currency/economic union by simple addition of gross national data would unduly inflate their gross stocks and flows because these would include transactions and positions between members. In principle, the addition of only the net national transactions and positions would solve this problem but would provide only net direct investment stocks and flows (i.e., assets minus liabilities) for the currency/economic union. However, this approach would not allow the compilation of assets and liabilities for the currency/economic union because transactions between economies belonging to the union would be included on both sides. Furthermore, it would be subject to distortions in case of asymmetric recording of positions/transactions within the currency/economic union. In this context, currency/economic union FDI has to be compiled as the sum of its residents' positions/transactions towards non-residents of the union (thereafter: “extra” positions/transactions), plus those of the institutions of the union.

591. National contributions for compiling financial transactions data in currency and economic unions are allocated along the debtor-creditor approach, as opposed to the transactor approach, as a way to ensure bilateral symmetry. This convention means that cross-border transactions in financial claims are allocated to the economy of residence of the non-resident debtor, and cross-border transactions in liabilities are allocated to the economy of residence of the non-resident creditor.

Need for specific treatments

Sector and industry attribution

592. A legal entity resident in one economy is always a separate institutional unit if one or more of its owners is resident in another economic territory. In case all its owners were resident in another economy, the sector of this entity would be defined only according to its own characteristics.

593. However, when compiling FDI statistics for the currency/economic union as a whole, such entities having all of their owners in other economies of the union would in principle be treated as resident of the same economy (i.e., the CU or EcUn) and, thus, become ancillary to their parent. As such, they would be allocated to the institutional sector of their parent company. It is recognised, though, that this reclassification may raise significant practical difficulties, and would need a close cooperation between compilers in the economies involved.

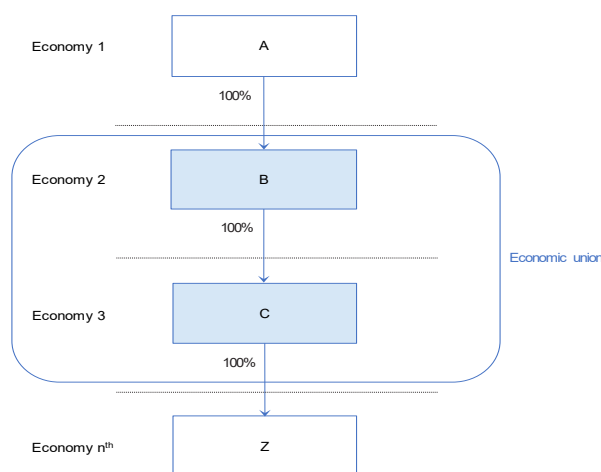
594. This *Benchmark Definition* recommends that when the enterprise is part of a local enterprise group, the industry classification be that of the local enterprise group's primary activity. The primary activity of the “local group” at the level of a CU/EcUn may however be different from the primary activity of the “local group” at national level. Although it might be, in principle, possible to construct the FDI statistics of a CU/EcUn according to the primary activity of the “local group” at the level of a CU/EcUn, the loss of valuable detailed information and the increase in the error due to reclassifications of potentially substantial amounts would render such statistics for the CU/EcUn significantly less useful.

Determination of the ultimate investing economy

595. The compilation of inward position statistics by ultimate investing economy (UIE), as recommended by this *Benchmark Definition*, is complicated for a currency/economic union because it is necessary to avoid duplication.

596. As an example, an investment from economy 1 to economy n^{th} may be performed, by means of a single investment chain, via entities resident in economies 2 and 3, both in the same CU/EcUn and to which neither A nor Z belongs (see Annex Figure 8.C.1). It may be expected that national statistics in economies 2 and 3 would both identify the UIE of their inward FDI positions as economy 1. However, for the CU/EcUn FDI statistics, the position towards A should be reported only once. One approach to ensure this outcome is that UIE positions would only be reported in CU/EcUn statistics if they refer to extra CU/EcUn positions from the point of view of the immediate counterpart; in the example, only B would report the UIE as economy 1 since it has an inward investment position with an entity outside of the EcUn. Another possibility is that economies remove the funds passing through their economy and only report the positions that remain in their economy by UIE.

Annex Figure 8.C.1. FDI chain through an economic union



Application of the extended directional principle

597. The application of the extended directional principle requires determining the resident or non-resident status of ultimate parents from the perspective of the currency/economic union.

Enhanced cooperation between the members of the currency/economic union

Need to coordinate compilation practices

598. International statistical standards intentionally provide only a set of core definitions and concepts and leave some flexibility to national compilers to define their compilation methods and detailed compilation practices and adapt them to their specific environment. For instance, this *Benchmark Definition* allows for several approaches regarding the valuation of unlisted equity. While economies not belonging to a CU/EcUn may define their compilation practices independently from other economies, although still taking on board the interest of international comparability of these data, those belonging to a CU/EcUn have to coordinate closely in order to produce meaningful FDI data for the union as a whole.

Need to coordinate the recording of large transactions/positions

599. As explained above, aggregated FDI statistics are usually compiled from data collected by national compilers. Beyond the close coordination of compilation practices, the data quality of the union's FDI statistics requires the coordination of the recording of some large transactions (and resulting positions) involving several economies. For example, a company in economy 1 may disinvest from economy 2, belonging to a CU/EcUn, to invest in another economy 3 of the same CU/EcUn (economy 1 is not a member). While such a development should have no impact on the FDI statistics of the CU/EcUn, it may be important in practice to coordinate the recording of the corresponding transactions/positions of economies 2 and 3 to ensure that they are compiled in exactly the same way (especially in terms of timing).

600. This coordination is not straightforward as national statistical confidentiality rules usually do not allow national compilers to share confidential information with statistical bodies outside their national borders. To facilitate the maintenance and improvement of data quality through data checking, the establishment of an appropriate statistical data confidentiality regime is desirable at least, and probably essential. Such a regime would ideally address the sharing and protection of confidential data both (i) among national compilers and (ii) between national compilers and the CU/EcUn compilers in order to enable the compilation of consistent and reliable aggregated union statistics.

Usefulness of FDI data regarding currency/economic unions

601. While national FDI statistics still play a prominent role for policy makers in the economies participating in such unions, where tax and/or some other policies are still defined at national level, FDI statistics for CU/EcUns are important too. This allows for the overall assessment of the benefits of the union and supports the conduct of its policy, concerning trade, competition or labour rules, for example. The analysis of the developments of globalisation within and outside the union, or the determinants to GDP growth for the union as a whole may also strongly benefit from information on inward FDI.

Identification of currency/economic unions by partner economies

602. Other economies may find it analytically useful to identify certain currency and/or economic unions among their partners. Corresponding data should be equal to the sum of positions/transactions towards the economies belonging to the corresponding CU or EcUn, plus possibly institutions of the CU or EcUn where appropriate.

603. In case the composition of the CU or EcUn would change over time, compilers may decide either to show back data only according to the latest composition of the CU/EcUn, or to show the CU/EcUn according to its composition at each point in time, and to take the changes in composition into account by means of a reclassification.

Notes

¹ Whenever possible, compilers are encouraged to present their FDI statistics by partner economy and by industry excluding resident SPEs and for resident SPEs separately allowing the disaggregated series by partner economy and by industry for all entities to be derived. This would place the lowest level of confidentiality restrictions on series excluding resident SPEs and better support analyses of the impact of FDI.

² In some cases, such as when the majority of shares are actively traded, it is not clear that there is domestic control over the DIE; compilers who follow the WTA method can use various approaches to identify the ultimate investor (see Annex 8.A).

³ While technically, cases of foreign investment with national control do not correspond to round-tripping of funds, they will be perceived as such by users of FDI statistics by UIE. Hence, treatments of those cases by compilers using the WTA are referred to in this chapter as ‘inflated round-tripping’.

⁴ It also causes issues with the economic activity patterns of outward FDI statistics. This issue is also on the Research Agenda (Annex D).

⁵ This ignores the possibility of negative investment positions as well as of external financing raised by the foreign--owned direct investor. These issues can be explored as part of the research into this topic recommended in the Research Agenda (Annex D).

⁶ Recognising the revisions of ISIC, the *Benchmark Definition* recommends that compilers should adjust industry classifications to all subsequent revisions of ISIC.

⁷ The ISIC definition of holding companies, applied within the industry classification of FDI statistics is different from the definition in the *System of National Accounts* (United Nations et al., Forthcoming^[5]) used for institutional sector classification.

⁸ While the guidance calls for reallocating both the equity and debt positions, some compilation systems may use data sources for intra-company debt that do not enable the identification of the UIE. In these cases, only the equity position should be reallocated.

⁹ An offshore financial centre is defined as a jurisdiction in which the majority of the financial transactions are conducted by resident financial corporations on behalf of non-resident clients. Lists of offshore financial centres are widely available.

¹⁰ This approach is aligned with the treatment recommended in the *2010 Manual on Statistics for International Trade in Services (2010 MSITS)*, (United Nations et al., 2012^[2]) and in the *European Business Statistics Compilers’ Manual for Foreign Affiliate Statistics* (Eurostat, 2024^[6]).

¹¹ This approach is aligned with with the treatment recommended in the *2010 MSITS* and in the *European business statistics compilers’ manual for foreign affiliate statistics* (Eurostat, 2024^[6]).

¹² This approach is aligned with the treatment recommended in the *2010 MSITS* and in the *European business statistics compilers’ manual for foreign affiliate statistics* (Eurostat, 2024^[6]).

¹³ Ideally the amount of round-tripping identified in the outward position statistics by UHE should equal the amount identified in the inward position statistics by UIE. In practice, this will depend on the methods chosen to reallocate the positions to the UHE and UIE and on data quality.

¹⁴ It was also considered whether head offices should be ‘looked through’ even though they are operating units. The decision of whether to look through these entities under the ‘first operating unit’ method is left to the Research Agenda when more countries can share their experiences with developing experimental statistics by UHE.

¹⁵ Information about the main economic activity of the enterprise can be used as a proxy (e.g., the statistical classification of economic activities in the International Standard Industrial Classification).

¹⁶ Near-SPEs are “hybrid companies displaying both SPE-like (financial intermediation) and non-SPE-like activities”. For more details, see (IMF BOPCOM, 2018^[13]).

¹⁷ MNEs can structure their worldwide operations with DIEs that consistently report losses or are net lenders to their parent companies and have negative positions. Additionally, a DIE in a lower tier might be larger than the DIE in a higher tier due to investment from unaffiliated parties (“external financing”). This is assuming such cases are accurately reported to, or otherwise known, by the compiler. Additional difficulties can arise from these methods requiring statistical compilers, and reporting companies, to correctly capture detailed information at every tier.

¹⁸ See Annex 3 on Regional Arrangements of *BPM7* (IMF, Forthcoming^[1]).

¹⁹ According to *BPM7* Annex 3 on Regional Arrangements (IMF, Forthcoming^[1]), subscriptions to currency union central banks should be recorded under other investment.

²⁰ It is worth noting that cross-border refers to the CU/EcUn as a whole. Intra-CU/EcUn transactions and positions are not relevant for the FDI statistics of the CU/EcUn, although they still are for the FDI statistics of CU/EcUn member economies.

9 FDI by type

This chapter defines the four different types of foreign direct investment (FDI) transactions: greenfield investment (i.e., the establishment of a new direct investment enterprise (DIE)); extensions of capacity of an existing DIE; a merger or acquisition of existing enterprises; and corporate and financial restructuring. It recommends that economies publish FDI statistics disaggregated into these different types of FDI transactions on a supplementary basis to help users to interpret these statistics and to provide them with information on the main purposes of FDI for the reporting economy. While greenfield investment and extension of capacity, which increase the productive capacity of the host economy, may be of greatest interest to policymakers, it is recommended that compilers also provide information on mergers and acquisitions and corporate and financial restructuring. The final section provides guidance on distinguishing between the different types of transactions and possible data sources.

9.1. Introduction

604. The impact of foreign direct investment (FDI) on host and home economies is of great analytic interest. Identifying the purpose of the FDI transaction can provide valuable information to policymakers, researchers, businesses and the general public on such impacts. FDI by type will be compiled according to the final use of the investment. FDI transactions encompass mainly four types of operations:

- greenfield investment (new entities)
- extensions of capacity (additional new investment in existing entities)
- purchase/sale of existing equity in the form of mergers and acquisitions (M&A)
- corporate and financial restructuring.

This chapter provides guidance for compilers to disaggregate FDI financial transactions on the directional principle into these different types of transactions.

605. Greenfield (i.e., new) investment and extension of capacity both provide “fresh capital” and are expected to increase the productive capacity of the host economy through fixed capital formation as well as potentially contributing to increased output, employment and productivity. As such, they are likely to confer different benefits than M&A or corporate and financial restructurings. Thus, they are often of greatest interest to policymakers. However, M&A statistics can also be of interest to policy makers. While M&A are often perceived to include only a change of ownership in an existing corporate entity and in some cases being associated with negative connotations (e.g., job losses), in practice, acquisition by a foreign investor can provide important benefits to the acquired enterprise, such as integration in regional or global supply chains and distribution networks and access to new technology and know-how.¹ In addition, M&A and restructurings can involve very large transactions, resulting in volatility in the FDI series. Therefore, separately identifying them can help users understand and interpret these statistics.

606. The guidance in this chapter is limited to financial transactions. Similar analysis of FDI positions would not be meaningful as such data relate indistinguishably to the stock of all types of investment accumulated over time. Breakdowns by type of FDI have analytical significance mostly at the time of the initial decision of the investor and for the related transaction but not in subsequent periods. Disaggregating FDI financial transactions by type to estimate the amount of FDI financing for greenfield investment (GI) and extension of capacity (EC) is referred to as the ‘transactions’ approach and fits within the boundaries of FDI by focusing solely on the financing provided by the direct investor. In case the compiler is able to identify other types of transactions (e.g., M&A transactions and corporate and financial restructuring) relevant to their economy, they can use the residual approach to measure GI and EC. This approach estimates the amount of financing for GI and EC by subtracting the value of these other types of transactions from the total value of transactions, thus estimating the value of GI and EC as the residual. Another approach is to estimate the value of fixed capital formation by newly established direct investment enterprises (DIEs) and the extension of capacity of existing DIEs. This is the capital approach, yet it goes beyond the boundaries of FDI by measuring capital formation regardless of the source of financing (hence, it could also include domestic financing or foreign financing from unrelated parties). The capital approach is included in Section 10.4.6, which discusses relationships of FDI statistics to other macroeconomic statistics.

607. While it is recommended that both inward and outward FDI financial transactions be disaggregated by type on a supplementary basis, first priority should be given to inward FDI as that is likely of greatest interest to domestic policymakers. However, although not a priority, the disaggregation of outward FDI financial transactions by type could be useful in economies with large amounts of outward investment. The number of transactions could be significant while their analytical relevance may be limited due to the small size of individual transactions. To limit the costs in proportion to the analytical relevance, compilers may

apply an additional threshold. The template for compiling FDI financial transactions by type is Table A.B.11 in Annex B.

608. In the following section, each different type of FDI transaction is defined and the coverage of that type of FDI is discussed. The next section provides guidance on reporting FDI transactions by type, including guidance differentiating between different types of FDI equity capital transactions. The last section compares and contrasts FDI statistics by type, specifically greenfield investment, extension of capacity, and M&A, with data available from commercial providers.

9.2. FDI by type

9.2.1. Greenfield investment and extensions of capacity

609. Greenfield investment (GI) refers to altogether new investment. Extensions of capacity (EC) refers to additional new investment as an expansion of an established business. Conceptually and in terms of economic impact, the two types of investment are similar. This *Benchmark Definition* defines GI as “Investments in direct investment enterprises established within the last three years” and EC as “Capital injections that are used to expand the capacity of direct investment enterprises that have existed for three years or more.” The threshold of three years to differentiate between newly established and already existing DIES is to assist compilers in differentiating between the two types of transactions if they choose to and to ensure comparability across economies. Newly established DIES in some cases may take longer than three years to reach maturity, while others could take less time; nevertheless, there was consensus among compilers to consider a three-year threshold as a good way to differentiate between the two. While the primary breakdown of FDI transactions by type in the reporting template (see Annex B) calls for presenting GI and EC as one type, compilers that can separate the two are encouraged to provide that additional detail.

610. It is necessary to understand the purpose for establishing a new enterprise to properly classify the transaction. For example, a direct investor may establish a new holding company to carry out a M&A. As discussed below, such a transaction should be included in M&A and not in GI and EC. Section 9.3.1 provides guidance on distinguishing between different types of transactions.

611. In terms of coverage, it is recommended that equity capital transactions, reinvestment of earnings, and inter-company debt for GI and EC be identified because all three components can play a role in financing new investment and expansions of productive capacity. Identifying all three of these components provides the most complete estimate of the financing provided by foreign direct investors for GI and EC purposes.² As discussed below, this differs from the recommendations for the other types of transactions (i.e., M&A and corporate and financial restructuring), which focus only on equity capital. The additional effort to identify reinvestment of earnings and inter-company debt for GI and EC is justified to provide the most complete estimate to policymakers and other data users seeking to understand the role of FDI in financing the expansion of the productive capacity of the economy.

612. It is recommended that FDI by type be measured on a net basis, which identifies the balance of new investment allowing for reverse investment or disinvestment. It is possible for GI and EC to be negative. This could happen when an investment begins but is reversed, such as being sold before it is completed or if the direct investor chooses to repatriate some of the funds invested in the newly established DIE before the three-year threshold is reached. In addition, a newly established DIE may record negative reinvested earnings if it is not immediately profitable or if it is drawing on accumulated earnings from prior periods. It would therefore be possible to have negative GI and EC statistics at the micro level, and, depending on relative size, at the aggregate level too.

613. In disaggregating FDI by type, it is recommended that compilers exclude funds passing through their economy if possible. For inward investment, funds passing through do not contribute to new capacity in the reporting economy; for outward investment, the reporting economy is not the original source of funds passing through and contributing to productive capacity in other economies. As a first step, this can be done by excluding FDI transactions of resident special purpose entities (SPEs) in the disaggregation by type.

9.2.2. Mergers and acquisitions (M&A)

614. Generally speaking, M&A relate to existing company structures merged with or taken over, fully or partially, by other entities. Moreover, when the cross-border M&A keeps a targeted domestic company from going bankrupt, it may help to at least maintain current productive capacity – though it might also grow if new jobs are generated in the process, for instance.

615. While the terms mergers and acquisitions are often used together or interchangeably, there is a distinction between the two. A merger is defined to occur *when two or more companies agree to combine into a single operation* while an acquisition is defined as a *business transaction in which the acquiring enterprise purchases the assets and liabilities of the target enterprise*. Annex 9.A provides more information on M&A.

616. M&A relate to the purchase or sale of shares in an existing enterprise and also cover the sale of part or all of an enterprise.

617. It is recommended that financing for M&A be only separately identified within equity capital transactions. M&A are often very large transactions, and separately identifying them in equity capital transactions will help users interpret the statistics if they are volatile due to M&A. While inter-company debt and reinvestment of earnings could play a role in M&A, the effort for both compilers and respondents of separately identifying these transactions is not justified given that there is less interest in measuring the total value of M&A than in measuring the total value of financing for GI and EC.

618. The transactions identified as M&A should only cover those between unrelated parties. These transactions would reflect market prices for the transaction. A merger or acquisition between members of the same multinational enterprise (MNE) group are considered corporate restructurings, which are discussed below.

9.2.3. Corporate and financial restructuring

619. The last type of FDI transaction is corporate and financial restructuring. This type covers a variety of different types of transactions, but in the context of disaggregating FDI transactions by type, *intra-group corporate and financial restructuring can be defined as the intra-group transfer of existing FDI equity to existing or newly created subsidiaries without any major impact on the productive activities of the group, and/or use of equity instruments for loss reduction and debt repayment*. Multinational enterprises may undertake corporate and financial restructuring for a number of reasons, including adapting to new economic conditions, taking advantage of favourable tax or regulatory regimes in other jurisdictions, listing on foreign stock exchanges, or simplifying the chain of control.

620. While not a comprehensive list, the following examples are presented to help illustrate the definition of the corporate and financial restructuring type of FDI transactions:

- **Adding or removing a holding company in the corporate ownership structure:** this restructuring would increase/reduce the complexity of the ownership structure without any direct effect on the group's operations.
- **Merger between existing intra-group entities:** this type of operation would have an impact on FDI data when both have direct inward and outward FDI relationships.

- **Transfer of group's participations or other financial assets among the group's entities:** this type of restructuring would relate to operations like a transfer of intellectual property products or stock swaps between the group's entities.
- **Listing (or delisting):** this type of restructuring may involve FDI transactions when there is the redemption of the old instrument and issuance of the new one.
- **Debt to equity conversions:** this type of restructuring occurs when a direct investor agrees to cancel some of its debt in the DIE in exchange for equity in the company.
- **Equity injections into group entities exclusively used to cover losses.**

621. The first four are examples of corporate restructuring while the last two are examples of financial restructuring that were identified in the *Benchmark Definition, Fourth Edition (BD4)*, (OECD, 2009^[1]). For the purposes of disaggregating FDI financial transactions by type, there is no need to differentiate between corporate and financial restructurings.

622. Corporate and financial restructuring can accompany other types of FDI transactions. For example, a large acquisition may induce the multinational enterprise group to reorganise its structure. Care needs to be taken to distinguish those transactions related to the acquisition from those that represent the reorganisation of the ownership structure. Corporate inversions are a particular type of corporate restructuring that has received much attention. Box 9.1 defines corporate inversions and describes their recording. It is a good example of distinguishing between corporate and financial restructuring and M&A. It must be noted that corporate restructurings will not always result in FDI transactions as they may also be recorded as "other changes in volume"; the distinction between transactions and other changes in volume is discussed in Chapter 5 and Annex 5.A.

623. While both equity capital and intra-company debt can be involved in corporate and financial restructuring, this *Benchmark Definition* recommends producing statistics for just equity capital transactions associated with corporate and financial restructurings. Information availability and compiler burden are likely to be higher for including intra-company debt. The identification of equity capital transactions for corporate and financial restructuring would on its own enhance the interpretability of FDI statistics by explaining some of the volatility in FDI transactions.

9.2.4. Unallocated within the disaggregation by type

624. The reporting template includes an unallocated category. Transactions that could not be classified into a specific type of transaction, either because they serve multiple purposes or because the lines between the different types might be blurred, could be recorded here. In addition, some compilers may choose not to allocate transactions to all four types but instead to focus on the type(s) most relevant to their economy. For example, they may choose to identify GI and EC; in such a case, they could show the remainder in the unallocated category. Likewise, if information on M&A is more readily available, these can be produced leaving all other transactions unallocated. Compilers are encouraged to produce FDI by type for the purposes of greatest interest to users subject to information and resource availability.

Box 9.1. Corporate inversions and changes of residency of corporations

A corporate inversion is defined as a corporate restructuring of a transnational enterprise group such that the original parent company in one economy that is the ultimate parent of the corporate group becomes a subsidiary of the new parent in another economy. In addition, ownership of a group of enterprises may be shifted to the new parent company. The definition clarifies two important aspects that separate corporate inversions from other types of operations. First, unlike other M&A, the acquired company in a corporate inversion is the actor rather than being acted upon. Second, corporate inversion differs from other forms of corporate restructuring because the original parent company becomes a subsidiary of a new parent in another economy only after the inversion.

A typology of the most usual cases of corporate inversions include the following four cases:

1. Pure inversion: a cross-border restructuring between the original parent company (the inverter) and a subsidiary in a foreign economy, with the new foreign parent company incorporating in the economy of the subsidiary. The subsidiary often holds a negligible amount of assets and liabilities in its balance sheet before the inversion and might have been created for the sole purpose of the inversion. As the inversion is achieved by transactions in financial assets between different entities (often through stock swaps), those are usually recorded in the financial account and would be classified as corporate and financial restructuring.
2. Inversion by merger: a cross-border share swap between the shareholders of the original parent company (the inverter) and those of an independent company in another economy, with the new foreign parent company incorporating in that economy. Like above, the inversion is achieved by transactions in financial assets between different entities and usually results in financial transactions being recorded in the financial account. It would be recorded as M&A.
3. Born inverted: an establishment of a new domestic company along with a foreign entity as the owner. The headquarters functions of the MNE remain in the economy of the new domestic company. The establishment of the new domestic company with a non-resident owner would usually result in cross-border financial transactions. It would be recorded as GI and EC.
4. Changing company residence (also known as transfers of registered offices): a change of residence that does not involve any merger or transaction with another company. While a change in residence may involve the emigration of an entity to another jurisdiction (see the *Integrated Balance of Payments and International Investment Position Manual, seventh edition (BPM7, (IMF, Forthcoming^[2]), Chapter 8, Section B.5, paragraph 8.19)*, as in an economic union, it has basically the same economic effects as an inversion under case 1 above, and it could be seen as equivalent to the latter in terms of economic substance. This change of residence would be entirely recorded as “other change in volume” because no financial transactions occurred (see Chapter 5).

It is doubtful that FDI resulting from a corporate inversion conveys the same benefits to the recipient economy as traditional FDI, especially when key headquarter functions remain in the economy of the inverting company. As such, economies significantly impacted by corporate inversions may publish supplementary details on financial transactions, positions and income for FDI and portfolio investment related to corporate inversions. Corporate inversions often involve a portfolio transaction that almost exactly offsets the FDI transaction; the differing treatment of reinvested earnings on FDI and portfolio investment will tend to increase net earned income receipts of the economy hosting the new parent company, resulting in higher gross national income.¹

Note: 1. The supplementary recording of reinvested earnings on portfolio investment income recommended in BPM7 would address this issue by removing the impact of corporate inversions on net earned income receipts.

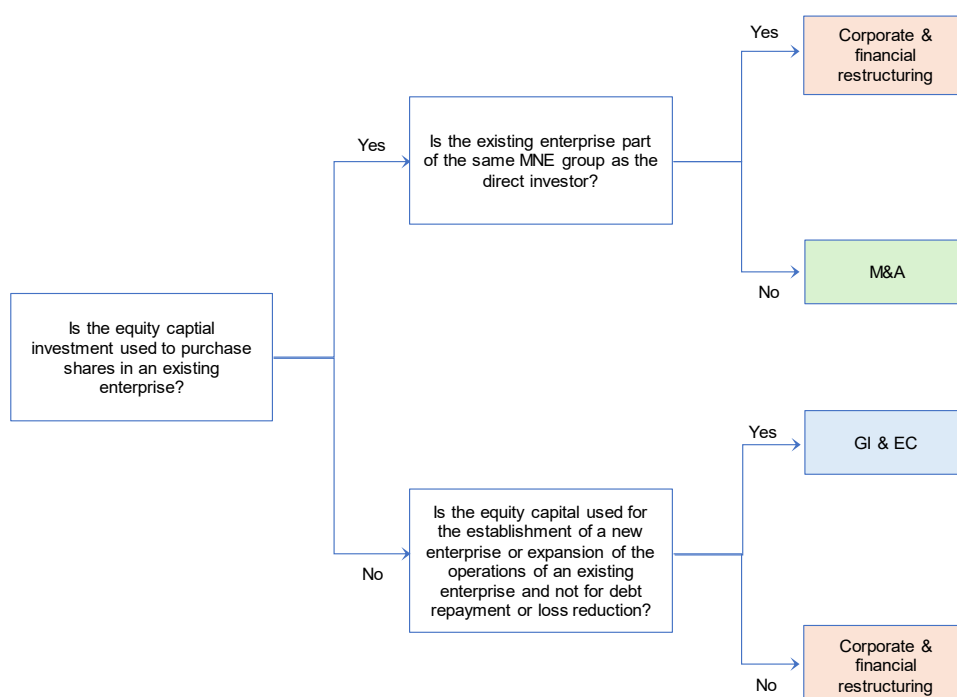
9.3. Compiling FDI financial transactions by type

625. This section begins with guidance on distinguishing between different types of FDI equity capital transactions. It closes with a discussion of possible data sources to disaggregate FDI transactions by type.

9.3.1. Distinguishing equity capital transactions by type

626. Compilers need to differentiate equity capital transactions between the various types of FDI. Figure 9.1 provides guidance for distinguishing inward equity capital transactions between the different types. While it is written for an equity capital increase, the same questions could be asked for an equity capital decrease.³ The guidance for outward FDI transactions would be analogous. As mentioned earlier, compilers should exclude pass-through funds from the disaggregation by type. As a first step, this can be done by excluding transactions to and from resident SPEs. As a second step, funds passing through non-SPEs could be identified by looking for ‘counter-transactions’ of the resident unit or other resident units of the same direct investor that occur roughly at the same time, where a counter transaction is a FDI flow in the opposite direction as the initial FDI flow.

