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BENCHMARK DEFINITION OF FOREIGN DIRECT INVESTMENT, 4TH EDITION

OECD REVISES INTERNATIONAL STANDARDS FOR FOREIGN DIRECT INVESTMENT STATISTICS

Prepared by Ayse Bertrand, OECD[1]

[1] Ayse Bertrand, Manager International Investment Statistics, Investment Division Financial and Enterprise Affairs, OECD

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I. INTRODUCTION

1. *OECD Benchmark Definition of Foreign Direct Investment* (Benchmark Definition) sets the world standard for foreign direct investment (FDI) statistics as it is fully compatible with the *IMF Balance of Payments Manual* (BPM). It also follows the general economic concepts set out by the *System of National Accounts* (SNA).[2] OECD conducts this work under the auspices of the Investment Committee (IC) [3] and its technical subsidiary body, Workshop on International Investment Statistics (WIIS). Before its release to the public in 2008, the *Benchmark Definition* will be submitted to the approval of the OECD Council.

2. The main focus of the *Benchmark Definition* is FDI statistics encompassing direct investment positions and related direct investment financial and income flows. In terms of detail and breakdowns, the *Benchmark Definition* goes beyond the aggregate statistics of the functional category "direct investment" of the balance of payments financial account and of the international investment position. It provides guidance on how to compile comprehensive breakdowns of FDI by partner country and by industrial activity. By setting the global standard for FDI measurement, the *Benchmark Definition* complements the *OECD Handbook on Economic Globalisation Indicators* (*Globalisation Handbook*).

I.1 Objectives of the Benchmark Definition

3. The *Benchmark Definition* serves several objectives. It provides:
- (i) a single point of reference for foreign direct investment statistics;
- (ii) clear guidance for individual countries as they develop or change their statistical systems for recording direct investment;
- (iii) international standards for FDI taking into account the effects of globalisation;
- (iv) the basis for economic analysis of direct investment, especially in international comparisons, to the extent that progress is made in reducing national deviations from the standard;
- (v) practical guidance to users of direct investment statistics including the relations of FDI to other measures of globalisation; and
- (vi) 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.

I.2 Why revise the OECD Benchmark Definition

4. Since the publication of the first edition of the *Benchmark Definition*, compiling countries have made important progress in revising FDI measurement systems towards greater compliance with its requirements and definitions. To measure the extent to which statistical systems have implemented the recommendations on direct investment statistics, IMF and OECD have, since 1997, conducted the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI) which also provides standardised information on data sources and collection methods, and reporting practices for national direct investment statistics. [4]

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[2] The Benchmark Definition was first issued in 1983 and revised twice in 1992 and 1996.

[3] The Investment Division (Directorate for Financial and Enterprise Affairs) acts as the Secretariat servicing the IC and WIIS (www.oecd.org/investment)

[4] SIMSDI results are analysed in *Foreign Direct Investment Statistics: How countries measure FDI*, IMF and OECD, 2003. Results of subsequent revisions of SIMSDI are posted on IMF and OECD web sites. http://www.imf.org/bop and http://www.oecd.org/daf/simsdi. SIMSDI also serves as the metadata for statistics published in the OECD *International Direct Investment Statistics Yearbook*. Moreover, it facilitates the exchange of information between reporting economies for bilateral data comparisons.

5. However, the removal of legal and regulatory restrictions on cross-border operations in many countries has complicated the task of statistical systems that historically depended largely on reports from national financial institutions. As economic activities become more global, investors have more and more recourse to overseas financing and may establish complex structures to obtain optimal benefits from their investments and for efficient management of the funds and related activities. These developments have had an adverse impact on the capability of traditional statistics to respond to user needs for adequate analytical information on direct investment. They have also reinforced the need for adopting a harmonised analytical framework for constructing meaningful, comprehensive and internationally comparable statistics on cross-border investments. The next edition of the *Benchmark Definition (4th edition)* sets out the methodology to address those concerns.

6. The implementation of new standards will be subject to a planning by the OECD WIIS in close co-operation with its partners. The present document provides the background to the revision and introduces selected features of the OECD *Benchmark Definition, 4th edition*.

II. ESTABLISHING FUTURE FDI STANDARDS

II.1 International co-operation

7. The revision of the Benchmark Definition coincided with the revision plans for the IMF Balance of Payments Manual. To maintain consistency and to implement a harmonised approach for the revision of FDI statistical standards, IMF/OECD created a joint Direct Investment Technical Expert Group (DITEG) to discuss basic methodologies. DITEG conducted its work under the auspices of the IMF Committee on Balance of Payments Statistics and the OECD WIIS. Work arrangements for the revision process are further described in text box 1.