Figure 9.1. Disaggregation of inward equity capital transactions by type



Note: The exclusion of pass-through funds should be determined prior to the application of the decision tree. If the answer to any of these questions is unclear, then the equity capital investment is unallocated by default.

627. Compilers who would like to distinguish between greenfield investment and extensions of capacity could do so by determining if those transactions involved DIEs that were less than three years old.

628. It can be difficult to distinguish between different types of transactions. One case occurs when a direct investor establishes a new enterprise, often a holding company, to undertake a M&A. This should be classified as a M&A and not GI and EC. It is also possible that the transaction involves more than one

type of transaction. An example would be a transaction that involves funding for a M&A as well as new investment into the acquired enterprise. In this case, it would be useful to partition the transaction between types if possible.

9.3.2. Possible data sources

629. Compilers could add questions to distinguish FDI transactions by type to their FDI surveys. This approach would increase both respondent burden and costs for compilers, so it would be necessary to consider these additional costs when prioritising the information to be collected. That is, is it necessary to distinguish between all different types of transactions or could distinguishing fewer types, as discussed in Section 9.2.4, be sufficient to satisfy the needs of data users?

630. If it is decided not to collect data directly from respondents, there are other data sources that could be used to disaggregate FDI financial transactions by type. These include administrative data sources, such as new investment approvals or information from economic development offices. Press reports and commercial databases can provide information on greenfield investment and M&A.

9.4. Official and private sources of statistics on greenfield and M&A

631. Users should be cautious when using the FDI data distinguishing GI and EC and M&A transactions, described in this *Benchmark Definition*, which are different to what is generally referred to as greenfield investment and M&A statistics produced by commercial and other sources.

Table 9.1. Comparing GI and EC type transactions with commercial greenfield databases

	GI and EC transactions as a part of FDI	Greenfield investment statistics by private sources
Objective	To analyse GI and EC transactions as a subcategory of cross-border investment in the form of FDI	To analyse new physical investment either domestic or cross-border or both; may focus on only new entities or may cover both new entities and extensions of capacity
Methodology	Include: - Classifying transactions by direction: outward and inward - Investment in direct investment enterprises (DIEs) established within the last three years and capital injections that are used to expand the capacity of DIEs that have existed for three years or more - Amount reported corresponds to cross-border equity transactions, reinvestment of earnings, and debt between residents and non-residents that qualify as FDI (i.e., ownership of at least 10% of voting power) - International standards provide unified methodology and compilers are asked to provide metadata on deviations Exclude: - Purely domestic transactions - Cross-border financing from unaffiliated parties - Pass-through funds through SPEs	Include: - Announcements of new investment projects; may also include extensions of capacity if they are announced - Amount reported represents the total planned investment regardless of source of financing - Unified methodology is not available across various sources Exclude: - The data are not revised to reflect whether the announced investment actually took place
Breakdowns	None	- Details are available such as: name of the investor and announced enterprise, date of announcement, estimates of capital invested and number of jobs created - Country and industry classifications are based on the ultimate host/investing enterprise
Data sources	Statistical surveys, international transactions reporting system (ITRS), administrative information (such as investment approvals), other officially published sources, press reports and company statements	Press releases, specialised financial press, web scraping, industry organisations, market research companies and surveys/reports undertaken for statistical purposes

632. The former corresponds only to cross-border equity transactions that qualify as FDI (covering 10% to 100% of ownership of voting power), while the latter represents the total capital of companies. See Table 9.1 for a comparison of the two sets of statistics for GI and EC and Table 9.2 for a comparison of the two sets of statistics for M&A.

Table 9.2. Differences between M&A type transactions and commercial M&A databases

	M&A transactions as a part of FDI	M&A statistics by private sources
Objective	To analyse M&A transactions as a subcategory of cross-border investment in the form of FDI	To analyse different types of business combinations of domestic, cross-border and a mixture of both
Methodology	Include: - Classifying transactions by direction: outward and inward FDI - Purchase/sale of existing shares - Amount reported corresponds to cross-border equity transactions between residents and non-residents that qualify as FDI (i.e., ownership of at least 10% of voting power) - International standards provide unified methodology and compilers are asked to provide metadata on deviations Exclude: - Debt instruments (inter-company loans) - Reinvestment of earnings - Domestic transactions - Cross-border financing from unrelated parties - Pass-through funds through SPEs	Include: - Purchase of existing shares (acquisition or mergers of existing companies) - Amount reported represents the total purchase of existing shares (including purchase of less than 10% of voting power) - Unified methodology is not available across various sources Exclude: - All types of pass-through transactions and recording is for genuine target and genuine investor (genuine may or may not mean ultimate) - Divestments (when a resident company is sold by a non-resident owner to another company in a third country, the only transaction to be recorded by private sources is the acquisition by the third country)
Breakdowns	None	- A large number of details are available such as: name of an investor/a target company, date of contract/transaction, percentage of shares purchased/sold, types of shares purchased/sold, amount of a transaction (total amount of shares purchased or total enterprise value), and method of payment - Country and industry classifications are based on the ultimate host/investing enterprise. Information on the immediate investor and its industry is also available.
Data sources	Statistical surveys, international transactions reporting system (ITRS), administrative information, other officially published sources, press reports and company statements	Press releases; specialised financial press; research papers; material from stock exchanges, banking, and legal contributors; web scraping; regulatory filings; and surveys/reports undertaken for statistical purposes

Source: Based on OECD (2009^[1]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

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- OECD (2009), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264045743-en>. [1]

Annex 9.A. Mergers and acquisitions (M&A) transactions as part of FDI statistics

Introduction

633. Foreign Direct Investment (FDI) is important due to its impact on the production, employment, and value added of the host economy. Distinguishing FDI by its type, or purpose, will help to estimate the values of each type of FDI in light of the different economic impacts expected from each of them (see Chapter 9). The focus of this annex concerns practical recommendations on the compilation of FDI statistics related to mergers and acquisitions (M&A) transactions.

634. “Mergers” and “acquisitions” are two terms used by many interchangeably in spite of them being distinct operations. A merger occurs when two (or more) companies agree to merge into a new single company rather than remain separated. An acquisition is the purchase of existing shares issued by another company for increasing ownership or control level by the acquiring company. For more details on the nature of mergers and acquisitions, refer to Annex Box 9.A.1. Despite the differences, there is no need to distinguish between mergers and acquisitions in the disaggregation by type.

635. To avoid possible confusion due to terminologies commonly used, M&A transactions in FDI in this *Benchmark Definition* refer to purchases or sales of existing shares by the direct investor/direct investment enterprise (DIE). This includes changes for both: (i) significant influence (purchase/sale of shares in the range of 10% to 50%); and (ii) controlling ownership (purchase/sale of shares of more than 50%).⁴ It is recommended to identify the equity component of FDI inflows and outflows for M&A (but not for reinvestment of earnings and debt instruments); an analysis of M&A transactions is not meaningful for FDI positions.

Annex Box 9.A.1. Mergers, acquisitions and divestment

A merger is the combination of two or more companies with only one entity surviving. There are several kinds of mergers:

1. Statutory merger – the acquiring company assumes the assets and liabilities of the merged company. In most cases, the owners of merged companies remain the joint owners of the combined company.
2. Subsidiary merger – the acquired company becomes a subsidiary of the parent company. In a reverse subsidiary merger, a subsidiary of the acquiring company is merged into the target company.
3. Consolidation – two or more companies join to form an entirely new company. All companies involved in the merger cease to exist and their shareholders become shareholders of the new company.
4. Reverse merger – the acquiring company ceases to exist, merging into the target company.
5. Merger of equals – a type of merger when companies involved are of similar sizes.

Based on the motivation of investors, mergers are usually referred to as the following:

1. Horizontal merger – when two competitors undertaking the same activity combine.
2. Vertical merger – combination of two companies with complementary activities, such as a buyer-seller relationship.
3. Market-extension merger – between two companies selling the same products in different markets.
4. Product-extension merger – between two companies selling different but related products in the same market.
5. Conglomerate merger – all the other types of transactions, i.e., when two companies do not have a specific relationship and are usually in different lines of business.

An acquisition is a transaction where the acquiring company purchases the assets and liabilities of the target company, which either becomes a subsidiary or part of a subsidiary of the acquiring company.

1. Take-over: the acquiring business is much larger than the target.
2. Reverse take-over: the target company is bigger than the acquiring company. Also called a corporate inversion (see Box 9.1).

A divestment (de-merger) refers to the selling of the parts of a company, which can be conducted in different ways:

1. Corporate sell-off – the sale of a subsidiary to unrelated buyers.
2. Corporate spin-off – the divested part of a company is floated on a stock exchange. The newly floated company is separately valued and is independent. The shares in the newly listed company are distributed to the shareholders of the parent company.
3. Equity carve-out – similar to a corporate-spin-off but the parent retains the majority control.
4. Management buy-outs and buy-ins – the buyer is the manager of the company that is being sold off.

Source: Based on OECD (2009^[1]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Practical examples

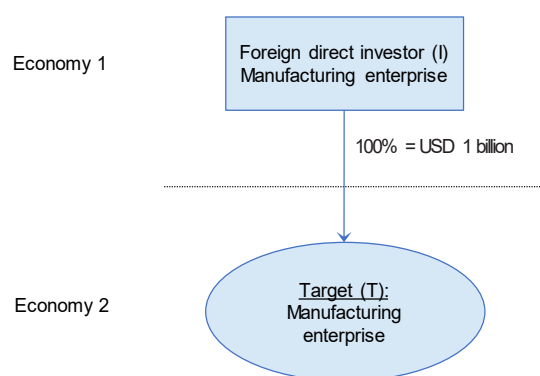
636. This section provides some examples to illustrate various investment patterns.

Practical examples (M&A with the capital only provided by a direct investor)

637. There are many instances where the funds for FDI transactions are provided either through SPEs (e.g., holding companies) newly established for the purpose of the investment, or through existing entities. Instead of recording them as M&A type transactions, they could be mistakenly classified as an extension of capacity if they are channeled through existing SPEs, or, as greenfield investment if they are channeled through newly created SPEs. Such recordings would distort the analytical information. Therefore, the Benchmark Definition recommends that FDI statistics by type for M&A be compiled according to the final use of the investment.

638. Annex Figure 9.A.1 and Annex Table 9.A.1 illustrate a case of a direct M&A transaction, where a direct investor (I) in Economy 1 purchases all the existing shares of a target company (T) in Economy 2, for USD 1 billion. In this case, the transaction is classified as FDI equity, “M&A transactions” by using information on the final use of invested capital, i.e., purchase of all existing shares.

Annex Figure 9.A.1. Direct M&A



Source: OECD (2009^[1]), OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4), <https://doi.org/10.1787/9789264045743-en>

Annex Table 9.A.1. Recording direct M&A

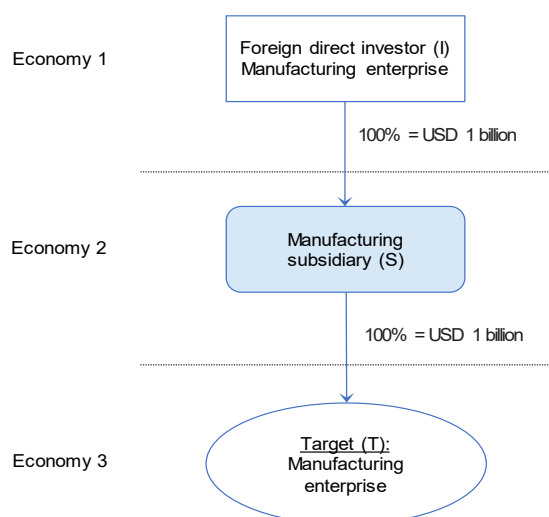
Reporting country	FDI Equity Outflows	FDI Equity Inflows
Economy 1	Amount: USD 1 billion Type of FDI: M&A	--
Economy 2	--	Amount: USD 1 billion Type of FDI: M&A

Source: Based on OECD (2009^[1]), OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4), <https://doi.org/10.1787/9789264045743-en>.

639. Annex Figure 9.A.2 and Annex Table 9.A.2 illustrate a case of a M&A transaction through an operational subsidiary in a third economy. An investor (I) in Economy 1 makes a capital contribution of USD 1 billion to its manufacturing subsidiary (S) in Economy 2 and mandated S to acquire all the existing shares in a manufacturing company (T) in Economy 3 on behalf of its parent in Economy 1.

640. In this case, the transaction is classified as FDI equity, “M&A transactions” by using information on the final use of invested capital, i.e., purchase by a direct investor in Economy 1 of all existing shares. Economy 1 and Economy 3 should record M&A. Ideally, Economy 2 would exclude pass-through funds from its breakdown of FDI transactions by type; if this is not possible, it could record the amount passing through in ‘unallocated’.

Annex Figure 9.A.2. M&A through an operational subsidiary in a third economy



Source: Based on OECD (2009^[1]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>

Annex Table 9.A.2. Recording M&A through an operational subsidiary in a third country

Reporting country	FDI equity outflows	FDI equity inflows
Economy 1	Amount: USD 1 billion	--
	Type of FDI: M&A	
Economy 2	Amount: USD 1 billion*	Amount: USD 1 billion*
	Type of FDI: Unallocated	Type of FDI: Unallocated
Economy 3	--	Amount: USD 1 billion
		Type of FDI: M&A

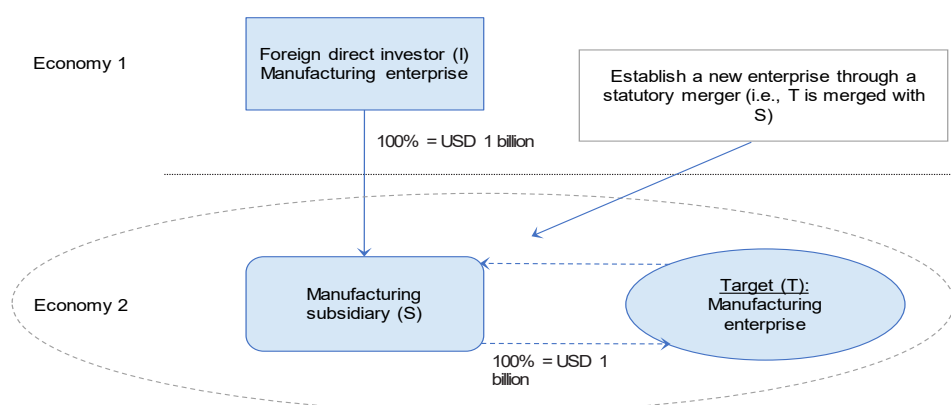
Note: (*) Following the guidance, Economy 2 should exclude the USD 1 billion from its statistics by M&A because it is pass-through. If they do not exclude it, then it should be included in ‘unallocated’.

Source: Based on OECD (2009^[1]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

641. Annex Figure 9.A.3 and Annex Table 9.A.3 illustrate a case of direct statutory merger where an investor (I) in Economy 1 sets up a manufacturing subsidiary (S) in Economy 2. Investor I invests USD 1 billion in S. The subsidiary then merges with a manufacturing company (T) in Economy 2 by purchasing all the existing shares of this target company, which ceases to exist as a result of the merger.

642. In this case, the transaction is classified as FDI equity, “M&A transactions” by using information on the final use of invested capital, i.e., purchase by Economy 1 of all existing shares.

Annex Figure 9.A.3. Direct statutory merger



Note: The dashed arrows show the mergers of the two entities in economy 2.

Source: Based on OECD (2009^[1]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Annex Table 9.A.3. Recording direct statutory merger

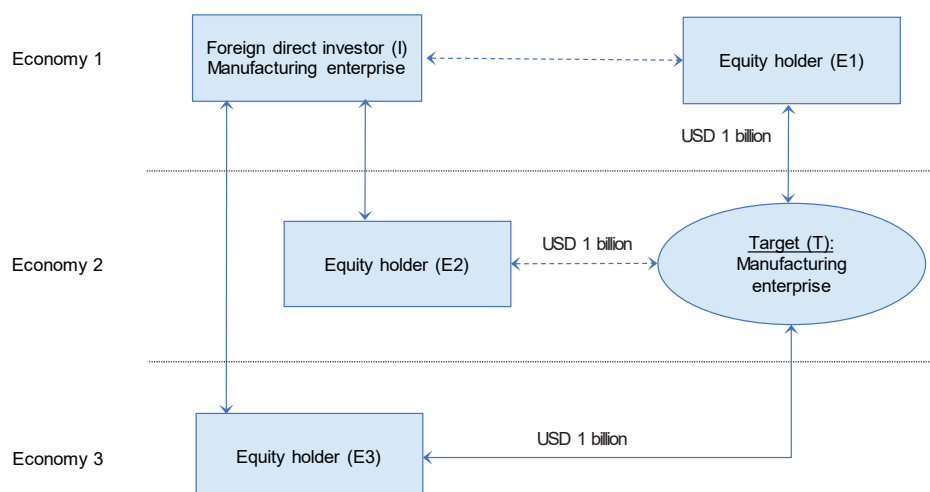
Reporting country	Direct investment equity outflows	Direct investment equity inflows
Economy 1	Amount: USD 1 billion	--
	Type of FDI: M&A	
Economy 2	--	Amount: USD 1 billion Type of FDI: M&A

Source: Based on OECD (2009^[1]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

643. Annex Figure 9.A.4 and Annex Table 9.A.4 illustrate a case of direct equity swap where a company (T) in Economy 2 has 3 shareholders (E1, E2 and E3), one from each of Economies 1, 2 and 3. Each of their 33.3% shareholdings is valued at USD 1 billion. An investor (I) in Economy 1 acquires all of these shares by means of a 'share-for-share' swap, using USD 3 billion of its own newly issued shares. As a result of the transactions, each of the former shareholders of Company T has become a shareholder in I and each owns less than 10% of I's shares. Resident-to-resident transactions by investors in Economies 1 and 2 in enterprises in their respective economies are excluded from the scope of the exercise as they do not represent cross-border transactions.

644. In this case, the transaction is classified as FDI equity, "M&A transactions" by using information on the final use of invested capital, i.e., purchase by Economy 1 of all existing shares.

Annex Figure 9.A.4. Direct equity swap



Source: Based on OECD (2009^[1]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>

Annex Table 9.A.4. Recording direct equity swap

Reporting country	FDI equity transactions		Portfolio investment*	
	Outflows	Inflows	Net acquisition of financial assets	Net incurrence of liabilities
Economy 1	Amount: USD 2 billion	--	--	Amount: USD 2 billion
	Type of FDI: M&A			Partner** Economy: '2' = USD 1 billion '3' = USD 1 billion
Economy 2	Disinvestment = inflow amount: USD 1 billion	Amount: USD 2 billion	Amount: USD 1 billion	--
	Type of FDI: M&A	Type of FDI: M&A		
Economy 3	--	Amount: USD 1 billion (divestment)	Amount: USD 1 billion	--
		Type of FDI: M&A		

Note: (*) Purchase/sale of shares by an investor with less than 10% ownership of voting power are recorded as portfolio investment (one component of the financial account under Balance of Payments and International Investment Position statistics). (**) The breakdown by partner economy is only shown to provide better clarity on the recording, although FDI transactions by type are only reported in aggregate form (no breakdown by partner economy nor industry).

Source: Based on OECD (2009^[1]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

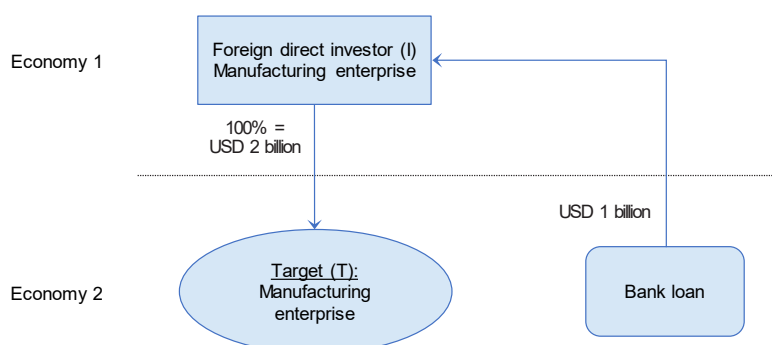
Practical examples (M&A where financing is provided by a direct investor and a local bank)

645. When a M&A transaction is partly financed by capital from a local bank, there is a major difference between recording M&A transactions as a part of FDI and M&A statistics of commercial sources. Users and compilers should pay attention to such differences when analysing M&A data.

646. Annex Figure 9.A.5 and Annex Table 9.A.5 illustrate a case of direct M&A with capital procured from a local bank. An investor (I) in Economy 1 contracts a USD 1 billion bank loan in Economy 2 to

complement USD 1 billion of its own resources to acquire a USD 2 billion manufacturing company (T) in Economy 2. In this case the transaction is classified as “M&A type transactions” by using information on the final use of invested capital, i.e., purchase by Economy 1 of all existing shares.

Annex Figure 9.A.5. Direct M&A with capital procured from a local bank



Source: Based on OECD (2009^[11]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Annex Table 9.A.5. Recording direct M&A with capital procured from a local bank

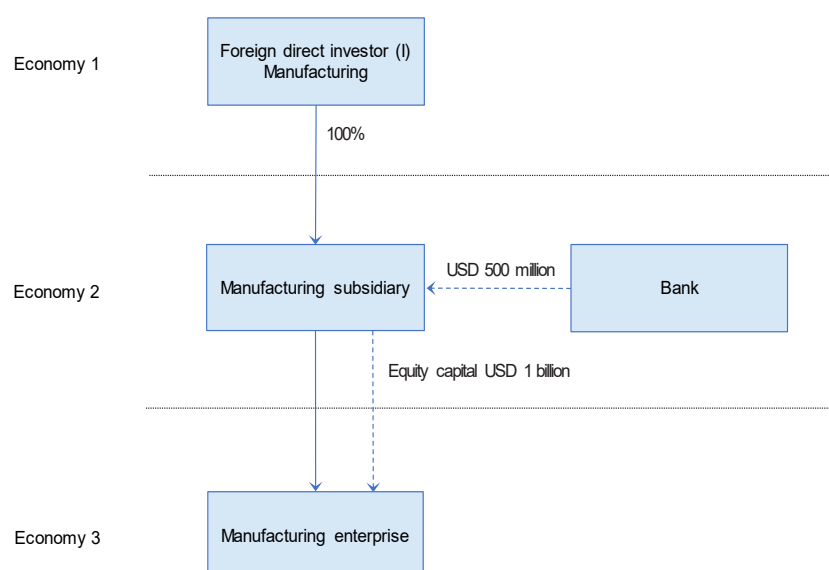
Reporting country	M&A as part of FDI and other investment transactions		M&A statistics (commercial sources)
	FDI equity outflows	FDI equity inflows	
Economy 1	Amount: USD 2 billion	--	Amount: USD 2 billion for M&A transactions
	Type of FDI: M&A		
Economy 2	--	Amount: USD 2 billion	Amount: USD 2 billion for M&A transactions
		Type of FDI: M&A	
	Other investment, net acquisition of financial assets*	Other investment, net incurrence of liabilities*	--
Economy 1	--	Amount: USD 1 billion	--
Economy 2	Amount: USD 1 billion	--	--

Note: (*) Loans between an enterprise and an unaffiliated bank are recorded as other investment (one component of financial account under the Balance of Payments and International Investment Position Statistics).

Source: Based on OECD (2009^[11]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

647. Annex Figure 9.A.6 and Annex Table 9.A.6 illustrate a case of M&A that is undertaken through an operational subsidiary in a third economy with capital borrowed in that third economy. An investor (I) in Economy 1 acquires a manufacturing enterprise in economy 3 for USD 1 billion through its manufacturing subsidiary in Economy 2. The direct investor (I) does not provide any funding. The manufacturing subsidiary borrows USD 500 million from a local bank, and the remaining funds are provided from cash held by the manufacturing subsidiary in Economy 2. In this case, the transaction is classified as FDI equity, M&A transactions based on the final use of the borrowed funds.

Annex Figure 9.A.6. M&A through a foreign operational subsidiary with local borrowing



Note: Dashed arrows show external financing.

Annex Table 9.A.6. Recording M&A through a foreign operational subsidiary with local borrowing

Reporting country	M&A as part of FDI transactions	
	FDI equity outflows	FDI equity inflows
Economy 1	Amount: USD 0	--
	Type of FDI: n.a.	
Economy 2	Amount: USD 1 billion	--
	Type of FDI: M&A	
Economy 3	--	Amount: USD 1 billion
		Type of FDI: M&A

Note: n.a. Not applicable.

Notes

¹ Any financing to extend the capacity of an acquired or merged enterprise would be included in greenfield investment and extension of capacity.

² The breakdown only identifies reinvestment of earnings for GI and EC from the current period. Some affiliates may use accumulated reinvested earnings from prior periods (i.e., retained earnings) to fund GI or EC, but this financing will not be included in the estimate of financing provided by the direct investor for GI and EC.

³ That is, it could ask if the equity capital decreased from the sale of shares in an existing enterprise. If so, was the sale to a member of the same enterprise group? If not, did the equity capital decrease reflect a reduction in the scale or scope of business operations?

⁴ M&A transactions need to involve the purchase of existing shares in an unaffiliated enterprise. M&A within an enterprise group are included in corporate and financial restructuring rather than in M&A transactions.

Part III Extending the use of FDI statistics

10 Links between FDI and other statistics

This chapter explores the relationships between foreign direct investment (FDI) statistics and other macroeconomic and structural business/demographic statistics. It begins by discussing some of the ways that FDI feeds into the balance of payments, international investment position, and national accounts statistics and some of the key economic indicators that FDI can impact. It then presents the activities of multinational enterprises (AMNE) or foreign affiliate statistics (FATS). It compares and contrasts FDI and AMNE/FATS, discusses their use in the capital approach to measuring greenfield investment and extensions of capacity, and provides guidance on how compilers could link the two datasets.

10.1. Introduction

648. This *Benchmark Definition* provides guidance for compiling foreign direct investment (FDI) statistics as a standalone statistical product with standard aggregate statistics as well as standard and supplementary disaggregated series. However, FDI statistics are an integral part of the broader set of macroeconomic statistics, including the balance of payments (BOP) and international investment position (IIP) statistics (also called external sector statistics) and the system of national accounts. The definitions and concepts, accounting principles, and coverage recommended in this *Benchmark Definition* are completely consistent with those recommended in the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7, (IMF, Forthcoming^[1]))*. They are also consistent with the *2025 System of National Accounts (2025 SNA, (United Nations et al., Forthcoming^[2]))* as one of the goals of the most recent update of the international standards was complete consistency, including in terminology, between the external sector statistics and the national accounts. Therefore, it is useful to understand how FDI statistics feed into the broader set of macroeconomic statistics. It is also important to consult balance of payments and national accounts compilers to ensure consistent treatment of significant FDI transactions across the macroeconomic statistics.

649. Another set of statistics that are closely related to FDI are the activities of multinational enterprises (AMNE) statistics, which include foreign affiliate statistics (FATS). AMNE/FATS statistics provide data on the operations of foreign-controlled and foreign-controlling enterprises, such as turnover (sales), employment, value added, etc. They can cover both the operations of foreign-controlled enterprises in the compiling economy, called inward FATS, and the operations of foreign enterprises controlled by the compiling economy, called outward FATS. In addition, AMNE/FATS provide information on the domestic activities of resident parents, including of their resident subsidiaries. These statistics can provide information on the impact of foreign control of enterprises on home and host economies. This set of statistics can also be used to measure greenfield investment and extensions of capacity (GI and EC) using the capital approach (for a description of measuring GI and EC using the transactions approach, see Chapter 9).

650. The discussion that follows is organised in four sections. The first section defines the BOP and IIP and shows the ways direct investment feeds into these accounts, as well as some of the key indicators derived from these accounts. The next section does the same for national accounts. It is important to stress that the discussion in these two sections is not an exhaustive description of direct investment in macroeconomic statistics but, rather, is simply meant to highlight some of the accounts where direct investment appears and the key indicators that it impacts. The subsequent section presents AMNE/FATS statistics, compares and contrasts them with FDI statistics, and provides guidance on ways that economies can link the two datasets. It also explains how AMNE/FATS can be used to measure GI and EC through the capital approach. The last section briefly mentions some other sets of statistics to which FDI might be relevant.

10.2. FDI statistics in balance of payments and international investment position

651. Direct investment is one of the five functional categories that serve as the main breakdown in the BOP and IIP.¹ The BOP captures transactions between residents and non-residents during a specific period of time. The IIP shows the value of external financial assets and liabilities at a specific point in time. FDI can play a significant role in an economy's BOP and IIP. The BOP and IIP are presented on the asset/liability basis (see Chapter 2 and Annex 2.B).

10.2.1. Balance of payments (BOP)

652. The BOP consists of the current account, the capital account, and the financial account. The current account records transactions in goods, services and earned income and transfer income between residents and non-residents. All components of FDI income – distributed earnings, reinvested earnings, and interest income – are part of the earned income account, specifically part of property income.² The earned income account of the BOP records earned income transactions between residents and non-residents.

653. One of the key indicators in the BOP is the current account balance (CAB). The CAB is presented as the credits/revenues in the current account less the debits/expenditures:

$$CAB = X - M + BEI + BTI$$

where X is exports, M is imports, BEI is the balance on earned income, and BTI is the balance on transfer income. As mentioned above, FDI income will impact the current account balance through its inclusion in the balance on earned income.

654. The financial account of the BOP records transactions in financial assets and liabilities between residents and non-residents. All of the components of FDI financial transactions – in equity capital (including reinvestment of earnings) and inter-company debt – are recorded in the financial account. The entries in the financial account are the net acquisition of financial assets (NAFA), which represents the acquisitions less disposals of each financial asset in a specific period, and the net incurrence of liabilities (NIL), which represents the increases in each liability less reductions in that liability in a specific period.

655. One of the key indicators derived from the financial account is net lending/borrowing from the rest of the world (NLB). NLB is:

$$NLB = NAFA - NIL = NFA$$

where NFA is net financial account entries.

656. If NLB is positive, then the economy is lending to the rest of the world, and if it is negative, then it is borrowing from the rest of the world.

657. The capital account of the BOP shows: (a) capital transfers receivable and payable between residents and non-residents; and (b) the acquisition and disposal of non-produced, non-financial assets between residents and non-residents.

658. The net provision of resources to the rest of the world in a specific period by an economy can be represented by the current account balance plus the capital account balance; this shows that the net provision of resources to the rest of the world is equal to the change in net claims on the rest of the world. That is:

$$NLB = CAB + KAB = NFA$$

where KAB is the balance on the capital account.

10.2.2. International investment position (IIP)

659. The IIP records the value and composition of financial assets of residents that are claims on non-residents and gold bullion held as reserve assets (called external financial assets), and the liabilities of residents to non-residents (called external liabilities) at a specific point in time, usually the end of the quarter or the end of the year. The IIP is broken down into the above-mentioned main functional categories; one of them being direct investment, inclusive of debt and equity positions, shown separately.

660. The difference between an economy's external financial assets and liabilities is referred to as the net IIP. If the net IIP is positive, then the economy is a creditor nation; if it is negative, then the economy is a debtor nation.

10.2.3. Other changes in financial assets and liabilities accounts

661. The other changes in financial assets and liabilities account shows changes in financial positions that are not due to transactions. These are broken down into other changes in volume and revaluations (see Chapter 5). Revaluations are further broken down into exchange rate changes and other price changes.

662. The integrated IIP statement explains the changes between the values in the opening and closing positions of the IIP through the accumulation accounts, which consist of the balance of payments' financial account transactions and the other changes in financial assets and liabilities accounts. Specifically, the integrated IIP statement shows:

Beginning of period position

- + Transactions during the period
- + Other changes in volume during the period
- + Revaluations due to exchange rate changes
- + Other price changes

= End of period position

663. The main breakdown of the integrated IIP statement is by functional category, including direct investment.

10.3. System of national accounts

664. The national accounts measure the economic activity of an economic territory, including transactions between residents and non-residents. In the national accounts, transactions and positions between residents and non-residents are recorded as if the latter constitute another sector of the economy, called the rest of the world, although it can technically not be regarded as such (i.e., there is no full accounting of all transactions and positions of non-resident units as is the case for the domestic sectors). The BOP and IIP are closely related to the national accounts, and, in many countries, the data for the rest of the world are taken directly from the BOP and IIP.³

665. The national accounts can be grouped into three categories: i) current accounts, ii) accumulation accounts, and iii) balance sheets. Current accounts deal with the production of goods and services, the generation of income by production, the allocation of income, and the use of income. Accumulation accounts are those that record flows, revaluations, and other changes in volume that affect the entries in the balance sheets between the start and end of the accounting period. The balance sheets present stocks of (financial and non-financial) assets and liabilities and net worth.

666. This section will discuss the role of direct investment in the national accounts' earned income, financial accounts and in the balance sheets. The recording in the national accounts is on the asset/liability basis.

10.3.1. The allocation of income account

667. The allocation of earned income account focuses on resident institutional units as recipients of earned income rather than on their role as producers whose activities generate earned income. The allocation of earned income account shows where the items payable in the earned income account are receivable and also includes the amounts of property income receivable and payable by institutional sectors. Under property income, the allocation of earned income account shows the distributed income of corporations and the reinvested earnings on foreign direct investment. Dividends and withdrawals of income from quasi-corporations from FDI statistics are recorded along with these items from other functional categories. However, the reinvested earnings on foreign direct investment are shown separately because reinvested earnings are only recorded for direct investment enterprises (DIEs).⁴

668. The rest of the world column of the allocation of earned income account is key to converting income arising from production (i.e., gross domestic product (GDP)) into gross national income (GNI). GNI is equal to the income from GDP plus the income residents earned from abroad less the income residents paid to abroad; that is, the difference between GDP and GNI is net income from abroad (NIA):

$$GNI = GDP + NIA$$

FDI income plays an important role in net income from abroad in many economies.

10.3.2. Financial accounts

669. The financial flow accounts of the national accounts record transactions between residents and between residents and non-residents that involve financial assets and liabilities. The main breakdown is by instrument. Within the financial flow accounts, components obtained from FDI statistics are incorporated as equity inclusive of reinvestment of earnings and debt claims in the rest of the world column along with other functional categories.

10.3.3. Balance sheets

670. The balance sheets show the value of assets and liabilities of residents at a specific point in time. Unlike the IIP, the balance sheets include both financial assets and non-financial assets, including both produced and non-produced non-financial assets. However, non-financial assets only appear on the balance sheets of resident sectors. Produced non-financial assets include things like fixed assets, inventories, and valuables. Non-produced non-financial assets are assets that came into being other than through production processes, such as contracts, leases, and purchased goodwill. Natural resources, such as land, water resources, timber and fish stocks, and mineral and energy resources that have an economic value and over which ownership may be enforced and transferred are also included.

671. The IIP is included in the financial assets and liabilities with the rest of the world in the balance sheets. The main breakdown is by instrument; thus, FDI equity and debt positions are included.

672. One of the key indicators from the national balance sheet is national net worth. National net worth of an economy is the total value of non-financial assets of residents plus the balance of financial assets and liabilities of residents with the rest of the world:

$$\text{National net worth} = \text{value of non financial assets} + \text{net IIP}$$

10.3.4. Accumulation accounts

673. The accumulation accounts of the national accounts record flows that affect the opening and closing entries in the NBS. There are four accumulation accounts: i) the capital account; ii) the financial account; iii) the other changes in volume of assets and liabilities account; and iv) the revaluation account.

Direct investment financial transactions appear in the financial account as discussed above. Other changes in volume in direct investment would be reflected in the other changes in the volume of assets and liabilities account, and revaluations of direct investment would be reflected in the revaluations account.

10.4. Activities of multinational enterprises and foreign affiliate statistics

674. *A multinational enterprise (MNE) is a legal entity that has at least one non-resident affiliate or branch, and exercises control over its affiliate(s) or branch(es) either directly – by having over 50 percent of the voting power in the entity – or by indirect transmission of control. The MNE is the ultimate controlling parent—the direct investor at the top of the control chain (BPM7, Chapter 4, Section A.1). This definition implies that all MNEs are FDI companies, but not all FDI companies are MNEs.*

675. AMNE/FATS statistics have often been compiled as part of structural and demographic business statistics, which are statistics designed to provide information on the industrial structure, dynamics and performance of businesses in an economy.⁵ AMNE/FATS provide data that can be used to assess the impact of globalisation, specifically foreign control of enterprises, on an economy. In addition, they can be used to support international agreements, such as the General Agreement on Trade in Services, which includes commercial presence as a mode of supply. Guidance for the compilation of AMNE/FATS is provided in the *2010 Manual of Statistics of International Trade in Services (2010 MSITS)*, (United Nations et al., 2012^[3]) and Eurostat provides guidance to its member states on the compilation of FATS in its *European Business Statistics Compilers' Manual for Foreign Affiliate Statistics, 2024 Edition (2024 FATS manual)*, (Eurostat, 2024^[4]).

676. This section begins with a discussion of the intersection between FDI and AMNE/FATS statistics. It then discusses the coverage of AMNE/FATS, followed by the disaggregation by geography and by industry. It then describes possible variables to be included in AMNE/FATS and some globalisation indicators that can be constructed from them. Next, it contrasts FDI and AMNE/FATS statistics. Finally, it offers guidance to compilers who would like to link their FDI with AMNE/FATS statistics.

10.4.1. Intersection between FDI and AMNE/FATS statistics

677. Before discussing AMNE statistics as a second data set that can be used to assess and analyse the extent and effects of globalisation, it will be helpful to consider how these statistics and statistics on FDI relate to one another. The intersection between FDI and AMNE statistics can be explored by constructing a balance sheet for a hypothetical DIE in which assets, liabilities, and owners' equity are broken down on the basis of whether or not they represent positions of, or with, the direct investor(s). An example is provided in Table 10.1.

Table 10.1. Foreign affiliate balance sheet

Assets:	Liabilities:
A1 Equity claims on direct investor (reverse investment)	L1 Debt owed to direct investor
A2 Debt claims on direct investor	L2 Other liabilities
A3 Other assets	
	Owners' equity:
	O1 Equity claims of direct investor
	O2 Equity claims of other owners

Source: OECD (2009^[5]), *OECD Benchmark Definition of Foreign Direct Investment 2008: Fourth Edition*, <https://doi.org/10.1787/9789264045743-en>.

678. Given the accounting identity which states that assets equal liabilities plus owners' equity, it is the case that:

$$A1 + A2 + A3 = L1 + L2 + O1 + O2$$

679. These terms can be re-arranged as follows, so that the left-hand side of the equation shows the direct investment position:

$$L1 + O1 - A1 - A2 = A3 - L2 - O2$$

680. That is, the direct investment position – the equity and debt claims of the direct investor on the DIE less the equity and debt claims of the DIE on the direct investor – equals the assets of the enterprise not representing claims on the direct investor, less equity and debt claims on the enterprise by entities other than the direct investor. Put another way, the direct investment position can be viewed as financing the portion of the “other” assets of the enterprise (A3) that is not financed by other investors and lenders. Included among these “other” assets would be tangible assets, such as plant, equipment, and inventories; intangible assets, such as patents and copyrights; and financial claims – both equity and debt – on entities other than the direct investor.

10.4.2. Description of AMNE/FATS statistics

681. This section provides a brief description of AMNE/FATS statistics by discussing their coverage and statistical units. For more detail, see the *2010 MSITS* and the *2024 FATS Manual*.

Coverage: Ownership criteria

682. AMNE/FATS statistics are compiled for the controlled subset of foreign affiliates. Statistics on foreign affiliates owned by residents of the compiling economy (outward FATS) should include all controlled foreign affiliates, irrespective of whether the affiliate is held directly or indirectly, and for which the direct investor in the compiling economy is the ultimate controlling parent in an ownership chain. However, if an economy compiles data on the activities of affiliates held by both the ultimate and intermediate investors, it may be useful to indicate the aggregate share of AMNE variables accounted for by enterprises for which the compiling economy is an intermediate rather than ultimate owner.

Statistical units

683. In principle, AMNE statistics could be collected at either the enterprise (company) level or the level of individual business locations or establishments. Neither basis of collection is unequivocally superior to the other; rather, each has its own strengths and weaknesses. For example, some financial indicators, such as total assets, are more naturally collected from enterprises than from establishments. In addition, because FDI statistics usually are collected at the enterprise level, collection of AMNE statistics at this same level facilitates linkages between the two types of data. However, because enterprises are more likely than establishments to have activities in multiple industries, data that are classified on the basis of primary activity can be more difficult to interpret for enterprises than for establishments. Because there may thus be advantages and disadvantages associated with each basis of collection, there is no recommendation concerning the statistical unit to be used in the *2010 MSITS*, however, Eurostat requires its member states use the enterprise as the statistical unit for FATS statistics. AMNE/FATS statistics often will be developed in the context of existing statistical systems, in which the statistical units are already defined, and, in these cases, there may be little choice in the units that are to be used.

684. Because the statistical units used can have an important bearing on how the statistics should be interpreted, both for AMNE/FATS in isolation and in comparisons with FDI statistics, it is recommended that information on the statistical units used in collecting AMNE/FATS statistics be disclosed in explanatory notes.

10.4.3. Disaggregation of AMNE/FATS variables by geography and by industry

685. AMNE/FATS variables may be disaggregated, or attributed, in a variety of ways. One way is geographic – that is, in which economy did the production take place, and which economy is to be regarded as the economy of the owner of the producing affiliate. Another way is on the basis of the primary industrial activity of the producer. Some variables may, in addition, be classified by product, that is, according to the types of goods or services produced.

Disaggregation by economy

686. The issues to be addressed in attributing variables by economy differ between inward and outward AMNE/FATS statistics. For inward statistics, a choice must be made between attribution to the immediate investing economy and attribution to the ultimate investing economy. For foreign-owned affiliates in the compiling economy, the economy of the ultimate investor is conceptually preferable for attribution of variables because that is the economy that ultimately owns or controls, and therefore derives the benefits from owning or controlling, the DIE.

687. For outward statistics, the issue is whether to attribute variables to the immediate host economy or to the ultimate host economy. For affiliates owned by residents of the compiling economy, it is recommended that AMNE/FATS statistics be attributed to the economy of the affiliate whose operations are described by the variables (i.e., the ultimate host economy), for that is the economy in which the foreign direct investor's commercial presence exists, and it is the economy where the various activities – sales, employment, and so forth tracked by the statistics – are carried out. This attribution is consistent with the treatment of foreign-controlled enterprises in the *SNA*, in that the value added in production by the enterprise is attributed to (i.e., is included in the gross domestic product of) the economy of location of the enterprise. The need to follow investment to its ultimate origins or destinations reflects both the nature and the uses of the statistics. For guidance on specific cases, such as equal ownership shares by residents of more than one economy, please see the *2010 MSITS* and the *2024 FATS manual*.

Disaggregation by industry and by product

688. Ideally, it would be possible to disaggregate all AMNE/FATS variables on the basis of the industrial activities of the producers and, in addition, particular variables such as sales or output, exports, and imports by the types of products produced and sold. Data on a product basis would identify the specific types of goods and services delivered through the commercial presence and could most readily be compared with data on goods and services delivered through trade between residents and non-residents. However, some variables, such as value added and employment, do not lend themselves to a product classification. Also, for some compilers, AMNE/FATS statistics may be developed as a subset of domestic enterprise or other statistics that are classified only by industry. This means that all data for a given enterprise are classified in the single largest industry based on some key variable (such as employment or sales). This industry is often termed the “primary” industry.

689. Mainly because the activities carried out by a given enterprise are often not limited to its industry of classification, data recorded against any given industry must be interpreted as an indication of total activity of companies for which the given industry is the most important, or primary industry, rather than as a precise measure of the industry itself.⁶

690. It is noteworthy that, even though FDI and AMNE/FATS statistics may be classified by industry, only the latter statistics will reflect the industries in which DIEs are producing goods and services. As noted earlier, FDI statistics are attributed to the industries of the enterprises with which direct investors have direct transactions and positions (and, if possible, also on the basis of the industries of the direct investors). Statistics tabulated on this basis show the types of enterprises with which direct investors have financial claims and liabilities. The industries associated with the activities of indirectly-held DIEs will not be reflected

in standard FDI statistics, but they will be reflected in AMNE/FATS statistics. Thus, the industrial classification of AMNE/FATS statistics may give a truer picture of the economic nature of the productive activities of foreign affiliates than does that of FDI statistics.⁷

691. As a longer-term goal, compilers are encouraged to work toward disaggregating some or all of the variables by product – which include sales (turnover), output, exports, and imports – that lend themselves to this basis of attribution. Product-based statistics are free of problems of interpretation related to secondary activities and are consistent with the basis of classification used for trade between residents and non-residents.

10.4.4. Economic variables for AMNE/FATS statistics

692. A wide range of economic data or variables – operational and financial – may be pertinent for analytical and policy purposes. The selection of the variables to be collected for AMNE/FATS should be based on their usefulness in addressing questions pertaining to the production, employment, and international trade of foreign-controlled enterprises. The practicalities of data availability also must be considered. With such considerations in mind, a list of variables that may be found in AMNE/FATS statistics is given below.

Sales (turnover) and/or output

693. AMNE/FATS usually include a measure of production. There are two possibilities: sales or turnover, which are used here inter-changeably, and output. Following the SNA, a significant difference between output and sales is changes in inventories of finished goods and work in progress included in output but not in sales for some industries (*2025 SNA, Chapter 7, Section E.2, paragraph 100*).

694. In addition for certain services activities, special conventions are used for measuring output.

- For wholesale and retail trade, although the sales are of goods, the output is defined as a service, equal not to the total value of sales but to the trade margins realised on goods purchased for resale.
- For financial intermediaries, output includes not only services that are charged for by explicit fees, but also margins on buying and selling transactions, asset management costs deducted from property income receivable in the case of asset-holding entities, and margins between interest payable and the reference rate on loans (called implicit financial services on loans and deposits).
- For insurance, output is measured not by total premiums earned, but by a service charge that takes into account the income earned on technical reserves. Furthermore, a portion of premiums must be devoted, not to the provision of services, but to the payment of claims and to the accumulation of capital sums guaranteed under life insurance policies, annuity plans, and pension entitlement schemes.

In all these cases, output will generally be considerably lower than sales because it, unlike sales, excludes the amounts – which may constitute a large portion of total operating revenues – that pass through the enterprise without being considered a part of its intermediate consumption. Otherwise, services activities do not involve inventories of finished goods, and changes in work-in-progress will usually be impossible to measure. In practice, therefore, measured output will be identical to sales for most other service activities.

695. While output is a superior and more refined measure of activity for most purposes, sales data are easier to collect and may present more options for disaggregation. Sales measure gross operating revenues less rebates, discounts, and returns. Sales should be measured exclusive of consumption and sales taxes on consumers, and value-added taxes. Sales indicate the extent to which foreign affiliates are used to deliver outputs to customers, irrespective of the extent to which the output originated in the affiliates themselves or outside. Further, sales are comparable to variables such as exports and imports, which themselves mainly arise from sales.

696. In addition to disaggregation by industry and by economy (following the principles of disaggregation discussed earlier), other breakdowns of sales may be useful for particular purposes. One such breakdown is to distinguish among sales within the host economy (local sales), sales to the economy of the parent enterprise (i.e., the immediate investor), and sales to third economies.⁸ All three types of sales result from a commercial presence by the home parent enterprise in the host economy via its affiliate. However, only the local sales represent the delivery of output within host economies. In any analysis of AMNE variables in conjunction with data on trade with non-residents of the economy of the parent company, it should be noted that the foreign affiliates' sales to the economy of the parent company would appear in both datasets, which may suggest the usefulness of an adjustment to eliminate the duplication, or a memorandum item to identify it.

697. Among other sales breakdowns that may prove useful would be a breakdown of sales within each industry, e.g., sales of goods and sales of services, which would represent a first step toward a product breakdown of sales.

Employment

698. Employment can be measured as the number of persons on the payrolls of foreign affiliates. Employment data are sometimes converted to a "full-time equivalent" basis, in which part-time workers are counted according to the time worked (e.g., two workers on half-time schedules count the same as one full-time worker). The number of employees should be representative of the period covered, but in the absence of strong seasonal or other fluctuations in employment, it may be measured as of a point in time, such as the end of the year, following national practices.

Value added

699. Following the *SNA*, "the gross value added of an establishment, enterprise, industry, or sector is measured by the amount by which the value of the outputs produced exceeds the value of the intermediate inputs consumed" (2025 *SNA*, Chapter 7, Section A, paragraph 8). A related concept, "net value added", is defined as gross value added less depreciation. Gross value added can provide information about the contribution of foreign affiliates to host economy gross domestic product, both in the aggregate and in specific industries. It may often be easier to compute (because it does not require estimation of capital consumption) and is thus more widely available.

700. Although it is defined in terms of outputs and intermediate inputs, value added also is equal to the sum of primary incomes generated in production (compensation of employees, profits, etc.). In some cases, depending on the particular data that are available, this equivalence may be exploited in deriving estimates of value added. This alternative might be chosen, for example, if data on intermediate consumption were lacking but information on the various incomes generated in production were available.

701. Because it includes only the portion of the enterprise's output that originates within the company itself, value added is a particularly useful measure. For inward AMNE/FATS statistics, value added will often be available from regular industrial or enterprise surveys, but for outward statistics it may have to be derived from other variables or collected in separate surveys.

Exports and imports of goods and services

702. International goods and services transactions of foreign affiliates are another basic indicator of activity. Both BOP data and data provided by parent enterprises and affiliates in separate questionnaires may be appropriate sources for such information. To a large extent, the possibilities for disaggregating total exports and total imports will depend on the data sources used.

703. Where data are obtained through linkages with primary data sources for BOP transactions, breakdowns by product and by origin or destination will often be possible. In this event, exports and imports might be disaggregated, not only by the primary activity of the affiliate, but also by product and by geography.

704. Although linkages with BOP data may provide useful information, it often will be difficult or impossible to isolate the transactions of foreign-owned enterprises in these data. Thus, it may be necessary to develop data on exports and imports only through the use of separate dedicated questionnaires. In this event, these same breakdowns would be useful, but it may not be possible to collect the necessary data with the same frequency or in the same detail as provided for BOP. However, it may be possible to disaggregate exports and imports into a few broad categories in which trade with related enterprises would be distinguished from trade with unrelated parties. In addition, trade with the economy of the parent enterprise could be distinguished from trade with other economies. If possible, these breakdowns should be obtained separately for goods and services. For inward AMNE statistics, for example, this would mean disaggregating the affiliate's exports of goods and exports of services into (i) exports to the parent enterprise, (ii) other exports to the economy of the parent, and (iii) exports to third economies. Imports would be similarly disaggregated.

Number of enterprises

705. The number of foreign-controlled enterprises (or establishments, where that is the statistical unit) is a basic indicator of the prevalence of majority ownership by foreigners in the host economy. This number may be compared with the total number of enterprises (or establishments) in the economy. It may also be assessed in relation to the other AMNE/FATS variables because it allows the computation of ratios – such as value added or number of employees per enterprise – that may be compared with the same ratios for domestically-owned enterprises, thus giving an indication of the behaviour of foreign affiliates.

706. It should be recognised that the number of enterprises alone may not give an accurate picture of the overall importance of foreign-owned companies because of differences in size between those that are foreign compared with domestically owned. If foreign-controlled enterprises tend to be larger, for example, then their share in the total number of enterprises would be smaller than their share in the various measures of operations and would thus tend to understate their role and importance in host economies.

707. Typically, information on numbers of enterprises will be a natural by-product of collection of data on other AMNE/FATS variables, rather than a separate object of the data collection effort. As such, the number is likely to be affected, often significantly, by the level of company consolidation and by thresholds for reporting on surveys. To assist users in interpreting counts of enterprises (or establishments), compilers are encouraged to indicate in explanatory notes how the numbers are derived.

Other variables

708. There are additional variables that would enable comparisons with the total economy and with specific sectors and can thus be used for assessing the impact of foreign-controlled enterprises on home and host economies. Other variables that may be useful for additional details, and whose definitions are drawn from the SNA, include:

- Assets – Store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of carrying forward value from one accounting period to another.
- Total purchases of goods and services – The total amount of goods and services purchased by the statistical unit, recognised in accounting as current assets or expenses during the reference period.

- Purchases of goods and services for resale – Purchases of goods for resale to third parties without further processing. They also include purchases of services by ‘invoicing’ service companies, i.e., enterprises whose turnover is composed not only of agency fees charged on a service transaction (as in the case of estate agents) but also the actual amount involved in the service transaction, e.g., transport purchases by travel agents.
- Compensation of employees – The total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the employee during the accounting period.
- Net worth – The value of an institutional unit's assets less its outstanding liabilities (including shares and other equity).
- Net operating surplus – Measured as value added (gross), less compensation of employees, consumption of fixed capital, and taxes on production, plus subsidies receivable.
- Gross fixed capital formation (GFCF) – Acquisitions less disposals of fixed assets during the accounting period, including certain specified expenditures on services that add to the value of non-produced assets.
- Taxes on income – Taxes payable on income, profits and capital gains. These include corporate income taxes, corporate profit taxes, corporate surtaxes, and so forth, and taxes that accrue to owners of unincorporated enterprises as a result of the income of those enterprises. Taxes on income include only taxes in the host economy of the affiliate and not any taxes paid by the parent in the home economy as a result of income earned or distributed by the affiliate. Taxes on income are usually assessed on the total income of corporations from all sources and not simply profits generated by production.
- Research and development (R&D) expenditures – Expenditures for activities undertaken for the purpose of discovering or developing new products (goods and services), including improved versions or qualities of existing products or discovering or developing new or more efficient processes of production.
- R&D personnel – All persons engaged directly in R&D, whether employed by the statistical unit or external contributors fully integrated into the statistical unit's R&D activities, as well as those providing direct services for the R&D activities (such as R&D managers, administrators, technicians, and clerical staff). Persons providing indirect support and ancillary services, such as canteen, maintenance, administrative and security staff, should be excluded, even though their wages and salaries are included in ‘other current costs’ when measuring intra-mural R&D expenditure.

10.4.5. Globalisation indicators constructed from AMNE/FATS variables

709. AMNE/FATS statistics can be used to construct ratios comparing the operations of foreign-controlled enterprises within host economy totals to highlight their role in the reporting economy. For example:

- Employment of foreign affiliates to host economy employment
- Gross value added of foreign affiliates to host economy gross domestic product
- Exports (imports) of foreign affiliates to total host economy exports (imports)
- R&D expenditures by foreign affiliates to total host economy R&D expenditures.

Disaggregated data by industry can also be used to examine the impact of foreign-controlled enterprises in specific industries. For example, an industry breakdown of affiliates' employment, or compensation of employees where available, can yield further insights into the impact of foreign-owned enterprises on specific parts of the economy.

710. The AMNE/FATS can also be used to construct indicators to compare the operations of foreign-controlled enterprises to domestic enterprises. These include such ratios as:

- Export intensity as measured by exports divided by sales (turnover)
- R&D intensity as measured by R&D expenditures divided by sales (turnover)
- Employee compensation per employee
- Labour productivity as measured by output (or value added) per employee.

711. The 2025 SNA recommends adding granularity to the institutional sector accounts and the external sector accounts based on ultimate control and ownership of corporations to highlight the full impact of MNE activities in the macroeconomic accounts. It recommends a sub-sectoring that identifies foreign-controlled enterprises as well as enterprises that are part of domestic MNE groups (that is, the parent company of the domestic MNE and all resident enterprises that it controls). Because of the data intensity involved, it is recommended that the increased granularity be limited to non-financial corporations and financial corporations sectors. This information highlights the role of foreign-controlled enterprises and domestic MNEs in key macroeconomic aggregates, such as output, value added, and net lending/borrowing. See 2025 SNA, Chapter 23 for more information.

712. AMNE/FATS data can also be used to derive ratios to calculate the share of domestic parent companies' operations in home economy totals, as discussed above for foreign affiliates. They can also be used to construct ratios showing how much of the operations of domestic MNEs are carried out in the home economy and how much abroad. For example, home and host economy employment in total MNE employment.

10.4.6. Measuring greenfield investment and extensions of capacity by capital approach

713. As discussed in Chapter 9, there is often significant interest from policymakers in understanding the role of FDI in expanding the productive capacity of host economies. That chapter presented an approach to identifying FDI financial transactions related to GI and EC. There is an alternative approach, called the capital approach, that AMNE/FATS can support.

714. The capital approach measures fixed capital formation of newly created DIEs and the expansion of existing affiliates regardless of the source of funding, which means that it goes beyond the boundary of FDI. This method can use the GFCF variable included in AMNE that captures all of the GFCF undertaken by the domestic subsidiary, regardless of funding. This measure of GFCF includes GFCF of (i) newly established subsidiaries as well as (ii) existing subsidiaries (including GFCF of their domestic majority-owned subsidiaries). This approach could be supplemented by a similarly constructed GFCF measure related to FDI influence relationships to capture the GFCF of the full DIE population although (based on the dominance of control relationships in many economies) this is expected to be a relatively small supplementary measure. Given that R&D is capitalised in the national accounts, R&D expenditures should also be included in the capital approach.

715. The capital approach has several advantages over the transactions approach. The capital approach captures GFCF funded from any source while the transactions approach identifies only one source of funds for capital formation and thus does not provide a complete picture of capital expenditures. In addition, part of the funding measured in the transactions approach can be used for working capital rather than capital expenditures, while the capital approach actually measures the expenditures for capital formation.

716. Nevertheless, the capital approach has challenges. These include defining extension of capacity separately from, for example, maintenance, replacement, or upgrading of existing capacity and dealing with specific cases, such as holding companies and real estate. Finally, companies might not be able to

separate the GI amount from company accounts regardless of the approach because the transactions and capital expenditures might have more than one purpose.

717. Given the advantages of the capital approach, it has been argued that the capital approach could be more appropriate to measure the impact of FDI on GFCF in an economy and that it could be interesting to relate such data to other data, such as total domestic GFCF, which could give an indication of the importance of foreign-owned companies' contribution to an economy.

10.4.7. Differences between FDI and AMNE/FATS statistics

718. While FDI statistics and AMNE/FATS statistics are closely related, there are some substantive differences that make it difficult to use these statistics together.

719. The first key difference is in the populations covered. FDI covers both influence and control relationships while AMNE/FATS cover only control relationships. There can be other differences, such as the inclusion of real estate for personal use by non-residents in FDI, or that some industries may not be covered in AMNE/FATS statistics depending on the data sources. For example, some economies exclude agriculture or transportation from their AMNE/FATS statistics.

720. A second key difference is in the variables covered. FDI statistics cover the financing and income of DIES while AMNE/FATS cover the activities of subsidiaries, such as their employment and production. However, some countries collect some balance sheet and income statement information, such as total assets or net income, as part of their AMNE/FATS statistics.

721. A third difference is the use of total versus foreign share of capital in measurement. In FDI, the variables only reflect the direct investor's share in the DIE, that is, their claim on the position and income of the DIE. In contrast, AMNE/FATS reflect the total value of the variable even if the foreign investor owns less than 100% of the enterprise.

722. A fourth difference is in the primary attribution by partner economy. For FDI statistics, the primary attribution is by immediate partner economy while for AMNE/FATS, the attribution is by ultimate partner economy. The development of inward FDI statistics by ultimate investing economy (UIE) and of outward FDI by ultimate host economy in this *Benchmark Definition* can bring the two datasets closer together. It should be noted that the 'Winner Takes All' (WTA) approach to compiling inward positions by UIE is closer to the concept used in AMNE/FATS than the 'Proportional Ownership' (PO) approach (see Chapter 8 for more details on approaches to compiling inward positions by UIE).

723. In practice, FDI statistics are available for many more economies than AMNE/FATS because they are part of the BOP and IIP.

10.4.8. Linking FDI and AMNE/FATS statistics

724. Compilers are encouraged to compile data and conduct analyses that highlight the role of FDI in home and host economies. One way that this can be done is to do a direct link with AMNE/FATS. This can be done either by collecting FDI and AMNE/FATS statistics on the same survey or by linking the separate surveys.

725. If AMNE/FATS statistics are not compiled, compilers could link their FDI surveys with other sources of information such as business, labour market, or national accounts surveys that could provide insights on the role of DIES in the domestic economy; these could cover either only controlled DIES or both controlled and influenced DIES. Such linking could be enabled by including ownership information in the business register used by the statistical agency to conduct these various surveys.

726. To help reconcile FDI statistics with AMNE/FATS variables when they are linked, compilers may want to explore additional breakdowns, such as FDI statistics that differentiate between influence and control relationships, or additional variables, such as total assets and liabilities.

727. If information from other surveys is not readily available to FDI compilers, they are encouraged to explore ways to overcome institutional barriers to information sharing.

10.5. Other information that could use FDI statistics

728. There are other statistics that might provide valuable insights to policymakers and researchers if linked with FDI. This section discusses three examples, but compilers could explore other possibilities.

10.5.1. Sub-national statistics

729. Many countries produce sub-national (i.e., regional) statistics that are consistent with macroeconomic statistics. Given the consistency between FDI and other macroeconomic statistics, it may be possible to introduce a FDI dimension to such statistics. The resulting statistics could be used to look at the role of FDI in business networks or clusters and extended to look at global value chains.

10.5.2. Trade and investment income by enterprise ownership

730. To better identify the role of MNEs in BOP current account transactions, *BPM7* and the *2025 SNA* recommend a supplementary table of trade and investment income by characteristics of the enterprise, including ownership (e.g., domestically-controlled, or foreign-controlled) (*BPM7, Chapter 15, Section 2, Table 15.2*). These indicators are not only useful for understanding international transactions by characteristics of the enterprise, but also for national accounts more generally, such as for the extended supply and use tables discussed below.

731. The main breakdown is by domestic versus foreign ultimate control with a further breakdown of domestic control between domestic MNEs and other (i.e., purely domestic) enterprises. FDI income for control relationships only and classified by the residency of the ultimate controlling parent could be used to fill the lines in the supplementary table for investment income by domestically-controlled MNEs and foreign-controlled enterprises. The supplementary table also includes detail for the major partner economies and industries. However, some economies may be able to provide further disaggregation along certain dimensions. Other economies may not be able to provide the recommended level of disaggregation because of their own confidentiality criteria for disseminating the information or lack of detailed data; in this case, the most appropriate breakdown possible should be considered when publishing these statistics.

10.5.3. Extended supply/use tables

732. Another example is extended supply/use tables (eSUTs) that are designed to provide more granularity regarding transactions associated with globalised production processes in a flexible manner that allows for a number of possible extensions (*2025 SNA, Chapter 23, Section E.2, paragraph 78*, (OECD, 2023^[6]) and (OECD and European Commission Joint Research Center, Forthcoming^[7])). This additional granularity can support the compilation of trade in value added (TiVA) statistics. There are many extensions that compilers may consider, but one that could use FDI statistics is the inclusion of investment income broken down by enterprise characteristics, as discussed above for the supplementary breakdown of the BOP current account.

733. Under the eSUT approach, economies can implement them according to their own priorities and resources in a way that is most relevant to their specific needs, circumstances, and data availability. The objective of eSUTs is to create an integrated accounting framework that can link disparate data sources

such as structural business statistics, trade-by-enterprise characteristics, foreign affiliate trade statistics, FDI income statistics, and trade data in a coherent framework. The eSUTs should be parsimonious in construction – that is, it is not necessary to break down all activities into more homogeneous groups. The eSUTs only need to focus on the industries and/or products where extra granularity is needed in the context of analysing their economy. For example, if there is no foreign presence in a given industry, then there is no granularity to be added. The eSUTs can also serve as useful and important inputs in the compilation of TiVA statistics.⁹

734. Including income in eSUTs and in TiVA statistics addresses an important issue as well: the blurring distinction between trade in services and property income, which can distort the measurement of value added. This is most prominent within MNEs as payments for the use of intangible assets within MNEs can appear in official statistics as either international trade in services or implicitly as primary income payments. In principle, the use of intangible assets of parents by affiliates, or affiliates in other countries, should be recorded as imports of services so that it is included in the affiliate's intermediate consumption and, thus, measures accurately the affiliate's, related parties' and parent's value added. However, if the services of these intangible assets are unvalued or undervalued, they are recorded implicitly under income payments, and, so, the affiliate's value added is overstated.¹⁰ In conjunction, exports of the parent and related parties in other countries are also under-recorded, as well as the domestic value-added content of their exports. Identifying FDI income by the residence of the ultimate investor can help to address this issue by attributing the operating surplus included in value added to the economy of the ultimate controlling parent.

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Notes

¹ There are five functional categories: i) direct investment; ii) portfolio investment; iii) financial derivatives; iv) other investment; and v) reserve assets. The functional categories are used to support analysis by distinguishing categories of investment that exhibit different economic motivations and patterns of behaviour.

² Property income is defined as *the income receivable by the owner of a financial asset or the owner of a non-produced natural resource or another non-produced non-financial asset in return for providing funds to, or putting the non-financial assets at the disposal of, another institutional unit.*

³ The BOP and IIP entries are entered with the opposite sign because the BOP and IIP are recorded from the point of view of the domestic economy, whereas the rest of the world in the national accounts is compiled from the point of view of non-residents.

⁴ *BPM7* (IMF, Forthcoming^[11]) provides guidance on a supplementary (i.e., voluntary) recording of reinvested earnings on portfolio investment, but this is not yet reflected in the standard presentation of the accounts.

⁵ Structural and demographic business statistics provide information on operations of businesses, including variables like turnover, employment, and production, by economic activity but also by other dimensions, such as size class and foreign ownership. They also include demographic information, such as on enterprise birth, death and survival rates.

⁶ For example, computer services may be provided not only by enterprises classified in the computer services industry, but also by those classified in computer manufacturing and computer wholesale trading. Similarly (though in reality less commonly), computer services companies may engage in manufacturing or wholesale trade as secondary activities. Statistics shown for the industry “computer services” would mis-report the value of the industry by excluding the computer services provided by manufacturers and wholesale traders and by including the manufacturing and wholesale trade activities of computer services.

⁷ The supplementary presentation of outward position statistics by ultimate host economy could help address this issue for FDI statistics by enabling the classification by the industry of indirectly held DfEs.

⁸ In some cases, it might be possible to derive a close proxy for this breakdown by examining data on total sales in conjunction with data on exports. Export data may indicate sales to the economy of the parent separately from sales to third economies, and local sales may be derived by subtracting these export sales from total sales.

⁹ Detailed discussions and recommendations for eSUTs can be found in (OECD, 2023^[6]).

¹⁰ In practice, parents or related parties might not charge their affiliates for the use of their intellectual property assets. This lowers an affiliate’s expenses and raises their value added and net income compared to what they would have been had they had to source the intellectual property from outside the enterprise. At the same time, the parent company does not record an export nor the revenue it would receive from an export; rather, it is compensated through the higher income received from its affiliate. As a result, the value added of the parent is lower than if it had charged its affiliate directly for the use of the intellectual property. This will lower the GDP of the economy of the parent and will raise the GDP of the economy of the affiliate, but the GNI of these two economies is recorded correctly.

11

Communicating and using FDI statistics

Communicating their statistics to users is a core function of statistical departments and agencies. This chapter addresses some of the challenges of communicating foreign direct investment (FDI) statistics. The first section provides guidance on communicating with data users and helping them navigate the multiple measures of FDI that economies may publish in their statistics. It then recommends that statistical departments and agencies accompany the dissemination of the statistics with analysis that highlights recent developments. The chapter discusses some interpretations of FDI series and indicators that can be constructed from FDI statistics. It then discusses statistical confidentiality, which can significantly impact the dissemination of FDI statistics. It concludes by offering some advice on communicating with data suppliers and by advising a pragmatic approach to revisions.

11.1. Introduction

735. Communicating about the statistics that have been compiled is a key function of statistical departments and agencies. Effective communication policies can greatly enhance users understanding and utilisation of the statistics. Users benefit from comprehensive, consistent, accurate and reliable information communicated and disseminated on a timely basis in an accessible and understandable manner.

736. Both the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, (IMF, Forthcoming^[1]) and the *2025 System of National Accounts (2025 SNA)*, (United Nations et al., Forthcoming^[2]) contain chapters on “Communicating and Disseminating Economic Statistics”. These chapters cover dissemination and communication, including communicating with data suppliers and users, statistical confidentiality, taxonomies, revisions and metadata. Furthermore, they include a framework for measuring alignment with the international macroeconomic statistical standards. Compilers are also encouraged to use language that makes it easier for users to understand specialist terminology.

737. The purpose of this chapter is to provide more detail on issues that are particularly relevant to foreign direct investment (FDI) statistics rather than to repeat the information included in *BPM7* and the *2025 SNA*. These include communicating with users about the multiple measures of FDI resulting from presenting the statistics according to the asset/liability and directional principles, helping them interpret FDI series, and presenting indicators that can be constructed from FDI statistics. The chapter then discusses statistical confidentiality and how it can impact the statistics to be released. It briefly offers advice on communicating with data suppliers and closes with a discussion of a pragmatic approach to data revisions. Compilers should refer to *BPM7* and *2025 SNA* for general principles on disseminating and communicating macroeconomic statistics.

11.2. Communicating with users

738. The goal of communicating statistics is to convey a message that tells users what happened, when and where it happened as well as contributing to understanding why and how it happened. An important part of communicating FDI statistics is to include interpretations of the statistics and include key indicators when the statistics are released. An additional complication for users is that economies may publish several different measures of FDI, including on the asset/liability and on the directional principles and including and excluding resident special purpose entities (SPEs). For some responses to common questions from users, see Annex 11.A.

11.2.1. Multiple measures of FDI statistics

739. FDI statistics are unusual in macroeconomic statistics in the sense that they have two principles for recording: the asset/liability principle and the directional principle. In addition, for economies that host significant numbers of SPEs, there can be significant differences in the statistics depending on whether resident SPEs are included or not. All of these different measures can make it difficult for users to determine which statistics best serve their needs. Therefore, it can be helpful to provide information on the uses of the different measures (for more information on the different uses, see Annex 2.B).

740. For FDI aggregates on the asset/liability basis, as a part of national macroeconomic statistics, it is useful to explain that they are consistent with balance of payments (BOP) and international investment position (IIP) statistics as well as the components of national accounts statistics. These data provide for an economy the aggregate totals of FDI assets and liabilities by type of instrument (equity, debt). Data are recorded regardless of the nature of the enterprise and the counterpart or of the direction of influence and

control. These FDI statistics include all the funds that pass through resident SPEs as well as capital transiting through operating subsidiaries of multinational enterprises (MNEs) on behalf of the parent companies. In consequence, while data presented using the asset/liability principle provide an overall aggregate measure of FDI, they do not provide an appropriate basis for some analyses, such as exploring the factors that attract FDI to an economy or identifying the industries in an economy that are most attractive to foreign investors. These analyses benefit from data that reflect the direction of influence or control. Data on a directional basis may also be most appropriate for linking to other datasets that are interested in the residency of the parent company, such as developing statistics on the domestic operations of resident direct investors.

741. FDI statistics compiled according to the directional principle show outward and inward investment. Partner economy or industry disaggregation is recorded in the directional presentation of FDI statistics as that of the immediate counterparty involved in the investment chain for both inward and outward investment; inward positions are also to be presented according to the ultimate investing economy (UIE). Also, information for resident SPEs is shown separately in the standard presentation with the full geographic and industry disaggregation under the directional principle.

742. There are additional steps that statistical departments and agencies can take to help users understand the different measures. One is to explain the relationship between the asset/liability presentation and the directional presentation of FDI statistics using the example shown in Annex Table 2.B.9. Another strategy is to publish detailed FDI statistics by partner economy and by industry on the directional principle in a dedicated section separate from the BOP and IIP sections. A final strategy is to reserve the terms inward and outward FDI for the statistics on a directional basis and refrain from referring to direct investment assets as outward direct investment and direct investment liabilities as inward direct investment, which makes it harder for users to understand that there is a difference between the two recording principles.

11.2.2. Interpreting FDI series

743. FDI series are very informative and useful for both short and long-term analysis. Timely estimates of the direct investment activity allow the user to observe recent economic developments. On the other hand, longer series contribute to the measurement of the attractiveness of the reporting economy within the global market and the competitiveness of the economic agents, i.e., foreign direct investors and direct investment enterprises (DIEs).

744. An increase in inward investment by foreign direct investors implies additional capital injected into the economy (the domestic market) and, thus, is likely to have an impact on its economic performance. On the other hand, the size of outward investment transactions indicates the extent of penetration of resident direct investors in other markets. FDI financial transactions and income provide information for FDI activity within a given time period, while FDI positions indicate the levels of investment at a given point in time. The trends obtained from FDI financial transactions and FDI positions may be quite different. In addition, attention is drawn to the point concerning the interpretation of headline FDI statistics in the context of the impact of reverse investment and of investment between fellow enterprises. In this context, for example, a low headline figure for total inward FDI into an economy may result from a general low level of FDI investment under different instruments and across different FDI relationships. Alternatively, it could result from a high level of investment into the economy being partially or completely offset – or even exceeded – by outflows of investment by foreign-owned enterprises to their related direct investors or fellow enterprises abroad. Similar effects apply to outward direct investment.

745. Analysing inward and outward FDI by its sub-components namely equity, reinvestment of earnings (combined with equity for position data) and debt allows further refinement of FDI trends and the nature of investment. Even if the analysis of equity investment is at the core of direct investment, inter-company loans play an important role in financing FDI-related enterprises. However, trends in equity and debt

components could be very different and may reflect different patterns. Reimbursements of inter-company loans need to be interpreted correctly and not as divestment. This interpretation is possible when we look at sub-components of FDI. Reinvestment of earnings tends to be the least volatile component. Changes in the reinvestment of earnings can reflect both changes in the level of earnings of affiliates and in the share of earnings that parents choose to reinvest in their affiliates. While reinvesting a higher share of earnings can be interpreted as reflecting a positive investment environment in the host economy, care should be taken as a number of factors can influence the share of earnings reinvested. For example, if the parent has a short-term need for funds, they may distribute a higher share of earnings than usual.

746. FDI by partner economy: the first classification specified by the *Benchmark Definition* requires that direct investment statistics be disaggregated geographically on a directional basis, i.e., for inward and outward investment. These series provide the geographical distribution of investment, i.e., economy of source and destination. This information is very useful in any comparative analysis on the attractiveness of an economy or a group of economies and for constructing analytical indicators.

747. FDI by industry: direct investment statistics should be disaggregated by industry of the enterprise receiving the direct investment, the DIE for both inward and outward investment. In other words, for outward investment, data are recorded according to the industry of the DIE abroad and for inward investment they reflect the industry of the DIE in the reporting economy. Disaggregation by industry should be based on the principal activity of the enterprise when it is involved in more than one activity. These data offer interesting indicators on the role of FDI in the host economy and the globalisation of markets.

748. The problems raised by SPEs are twofold: (i) the inclusion of resident SPEs may lead to an overstatement of FDI to and/or from the reporting economy and; (ii) investment via non-resident SPEs may lead to the distortion of information on the origin and destination of FDI. FDI series by immediate partner economy and by industry excluding resident SPEs resolve the first problem. The series of inward positions by UIE provides information on the ultimate origin, and the supplementary series on outward positions by ultimate host economy provides information on the ultimate destination.

11.2.3. FDI indicators

749. This section describes indicators that can be constructed from FDI statistics to communicate the role of FDI in the economy.

Extent of globalisation through FDI

750. This set of indicators (Table 11.1) is the most commonly used measurement of the globalisation of an economy. It measures the extent of cross-border investment realised with the objective of a lasting interest to and from an economy. It also allows comparisons across economies based on the relative importance of FDI, i.e., (i) financial transactions; (ii) income transactions; or (iii) FDI positions expressed as a percentage of gross domestic product (GDP). Each ratio indicates the relative importance of globalisation for the reporting economy either for total investment or for investment by industry sector. An increase of the ratio implies a greater share of foreign investment, thus an increase in the relative impact of globalisation. It is, however, to be noted that FDI transactions and FDI positions are not fully compatible with GDP, which measures the total value added from production. Nevertheless, in the absence of other more meaningful international comparisons of the relative size of globalisation, GDP remains the best common reference. In addition, comprehensive and timely GDP statistics are available in most countries.

751. FDI financial transactions (inward and outward) expressed as a percentage of GDP indicate the degree of globalisation of an economy based on the economic climate for a given time period, i.e., the changes over that time period. This indicator provides early information on the relative attractiveness of economies (both domestic and foreign) and industries for new investment after allowing for the withdrawal of investment (disinvestment) during that same time period. FDI transactions are compiled in many

economies on a quarterly basis or on a monthly basis, with a view to allowing a timely monitoring of their FDI activities.

752. FDI income transactions (inward and outward) as a percentage of GDP provide information on the relative importance of the earnings of DfEs both in the reporting economy and abroad.

Table 11.1. Extent of globalisation through FDI

Total FDI or by industry

Inward FDI financial transactions as a percentage of GDP
Outward FDI financial transactions as a percentage of GDP
Inward FDI income transactions as a percentage of GDP
Outward FDI income transactions as a percentage of GDP
Inward FDI positions as a percentage of GDP
Outward FDI positions as a percentage of GDP

Source: Based on OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

753. FDI positions (inward and outward) as a percentage of GDP indicate the extent of globalisation at a given point in time. The ratio for inward FDI positions indicates the extent of foreign ownership (or foreign presence) in an economy. The ratio for outward investment indicates the degree of ownership (or presence abroad) of economic agents in other markets. They also illustrate, respectively, the level of dependence of the domestic economy on foreign economies and its level of penetration in foreign markets. A comparison of the results obtained for inward and outward FDI will indicate the comparative importance of the economy as a source or recipient of FDI.

FDI in host and from investing economies or by industries

754. Expressed as ratios (as percentage of totals for both inward and outward FDI), the results reflect the process of globalisation of the economies by their level of financial expansion abroad and their dependence on financing from abroad (Table 11.2). The indicator related to investing (home) and host economies shows the evolution of the share of individual economies as origins of direct investment (outward investment by reporting economy) or as hosts of direct investment (inward investment by non-residents to the reporting economy). The ratio based on FDI financial transactions allows analysis of the changes between two periods while the ratio based on positions indicates the structural developments over time. The geographical analysis can be further deepened by measuring the share of the sub-component FDI equity capital in such investment by partner economy. Changes in these ratios will indicate a greater/lesser contribution to globalisation by the host or investing economy.

755. The indicator based on industry sectors is similar to the previous indicator (by partner economy) but the focus this time is on the industry for both inward and outward investment. This indicator describes the relative contribution of different economic sectors to the international economic system by the measurement of the share of FDI positions by economic sector abroad or by the measurement of the dependence of the home economic sectors on investment from abroad. Changes in these ratios indicate a greater/lesser contribution to globalisation by individual economic sectors.

Table 11.2. FDI in host and from investing economies or by industries

Relative share of inward FDI financial transactions by partner economy as a percentage of total inward FDI transactions
Relative share of outward FDI financial transactions by partner economy as a percentage of total outward FDI transactions
Relative share of inward FDI positions by partner economy as a percentage of total inward FDI positions
Relative share of outward FDI positions by partner economy as a percentage of total outward FDI positions
Relative share of inward FDI financial transactions by industry as a percentage of total inward FDI transactions
Relative share of outward FDI financial transactions by industry as a percentage of total outward FDI transactions
Relative share of inward FDI positions by industry as a percentage of total inward FDI position
Relative share of outward FDI positions by industry as a percentage of total outward FDI position

Source: Based on OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Return on FDI

756. This set of indicators provides information regarding the profitability of DIES (Table 11.3). For example, when the rate of return of inward FDI (inward FDI income as a percentage of total inward FDI positions) increases, it implies that the resident DIES are more profitable and are more competitive for investors. However, observations based purely on the results of the statistical ratios are not sufficient to draw conclusions on the competitiveness of enterprises (or an economy). Many other factors should also be taken into account, such as cyclical or structural factors, developments in that sector of economic activity as well as other factors related to the global strategy of the investing enterprise(s).

Table 11.3. Return on FDI

Inward FDI income debits/expenditures as a percentage of total inward FDI position [rate of return for total inward FDI or by industry or investing economy]
Outward FDI income credits/revenues as a percentage of total outward FDI position [rate of return for total outward FDI or by industry or investing economy]

Source: Based on OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Dynamics of FDI in reporting economy

757. A first set of indicators under this group measures the share of foreign capital in the reporting economy (Table 11.4). First of all, it compares, at a specific point in time, the direct investment liability positions to the overall liabilities (balance sheet totals) of the domestic sector as reported in the national balance sheet accounts. Likewise, it also compares the direct investment asset positions to total assets (balance sheet totals) of the reporting economy. In the first case, an increase of the ratio implies a higher foreign presence through FDI. In the latter indicator, an increase implies the opposite, i.e. an increasing presence by the home economy in foreign markets.

758. Another set of indicators provides detailed information on the relative share of components of FDI financial transactions and positions. The information is based on aggregate data by sub-components of FDI (equity capital, reinvested earnings and other capital) on a directional basis. The focus is on examining the dynamics of inward investment in the reporting economy or outward investment by the reporting economy. The indicators would show the role of equity capital, reinvestment of earnings and other capital (e.g., inter-company debt) in financing FDI into and from the economy and the share of equity and other capital in the inward and outward FDI positions. The shares of the different components will vary across economies, depending on a number of factors, such as the competitiveness of economies, maturity of investment, and institutional setting. It could also be of interest to calculate these indicators with data

disaggregated by partner economy or by industry to understand how the dynamics of FDI may vary across those dimensions.

Table 11.4. Dynamics of FDI in reporting economy

FDI liability positions as a percentage of total liabilities of the domestic economy (balance sheet totals)
FDI asset positions as a percentage of total assets of the domestic economy (balance sheet totals)
Inward equity capital transactions as a percentage of inward FDI transactions
Inward reinvested earnings as a percentage of inward FDI transactions
Inward other capital transactions as a percentage of inward FDI transactions
Outward equity capital transactions as a percentage of outward FDI transactions
Outward reinvested earnings as a percentage of outward FDI transactions
Outward other capital transactions as a percentage of outward FDI transactions
Inward position of equity capital and reinvested earnings as a percentage of inward FDI positions
Inward other capital positions as a percentage of inward FDI positions
Outward positions of equity capital and reinvested earnings as a percentage of outward FDI positions
Outward other capital positions as a percentage of outward FDI positions

Source: Based on OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Share of FDI by type

759. Analysing the share of FDI by type is part of the information needed to analyse the impact of FDI particularly in the host economy (Table 11.5). Spill-over effects of the investment will vary depending on the type of investment (e.g., greenfield investment and extensions of capacity compared to mergers and acquisitions) and its relative share over total investment of an economy.

Table 11.5. Share of FDI by type

Inward greenfield investment and extensions of capacity as percentage of total inward FDI transactions
Outward greenfield investment and extensions of capacity as percentage of total outward FDI transactions
Inward M&A equity transactions as a percentage of total inward FDI equity transactions
Outward M&A equity transactions as a percentage of total outward FDI equity transactions

Note: 'M&A' refers to mergers and acquisitions.

Source: Based on OECD (2009^[3]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

11.3. Statistical confidentiality

760. By law, most FDI statistics producers that use surveys as a data source do so for statistical purposes only and often under legislation that requires the statistics not be disseminated or published in a way that permits the identification of data referring to a particular entity. Thus, it is important to ensure appropriate data confidentiality policies, anonymisation techniques and disclosure checking procedures are in place as part of the process before publication of any statistics.

761. As a result, compilers in many economies may encounter the possibility of confidential data occurring in the FDI statistics to be disseminated. Such information generally does not directly identify the entity, e.g., the name and address of an enterprise. However, the particular context in which data are presented e.g., classification by partner economy, by industry of enterprise, by type of financial instrument

as well as cross-classifications of these attributes, may allow users to determine the identity of the entity in question and the value of its activity from the information provided (as well as other information they may have independently available to them). In general, the greater the level of detail in the analyses, as well as the degree of concentration of particular types of enterprises and their activities in a compiling economy, the greater the likelihood of identifying confidential data.

762. FDI information can be regarded as being confidential in a primary sense for a number of reasons:

- if a compiler declares it to be confidential
- if there is only one or at most two entities giving rise to the information
- if the contribution of a particular enterprise (or even two enterprises) dominates the contributions of all other entities.

763. In the last two cases, the usual confidentiality rules specify that where there are fewer than three contributors to a particular statistical cell then this information is regarded as being confidential. The reason for this is that, for example, where there are two contributors then either of them can potentially determine the contribution of the other. Clearly, where there is only one contributor then any user with sufficient knowledge can potentially identify the entity involved as well as the value of its activity. In the case of statistical dominance, the confidentiality disclosure rules applied may vary between compiling economies. For example, in some economies, if an entity contributes at least 75% of the value of the information to be disseminated then it is declared confidential, but other economies may use a dominance threshold of 80%. Alternatively, where two entities contribute, say, 90% or more of the value of the information being disseminated, it is declared confidential.

764. Whatever disclosure rules individual economies adopt, compilers in these economies have to suppress this confidential information in their dissemination of statistical results. However, suppression of primary confidential data is not sufficient on its own to prevent identification and disclosure of such confidential data. It is necessary for compilers to suppress additional data – secondary confidential data – in the results disseminated to prevent derivation of the primary confidential data. This operation is necessary within a single dissemination item (e.g., a single table of data), but it often has to be extended where multiple dissemination items exist (e.g., multi-tabular data that include data overlaps). As a result, a significant amount of data may need to be suppressed by compilers to cover both primary and secondary confidential data. It is important to stress that such suppression generally applies on a 'bottom-up' basis, i.e., at the greatest level of detail first and then proceeding to increasing levels of aggregation where necessary. It is important to stress that, in general, suppressions become less common in higher aggregates, provided the contribution of the entities whose data are suppressed in more detailed results then pass disclosure processes in higher aggregates.

765. As much as statistical confidentiality is very important, it should not be used in itself as a reason not to release information. Instead, the goal should be to maximise the dissemination of information as a public good for the wide range of users while still ensuring confidentiality obligations are met.

766. For researchers, alternative approaches allowing access to micro data for statistical purposes or research purposes should be considered, for example:

- Secure data labs to allow researchers to access and analyse micro data, whereby the research published does not reveal any confidential data.
- Signed data access agreements, which allow access to secure online data areas for specific research or analyses and with limited time.

11.4. Communication with suppliers

767. Statistical departments and agencies need to engage with data suppliers to ensure the timely and complete provision of data. Given that surveys are the primary data source for the compilation of FDI statistics in many economies, this section will discuss a few key elements of an effective engagement strategy with survey respondents.

768. One key element is minimising reporting burden. There are several different aspects to minimising reporting burden. One aspect is to make it as easy as possible for respondents to reply to the survey. This can mean providing more choice for respondents on how they can respond (e.g., paper, telephone data entry, secure electronic file transfer, etc.). It also means only asking for the information that is needed to compile the statistics and to minimise any duplication (i.e., not asking for the same information on several different surveys) unless it is absolutely necessary. Another element is to make it easier for respondents to get help in replying to the survey questionnaire, including such things as standard responses to common queries posted on the website, providing a phone number or email to respondents for assistance, and ensuring timely responses.

769. Another element of minimising the burden on reporters is to use language that respondents can understand. Given that most respondents to FDI surveys are businesses that are pulling data from their record-keeping systems, it is important to use financial accounting, rather than economic accounting, terms when possible. Including references to relevant financial accounting standards can also be helpful. When it is necessary to use economic accounting terms, it is important to define them in plain language. Illustrations can also be helpful in conveying the meaning; for example, in defining fellow enterprises, it can be useful to include an illustration of a simple MNE group with fellows identified. Data collectors also need to be aware of any changes to the business accounting rules, including changes to terminology, to ensure data collected remain valid.

770. It is also necessary to have effective communication with survey respondents. It is important to explain to respondents why their participation is required and the steps taken to reduce the burden on them. In addition, compilers should explain how they will keep suppliers' information secure and confidential and value their time by making it as easy as possible to reply to the FDI questionnaires. Finally, it is important to listen and act upon feedback from survey respondents.

11.5. Revision policy

771. Revisions are an essential part of data compilation. Revisions occur as a consequence of the trade-off between the timeliness of published statistics and their reliability, accuracy and comprehensiveness. To address this trade-off, statistical departments and agencies often compile and disseminate provisional estimates that are then revised when new and more accurate source data become available. Although, in general, repeated revisions may be perceived as reflecting negatively on the reliability of official statistics, attempts to avoid them by producing accurate but very delayed estimates will result in failure to meet users' needs for timely information. Regular communication with users, an established revision policy, and communicating well in advance of such updates or improvements will develop greater understanding why revisions occur and help to ameliorate negative reaction.

772. Economies are encouraged to develop a revision policy that includes a predetermined schedule (including not only when revised estimates will be released but the periods to be revised), reasonable stability from year to year, openness, advance notice of methodological changes, easy access for users to sufficiently long time series of revised statistics, and the adequate documentation of revisions in statistical publications and databases.

773. It is recommended that compilers take a pragmatic approach to revisions that fall outside the normal revision policy. For example, tax restitution or tax amnesties may affect FDI income in periods that are not subject to revisions. Economies should revise periods inside the revision policy time span. For periods that fall outside the normal revision policy, compilers should weigh the costs and benefits of revising FDI income for earlier periods in deciding whether to revise the earlier periods.

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Annex 11.A. Responses to common user questions

774. There are some common questions that users have about FDI statistics. The following are some examples of these questions with possible responses that compilers might consider when replying to their users.

What is included in foreign direct investment?

775. Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor or parent) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise or affiliate) that is resident in an economy other than that of the direct investor.

776. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The “lasting interest” and significant degree of influence is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise.

777. Direct investment may also allow the direct investor to gain access to the economy of the direct investment enterprise which it might otherwise be unable to do. The objectives of direct investment are different from those of portfolio investment whereby investors do not generally expect to influence the management of the enterprise.

What does FDI income measure?

778. Direct investment income is part of the return on the direct investment position; that is, the return on equity and debt investment. FDI income payments measure the total return within a specific period on direct investment positions paid by enterprises in the reporting economy to their foreign direct investors. FDI income receipts measure the total return within a specific period on direct investment positions received by investors in the reporting economy from their direct investment enterprises abroad.

779. The return on equity consists of the direct investor’s share of the earnings of the direct investment enterprise. The earnings are measured according to the current operating performance concept, which measures earnings from normal business operations and excludes non-recurring items (such as write-offs) and holding gains and losses. Income on debt measures interest on inter-company debt between direct investors and direct investment enterprises and between fellow enterprises.

What is the relationship between FDI transactions, positions (stocks) and income?

780. FDI financial transactions refer to those cross-border transactions which qualify as direct investment recorded during the reference period (year, quarter, or month). FDI positions represent the value of the stock of direct investment held at the end of the reference period (year, quarter, or month). Direct investment positions are affected not only by financial transactions recorded prior to and during the period but also by other changes in price, exchange rates, and volume. FDI income data, closely linked to

the stocks of investment, are used for analysis of the productivity of the investment and are also used as part of the calculation of the rate of return on the total funds invested.

How to interpret negative values for FDI transactions and positions?

781. Negative values in transactions may indicate disinvestment in assets or discharges of liabilities. In the case of equity, the direct investor may sell all or part of the equity held in the direct investment enterprise to a third party; or the direct investment enterprise may buy back its shares from the direct investor thereby reducing or eliminating its associated liability. If the financial transaction is in debt instruments between the direct investor and the direct investment enterprise, it may be due to the advance and redemption of inter-company loans or movements in short term trade credit. Negative reinvested earnings indicate that, for the reference period under review, the dividends paid out by the direct investment enterprise are higher than current income recorded (if that is the decision of the board of managers) or that the direct investment enterprise is operating at a loss.

782. Negative outward investment resulting from the directional principle applied to fellow enterprises relates to disinvestment by the resident ultimate controlling parent who receives funds from non-resident subsidiaries. Negative inward investment represents net claims of a resident subsidiary (who has a non-resident ultimate controlling parent) on non-resident fellow enterprises.

783. The changes in FDI positions are affected by the accumulated flows and hence may also result in negative values for the aggregate position, but mainly for other capital (e.g., when the loans from the direct investment enterprise to the parent exceed the loans – or even the original capital – given by the parent to the direct investment enterprise; it could be the case where conduits or treasury companies are involved). This is particularly important when FDI statistics are presented on a directional basis given the significance of inter-affiliate transactions and positions in debt. A negative equity position could also result if there were negative reinvested earnings in the direct investment enterprise such that the accumulated negative reinvested earnings exceeded the accumulated other equity.

Why are there such large revisions in FDI statistics?

784. To serve users requiring timely data, the compilers of FDI statistics make initial estimates for some components on preliminary information available at that time. It is especially difficult to have timely and at the same time complete data on the accrued income when the results are first published, as these values are only known once the direct investment enterprise has closed its books and the current operating income and earnings distributions have been determined for the reference period.

785. Consequently, when more complete data are provided for the reference period, data compilers revise the estimates for the previous periods. However, compilers are recommended to provide to the public at large a description of the revisions.

Why are large FDI transactions concentrated in particular countries – i.e., what is the role of pass-through funds and/or passing through special purpose entities (SPEs)?

786. Multinational enterprises frequently use SPEs for their inward and outward direct investment, including the large amounts of pass-through funds, passing through entities in jurisdictions which may offer advantages, e.g., for tax purposes. Even though transactions/positions with SPEs are included in assets and liabilities of a direct investment enterprise, they are separately identified in aggregate FDI statistics and in the statistics disaggregated by partner economy or by industry. In other words, users can exclude

transactions and positions with resident SPEs in FDI statistics. The purpose of excluding resident SPEs is to reduce the overstatement of FDI statistics and to provide more realistic analysis and hence estimates of real FDI in an economy.

How complementary are FDI statistics and the statistics on the activities of multinational enterprises (AMNE) and foreign affiliate statistics (FATS)?

787. The statistics on direct investment include cross-border investment made with the objective of establishing a lasting interest to exercise an influence in the management of the direct investment enterprise (the target entity) which is evidenced by the ownership of at least 10% of the voting power by the direct investor. Control by the direct investor of the direct investment enterprise is not necessary to qualify as FDI. The framework for direct investment relationship (FDIR) establishes the chains of relationships between direct investors and their direct investment enterprises and includes qualifying cross-chain relationships between direct investment enterprises. As such, FDI statistics compiled using the FDIR include certain transactions and positions between fellow enterprises which are not linked through a direct 10% or more ownership of voting power. FDI statistics only record the financial value of the investment. The geographical allocation is based on the debtor/creditor principle excluding resident special purpose entities.

788. The statistics on AMNE/FATS cover affiliates which are controlled by an enterprise resident in another economy. In principle, AMNE data cover a sub-set of the entities involved in FDI. The AMNE/FATS present detailed data on the foreign affiliates, e.g., on the employment, turnover, value added, etc. Nevertheless, the geographical attribution of the units is based on the ultimate controlling (investing) economy (for inward investment) or the ultimate hosting economy (for the outward data).

789. In theory, FDI and AMNE/FATS statistics are very closely related and, therefore, complementary. However, methodologies applied to FDI and AMNE/FATS statistics are not consistent and render difficult the analysis of financial and income transactions and positions along with the economic impact of the multinational enterprises covered by AMNE/FATS. Inward FDI positions allocated to the ultimate investing economy reduces these discrepancies to the extent that samples of enterprises are also harmonised.

Why are there discrepancies (sometimes significant) in the data provided by international organisations?

790. Several International organisations compile and disseminate FDI data. These include the OECD, Eurostat, the European Central Bank (ECB), the International Monetary Fund (IMF), and the United Nations Conference on Trade and Development (UNCTAD). While international organisations have taken steps to align their reporting frameworks, differences persist. FDI statistics of the OECD and Eurostat are essentially based on a common framework focusing on the directional principle and detailed FDI statistics. IMF and ECB compile and disseminate FDI as a functional category of balance of payments and international investment position. Data regarding the euro area are consistent between Eurostat and the ECB. OECD and IMF research demonstrated that the main differences between their aggregate FDI statistics are largely due to the timing of revisions. UNCTAD data are in a number of cases different due to adjustments and different data sources.

Why are there such large asymmetries in bilateral FDI statistics? That is, why does the outward FDI to country B reported by country A not equal the inward investment from country A reported by country B?

791. These asymmetries arise from the general difficulty in capturing data from very large and complicated multinational enterprises (MNEs). Other issues, such as differences in valuation, definitions, and methods can also contribute. Bilateral FDI statistics are classified by the immediate investing economy. The immediate investing economy is the economy that directly holds the direct investment enterprise. MNEs often have very complicated ownership structures with several layers of direct investment enterprises. As a result, there can be one directly held direct investment enterprise with dozens of indirectly held direct investment enterprises below it and these indirectly held direct investment enterprises can be in many different economies. These complicated structures make it very difficult for compilers to correctly identify the directly held direct investment enterprise and correctly attribute the data to an economy. This is made more complicated by the fact that MNEs can easily change their structures.

792. These issues are particularly problematic for economies that are hosts to a large number of special purpose entities (SPEs). SPEs are entities that have little employment, operations, or physical presence in an economy but that are used to raise capital or hold assets or liabilities. Examples of SPEs include shell companies, holding companies, and conduits. These entities often are the recipients of large FDI financial transactions that are then invested in other economies where the MNE operates. These entities can have large FDI positions, but those positions are in turn held outside of the economy. While compilers strive to cover resident SPEs in their FDI statistics, it can be difficult, leading to potentially large differences in the bilateral figures.

793. Differences in valuation can also cause asymmetries, especially for positions. Because there is often no market price for the direct investment asset, an estimate has to be made to value the FDI position at current period, or market, prices. Different methods, data sources, and assumptions can lead to differences in these estimates of FDI positions at market value.

794. Another source of asymmetries can be differences in the samples of the populations that are surveyed. If one partner economy does not survey the enterprise, it will have to estimate the values for that enterprise. This estimate will likely differ from the data reported by that enterprise to the other partner economy.

795. Finally, bilateral FDI statistics are often presented according to the directional principle, and there is a built-in asymmetry in the directional principle. Fellow enterprises are entities that have no direct investment relationship themselves but are relevant to FDI statistics because they have a direct investor in common. Transactions and positions between fellow enterprises are recorded according to the residence of the ultimate controlling parent of the fellow enterprises. For example, assume enterprises A in economy 1 and B in economy 2 are fellow enterprises with an ultimate controlling parent C in economy 3. If A makes a loan to B, this is recorded as positive inward direct investment in B from A. However, rather than recording this as outward direct investment from A to B as would be required for symmetry, it is instead recorded as negative inward direct investment in A from B because the provision of the loan from A to B did not give A any influence over B as would be required for it to be outward direct investment. Rather, the influence remains with the ultimate controlling parent, C.

Annex A. Major revisions from the Benchmark Definition of Foreign Direct Investment, Fourth edition

796. The revision of the *Benchmark Definition of Foreign Direct Investment, 4th edition (BD4)* had four main objectives. First, to ensure consistency and alignment across all of the updated manuals. A second objective was to enhance the analytical usefulness of foreign direct investment (FDI) statistics. A third objective was to support statisticians in compiling FDI statistics. Fourth and finally, the discussions undertaken in support of this update identified several issues that require further research.

797. This annex consists of three sections discussing the major changes introduced for the first three objectives listed above. Annex D presents the research agenda that includes the items identified under the fourth objective.

Alignment with other macroeconomic statistics

798. This revision reflects new and revised definitions, concepts, methodologies and recommendations adopted across macroeconomic statistics that are aligned with the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7, (IMF, Forthcoming^[1]))* and the *2025 System of National Accounts (2025 SNA, (United Nations et al., Forthcoming^[2]))*. The revision also includes a new chapter on the relationship of FDI statistics with balance of payments (BOP) and international investment position (IIP) statistics as well as with the national accounts and with statistics on the activities of multinational enterprises (AMNE) and foreign affiliate statistics (FATS).

Integrated FDI position statement

799. One of the key changes that will be introduced in *BPM7* is the much greater emphasis placed on the integrated IIP statement. This statement shows the reconciliation of opening and closing positions with financial transactions and other changes in financial assets and liabilities. Consequently, this *Benchmark Definition* introduces the integrated FDI position statement, that is the direct investment part of the integrated IIP statement. It explains how the beginning position changes due to financial transactions recorded in the balance of payments financial account and other flows recorded in the other changes in financial assets and liabilities account. The other changes account consists of revaluations (that are further broken down between exchange rate changes and other price changes) and other volume changes.

800. This *Benchmark Definition* expands the discussion of the other changes in financial assets and liabilities account for FDI. It greatly widens the scope of the discussion of other changes in volume and offers additional examples of events that are recorded as other changes in volume that are consistent with the *BPM7*. It describes how the use of different valuation methods for FDI positions impacts the calculation of other price changes. Finally, it explains how the recording of reinvested earnings and of complex ownership chains impact the recording of other flows.

Measurement of income

801. This revision strengthens the alignment with the national accounts in the measurement of income by clarifying several aspects of the application of the current operating performance concept (COPC). In response to the change to the *2008 SNA* to capitalise research and development (R&D) expenditures, it recommends that compilers adjust income for the capitalisation and depreciation of R&D if needed.

802. This revision also makes clearer the application of the COPC to financial corporations. It clarifies the treatment of provisions, including loan loss provisions, in the measurement of income. It also notes the change in the *Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)*, (IMF, 2009^[3]) and the *System of National Accounts 2008 (2008 SNA)*, (United Nations et al., 2009^[4]) to treat trading margins as ordinary earnings rather than as holding gains and losses. While this revision acknowledges this change in treatment, it recommends that compilers only include them in earnings if they are significant, given the practical difficulties in compilation.

803. This revision clarifies two aspects in the recording of dividends. First, it recommends that distributions of accumulated ordinary earnings be treated as distributions of earnings rather than as withdrawals of equity. Second, it clarifies the time period in which advanced and interim dividends should be recorded.

Valuation of unlisted equity

804. This revision recognises three preferred methods for the valuation of unlisted equity – recent transaction price, own funds at book value (OFBV) and the market capitalisation method – to align with *BPM7* and the *2025 SNA*. While the other methods that had been recommended in *BD4* yield good approximations to market value, these three preferred methods are those that are most used by compilers. The objective of identifying preferred methods is to reduce bilateral asymmetries resulting from the use of different valuation methods across countries.

Treatment of collective investment institutions

805. In a change from *BD4*, this revision recommends that all investment in collective investment institutions (CIIs) be treated as portfolio investment even if they surpass the 10% of voting power threshold unless held as reserve assets by the monetary authorities or if the investment fund shares are non-negotiable, in which case investment in CIIs would be classified as other investment. Investment by CIIs is still included in FDI if it meets the 10% threshold. This change is in line with *BPM7* (*BPM7, Chapter 6, Section 1.B, paragraph 6.11, footnote 4*).

New and revised definitions

806. Several new and revised definitions are introduced in this *Benchmark Definition*. It expands on the discussion of special purpose entities (SPEs) included in *BD4* and incorporates the internationally agreed definition to ensure consistency across economies in the identification of these entities. It also introduces an operational definition to identify financial transactions for greenfield investment and extensions of capacity as well as a definition of corporate and financial restructuring. This revision also reflects the definition of multinational enterprises (MNEs) that appears in the *BPM7* and *2025 SNA*. Finally, it includes the definition of pass-through funds that was in *BPM6* and is in *BPM7*.

Enhance analytical usefulness of FDI statistics

807. To enhance the analytical usefulness of FDI statistics, this revision introduces several new and revised presentations of FDI statistics. It provides definitions and methodologies to implement these

breakdowns when needed. It also includes a new chapter providing guidance on communicating with data users and data suppliers, on interpreting FDI statistics, and on dissemination to encourage greater use of FDI statistics.

FDI positions and income by ultimate investing economy (UIE)

808. This *Benchmark Definition* recommends that inward FDI positions by UIE be part of the standard set of FDI statistics that countries compile and disseminate. It provides an additional method to allocate FDI positions to the UIE in addition to the method recommended in *BD4*. This enables compilers to pick the method that best suits their national circumstances and makes best use of available data sources.

809. This revision also recommends a supplementary presentation of FDI income by UIE in which compilers are encouraged to use the same method that they used to compile their inward FDI positions by UIE.

FDI by type

810. This *Benchmark Definition* expands on the recommendation to compile equity capital transactions for mergers and acquisitions (M&A) introduced in *BD4* to include a breakdown of equity capital transactions, reinvestment of earnings, and inter-company debt for greenfield investment and extensions of capacity, and of equity capital transactions for corporate and financial restructuring as well as M&A. This breakdown of financial transactions according to the type, that is, the purpose of the investment (how the invested capital is used by the ultimate investee enterprises) sheds light on the impacts that FDI transactions are likely to have on the host economies.

811. This revision also discusses another approach to identifying greenfield investment and extensions of capacity by foreign direct investors that is called the capital approach. It can use AMNE or FATS statistics to measure the capital formation of foreign-controlled enterprises.

Ultimate host economy (UHE)

812. This revision further develops the concept of the UHE from *BD4*. However, it recognises that more research and practical experience needs to be acquired before detailed guidance on the compilation of outward FDI position statistics by UHE can be provided. Therefore, it encourages compilers to explore how statistics by UHE can be produced given their data sources. It provides compilers with various definitions of UHE and methods that can be experimented with, so that they can select the ones that provide the most meaningful information on the ultimate destinations of outward FDI from their economies.

Other recommendations

813. This revision makes an additional three major recommendations to enhance the analytical usefulness of FDI statistics.

814. First, it recommends that countries compile an integrated FDI position statement that shows the beginning of period and end of period FDI positions and the FDI financial transactions and other flows during the period as part of their standard presentations of FDI statistics as discussed above.

815. Second, this revision recommends a presentation of outward FDI position, financial transaction, and income statistics by the residency of the ultimate controlling parent to provide an upper-bound estimate of pass-through funds. It also includes an annex providing examples of pass-through.

816. Finally, this revision encourages countries to publish information and analysis that highlights the role of FDI companies in the domestic economy. It suggests a few ways that this could be done, including

by linking FDI and AMNE/FATS statistics, linking FDI to other business surveys or national accounts surveys, or by collecting some AMNE/FATS variables on FDI surveys.

Support compilation

817. This *Benchmark Definition* supports compilation by clarifying recommendations, providing detailed guidance, and including numerical examples.

Integrated FDI position statement

818. This revision provides additional guidance on distinguishing between revaluations, other changes in volume, and financial transactions. It also introduces a new annex presenting numerical examples of the integrated FDI position statement demonstrating different cases to illustrate the underlying concepts and principles.

Valuation of unlisted equity

819. To assist compilers in selecting a method for valuing unlisted equity, this revision introduces a decision tree that identifies the methods that can be used depending on the information available to compilers.

Measurement of income

820. There are several changes in this revision to support the compilation of FDI income. It provides more detailed guidance on the adjustments that need to be made to business accounting data to measure FDI earnings on a COPC basis. It also introduces a box illustrating how to move from the financial statements of financial corporations to COPC earnings.

821. To assist compilers in capitalising and depreciating R&D expenditures, it includes a list of methods to determine if R&D is capitalised in company data sources. It provides options for compilers to capitalise and depreciate R&D in their FDI statistics in cases where this is not included in those company data sources and where it is significant.

822. Two additional changes include: 1) supporting the compilation of reinvested earnings by identifying additional data sources compilers can draw upon; and 2) an example of the recording of interim and advanced dividends.

Special purpose entities

823. In addition to adopting the internationally agreed definition of SPEs, this *Benchmark Definition* also provides a decision tree to help compilers identifying SPEs in the population of resident direct investment enterprises.

FDI statistics by ultimate partner economy

824. This revision provides examples of the second method introduced for compiling inward FDI positions by UIE. It also introduces an annex that elaborates on the possible definitions of UHE and describes methods, including numerical examples, that could be used to produce outward FDI position statistics by UHE.

825. Table A A.1 presents a summary of the main changes brought in this *Benchmark Definition* from *BD4*.

Table A A.1. Major changes from BD4

Major change	Description	Objective
Integrated FDI position statement	- Introduce integrated FDI position statement - Expand discussion of other changes in financial assets and liabilities account	- Alignment with other macroeconomic statistics - Enhance analytical usefulness of FDI statistics - Support compilation
Measurement of FDI income	- Capitalising and depreciating R&D expenditures - Clarify measurement of FDI income for financial corporations - Clarify recording of dividends - Expand discussion of needed adjustments to business accounting	- Alignment with other macroeconomic statistics - Support compilation
Valuation of unlisted equity	- Identify preferred methods for valuing unlisted equity - Present a decision tree to assist compilers in selecting a method based on information they have available	- Alignment with other macroeconomic statistics - Support compilation
Collective investment institutions (CIIs)	Exclude investment in CIIs from FDI	Alignment with other macroeconomic statistics
Multinational enterprises (MNEs)	Introduce definition of MNEs	Alignment with other macroeconomic statistics
Ultimate investing economy (UIE)	- Recommend a standard presentation of inward FDI positions and a supplementary presentation of FDI income by UIE - Expand discussion of methods to reallocate FDI statistics to UIE	- Enhance analytical usefulness of FDI statistics - Support compilation
Ultimate host economy (UHE)	Define UHE and present possible methods to reallocate outward FDI positions to UHE	- Enhance analytical usefulness of FDI statistics - Support compilation
FDI by type (i.e., by purpose of the FDI transaction)	- Define greenfield investment, extensions of capacity, and corporate and financial restructuring - Recommend a breakdown of FDI financial transactions by type - Present a decision tree to assist compilers to identify the type of FDI transaction	- Enhance analytical usefulness of FDI statistics - Support compilation
Pass-through funds	- Define pass-through funds aligned with <i>BPM7</i> - Introduce a breakdown of FDI statistics by residency of the ultimate controlling parent to estimate pass-through funds	- Enhance analytical usefulness of FDI statistics - Support compilation
Special purpose entities (SPEs)	- Introduce internationally agreed definition of SPEs - Present a decision tree to assist compilers to identify SPEs	- Alignment with other macroeconomic statistics - Enhance analytical usefulness of FDI statistics - Support compilation

Note: R&D=Research and development; CIIs= Collective Investment Institutions; UIE= Ultimate Investing Economy; UHE=Ultimate Host Economy; *BPM7*=*Integrated Balance of Payments and International Investment Position Manual, Seventh Edition*, (IMF, Forthcoming^[1]); SPEs=Special purpose entities.

References

IMF (2009), *Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)*, International Monetary Fund, Washington D.C., <https://doi.org/10.5089/9781589068124.069>. [3]

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United Nations et al. (2009), *System of National Accounts 2008*, United Nations et al., New York, [4]
<https://unstats.un.org/unsd/nationalaccount/docs/sna2008.pdf>.

United Nations et al. (Forthcoming), *2025 System of National Accounts*, United Nations et al., [2]
New York.

Annex B. Presentations of FDI statistics

826. The *Benchmark Definition* recommends two types of standard presentations for the dissemination of foreign direct investment (FDI) statistics, one according to the asset/liability principle, and the other according to the directional principle. In addition, further analyses of direct investment statistics are to be reported on a supplementary (voluntary) basis, but their reporting is strongly encouraged. Overall, the presentations for direct investment statistics recommended by this *Benchmark Definition* can be summarised as follows:

1. Standard FDI statistics

- a. **Aggregate FDI statistics** according to the asset/liability principle with separate identification of resident special purpose entities (SPEs); instrument detail, and with all of the necessary detail to convert to the directional principle¹
 - i. FDI positions in assets and liabilities on an annual basis (T+6 months)
 - ii. FDI transactions in net acquisition of financial assets and net incurrence of liabilities of FDI on a quarterly basis (T+3 months)
 - iii. FDI income in debits/expenditures and credits/revenues on a quarterly basis (T+3 months)
 - iv. Integrated FDI position statement on an annual basis (T+ 6 months)
- b. **Disaggregated FDI Statistics** (according to the directional principle) with instrument detail
 - i. Inward/outward FDI positions on an annual basis (T+9 months)
 - a) All entities
 - 1) by immediate partner economy
 - 2) by ultimate investing economy (for inward positions only)
 - 3) by industry
 - b) Resident SPEs
 - 1) by immediate partner economy
 - 2) by ultimate investing economy (for inward positions only)
 - 3) by industry
 - c) Excluding resident SPEs²
 - 1) by immediate partner economy
 - 2) by ultimate investing economy (for inward positions only)
 - 3) by industry
 - ii. Inward/outward FDI financial transactions (inflows/outflows) on an annual basis (T+9 months)
 - a) All entities
 - 1) by immediate partner economy
 - 2) by industry
 - b) Resident SPEs
 - 1) by immediate partner economy

- 2) by industry
- c) Excluding resident SPEs²
 - 1) by immediate partner economy
 - 2) by industry
- iii. Inward/outward FDI income (payables/receivables) on an annual basis (T+9 months)
 - a) All entities
 - 1) by immediate partner economy
 - 2) by industry
 - b) Resident SPEs
 - 1) by immediate partner economy
 - 2) by industry
 - c) Excluding resident SPEs²
 - 1) by immediate partner economy
 - 2) by industry

2. Supplementary FDI statistics (according to the *directional principle*)

- a. **Outward FDI positions disaggregated by ultimate host economy (UHE)** on an annual basis with instrument detail (T+9 months)³
- b. **Inward FDI income (payables) disaggregated by ultimate investing economy (UIE)** on an annual basis with instrument detail (T+9 months)
- c. **Pass-through funds: Outward FDI positions, financial transactions and income according to the residency/non-residency of the ultimate controlling parent** on an annual basis (T+9 months)
- d. **Aggregate FDI financial transactions by type (excluding resident SPEs)** on an annual basis (T+9 months)⁴
 - i. Inward/outward FDI equity capital transactions
 - a) Mergers and acquisitions (M&A)
 - b) Greenfield (new) investment⁵
 - c) Extensions of capacity⁵
 - d) Financial and corporate restructuring
 - e) Unallocated
 - ii. Reinvestment of earnings
 - a) Of which: Greenfield investment⁵
 - b) Of which: Extensions of capacity⁵
 - iii. Debt
 - a) Of which: Greenfield investment⁵
 - b) Of which: Extensions of capacity⁵

827. The structure and content of the standard and supplementary presentations of FDI series are described below. In generating the tables, compilers are requested to report data using the sign convention described in Box A B.1.

Box A B.1. Sign convention

In presenting the various tables of FDI data, compilers should note that the sign convention required is as follows:

FDI positions

FDI positions presented on an asset/liability basis should be shown so that increases in either are shown with a positive sign and decreases with a negative sign. The net position should be derived arithmetically as

$$\text{Net FDI position} = \text{FDI assets} - (\text{minus}) \text{FDI liabilities}$$

FDI positions presented on a directional basis should follow the same sign convention, i.e., increases in outward FDI or in inward FDI are shown with a positive sign and decreases with a negative sign. The net position should be derived arithmetically as

$$\text{Net FDI position} = \text{outward FDI} - (\text{minus}) \text{inward FDI}$$

Note: The net FDI position for both presentations should be the same (where the coverage is identical).

FDI financial transactions

The sign convention described for FDI positions applies also to FDI financial transactions.

FDI income

For the compiling economy, FDI income inflows are shown as positive credits/revenues and income outflows are shown as positive debits/expenditures. The net income flow should be derived arithmetically as

$$\text{Net FDI income} = \text{FDI income credits/revenues} - (\text{minus}) \text{FDI income debits/expenditures}$$

Source: Based on OECD (2009^[1]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, <https://doi.org/10.1787/9789264045743-en>.

Standard presentation for aggregate FDI statistics

828. The following tables Table A B.1, Table A B.2, Table A B.3 and Table A B.4 include the standard presentations for aggregate FDI statistics.

Table A B.1. Aggregate FDI positions

Reporting economy: Reporting year (T+6 months):		
	Assets	Liabilities
1.1 FDI positions		
1.1.1 Equity (including reinvestment of earnings)		
1.1.1.1 Direct investor in direct investment enterprises		
1.1.1.2 Direct investment enterprises in direct investor		
1.1.1.3 Fellow enterprises in other fellow enterprises		
1.1.1.3.1 Ultimate controlling parent is resident		
1.1.1.3.2 Ultimate controlling parent is non-resident		
1.1.2 Debt instruments		
1.1.2.1 Direct investor in direct investment enterprises		
1.1.2.2 Direct investment enterprises in direct investor		
1.1.2.3 Fellow enterprises in other fellow enterprises		
1.1.2.3.1 Ultimate controlling parent is resident		
1.1.2.3.2 Ultimate controlling parent is non-resident		
1.2 Of which: Resident SPEs		
1.2.1 Equity (including reinvestment of earnings)		
1.2.1.1 Direct investor in direct investment enterprises		
1.2.1.2 Direct investment enterprises in direct investor		
1.2.1.3 Fellow enterprises in other fellow enterprises		
1.2.1.3.1 Ultimate controlling parent is resident		
1.2.1.3.2 Ultimate controlling parent is non-resident		
1.2.2 Debt instruments		
1.2.2.1 Direct investor in direct investment enterprises		
1.2.2.2 Direct investment enterprises in direct investor		
1.2.2.3 Fellow enterprises in other fellow enterprises		
1.2.2.3.1 Ultimate controlling parent is resident		
1.2.2.3.2 Ultimate controlling parent is non-resident		
	Net outward	Net inward
1.3 FDI positions on directional basis*		
1.3.1 Equity (including reinvestment of earnings)		
1.3.2 Debt instruments		
1.4 Of which: Resident SPEs*		
1.4.1 Equity (including reinvestment of earnings)		
1.4.2 Debt instruments		

Note: (*) indicates the supplementary presentation of aggregate FDI positions on directional basis for cases where the standard AL components could not be reported.

Table A B.2. Aggregate FDI financial transactions

Reporting economy: Reporting Year/Quarter (T+3 months):		
	Net acquisition of financial assets	Net incurrence of liabilities
2.1 FDI financial transactions		
2.1.1 Equity (excluding reinvestment of earnings)		
2.1.1.1 Direct investor in direct investment enterprises		
2.1.1.2 Direct investment enterprises in direct investor		
2.1.1.3 Fellow enterprises in other fellow enterprises		
2.1.1.3.1 Ultimate controlling parent is resident		
2.1.1.3.2 Ultimate controlling parent is non-resident		
2.1.2 Reinvestment of earnings		
2.1.3 Debt instruments		
2.1.3.1 Direct investor in direct investment enterprises		
2.1.3.2 Direct investment enterprises in direct investor		
2.1.3.3 Fellow enterprises in other fellow enterprises		
2.1.3.3.1 Ultimate controlling parent is resident		
2.1.3.3.2 Ultimate controlling parent is non-resident		
2.2 Of which: Resident SPEs		
2.2.1 Equity (excluding reinvestment of earnings)		
2.2.1.1 Direct investor in direct investment enterprises		
2.2.1.2 Direct investment enterprises in direct investor		
2.2.1.3 Fellow enterprises in other fellow enterprises		
2.2.1.3.1 Ultimate controlling parent is resident		
2.2.1.3.2 Ultimate controlling parent is non-resident		
2.2.2 Reinvestment of earnings		
2.2.3 Debt instruments		
2.2.3.1 Direct investor in direct investment enterprises		
2.2.3.2 Direct investment enterprises in direct investor		
2.2.3.3 Fellow enterprises in other fellow enterprises		
2.2.3.3.1 Ultimate controlling parent is resident		
2.2.3.3.2 Ultimate controlling parent is non-resident		
	Net outward	Net inward
2.3 FDI financial transactions on Directional basis*		
2.3.1 Equity (excluding reinvestment of earnings)		
2.3.2 Reinvestment of earnings		
2.3.3 Debt instruments		
2.4 Of which: Resident SPEs*		
2.4.1 Equity (excluding reinvestment of earnings)		
2.4.2 Reinvestment of earnings		
2.4.3 Debt instruments		

Note: (*) indicates the supplementary presentation of aggregate FDI transactions on directional basis for cases where the standard AL components could not be reported.

Table A B.3. Aggregate FDI income

Reporting economy: Reporting Year/Quarter (T+3 months):		
	Credits/Revenues	Debits/Expenditures
3.1 FDI income		
3.1.1 Income on Equity		
3.1.1.1 Dividends		
3.1.1.1.1 Direct investor in direct investment enterprises		
3.1.1.1.2 Direct investment enterprises in direct investor		
3.1.1.1.3 Fellow enterprises in other fellow enterprises		
3.1.1.1.3.1 Ultimate controlling parent is resident		
3.1.1.1.3.2 Ultimate controlling parent is non-resident		
3.1.1.2 Reinvested earnings		
3.1.2 Income on debt (interest)		
3.1.2.1 Direct investor in direct investment enterprises		
3.1.2.2 Direct investment enterprises in direct investor		
3.1.2.3 Fellow enterprises in other fellow enterprises		
3.1.2.3.1 Ultimate controlling parent is resident		
3.1.2.3.2 Ultimate controlling parent is non-resident		
3.2 Of which: Resident SPEs		
3.2.1 Income on Equity		
3.2.1.1 Dividends		
3.2.1.1.1 Direct investor in direct investment enterprises		
3.2.1.1.2 Direct investment enterprises in direct investor		
3.2.1.1.3 Fellow enterprises in other fellow enterprises		
3.2.1.1.3.1 Ultimate controlling parent is resident		
3.2.1.1.3.2 Ultimate controlling parent is non-resident		
3.2.1.2 Reinvested earnings		
3.2.2 Income on debt (interest)		
3.2.2.1 Direct investor in direct investment enterprises		
3.2.2.2 Direct investment enterprises in direct investor		
3.2.2.3 Fellow enterprises in other fellow enterprises		
3.2.2.3.1 Ultimate controlling parent is resident		
3.2.2.3.2 Ultimate controlling parent is non-resident		
	Net outward	Net inward
3.3 FDI income on Directional basis*		
3.3.1 Income on Equity		
3.3.1.1 Dividends		
3.3.1.2 Reinvested earnings		
3.3.2 Income on debt (Interest)		
3.4 Of which: Resident SPEs*		
3.4.1 Income on Equity		
3.4.1.1 Dividends		
3.4.1.2 Reinvested earnings		
3.4.2 Income on debt (Interest)		

Note: (*) indicates the supplementary presentation of aggregate FDI transactions on directional basis, in case the standard AL components could not be reported.

Table A B.4. Integrated FDI position statement

Reporting economy:								
Reporting Year (T+6 months):								
	Beginning of period FDI position	FDI financial transactions	Accumulation of accounts					End of period FDI position
			Other changes in financial assets and liabilities					
			Revaluations		Other changes in volume			
			Exchange rates changes	Other price changes	Total	<i>of which: debt write-offs and cancellations</i>	<i>of which: reclassifications</i>	
1.1 FDI assets								
1.1.1 Equity (including reinvestment of earnings)								
1.1.2 Debt instruments								
1.2 Of which: Resident SPEs								
1.2.1 Equity (including reinvestment of earnings)								
1.2.2 Debt instruments								
1.3 FDI liabilities								
1.3.1 Equity (including reinvestment of earnings)								
1.3.2 Debt instruments								
1.4 Of which: Resident SPEs								
1.4.1 Equity (including reinvestment of earnings)								
1.4.2 Debt instruments								

Note: 'Of which' items in italics are supplementary and do not necessarily add up to the total of other changes in volume.

Standard presentation for disaggregated FDI statistics by partner economy and by industry (according to the directional principle)

829. The following tables Table A B.5, Table A B.6, and Table A B.7 include the standard presentations for disaggregated FDI statistics by partner economy and by industry, according to the directional principle.

Table A B.5. Disaggregated FDI positions

Reporting economy:								
Reporting year (T+9 months):								
Net inward / outward								
FDI positions including resident SPEs			FDI positions of resident SPEs			FDI positions excluding resident SPEs*		
Equity (incl. reinvestment of earnings)	Debt instruments	Total	Equity (incl. reinvestment of earnings)	Debt instruments	Total	Equity (incl. reinvestment of earnings)	Debt instruments	Total
By immediate partner economy (see Table A B.12 for the geographical allocation)								
By industry (see Table A B.13 for the industrial classification)								
(Inward only) By ultimate investing economy (see Table A B.12 for the geographical allocation)								

Note: (*) Whenever possible, compilers are encouraged to present their FDI statistics by partner economy and by industry details excluding resident SPEs and for resident SPEs separately, while the geographic and industry details for series including resident SPEs (All entities) could be derived. This would allow the lowest level of confidentiality restriction on series excluding resident SPEs and better supports analysis of the impact of FDI.

Table A B.6. Disaggregated FDI financial transactions

Reporting economy:											
Reporting year (T+9 months):											
Net inward / outward											
FDI transactions including resident SPEs				FDI transactions of resident SPEs				FDI transactions excluding resident SPEs*			
Equity (excl. reinvestment of earnings)	Reinvestment of earnings	Debt	Total	Equity (excl. reinvestment of earnings)	Reinvestment of earnings	Debt	Total	Equity (excl. reinvestment of earnings)	Reinvestment of earnings	Debt	Total
By immediate partner economy (see Table A B.12 for the geographical allocation)											
By industry (see Table A B.13 for the industrial classification)											

Note: (*) Whenever possible, compilers are encouraged to present their FDI statistics by partner economy and by industry details excluding resident SPEs and for resident SPEs separately, while the geographic and industry details for series including resident SPEs (all entities) could be derived. This would allow the lowest level of confidentiality restriction on series excluding resident SPEs and better supports analysis of the impact of FDI.

Table A B.7. Disaggregated FDI income

Reporting economy:																							
Reporting year (T+9 months):																							
FDI income (including resident SPEs)								FDI income of resident SPEs								FDI income excluding resident SPEs*							
Income on equity				Income on debt (interest)		Total income		Income on equity				Income on debt (interest)		Total income		Income on equity				Income on debt (interest)		Total income	
Distributed profits		Reinvested earnings						Distributed profits		Reinvested earnings						Distributed profits		Reinvested earnings					
Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward	Inward
By immediate partner economy (see Table A B.12 for the geographical allocation)																							
By industry (see Table A B.13 for the industrial classification)																							

Note: (*) Whenever possible, compilers are encouraged to present their FDI statistics by partner economy and by industry details excluding resident SPEs and for resident SPEs separately, while the geographic and industry details for series including resident SPEs (all entities) could be derived. This would allow the lowest level of confidentiality restriction on series excluding resident SPEs and better supports analysis of the impact of FDI.

Supplementary presentation for FDI statistics (according to the directional principle)

830. The following tables Table A B.8, Table A B.9, Table A B.10 and Table A B.11 include the supplementary presentations for FDI statistics, according to the directional principle.

Table A B.8. Outward FDI positions disaggregated by ultimate host economy

Reporting economy: Reporting year (T+9 months):		
Net outward FDI positions		
Equity including reinvestment of earnings	Debt instruments	Total
By ultimate host economy (see Table A B.12 for the geographical allocation)		

Note: The reporting of outward FDI positions by ultimate host economy can include or exclude resident SPEs, depending on data availability.

Table A B.9. Inward FDI income disaggregated by ultimate investing economy

Reporting economy:											
Reporting year (T+9 months):											
FDI income on inward FDI including resident SPEs				FDI income on inward FDI of resident SPEs			FDI income on inward FDI excluding resident SPEs*				
Income on equity		Income on debt (interest)	Total income	Income on equity		Income on debt (interest)	Total income	Income on equity		Income on debt (interest)	Total income
Distributed profits	Reinvested earnings			Distributed profits	Reinvested earnings			Distributed profits	Reinvested earnings		
By ultimate investing economy (see Table A B.12 for the geographical allocation)											

Note: (*) Whenever possible, compilers are encouraged to present their FDI statistics by partner economy and by industry details excluding resident SPEs and for resident SPEs separately, while the geographic and industry details for series including resident SPEs (all entities) could be derived. This would allow the lowest level of confidentiality restriction on series excluding resident SPEs and better supports analysis of the impact of FDI.

Table A B.10. Aggregate FDI statistics by residency/non-residency of the ultimate controlling parent (pass-through funds)

Reporting economy:	
Reporting year (T+9 months):	
1.1 Total net outward FDI positions (directional basis)	
1.1.1	If ultimate controlling parent is resident
1.1.2	If ultimate controlling parent is non-resident
1.2 Total net outward FDI financial transactions (directional basis)	
1.2.1	If ultimate controlling parent is resident
1.2.2	If ultimate controlling parent is non-resident
1.3 Total net outward FDI income (directional basis)	
1.3.1	If ultimate controlling parent is resident
1.3.2	If ultimate controlling parent is non-resident

Note: Net outward FDI positions, financial transactions and income when the ultimate controlling parent is resident correspond to the upper-bound estimates of pass-through FDI positions, financial transactions and income.

Table A B.11. Aggregate FDI financial transactions by type

Reporting economy:						
Reporting year (T+9 months):						
Net inward / outward FDI transactions (excluding resident SPEs)*						
Equity				Reinvestment of earnings		Debt
Total equity				Total reinvestment of earnings		Total debt
Mergers & Acquisitions				Of which: Greenfield investment & Extension of capacity		Of which: Greenfield investment & Extension of capacity
Greenfield investment & Extension of capacity				Greenfield investment		Greenfield investment
Greenfield investment				Extension of capacity		Extension of capacity
Extension of capacity						
Financial & corporate restructuring						
Unallocated						

Note: (*) The reporting of FDI financial transactions by type can include resident SPEs if it is not possible to exclude them. Greenfield investment and extensions of capacity can be reported together if it is not possible to report them separately.

Geographical allocation

831. Table A B.12 provides the geographical allocation used to report FDI statistics broken down by immediate or ultimate partner economy.

832. The codification of country and economic zones in Table A B.12 corresponds to ISO 2 codes and other codes used by the Standard Data and Metadata eXchange (SDMX) codification (SDMX CL_AREA code list) to report FDI statistics to International Organisations.⁶

Table A B.12. Geographical allocation

Code	Area
W0	WORLD (all areas, including reference area, including International Organisations)
W190	World not allocated (not allocated geographically, plus International Organisations)
E1	EUROPE
E19	Europe not allocated
AL	Albania
AD	Andorra
AT	Austria
BY	Belarus
BE	Belgium
BA	Bosnia and Herzegovina
BG	Bulgaria
HR	Croatia
CY	Cyprus, ^{1, 2}
CZ	Czechia

Code	Area
DK	Denmark
EE	Estonia
FO	Faroe Islands
FI	Finland
FR	France
DE	Germany
GI	Gibraltar
GR	Greece
GG	Guernsey
VA	Holy see
HU	Hungary
IS	Iceland
IE	Ireland
IM	Isle of Man
IT	Italy
JE	Jersey
XK	Kosovo
LV	Latvia
LI	Liechtenstein
LT	Lithuania
LU	Luxembourg
MK	North Macedonia
MT	Malta
MD	Moldova
ME	Montenegro
NL	Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
RU	Russia
SM	San Marino
RS	Serbia
SK	Slovak Republic
SI	Slovenia
ES	Spain
SE	Sweden
CH	Switzerland
TR	Türkiye
UA	Ukraine
GB	United Kingdom
F1	AFRICA
<i>F19</i>	<i>Africa not allocated</i>
<i>F4</i>	<i>Northern Africa</i>
DZ	Algeria
EG	Egypt
LY	Libya
MA	Morocco
TN	Tunisia
<i>F2</i>	<i>Other African countries</i>
AO	Angola

Code	Area
BJ	Benin
BW	Botswana
IO	British Indian Ocean Territory
BF	Burkina Faso
BI	Burundi
CM	Cameroon
CV	Cabo Verde
CF	Central African Republic
TD	Chad
KM	Comoros
CG	Congo
CI	Côte d'Ivoire
CD	Democratic Republic of the Congo
DJ	Djibouti
GQ	Equatorial Guinea
ER	Eritrea
ET	Ethiopia
GA	Gabon
GM	Gambia
GH	Ghana
GN	Guinea
GW	Guinea-Bissau
KE	Kenya
LS	Lesotho
LR	Liberia
MG	Madagascar
MW	Malawi
ML	Mali
MR	Mauritania
MU	Mauritius
MZ	Mozambique
NA	Namibia
NE	Niger
NG	Nigeria
RW	Rwanda
SH	Saint Helena
ST	Sao Tome and Principe
SN	Senegal
SC	Seychelles
SL	Sierra Leone
SO	Somalia
ZA	South Africa
SD	Sudan
SS	South Sudan
SZ	Eswatini
TZ	Tanzania, United Republic of
TG	Togo
UG	Uganda
ZM	Zambia
ZW	Zimbabwe
A1	AMERICA

Code	Area
A19	America not allocated
A2	<i>Northern America</i>
CA	Canada
GL	Greenland
US	United States
A5	<i>Central America and Caribbean countries</i>
AI	Anguilla
AG	Antigua and Barbuda
AW	Aruba
BS	Bahamas
BB	Barbados
BZ	Belize
BM	Bermuda
BQ	Bonaire
KY	Cayman Islands
CR	Costa Rica
CU	Cuba
CW	Curaçao
DM	Dominica
DO	Dominican Republic
SV	El Salvador
GD	Grenada
GT	Guatemala
HT	Haiti
HN	Honduras
JM	Jamaica
MX	Mexico
MS	Montserrat
NI	Nicaragua
PA	Panama
KN	Saint Kitts and Nevis
LC	Saint Lucia
VC	Saint Vincent and the Grenadines
SX	Sint Maarten
TT	Trinidad and Tobago
TC	Turks and Caicos Islands
VG	Virgin Islands, British
VI	Virgin Islands, United States
A7	<i>South America</i>
AR	Argentina
BO	Bolivia
BR	Brazil
CL	Chile
CO	Colombia
EC	Ecuador
FK	Falkland Islands (Malvinas)
GY	Guyana
PY	Paraguay
PE	Peru
SR	Suriname
UY	Uruguay

Code	Area
VE	Venezuela
S1	ASIA
S19	Asia not allocated
S3	<i>Near and Middle East countries</i>
S35	<i>Gulf Arabian countries</i>
BH	Bahrain
IQ	Iraq
KW	Kuwait
OM	Oman
QA	Qatar
SA	Saudi Arabia
AE	United Arab Emirates
YE	Yemen
S37	<i>Other Near and Middle East</i>
AM	Armenia
AZ	Azerbaijan
GE	Georgia
IL	Israel
JO	Jordan
LB	Lebanon
PS	Palestinian Authority
SY	Syrian Arab Republic
S6	<i>Other Asian countries</i>
AF	Afghanistan
BD	Bangladesh
BT	Bhutan
BN	Brunei Darussalam
KH	Cambodia
CN	People's Republic of China
KP	Democratic People's Republic of Korea
HK	Hong Kong (China)
IN	India
ID	Indonesia
IR	Iran
JP	Japan
KZ	Kazakhstan
KR	Korea
KG	Kyrgyzstan
LA	Lao People's Democratic Republic
MO	Macao
MY	Malaysia
MV	Maldives
MN	Mongolia
MM	Myanmar
NP	Nepal
PK	Pakistan
PH	Philippines
SG	Singapore
LK	Sri Lanka
TW	Chinese Taipei
TJ	Tajikistan

Code	Area
TH	Thailand
TL	Timor-Leste
TM	Turkmenistan
UZ	Uzbekistan
VN	Viet Nam
O1	AUSTRALIA, OCEANIA and POLAR REGIONS
O19	Oceania and polar regions not allocated
AS	American Samoa
AQ	Antarctica
AU	Australia
BV	Bouvet Island
CX	Christmas Islands
CC	Cocos (Keeling) Islands
CK	Cook Islands
FJ	Fiji
PF	French Polynesia
TF	French Southern and Antarctic Lands
GU	Guam
HM	Heard Island and McDonald Islands
KI	Kiribati
MH	Marshall Islands
FM	Micronesia, Federated States of
NR	Nauru
NC	New Caledonia
NZ	New Zealand
NU	Niue
NF	Norfolk Island
MP	Northern Mariana Islands
PW	Palau
PG	Papua New Guinea
PN	Pitcairn
WS	Samoa
SB	Solomon Islands
GS	South Georgia and the South Sandwich Islands
TK	Tokelau
TO	Tonga
TV	Tuvalu
UM	United States Minor Outlying Islands
VU	Vanuatu
WF	Wallis and Futuna
Economic zones	
(A) OECD	
P7	OECD38 (OECD fixed composition 38 members; from reference year 2021)
P6	OECD37 (OECD fixed composition 37 members; for reference year 2020)
P5	OECD36 (OECD fixed composition 36 members; for reference years 2018-19)
P4	OECD35 (OECD fixed composition 35 members; for reference years 2016-17)
P1	OECD34 (OECD fixed composition 34 members; for reference years 2010-15)
P00	OECD30 (OECD fixed composition 30 members; for reference years up to 2009)
(B) EUROPEAN UNION	
B6	EU 27 (without the UK) for reference years starting from 2020
B5	EU28 (for reference years 2013-19)

Code	Area
B4	EU27 (2007-12)
B3	EU25 (2004-06)
B2	EU15 (until end 2003)
(C) OTHER ECONOMIC AND GEOGRAPHIC ZONES	
R4	ASEAN (Association of South East Asian Nations)
R220	G20 countries excl. EU
R221	G20 OECD countries
R222	G20 non-OECD countries
F98	MENA (Middle East and North Africa countries)
R25	Total Official Development Assistance (ODA) recipients
R251	ODA recipients-Europe
R252	ODA recipients-Africa
R253	ODA recipients-America
R254	ODA recipients-Asia
R255	ODA recipients-Oceania

Notes:

1. Note by the Republic of Türkiye: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Türkiye recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Türkiye shall preserve its position concerning the "Cyprus issue".
2. Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Türkiye. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Based on OECD (2009^[1]), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*
<https://doi.org/10.1787/9789264045743-en>.

Industrial classification

833. The industrial classification in Table A B.13 is based on the International Standard Industrial Classification of all economic activities (ISIC), Rev. 5 used to present disaggregated FDI statistics by industry up to the third digit level.⁷

Table A B.13. International Standard Industrial Classification (ISIC5)

ECONOMIC ACTIVITY	ISIC rev.5
AGRICULTURE, FORESTRY AND FISHING	section A
MINING AND QUARRYING	section B
Extraction of crude petroleum and natural gas; mining support services	division 06, 09
MANUFACTURING	section C
Food products, beverage, and tobacco products	divisions 10,11,12
Textiles and wearing apparel	divisions 13,14
Wood, paper, printing and reproduction	divisions 16, 17,18
[TOTAL textiles + wood activities]	[divisions 13,14, 16, 17,18]
Coke and refined petroleum products	division 19
Manufacture of chemicals & chemical products	division 20
Pharmaceuticals products and preparations	division 21
Rubber and plastic products	division 22
[TOTAL petroleum, chemical, pharmaceuticals, rubber and plastic products]	[divisions 19, 20, 21, 22]
Basic metal and fabricated metal products	divisions 24, 25
Computer, electronic and optical products	division 26

ECONOMIC ACTIVITY	ISIC rev.5
of which:	
Computers and peripheral equipment	group 262
Communication equipment and consumer electronics	groups 263 and 264
Instrument and appliances for measuring, testing and navigation; watches and clock; irradiation, electromedical and electrotherapeutic equipment	groups 265 and 266
Machinery and equipment n.e.c.	division 28
[TOTAL metal, computer and machinery]	[divisions 24, 25, 26, 28]
Motor vehicles, trailers and semi-trailers	division 29
Other transport equipment	division 30
of which: Manufacture of air and spacecraft and related machinery	group 303
[TOTAL vehicles and other transport equipment]	[divisions 29, 30]
Other manufacturing	divisions 15, 23, 27, 31, 32, 33
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	section D
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	section E
Water collection, treatment and supply	division 36
Sewerage, waste management and remediation activities	divisions 37, 38, 39
CONSTRUCTION	section F
WHOLESALE AND RETAIL TRADE	section G (divisions 46, 47)
Wholesale trade	division 46
Retail trade cycles	division 47
TRANSPORTATION AND STORAGE	section H
Land transport and transport via pipelines	division 49
Water transport	division 50
Air transport	division 51
Warehousing and support activities for transportation	division 52
[TOTAL transport and storage]	[divisions 49, 50, 51, 52]
Postal and courier activities	division 53
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	section I
PUBLISHING, BROADCASTING, AND CONTENT PRODUCTION AND DISTRIBUTION ACTIVITIES	section J
Publishing activities	division 58
Motion picture, video and television programme production, sound recording and music publishing activities; programming, broadcasting, news agency and other content distribution activities	divisions 59, 60
TELECOMMUNICATIONS, COMPUTER PROGRAMMING, CONSULTANCY, COMPUTING INFRASTRUCTURE, AND OTHER INFORMATION SERVICE ACTIVITIES	Section K
Telecommunications	division 61
Other information service activities	divisions 62, 63
FINANCIAL AND INSURANCE ACTIVITIES	section L
Financial services activities, except insurance and pension funding	division 64
of which:	
Monetary intermediation	group 641
Activities of holding companies and financing conduits	group 642
Activities of trusts, funds and similar financial entities	group 643
Insurance, reinsurance and pension funding, except compulsory social security	division 65
Activities auxiliary to financial services and insurance activities	division 66
REAL ESTATE ACTIVITIES	section M
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	section N
Legal and accounting activities	division 69
Legal activities	group 691
Accounting, bookkeeping and auditing activities, tax consultancy	group 692
Activities of head offices; management consultancy activities	division 70

ECONOMIC ACTIVITY	ISIC rev.5
Activities of head offices	group 701
Management consultancy activities	group 702
Architecture and Engineering activities; technical testing and analysis	division 71
Scientific research and development	division 72
Activities of advertising, market research and public relations	division 73
Advertising	group 731
Market research and public opinion polling	group 732
Public relations activities	group 733
Other professional, scientific and technical activities	divisions 74, 75
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	section O
Rental and leasing activities	division 77
Other administrative and support services activities	divisions 78, 79, 80, 81, 82
of which: Travel agency, tour operator reservation service and related activities	division 79
EDUCATION	section Q
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	section R
ARTS, SPORTS AND RECREATION	section S
Arts creation and performing arts activities	division 90
Library, archives, museum and other cultural activities	division 91
Gambling and betting activities; Sports activities and amusement and recreation activities	divisions 92, 93
PUBLIC ADMINISTRATION; ACTIVITIES OF HOUSEHOLDS AND OF EXTRATERRITORIAL ORGANISATIONS	sections P, U and V
OTHER SERVICE ACTIVITIES	section T
Activities of membership organisations	division 94
Repair of computers and personal and household goods, and motor vehicles and motorcycles; other personal services	divisions 95, 96
TOTAL SERVICE ACTIVITIES	sections G to V
SUB-TOTAL	sections A to V
of which: Private purchases & sales of real estate	
Unallocated	
TOTAL	

Source: International Standard Industrial Classification (ISIC, Rev. 5).

References

OECD (2009), *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, [1]
 OECD Publishing, Paris, <https://doi.org/10.1787/9789264045743-en>.

Notes

¹ If it is not possible to report all of the necessary detail, it is recommended to report FDI positions (annual) and financial financial transactions and income (quarterly) on directional principle.

² Whenever possible, compilers are encouraged to present their FDI statistics by partner economy and by industry details excluding resident SPEs and for resident SPEs separately, while the geographic and

industry details for series including resident SPEs (All entities) could be derived. This would allow the lowest level of confidentiality restriction on series excluding resident SPEs and better supports analyses of the impact of FDI.

³ The reporting of outward FDI positions by UHE can include or exclude resident SPEs, depending on data availability.

⁴ The reporting of FDI financial transactions by type can include resident SPEs if it is not possible to exclude them.

⁵ Greenfield investment and extensions of capacity can be reported together if it is not possible to report them separately.

⁶ Codification and country names as of 15 November 2024, could be subject to changes.

⁷ For more details on ISIC Rev. 5: <https://unstats.un.org/unsd/classifications/isic/rev5consultation>.

Annex C. Examples of foreign direct investment data collecting and reporting methods

834. This annex discusses some examples of the foundations needed to compile foreign direct investment (FDI) data via a survey system. These include data sources, survey design, need for a business register, mail-out procedures, data capture, compilation and dissemination practices, legal aspects, timeliness and revision practices. In addition to FDI surveys, compilers rely on many other data sources to compile FDI statistics, including international transactions reporting systems (ITRS), administrative data, company financial statements, the financial press, and commercial databases, that are not covered in this annex. IMF (2014^[1]) provides general guidance on conducting enterprise surveys as well as model surveys for FDI statistics, and IMF (2015^[2]) provides guidance specific to conducting surveys to collect FDI position data.

Data sources

Questionnaires

835. Statistical questionnaires often constitute the core source of information and are used to obtain information on direct investment from businesses involved in direct investment activities. Depending on the frequency of release of FDI results, quarterly or annual questionnaires can be used. Questionnaires requesting information on the consolidation used by the reporting entities when reporting their operations are also a very useful tool to assess the scope of reported data. In collecting data using a survey, it is generally preferable to have the operation conducted on a statutory basis.

Administrative data

836. Data gathered from government bodies can be useful to complete the data collected by the questionnaires. Local investment review agencies can also provide a good source of financial data to complement mailing lists of companies. In addition to their use in developing a population frame for FDI surveys, administrative data can also be a valuable data source in their own right to compile FDI statistics. Relevant data from statistical offices and official business registers or information from banking and financial supervision authorities can complement surveys in, for example, the compilation of reinvested earnings. Centralised financial statement databases, and other sources containing mandatory annual financial statements (preferably those that comply with international accounting standards or are audited) can all be useful sources for the compilation of FDI statistics and may even provide enough information to lighten survey burdens.

Monitoring of the financial press and commercial databases

837. Monitoring financial information from the business community as published in the financial press or in press releases from the stock exchange supervisory authority is often very important both to highlight the occurrence of and to better assess important FDI transactions. On occasion, it can be necessary to estimate a FDI transaction based on published reports without information directly from the company.

Commercial databases and catalogues showing corporate structures of companies (e.g., Who Owns Whom) can also constitute reliable information to populate a frame of enterprises likely to be involved in FDI. These sources may also provide information to validate data collection. For the case of listed equity in FDI, they may provide information on dividend distributions that could be useful in the compilation of reinvested earnings.

Bilateral sources

838. Reconciliation of data between partner countries can be conducted to validate and try to harmonise one another's statistics. This exercise can be done on a regular basis and is often very valuable in assessing the quality of direct investment data. Databases from international organisations, like the OECD Foreign Direct Investment Statistics database and the International Monetary Fund's Coordinated Direct Investment Survey (CDIS), are important sources of bilateral data for reconciliation purposes. Data sharing initiatives, like Eurostat's EuroGroups Register (EGR), can provide useful structural economic information on enterprises that are part of a FDI framework.

Survey design

839. Survey design expertise is essential to better assess the proper layout and wording of the questionnaires in relation to respondents. Linkages with accounting terms and financial statements of companies greatly facilitate the completion of questionnaires by respondents.

Respondents' relations

840. Contact with respondents should be maintained on a regular basis, particularly for the large, complex enterprises. Given the complexity of FDI and the complexities of the structures and operations of many multinational enterprises, it is essential that such contact be maintained at as high a level as possible on both sides on an ongoing basis. In this context, company visits by the compiler are very beneficial to both sides, and a team devoted to maintaining effective working relationships with companies is important. Such contact can ensure respondents understand the information required for FDI statistics, which is especially important if there is a change in the financial or accounting management within the company. Some statistical offices have created large case units specifically to manage relationships with large reporters and to validate reported data covering a variety of statistical domains. In sourcing data and in efforts to ensure the quality of the FDI results, access to audited company accounts (including management accounts) is crucial and should be pursued vigorously.

Business register

841. A frame of enterprises is needed to incorporate and maintain the list of those included in the FDI survey(s). It has to be designed specifically to include the necessary information for FDI, in particular ownership information. Moreover, use of a comprehensive business register for other surveys or other statistical purposes that includes the necessary ownership information to conduct FDI surveys is beneficial because it supports data linking.

842. Here are some examples of procedures that can help to maintain a business register suited for FDI. When an enterprise is identified, via a newspaper article or any other source, the precise information about the name and the address of the enterprise should be loaded into the mailing list.

843. The characteristics and details of the enterprises should then be included in the business register and a determination should be made on the basis of the relevant information whether it should be surveyed for FDI purposes. The business register should also include historical information about the enterprise from

the first time it was surveyed as well as any details of any changes (e.g., whether it changed name, address, activity or ownership or even ceased operations). Here are some of the basic components of a business register:

- Enterprise ID (unique identifier)
- Enterprise identification and contact information, such as enterprise name, contact person at the enterprise, address of the enterprise, phone number, and email address.
- Enterprise characteristics, such as type of enterprise (e.g., private corporation or public enterprise), industry and industrial code, and institutional sector.
- Variables useful for identifying the surveys to be sent, such as number of employees, turnover, and size of balance sheet.
- For FDI surveys, it is also useful to identify the economy of immediate direct investors in resident direct investment enterprises (DIEs) and the economy of non-resident DIEs owned by resident direct investors.

844. The business register should be maintained on an ongoing basis and reflect any updates necessary due to births, deaths or changes applied to an enterprise. Therefore, each time a change is made to an enterprise, it should be reflected in the frame and kept for future reference. The information gathered from surveys, administrative sources or from the financial press is used to build and maintain an up-to-date business register.

Mail out and follow-up procedures

845. A legal authority is often needed to ensure that the statistical information is collected: it is compulsory in many countries for the enterprises to complete and return the questionnaires being sent to them by statistical authorities. Enterprises that refuse or neglect to do so may be guilty of an offence and may be subject to legal enforcement procedures and penalties. If an enterprise does not return its questionnaire(s) within a certain time period, it is often appropriate to send a number of reminders indicating that their questionnaires are still outstanding. If the respondent requires more time to complete the questionnaire, the information is to be noted so that the respondent is not sent reminders. In some cases, it may be necessary for compilers to pursue legal enforcement where a survey is mandatory.

846. It can be useful to maintain information on communications with the companies, including on follow-up communication with those that have not responded as well as to clarify responses received. Examples of this kind of information include response status (e.g., mailed, received, or exempt), dates of follow-up for non-response, and dates of queries about their response (including date, subject matter, and outcome). This information could be maintained in a separate related database – a survey management system (i.e., linked to the main register via the enterprise identification number). Summary counts of questionnaires mailed, received and the percentage outstanding should be easily retrievable from the response log file.

Data capture and procedures

847. Systems can be put in place to automate the data capture of the questionnaires received (spreadsheets or web systems). This function can improve considerably the quality of data if thoroughly carried out. FDI data captured from questionnaires can then be reviewed by financial analysts. Special efforts should be made with respondents involving large transactions or with missing critical information.

848. To help the analysts in the validation and manipulation of the massive amount of data being captured, a computer system has to be developed. This system should include all the information on the status of the enterprise, on the data being captured and the other sources of information described above.

The description of the following procedures provides examples of the main functions to process the information.

Validation of data

849. This procedure validates the information after the data capture process. An essential part in the validation of data is the edit function built into the system. This edit function should follow pre-programmed automatic procedures that can identify erroneous data entries and build an error message file to be corrected.

850. Another function should allow the analyst to browse and correct data when further research using information from outside of the system justifies it. In this context, audited company accounts data can be very helpful as can other related information supplied to the same compiling authority or to another public authority, industry body, etc.

851. It is also possible to include some validation checks in the data capture process to assist companies in reporting data correctly.

Imputation and estimation

852. When conducting a survey, it is normal for some enterprises not to have responded at the time that estimates need to be compiled. Values need to be imputed for these respondents. The imputation process can use information from previous responses from the enterprise, responses to other surveys from the enterprise, responses from similar enterprises, and information from the financial press and other data sources.

853. It is also common not to send questionnaires to all enterprises known to be involved in FDI relationships. The information collected from selected enterprises may be used to represent the entire population of resident direct investors and DfEs. This can involve the application of weights (i.e., grossing or scaling factors) to reported data. Alternatively, an under-coverage adjustment may be based on data from other sources for the non-selected enterprises.

Assessment of the quality of the data

854. The initial estimates of direct investment need to undergo several updates and have to be validated to try to minimise under-coverage in the resulting estimates. The response rate needs to be assessed regularly, especially for respondents involved in many and/or large FDI transactions.

Dissemination

855. After estimates referring to a certain period (for transactions) or point in time (for positions) are published, it is possible that further information will become available that would cause revisions to the original estimates. This information may result from improved data from respondents, improved compilation processes or other investigations into these data. Any compilation system will need to assess the time lag between the survey process and the data dissemination as well as the revision practices.

856. As data need to be reported at the enterprise level, the analyst has to be able to generate reports according to very specific analytical needs. For publication purposes, data need to be available by economy, by industry, and by institutional sector (e.g., non-financial corporations or government), resulting in a multitude of reports that will be needed for comprehensive analysis of FDI data. Direct investment data can be released in a very aggregated form (e.g., as part of the balance of payments) but also on a more disaggregated basis as requested by this *Benchmark Definition*. The systems need to provide flexibility to

be able to tabulate any combination of economy, industry and characteristics of direct investment that can be requested.

857. Statistical legislation is generally necessary to protect confidentiality of the data provided. Such legislation normally prohibits the disclosure of information relating to any individual person, business or organisation. Very strict rules need to be applied to protect the direct, indirect or inadvertent disclosure of confidential information. These legal protections are very important as they not only reassure the respondents concerning the security of the information they provide, but they can also engender a positive response culture. A good level of confidence established with the enterprises regarding the protection of their data will have a positive impact on the response rate.

References

IMF (2015), *Coordinated Direct Investment Survey Guide*, International Monetary Fund, Washington, DC., <https://www.imf.org/external/np/sta/pdf/cdisguide.pdf>. [2]

IMF (2014), *BPM6 Compilation Guide*, International Monetary Fund, Washington, DC., <https://www.imf.org/external/pubs/ft/bop/2014/pdf/guide.pdf>. [1]

Annex D. Research agenda

858. At the time of publishing this edition of the *Benchmark Definition*, there are a number of issues requiring further investigation. These issues have been placed on a research agenda with investigations to be undertaken to progress their resolution (to the extent possible). In addition, there are new and emerging issues that will require further investigation. The results of this research will inform future recommendations for the compilation of foreign direct investment (FDI) statistics. The appearance of an issue on the research agenda does not guarantee that recommendations in the *Benchmark Definition* will change as a result of further investigation. Consequently, compilers should not presume the results of any investigations on the research agenda but should await the outcomes. The topics to be investigated are first categorised under the following five headings:

1. valuation of unlisted equity
2. ultimate host economy
3. pass-through funds in FDI
4. application of the current operating performance concept (COPC)
5. other items.

Valuation of unlisted equity

859. The valuation of unlisted equity remains a challenging issue for FDI statisticians. The use of the market capitalisation method is hindered by the lack of widely available information on the market capitalisation ratios needed. Therefore, it is proposed that the creation of databases of such ratios be explored so that compilers have access to the information needed. Another aspect of the market capitalisation method that needs more exploration is the liquidity discount rate. According to theory and to research, listed shares are inherently more valuable than unlisted shares because they are liquid. Also, as of publication, the market capitalisation method does not include a liquidity discount rate and, thus, additional research to determine the liquidity discount rate as well as on the practical application of market capitalisation ratios should be undertaken.

860. The own funds at book value (OFBV) method may underestimate the value of intangible assets as some of these assets, such as brands and customer lists, may either not be recognised in financial accounting standards or may be valued at historic cost. In addition, real estate may be undervalued if conservative appraisal methods are recommended for use by the financial accounting standards. The development of an enhanced OFBV method that would improve the valuation of intangible assets and real estate would better align the valuation of unlisted equity with market values. Finally, the treatment of provisions under the OFBV method needs more research to align with the conceptual treatment of provisions. The OFBV method values unlisted equity based on its value in the financial statements of the enterprise, which would be affected by the recognition of provisions. However, in macroeconomic statistics, provisions should remain in the value of the enterprise because there is no corresponding financial asset held by a counterparty and because they are not subject to the sort of (legal) contract associated with a liability.

Ultimate host economy

861. While this *Benchmark Definition* further develops the concept and methods to compile outward position statistics by the ultimate host economy (UHE), it recognises that more research is needed. Therefore, it encourages countries to explore the different concepts of UHE, the different methods for reallocating positions from the immediate to ultimate host economies, and the different populations to be covered (e.g., all direct investors, only resident direct investors that are ultimate controlling parents, or excluding special purpose entities (SPEs)) that produce the most meaningful statistics for their economies.

Pass-through funds in FDI

862. While the adoption of an internationally agreed definition and typology of SPEs assists compilers in their identification and promotes cross-country comparability, it is important to monitor the evolution of these entities given the changing nature of financing patterns of multinational enterprises (MNEs) and to update the definition and typology of SPEs if needed.

863. In addition to SPEs, MNEs also invest via their operational subsidiaries abroad. This *Benchmark Definition* proposes a method to identify funds passing through the enterprise from its other business based on the residency of the ultimate controlling parent (UCP). However, more research is needed. This research could focus on a few areas. First, the development of a decision tree to identify “near-SPEs”, which are entities that do not meet the definition of SPEs but that display SPE-like behaviours, such as serving as financial intermediators within the MNE group, would help compilers identify additional entities involved in pass-through activities. A second focus should be on methods to remove the ‘inflation’ in FDI statistics caused by pass-through funds. This includes the interpretation of the breakdown of outward positions by residency of the ultimate controlling parent as suggested in Chapter 8. Moreover, it could be interesting for an economy to know the magnitude of its outward investment that ultimately originates from resident ultimate investors or from non-resident ultimate investors.

864. Another possibility would be the development of the ‘ultimate directional principle’, which would net out all pass-through funding and enable the presentation of FDI statistics on an ultimate counterparty basis. The calculation of FDI according to the ultimate directional principle begins by determining the direction of control/influence (inward or outward) in the direct investment relationship, but this direction is determined based on the residency of the ultimate controlling parent of the immediate direct investor rather than on the residency of the immediate direct investor. It also applies to all direct investment relationships and not just to fellow enterprises.

Application of the current operating performance concept (COPC)

865. While this *Benchmark Definition* provides more detailed guidance and examples on the adjustments needed to move from earnings in financial statements to earnings measured on the COPC basis, it would be useful to gather additional issues that have posed challenges for the application of the COPC for countries and clarify their treatment. It is also necessary to stay abreast of developments in financial accounting standards to determine if additional adjustments are necessary. These activities should be carried out in consultation with the national accounts and balance of payments to ensure consistency in treatment across macroeconomic statistics.

866. It is also proposed that further research be conducted on the treatment under the COPC of sales of intangible assets that are held for sale. Any clarification note should be drafted in consultation with the national accounts and balance of payments to ensure consistency across the manuals.

867. One of the more challenging compilation issues is the recording of reinvested earnings along the ownership chain. Additional research on practical methods and identification of data sources to support countries in the compilation of reinvested earnings is needed.

Other items

868. Several other items of analytical interest were identified for future investigation:

- For greenfield investment and extensions of capacity, research into the role of leasing is needed. Specifically, should greenfield and extension of capacity statistics include cases where the DIE increases its capacity through leasing fixed assets rather than through their creation?
- A set of FDI statistics based on control relationships, rather than on both control and influence relationships, should be developed. Such statistics would help with analysis of the role of FDI in globalisation given the emphasis put on control in the analysis of globalisation in the *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, (IMF, Forthcoming^[1]), and the *2025 System of National Accounts (2025 SNA)*, (United Nations et al., Forthcoming^[2]). For example, the recommendation to increase the granularity of the institutional sector accounts and external accounts by identifying foreign-controlled non-financial corporations. Such statistics could also help with the reconciliation of FDI statistics with activities of multinational enterprise (AMNE) statistics and foreign affiliate statistics (FATS). Finally, compilers should be encouraged to conduct more analysis based on the control criterion.
- Countries are encouraged to produce and analyse information on the role of FDI companies in the economy. Research into practical methods to produce such information, whether by linking FDI surveys to other surveys or by collecting additional data on FDI surveys, would support this effort.

References

- IMF (Forthcoming), *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)*, International Monetary Fund, Washington D.C. [1]
- United Nations et al. (Forthcoming), *2025 System of National Accounts*, United Nations et al., New York. [2]

Glossary

Acquisition: A business transaction between unrelated parties based on terms established by the market where each enterprise acts in its own interest. The acquiring enterprise purchases the assets and liabilities of the target enterprise. In some cases, the target enterprise becomes a subsidiary or part of a subsidiary of the acquiring enterprise.

Activity of multinational enterprise statistics: Structural business statistics that provide data on the operations of foreign-controlled and foreign-controlling enterprises, such as gross output, turnover, value added, number of people in employment, employee compensation, gross operating surplus, gross fixed capital formation, R&D expenditures, number of researchers, total exports and imports, intra-company exports and imports, and technological payments and receipts.

Affiliated entities: Enterprises in an immediate or indirect direct investment relationship with each other or that have the same immediate or indirect direct investor. Affiliates of an enterprise thus consist of its immediate or indirect direct investor(s), its immediate or indirect direct investment enterprise(s) and its fellow enterprise(s).

All-inclusive concept: One of two main approaches to measuring earnings. It is an accounting method where all gains and losses, including those caused by extraordinary and non-recurring items, are reported on the company's income statement. It includes all changes in equity during a period except those resulting from investment by owners and distributions to owners. Also called comprehensive income. This concept is not recommended by the *Benchmark Definition* (see also entry on Current Operating Performance Concept).

Ancillary corporation: Wholly owned subsidiary whose productive activities are confined to providing services to the parent corporation or other affiliates owned by the same parent corporation.

Assets, Direct investment: Direct investment assets are claims of a resident entity on a non-resident entity when there is a direct investment relationship between them. Direct investment assets consist of equity and debt and can be attributed to the following three categories:

- investment by resident direct investors in non-resident direct investment enterprises
- reverse investment by resident direct investment enterprises in non-resident direct investors
- investment by resident fellow enterprises in non-resident fellow enterprises.

Asset/liability presentation: The approach used to present standard components related to direct investment where investment is organised according to whether it relates to an asset or liability. Data presented according to this principle do not incorporate any offsetting of reverse direct investment transactions or positions in equity or debt between a direct investment enterprise and its direct investor. Similarly, the asset/liability presentation does not incorporate any offsetting of any transactions or positions between fellow enterprises. See directional principle for an alternative presentation of direct investment data.

Associates: Enterprises over which the direct investor is able to exercise a significant degree of influence but not control, mainly by owning 10% to 50% of voting power. Associates are a subset of affiliates and could also refer to domestic relationships. Associates include enterprises:

- in which an investor owns directly at least 10% of the voting power and no more than 50%
- where an investor and its subsidiaries combined own at least 10% of the voting power of an enterprise but no more than 50%
- where an associate, either as an individual or in combination with its subsidiaries, own more than 50% of an enterprise, this enterprise is regarded for FDI purposes as an associate of the higher-level investor.

Balance of payments: Statement that summarises economic transactions between residents and non-residents during a specific time period. It consists of three main accounts: (i) the current account (which includes the goods and services account, the earned income account, and the transfer income account), (ii) the capital account, and (iii) the financial account. The IMF *Integrated Balance of Payments and International Investment Position Manual, Seventh Edition* provides guidance for compiling balance of payments statistics according to internationally agreed guidelines.

Bilateral asymmetries: Data discrepancies when inward FDI positions or transactions reported by economy A from economy B do not equal outward FDI positions or transactions reported by economy B to economy A.

Book value: Valuation used in business accounts, generally referring to the value recorded in the enterprise's records. Book values may have different meanings because their values are influenced by the timing of acquisition, company takeovers, frequency of revaluations and tax and other regulations, including national practices.

Branches of non-resident corporation: Resident unincorporated enterprises that fully belong to a non-resident unit, known as the parent, which undertakes production of goods and services on a significant scale. It is treated as a resident quasi-corporation in the territory where it is situated.

All or most of the following features should be present for a branch to be recognised:

- undertaking or intending to undertake production on a significant scale based in the territory for one year or more in a territory other than that of its head office:
 - a. If the production process involves physical presence, then the operations should be physically located in that territory. Some indicators of an intention to locate in the territory include purchasing or renting business premises, acquiring capital equipment, and recruiting local staff.
 - b. If the production does not involve physical presence, such as in some cases of banking, insurance, or other financial services, the operations should be recognised as being in the territory by virtue of the registration or legal domicile of those operations in that territory.
- the recognition of the operations as being subject to the income tax system, if any, of the economy in which it is located even if it may have a tax-exempt status.

Business register: A list of enterprises or establishments maintained by statistical offices to assist in the compilation of their business and macroeconomic statistics in general and that can identify those enterprises involved in foreign direct investment and, thus, help in the compilation of these statistics.

Capital transfers: Unrequited transfers, either in cash or in-kind, linked to the acquisition, disposal or transfer of an asset (other than cash or inventories); or where a liability is forgiven or assumed; or where the transfers are intended to address accumulated losses incurred over a multi-year period.

Captive financial institutions: Institutional units providing financial services, where most of either their assets or liabilities are not transacted on open financial markets. They usually act as a financial agent for their affiliates, raising funds for lending to their affiliates or for purchase of their affiliates' assets.

Cash-pooling arrangement: Financial arrangement where multiple bank accounts are consolidated into a single account, allowing efficient cash management, liquidity optimisation, and centralised control over funds within an enterprise group.

Centre of predominant economic interest: An institutional unit has a centre of predominant economic interest in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. Actual or intended location of one year or more is used as an operational definition.

Collective investment institutions (CIIs): Incorporated investment companies and investment trusts, as well as unincorporated undertakings (mutual funds or unit trusts), that invest in financial assets (mainly marketable securities and bank deposits) and real estate using the funds collected from investors by means of issuing shares/units (other than equity). Also referred to as collective investment scheme, collective investment vehicle, or investment fund.

Conduit: Unit that principally raises funds on open financial markets for passing on to other affiliated enterprises. Conduits are a subset of captive financial institutions. Some conduits and holding companies may have a substantial physical presence as evidenced by office building, equipment, employees, etc. Others may have little or no physical presence and may exist only as shell companies.

Confidentiality: In many countries, national statistical legislation prohibits the direct or indirect disclosure of information relating to a particular individual or entity. In presenting FDI statistics, compilers in these countries may encounter confidential data in the results to be disseminated. Such information generally does not directly identify the entity, e.g., the name and address of an enterprise, to which these data relate. However, the particular context in which data are presented (e.g., classification by partner economy, sector of economic activity of enterprise, or type of financial instrument as well as cross-classifications of these attributes) may allow users to determine the identity of the entity in question and the value of its activity from the information provided.

Consolidated financial statements: Statements in which the assets, liabilities, net worth, revenue, expenses and cash flows of a controlling entity and its controlled entities are presented as those of a single economic entity.

Control of a corporation: Ability to determine general corporate policy of a corporation, where general corporate policy is understood in a broad sense to mean the key financial and operating policies relating to the corporation's strategic objectives as a market producer. In practice, control is determined to exist if an investor has more than 50% of the voting power in an enterprise. The control may be direct (through ownership of voting power or other arrangements) or indirect (through ownership of enterprises that in turn have voting power). In the case of control by government, or another public unit, control can also be exercised in other ways than owning more than half of the voting power.

Corporate and financial restructuring: Intra-group transfer of existing FDI equity to existing or newly created subsidiaries without any major impact on the productive activities of the group, and/or use of equity instruments for loss reduction and debt repayment.

Corporate inversion: The corporate restructuring of a multinational enterprise group such that the original ultimate controlling parent company in one economy becomes a subsidiary of the new parent in another economy. In addition, ownership of a group of enterprises may be shifted to the new parent company.

Corporations: Institutional units, mainly consisting of independent legally constituted corporations and also cooperatives, limited liability partnerships, notional resident units and quasi-corporations, whose principal activities are to produce goods or services for the market.

Credits/revenues: Transactions related to exports of goods and services, earned income receivable, transfer income receivable, and disposals of non-produced non-financial assets.

Currency union: A group of economies that adopts a common currency and has a central decision-making body (usually a currency union central bank) with the authority to issue the legal tender of the area and conduct a single monetary policy.

Current operating performance concept (COPC): Concept recommended by the *Benchmark Definition* to measure direct investment earnings. When earnings are measured according to this concept, such earnings consist of income from normal enterprise operations excluding non-recurring items (such as write-offs) and holding gains and losses and with depreciation measured on a current replacement cost basis (see also entry on All-inclusive concept not recommended by the *Benchmark Definition*).

Current transfers: Unrequited transactions between two parties where one party provides a good, service or cash to the other party, with no expectation of anything of economic value in exchange. Unlike capital transfers, they are not linked to the acquisition or disposal of an asset, either financial or non-financial (other than cash and inventories).

Debits/expenditures: Transactions related to imports of goods and services, earned income payable, transfer income payable, and acquisitions of non-produced non-financial assets.

Debt instruments: Financial instruments that require the payment of principal and/or interest at some point(s) in the future. Debt instruments consist of special drawing rights, currency and deposits, debt securities, loans, insurance technical reserves, pension and related entitlements, provision for calls under standardised guarantees, and other accounts receivable/payable.

Debt securities: Negotiable instruments serving as evidence of a debt. They include bills, bonds, notes, negotiable certificates of deposit, commercial papers, debentures, asset-backed securities and similar instruments normally traded in financial markets.

Debtor/creditor basis: Approach used for the compilation of partner economy data where (changes in) assets are shown according to the residence of the debtor (or issuers of non-debt instruments), and (changes in) liabilities according to the residence of the creditor (or holders of non-debt instruments). For FDI statistical purposes, under the debtor/creditor principle, the FDI assets (both transactions and positions) of the compiling economy are allocated to the economies of residence of the non-resident debtors, and its FDI liabilities are allocated to the economies of residence of the non-resident creditors. This principle, recommended by the *Benchmark Definition* as the basis for geographical disaggregation, differs from the transactor principle.

Deposits: Non-negotiable contracts that represent the placements of funds available for later withdrawal. They are claims on the central bank, other deposit taking corporations, other financial corporations, and, in some cases, other institutional units.

Direct Investment: (see Foreign Direct Investment).

Direct investment enterprise: An enterprise in one economy subject to control or a significant degree of influence by a direct investor that is resident in another economy. Ownership of 10% or more of the voting power is evidence of a direct investment relationship. An exception is made for investment funds, which cannot be direct investment enterprises as investments in negotiable investment fund shares are always considered to be portfolio investment or reserve assets. Investments in non-negotiable investment funds shares are included in other equity and equity in international organisations. The direct investor can own its voting power either directly or indirectly.

Direct investor: An entity or group of related entities that is able to exercise control or a significant degree of influence over another entity that is resident of a different economy. Ownership of 10% or more of the voting power is evidence of a direct investment relationship. The direct investor can own its voting power either directly or indirectly.

A direct investor could be classified to any institutional sector of the economy and could be any of the following:

- an individual

- a group of related individuals
- an incorporated or unincorporated enterprise
- a public or private enterprise
- a group of related enterprises
- a government body
- an estate, trust or other societal organisation
- any combination of the above.

Directional presentation: Presentation of the FDI data on a directional basis reflects the direction of influence by the direct investor underlying the direct investment: inward or outward direct investment. FDI according to directional principle relates to the treatment of reverse investment and to the treatment of fellow enterprises.

- Reverse investment is categorised as outward investment if the direct investor is resident and as inward investment if the direct investor is non-resident.
- Investment between fellow enterprises:
 - a. If the ultimate controlling parent is a resident of the compiling economy, then the transactions and positions between the two fellow enterprises are categorised as outward foreign direct investment;
 - b. if the ultimate controlling parent is not a resident of the compiling economy, then the transactions and positions between the two fellow enterprises are categorised as inward foreign direct investment.

See entry on asset/liability presentation for an alternative presentation of direct investment data.

Distributable income of a corporation: Entrepreneurial income, plus all current transfers receivable, less all current transfers payable, and less the adjustment for the change in pension and non-pension entitlements relating to the pension or other social insurance scheme of that corporation.

Dividends: Earnings distributed to the owners of corporate equity for placing funds at the disposal of corporations. Dividends exclude liquidating dividends and bonus shares (which are dividends in the form of additional shares of stock). These can be recorded on the date they are payable, on the date they are paid, or at some other point in time. The *Benchmark Definition* recommends recording dividends on the date they are payable.

Domestic enterprise group: Parent corporation and the legal entities controlled by that parent that are resident in the reporting economy.

Earned income: Income earned by institutional units as a consequence of their involvement in processes of production or ownership of assets that may be needed for purposes of production.

Economic activities: Activities covering production and consumption of goods and services, distribution and redistribution of income, and accumulation of economic assets.

Economic appearance of assets: Appearance of assets that is neither due to transactions nor due to holding gains and losses (revaluations). Examples relate to the recognition of produced assets, not previously recognised as assets; discoveries of natural resources; changes in the quality of land; the recognition of goodwill in the purchase of a corporation; and the initiation of contracts, leases and licenses.

Economic disappearance of assets and liabilities: Disappearance of assets and liabilities that is neither due to transactions nor due to holding gains and losses (revaluations). Examples relate to the cancellation of contracts, leases and licenses, and the unilateral cancellation or write-offs of debt.

Economic territory: A geographic area under the effective economic control of a single government or a currency union or economic union. In its broadest sense, an economic territory can be any geographic

area or jurisdiction for which statistics are required. For a country, it includes the land area, airspace, territorial waters, islands that belong to the territory and territorial enclaves in the rest of the world.

Economic union: A group of economies established by means of an intergovernmental legal agreement among sovereign countries or jurisdictions with the intention of fostering greater economic integration.

Enterprise: An institutional unit engaged in the production of goods and/or services. The term enterprise may refer to a corporation, a quasi-corporation, a non-profit institution, or an unincorporated enterprise.

Entrepreneurial income: Income earned by corporations from the production of goods and services, plus property income receivable, minus property income payable (excluding dividends, withdrawals from income of quasi-corporations and reinvested earnings).

Equity: All instruments and records acknowledging rights and claims on the residual value of a corporation or quasi-corporation after the claims of all creditors have been met. Ownership of equity is usually evidenced by shares, stocks, participations, depository receipts or similar documents. Equity capital comprises: (i) equity in branches; (ii) all shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and included under direct investment, debt instruments); and (iii) other contributions of an equity nature. This category includes proprietors' net equity in quasi-corporations, as well as shares and equity in corporations. It also includes preferred stocks or shares that provide for participation in the residual value on dissolution of an incorporated enterprise. Reinvestment of earnings comprises the claim of direct investors (in proportion to equity held) on the retained earnings of direct investment enterprises. Reinvestment of earnings represents financial account transactions that contribute to the equity position of a direct investor in a direct investment enterprise.

Establishment: Enterprise, or part of an enterprise, that is situated in a single location and in which only a single productive activity is carried out, or in which the principal productive activity accounts for most of the value added (also known as local kind-of-activity unit).

Exchange rate changes: All changes in value resulting from exposure to the effect of exchange rates. Part of revaluations along with other price changes. Exchange rate changes may be referred to by enterprises as realised or unrealised exchange rate or foreign exchange gains or losses. They should not be included in the earnings of an enterprise when calculating income transactions.

Extension of capacity: Capital injections that are used to expand the capacity of direct investment enterprises that have existed for three years or more.

Fellow enterprises: Enterprises under the influence or control either directly or indirectly of the same direct investor, but neither of the fellow enterprise controls or influences the other enterprise. This 'common parent' must be a direct investor in at least one of the enterprises in question. It should be noted, however, that for FDI statistics, only cross-border transactions and positions between FDI-related enterprises should be recorded. Such enterprises can be considered to be related through a 'horizontal' linkage within the framework for direct investment relationships.

Finance lease: Contract between a lessor and a lessee, under which the lessor, as legal owner of an asset, substantially conveys the risks and rewards of ownership of the asset to the lessee. The lessee, therefore, becomes the economic owner of the asset. A finance lease involves imputing a loan.

Financial derivatives: Negotiable financial instruments linked to another specific financial instrument, indicator, or commodity, through which specific risks (e.g., interest rate risk, foreign exchange risk, equity and commodity price risk, credit risk) can be traded in their own right in financial markets. Financial derivatives are excluded from direct investment.

Financial intermediaries: Financial corporations that incur liabilities on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market. Financial intermediaries consist of (i) central bank; (ii) deposit-taking corporations other than central bank (e.g. banks); (iii) money

market funds; (iv) investment funds other than money market funds; (v) other financial intermediaries, except insurance companies and pension funds; (vi) insurance corporations and (vii) pension funds. However, for the purposes of excluding debt between related financial intermediaries, insurance corporations and pension funds are not considered “financial intermediaries”.

Fines and penalties: Compulsory payments imposed on institutional units by courts of law or quasi-judicial bodies.

Flows: Transactions and other flows reflecting the creation, transformation, exchange, transfer, or extinction of economic value; they typically involve changes in the volume, composition, or value of an institutional unit’s assets, liabilities and net worth.

Foreign-controlled corporation: Corporation that is controlled by a non-resident unit and produces goods and/or services for the market.

Foreign direct investment (FDI): Category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10% or more of the voting power is evidence of a direct investment relationship. FDI reflects the objective of establishing a long-term relationship between the direct investor and the direct investment enterprise.

Foreign direct investment income: Investment income arising from direct investment positions between resident and non-resident institutional units. It is part of the return on the direct investment position; that is, the return on equity and debt investment. Foreign direct investment income consists of earnings on equity investment (for example, a resident direct investor’s share in the net income or earnings of its direct investment enterprises) plus income on debt between direct investors and direct investment enterprises and between fellow enterprises. Direct investment income is recorded as it accrues. As debt instruments involving FDI-related financial intermediaries are excluded from direct investment, so is the debt income between them.

Framework for direct investment relationships (FDIR): A generalised methodology for identifying and determining the extent and type of direct investment relationships. The FDIR allows compilers to determine the population of direct investors and direct investment enterprises to be included in FDI statistics.

A direct investment relationship arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy. All enterprises that are under the control or influence of the same direct investor are considered to be in a direct investment relationship with each other. Ownership of 10% or more of the voting power is evidence of a direct investment relationship.

The residence of units is not a feature of the definition of subsidiaries and associates for FDI purposes. The FDIR may include within the relationship enterprises that are resident in the same economy. However, foreign direct investment is only recorded when there is a financial transaction or position between entities in different economies that are in a direct investment relationship (including fellow enterprises).

Functional categories in the external accounts: Primary classification used for each of financial transactions, positions, and income in the external accounts. Five functional categories of investment are distinguished in the external accounts: (a) direct investment; (b) portfolio investment; (c) financial derivatives (other than reserves) and employee stock options; (d) other investment; and (e) reserve assets. The functional categories are designed to facilitate analysis by distinguishing categories that exhibit different economic motivations and patterns of behaviour.

Greenfield investment: Investment in direct investment enterprises established within the last three years.

There are three methods to estimate greenfield investment and extensions of capacity. The transactions approach identifies FDI financial transactions to direct investment enterprises established within the last three years and capital injections that are used to expand the capacity of direct investment enterprises that have existed for more than three years. A related approach, the residual approach, identifies other types of FDI financial transactions (e.g., M&A and corporate and financial restructuring) and derives the estimate of greenfield investment and extensions of capacity by subtracting these from total FDI transactions. The capital approach measures the gross fixed capital formation of newly established direct investment enterprises and the extension of capacity of existing direct investment enterprises.

Gross fixed capital formation: Acquisitions less disposals of fixed assets during the accounting period, including certain specified expenditures on services that add to the value of non-produced assets.

Gross national income: Total income earned by all residents within an economic territory during an accounting period. It is equal to gross domestic product plus earned income receivable from abroad minus earned income payable abroad.

Holding company: Institutional unit that holds the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group. Holding companies do not provide any other service to the enterprises in which the equity is held, i.e., they do not administer or manage other units.

Holding gains and losses – realised: The amount of holding gains (losses) that has been realised as a consequence of the relevant assets being sold, redeemed, used or otherwise disposed of, or liabilities being repaid.

Holding gains and losses – unrealised: The amount by which the value of assets or liabilities increases (decreases), without being realised through sale, redemption, use, disposal, or repayment.

Immediate investor: The first non-resident investor for direct investment.

Income on debt: Interest receivables comprising interest accruing to residents (direct investors, direct investment enterprises and fellow enterprises) on their debt receivables, and interest payables comprising interest accruing to non-residents (direct investment enterprises, direct investors and fellow enterprises) on debt payables. No direct investment interest receivables or payables are recorded when both parties are related financial intermediaries.

Income on equity: Sum of dividends paid to owners of corporate equity and withdrawals from the income of quasi-corporations and reinvested earnings on foreign direct investment. Income on equity relates to the return of the direct investor on the equity component of the direct investment position. The amounts are based on the direct investor's percentage share (based on their equity share) in the current earnings of the given direct investment enterprise and consist of distributed earnings and reinvested earnings.

Indirectly owned direct investment enterprises: When a direct investor owns the direct investment enterprise indirectly, i.e., through ownership of enterprises that in turn have voting power in the direct investment enterprise. This group of enterprises is specified according to the framework for direct investment relationships (FDIR)

Institutional sector: Group of similar kinds of institutional units according to their principal functions, behaviour and objectives.

Institutional unit: An economic unit that is capable, in its own right, of owning assets, typically able to incur liabilities and engaging in economic activities and in transactions with other units.

Integrated foreign direct investment position: Reconciliation of the opening and closing values of the foreign direct investment positions through the financial account (flows arising from transactions) and the other changes in financial assets and liabilities account (revaluations and other volume changes).

Integrated international investment position: Reconciliation of the opening and closing values of the international investment position through the financial account (flows arising from transactions) and the other changes in financial assets and liabilities account (revaluations and other volume changes).

Inter-company lending: Direct investment debt positions or flows between affiliated enterprises.

International investment position: Statement that shows at a particular point in time of the value of financial assets of residents of an economy that are claims on non-residents or are gold bullion held as reserve assets and of the liabilities of residents of an economy to non-residents.

International Standard Industrial Classification of all economic activities (ISIC): Classification based on the principal productive activity, used for classifying producers by economic activity. It is the industrial classification recommended by the *Benchmark Definition*.

International transactions reporting system (ITRS): A data collection system that obtains data from banks and companies at the level of individual transactions. The most comprehensive ITRS measures: (i) cash transactions with non-residents that pass through domestic banks; (ii) cash transactions that pass through enterprise accounts with banks abroad; (iii) transactions on inter-company accounts with non-resident companies; (iv) positions; and (v) non-cash transactions. Statistics are compiled from information submitted to/by domestic banks and from information submitted by companies.

Investment income: Income receivable by the owner of a financial asset in return for providing funds to another institutional unit.

Inward direct investment: All direct investment liabilities less assets between resident direct investment enterprises and their direct investors. It also covers all direct investment liabilities less assets between resident and non-resident fellow enterprises if the ultimate controlling parent is non-resident. Also referred to as direct investment in the reporting economy.

Joint venture: A contractual agreement between two or more parties for the purpose of executing a business undertaking in which the parties agree to share in the profits and losses of the enterprise as well as the capital formation and contribution of operating inputs or costs. It is similar to a partnership, but typically differs in that there is generally no intention of a continuing relationship beyond the original purpose. A joint venture may not involve the creation of a new legal entity. Whether a quasi-corporation is identified for the joint venture depends on the arrangements of the parties and legal requirements. The joint venture is a quasi-corporation if it meets the requirements for an institutional unit, particularly by having its own records. Otherwise, if each of the operations is effectively undertaken by the partners individually, then the joint venture is not an institutional unit, and the operations would be seen as being undertaken by the individual partners to the joint venture. Because of the ambiguous status of joint ventures, there is a risk that they could be omitted or double-counted, so particular attention needs to be paid to them.

Land: Ground, including the soil covering and any associated surface waters, over which ownership rights are enforced and from which economic benefits can be derived by their owners by holding or using them. The value of land excludes any buildings or other structures situated on it or running through it; cultivated crops, trees and animals; mineral and energy resources; non-cultivated biological resources and water resources below the ground. The associated surface water includes any inland waters (reservoirs, lakes, rivers, etc.) over which ownership rights can be exercised and that can, therefore, be the subject of transactions between institutional units. However, water bodies from which water is regularly extracted, against payment, for use in production (including for irrigation) are included not in water associated with land but in water resources.

Ownership of land and buildings by a non-resident is treated as an equity investment by the non-resident in a resident notional enterprise, which in turn is treated as the owner of the land and buildings. Any rent earned through leasing the land and buildings is recorded as a dividend (income on equity) paid by the notional unit to the direct investor.

Liabilities, Direct investment: Direct investment liabilities are obligations of a resident entity to a non-resident entity when there is a direct investment relationship between them. Direct investment liabilities consist of equity and debt and can be attributed to the following three categories:

- investment of non-resident direct investors in resident direct investment enterprises
- reverse investment of non-resident direct investment enterprises in resident direct investors
- investment of non-resident fellow enterprises in resident fellow enterprises.

Liquidating dividends: Dividends payable to shareholders as a result of an enterprise becoming bankrupt, after settling all other obligations.

Listed shares: Equity securities listed on an exchange (also known as quoted shares). A market value can be determined by multiplying the number of shares held by the direct investor(s) by the most recent bid/ask prices or at the price at which the shares were last traded. Usually, the equity securities of only a relatively small portion of direct investment enterprises are listed shares because most direct investment enterprises are either wholly owned by the direct investor or are held by a small group of investors.

Loans: Financial assets that are created when a creditor lends funds directly to a debtor and are evidenced by documents that are not negotiable.

Market capitalisation method: Valuing the unlisted equity in an enterprise by applying the ratio of the stock exchange market capitalisation to the “own funds at book value” of comparable listed enterprises to the own funds at book value of the equity in the unlisted enterprise.

Market value (or Market price): Amounts of money that willing buyers pay to acquire something from willing sellers. Exchanges are made between independent parties and on the basis of commercial considerations only - sometimes called “at arm’s length”. Market value is the conceptually ideal basis for valuing direct investment transactions and positions. Market valuation places all assets at current prices rather than when last purchased or re-valued and promotes consistency in the value of assets of different vintages. It also promotes consistency when comparing positions, transactions and other flows of different enterprises, industries, and countries.

Memorandum items: Additional items of special analytical interest, which are added to the presentation, but do not have an impact on the totals and balancing items that can be derived from the macroeconomic system.

Merger: When two or more companies agree to combine into a single operation.

Metadata: Systematic, descriptive information about data content and organisation, providing information on the concepts, sources and methods underlying the data and therefore help users to understand and assess the characteristics of the data. Metadata can also help when comparing the same statistics from different producers.

Multinational enterprise: Legal entity that has at least one non-resident affiliate or branch, and exercises control over its affiliate(s) or branch(es) either directly—by having over 50% of the voting power in the unit—or by indirect transmission of control. The multinational enterprise is the ultimate controlling parent—the direct investor at the top of the control chain.

Multinational enterprise group: The multinational enterprise and the set of legal entities—regardless of their economies of residence—that are under the control of the same ultimate controlling parent. Also called a global enterprise group.

Multi-territory enterprise: Enterprise that operates as a seamless operation over more than one economic territory. Although the enterprise has substantial activity in more than one economic territory, it is run as an indivisible operation with no separate accounts or decisions, so that separate branches cannot

be identified. Such enterprises may have operations such as shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables.

Net asset value: Valuation method for unlisted equity, by using total assets at current value less total liabilities (excluding equity) at market value.

Net worth: The value of an institutional unit's assets less the value of its outstanding liabilities (including shares and other equity).

Nominal value: Outstanding amount the debtor owes to the creditor, which is composed of the outstanding principal amount including any accrued interest.

Non-profit institutions (NPIs): Legal or social entities created for the purpose of producing goods and services but whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control, or finance them.

Notional resident unit: Institutional units identified for statistical purposes to be the resident owner of immovable assets legally owned by non-residents. Immovable assets, such as land and buildings, can only be used for production in the territory in which they are located. Therefore, the land and buildings and other structures owned by a non-resident are always treated as being owned by a resident notional institutional unit that is in turn owned by non-resident unit(s) holding the legal title.

Offshore financial centres: Jurisdictions in which the majority of the financial transactions are conducted by resident financial corporations on behalf of clients who reside outside the offshore financial centre.

Operating surplus: The income earned by resident corporations from the use of their capital in the production of goods and services during an accounting period.

Other accounts receivable/payable: Trade credit and advances and miscellaneous other items due to be paid or received.

Other changes in the volume of financial assets and liabilities: Changes in the value of assets or liabilities that are neither due to transactions nor due to holding gains and losses (revaluations). They include, amongst others, economic appearance and disappearance of non-produced assets, catastrophic losses, cancellations and write-offs of debt, uncompensated seizures, reclassifications, and the changes in financial assets arising from units changing their economy of residence. In the external accounts, the other changes in the volume of assets and liabilities are restricted to those relating to financial assets and liabilities.

Outward direct investment: All direct investment assets less liabilities between resident direct investors and their direct investment enterprises. It also covers all direct investment assets less liabilities between resident and non-resident fellow enterprises if the ultimate controlling parent is resident. Also referred to as direct investment abroad.

Own funds: The difference between total assets and total liabilities excluding shares and other equity.

Own funds at book value: Valuing the unlisted equity in an enterprise at the value appearing in its books following international accounting standards.

Parent: Entity that controls or influences an enterprise.

Partnership: A formal arrangement by two or more parties to operate a business and to share its profits. Household unincorporated market enterprises also include unincorporated partnerships that are engaged in producing goods or services for sale or barter on the market. The partners may belong to different households. When the liability of the partners for the debts of the businesses is unlimited, the partnerships must be treated as unincorporated enterprises and remain within the household sector since all the assets of the household, including the dwelling itself, are at risk if the enterprise goes bankrupt. However, unincorporated partnerships with many partners, such as some large legal, accounting or architectural

firms, are likely to behave like corporations and should be treated as quasi-corporations assuming a complete sets of accounts are available for the partnerships. Partnerships whose partners enjoy limited liability are effectively separate legal entities and, as already noted, are treated as corporations.

Pass-through funds: Funds passing through a direct investment enterprise resident in an economy to an affiliate in another economy, so that the funds do not stay in the economy of the first enterprise.

Positions: Levels of financial/non-financial assets or liabilities at a point in time. In the case of financial assets/liabilities, usually the term "positions" is used while for levels of non-financial assets, the term "stocks" is often applied.

Present value: Value of an asset determined by estimating the stream of economic benefits expected to be earned in the future and then discounting the future economic benefits back to the present accounting period.

Property income: Income receivable by the owner of a financial asset or the owner of a non-produced natural resource or another non-produced non-financial asset in return for providing funds to, or putting the non-financial assets at the disposal of, another institutional unit.

Proportional ownership method: Method to allocate the inward FDI position to the ultimate investing economy (UIE). This method defines the UIE as the economy of residence of the ultimate controlling parent of the immediate direct investor(s) into the direct investment enterprise.

Quasi-corporation: Unincorporated enterprises that operate as if they were a unit separate from their owner(s). They are treated as if they are a corporation. Examples are branches, land ownership, partnerships (both of limited and unlimited liability), trusts, and resident portions of multi-territory enterprises.

Recent transaction price: Valuing the unlisted equity in an enterprise at a recent price at which the equity exchanged hands between an independent buyer and seller (i.e., at arm's length).

Reclassifications: Changes in assets and liabilities resulting from changes in sector classification and structure (among which changes in assets and liabilities arising from units changing their economy of residence), and those resulting from changes in the classification of assets and liabilities. Also called changes in classification.

Reinvested earnings on foreign direct investment: Foreign direct investor's proportion of distributable income of a direct investment enterprise, less amounts declared for dividend distribution to direct investors, or less withdrawals from income of quasi-corporations by the direct investors. Reinvested earnings are treated as being distributed and subsequently reinvested. Reinvested earnings are included in direct investment income because the earnings of the direct investment enterprise are deemed to be the income of the direct investor (proportionate to the direct investor's holding of equity in the direct investment enterprise), whether they are reinvested in the enterprise or remitted to the direct investor. Because reinvested earnings are not actually distributed to the direct investor but rather increase the direct investor's investment in its affiliate, an entry that is equal to that made in the direct investment income account but in the opposite direction is entered in the direct investment financial transactions account, referred to as "reinvestment of earnings".

Reinvestment of earnings: The entry in the financial account corresponding to reinvested earnings in the earned income account.

Residence: The economic territory with which an institutional unit has the strongest connection, i.e., its centre of predominant economic interest. While some units may have connections with more than one territory, for statistical consistency, there is a need to attribute a single economic territory based on objective and comprehensive criteria.

Rest of the world: All non-resident institutional units that enter into transactions with resident units or that have other economic links with resident units.

Retained earnings of a corporation or quasi-corporation: Distributable income less the dividends payable or less the withdrawals from income of quasi-corporations, respectively.

Revaluations: Changes in the monetary value of an asset or liability due to changes in the level of prices. Also called nominal holding gains and losses.

Reverse direct investment: Direct investment resulting from a direct investment enterprise lending funds to or acquiring equity in its immediate or indirect direct investor, provided it does not own equity comprising 10% or more of the voting power in that direct investor. Reverse direct investment is recorded as follows:

- for the economy in which the direct investment enterprise is resident: claims on direct investor
- for the economy in which the direct investor is resident: liabilities to affiliated enterprises.

Round-tripping: Channelling abroad by resident direct investors of local funds and the subsequent return of these funds to the local economy in the form of direct investment.

Shell company: Entity that is formally registered, incorporated, or otherwise legally organised in an economy but which does not conduct any operations in that economy other than in a pass-through capacity. They tend to be conduits or holding companies and are generally included in the description of special purpose entities.

Significant influence: Power to participate in the financial and operating policy decisions of a unit but not control those policies. Significant influence may be gained by an ownership interest, statute or agreement. In the case of foreign direct investment, a direct investor is considered to have a significant degree of influence if it owns between 10% and 50% of the voting power in a direct investment enterprise.

Special purpose entities (SPEs): A formally registered and/or incorporated legal entity recognised as an institutional unit and resident in an economy, with no or little employment up to a maximum of five employees, no or little physical presence, and no or little physical production in the host economy. SPEs are directly or indirectly controlled by non-residents. SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services; and/or (ii) isolate owner(s) from financial risks; and/or (iii) reduce regulatory and tax burden; and/or (iv) safeguard confidentiality of their transactions and owner(s). SPEs transact almost entirely with non-residents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities. Examples are financing subsidiaries, conduits, holding companies, shell companies, shelf companies, brass-plate companies, merchanting companies, royalties and license fee companies, and operational leasing companies.

Standard data reporting: Series that have well-developed methodologies and interpretations. They are the foundation of the FDI framework and greatly enhance the analytical usefulness of FDI statistics. Also referred to as “core data”.

Subsidiary: Direct investment enterprise over which the direct investor is able to exercise control. It could also refer to domestic relationships. Subsidiaries include enterprises:

- in which an investor owns more than 50% of its voting power, i.e., it is controlled by the investor
- where an investor and its subsidiaries combined own more than 50% of the voting power of another enterprise, this enterprise is also regarded as a subsidiary of the investor for FDI purposes.

Superdividends: Large and irregular payments made by corporations to their shareholders or owners that are funded from accumulated reserves or sales of assets other than cash. If the distributable income is positive, the difference between the payment and the distributable income of the relevant accounting period is recorded as a superdividend under withdrawal of equity. The remainder of the payment (equal to the

distributable income) is recorded as a dividend. If the distributable income is negative, the entire dividend payout is recorded as a superdividend under withdrawal of equity. The concept of superdividends does not apply to foreign direct investment where distributions from accumulated reserves are also treated as dividends. However, in the case of foreign direct investment, any additional distributions, e.g., from sales of assets, are recorded as withdrawal of equity.

Supplementary data reporting: Series outside of the standard presentation but compiled depending on circumstances in the particular economy, taking into account the interests of policymakers and analysts as well as resource costs. In some cases, supplementary series also have less well-developed methodologies.

Total economy: The entire set of resident institutional units.

Trade credit and advances: Credit extended directly by the suppliers of goods and services to their customers; and advances for work that is in progress (or is yet to be undertaken) and prepayment by customers for goods and services not yet provided.

Transactions: Economic flows that are an interaction between institutional units by mutual agreement or through the operation of the law, or actions within an institutional unit that are analytically useful to treat like transactions because the unit is operating in two different capacities. Direct investment transactions are financial flows and income flows between direct investors, direct investment enterprises, and/or other fellow enterprises.

Transactor principle: Principle whereby cross-border transactions are allocated to the economy of residence of the non-resident party to the transaction (the transactor). This principle differs from the debtor/creditor principle that is recommended by the *Benchmark Definition* as the basis for geographical allocation.

Transfer pricing: Valuation of transactions between affiliated enterprises.

Ultimate controlling parent (UCP): Entity that ultimately controls an enterprise, identified by proceeding up the ownership chain from the enterprise through the controlling links (ownership of more than 50% of the voting power) until an individual, household, or company that is not controlled by another company is reached. If there is no company, individual, or household that controls the resident company, then the resident company may be considered to be its own ultimate controlling parent.

Ultimate host economy (UHE): The economy of the final destination for direct investment. There are three operational definitions of the UHE discussed in the *Benchmark Definition*: (i) the economy of the first operating unit in the ownership chain; (ii) the economy of the last unit in the ownership chain; and (iii) the value the direct investor would receive if that subsidiary were acquired by another enterprise; that is, measuring the ultimate investor's position in the DIE in the specific economy where it is located.

Ultimate investing economy (UIE): The economy in which the ultimate controlling parent is resident. It is the location of the ultimate source of control of the inward FDI position for a reporting economy. The *Benchmark Definition* recommends two methods for allocating the inward FDI position to the UIE: the proportional ownership method and the winner takes all method.

Uncompensated seizures: Governments or other institutional units taking possession of assets of other institutional units without compensation, for reasons other than payment of taxes, fines, etc.

Unlisted shares: Equity securities that are not listed on a stock exchange (also known as unquoted shares). By their nature, a market valuation is not regularly available for unlisted equity and, thus, an approximation to the market value is required. Three methods for approximating market value are preferred:

- recent transaction price
- own funds at book value
- market capitalisation method.

Voting power: The exclusive ability to vote, through the ownership of shares of capital stock, partnership interests, or otherwise, in the election of members to the board of directors or other similar governing body of an enterprise. Generally, ordinary shares provide voting power. While voting power is generally obtained through the purchase of equity, it is possible to have voting power that is not in the same proportion as the equity ownership (for example, share classes with different voting rights or 'golden shares' have greater voting power than other shares).

Winner takes all method (WTA): Method to allocate the inward FDI position to the ultimate investing economy (UIE). This method defines the UIE as the economy of residence of the ultimate controlling parent of the direct investment enterprise. There is only one UIE for a direct investment enterprise under the WTA method.

Withdrawals from income of quasi-corporations: Part of distributable income that the owner withdraws from the quasi-corporation.

Write-off: Unilateral cancellation of debt by the creditor on recognition that a financial claim can no longer be collected due to bankruptcy or other factors.

OECD Benchmark Definition of Foreign Direct Investment (Fifth Edition)

Foreign direct investment (FDI) is an important means of economic and financial integration of economies. The Benchmark Definition of Foreign Direct Investment sets the international standards for the compilation of FDI statistics. Internationally comparable FDI statistics are an important input into economic and financial analysis and policymaking.

This edition of the Benchmark Definition introduces new and revised indicators to enhance the analytical usefulness of FDI statistics, such as the classification of FDI by purpose of investment (e.g., greenfield investment, extension of capacity, mergers and acquisitions, and corporate and financial restructuring); identification of the ultimate investor economy and ultimate host economy; and the separate identification of pass-through funds. It also includes detailed guidance and numerical examples to support statistical offices in the compilation and communication of FDI statistics.

The concepts, definitions, and recommendations in the Benchmark Definition are consistent with other macroeconomic statistics manuals, notably the Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7) the 2025 System of National Accounts (2025 SNA).



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