8. OECD WIIS and the IMF BOPCOM were able to reach a consensus on core issues (See Annex 1 for selected items).

II.2 Guiding principles

9. Discussions throughout the revision process have been guided by the following considerations:

(i) *Need to consider evolving user requirements* was confirmed to be the central issue when establishing the methodological standards. It was recognised that one set of statistics could not meet all user requirements. Balance of payments (BOP) statistics which include FDI aggregates under financial accounts should provide the overall cross-border flows based on the general asset/liability principle. FDI statistics which provide bilateral data (by partner country) and FDI by economic activity respond to other user requirement which cannot be met by the aggregate BOP statistics. However, the consistency between the two sets of data is essential taking into account their complementarity. On the other hand, further breakdowns for FDI statistics are driven by the user demands, namely in conjunction with other globalisation statistics, such as those dealing with the activities of multinational enterprises described in the OECD *Handbook of Economic Globalisation Indicators*, namely the statistics on the Activities of Multinational Enterprises (AMNE). Several new areas of research work were identified in response to such user needs: identifying transactions/position to isolate the activities of Special Purpose Entities (SPEs) set up by MNEs for transferring or managing their investments; identifying ultimate host/ultimate investing country; identifying mergers and acquisitions; providing complementary data series according to the economic calculation of stocks (versus financial), etc. (see also Annex 4 for FDI globalisation indicators).

(ii) *Need for clarity*: Experts agreed that even though existing recommendations were renewed as they remained valid, these recommendations were not always well understood by national compilers or by the users of the statistics. They recommended more clarity overall for revised manuals.

(iii) *Need for continued international co-operation to achieve harmonised standards*, e.g. with the System of National Accounts *(SNA), OECD Handbook on Economic Globalisation Indicators*.

10. Issues reviewed/resolved by WIIS can be categorised as follows:

(i) *Existing recommendations remain unchanged and/or are reinforced and improved*. These include *inter alia*: 10% threshold; use of market valuation; principles for industry classification, directional principle, etc.

(ii) *Replacement/removal of existing recommendations*. These include *inter alia* the Framework for Direct Investment Relationship (FDIR) for indirect FDI relationship replacing the Fully Consolidated System (FCS); abolition of permanent debt, etc.

(iii) *Introduction of new recommendations*. These include *inter alia*: the introduction of asset/liability principle for aggregate FDI statistics (BOP data); FDI by type segregating Mergers & Acquisitions (as opposed to Greenfield investments; extension of capital and financial restructuring); looking through funds passing through SPEs, looking at the ultimate investing/host country; developing an FDI glossary; etc.

(iv) *Research agenda:* These include *inter alia*: establishing closer linkages with the statistics on the Activities of MNEs; round tripping; economic measurement of FDI stocks. Establishment of a future work under research agenda was adopted to accommodate in an adequate way the dissemination of the results of additional work after the publication of core recommendations in 2008.

11. The structure and the level of details of the revised *Benchmark Definition* were substantially improved. It is useful to underline the introduction of two new chapters or sections: (i) statistical units; (ii) uses of FDI statistics to provide guidance to users of FDI data on the interpretation of the statistics; and (iii) FDI and globalisation.

Box 1. Working arrangements so far for the revision of the Benchmark Definition of Foreign Direct Investment

IMF/OECD Direct Investment Technical Expert Group (DITEG) was created in 2004 as a joint IMF/OECD expert group to make recommendations on the methodology of FDI statistics within the framework of the revision of the IMF Balance of Payment Manual and the OECD Benchmark Definition of Foreign Direct Investment. DITEG held three meetings (June 2004 in Paris; December 2004 in Washington D.C.; and March 2005 in Paris). DITEG was co-chaired by IMF and OECD and serviced by a joint IMF/OECD Secretariat.

The coverage of DITEG's work programme was based on the joint list of some 30 items identified by the IMF BOPCOM and OECD WIIS as issues for resolution. Creating such an informal but a dynamic body composed of experts from a range of countries and international agencies provided a flexible organisation which could start work rapidly. DITEG's conclusions and recommendations were submitted to the consideration of the BOPCOM and to the WIIS as from October 2004. The conclusions of both groups were very similar, mainly due to the high level of expertise of their membership and to the close co-operation and the degree transparency between IMF and OECD secretariats.

For the next steps, WIIS established a drafting group – Benchmark Advisory Group (BAG) to assist the Secretariat in the preparation of 4th edition of the Benchmark Definition. BAG has gone beyond its initial task as drafting group and made very valuable contributions for the development of methodologies in new standards.

WIIS and BAG were prompted by the pressing user needs to resolve at least some parts of the problems raised for better analytical ability of FDI statistics. WIIS created four small project groups:

Project group on Special Purpose Entities

Project Group on Mergers and Acquisitions

Project Group on Ultimate Host/Investing Country

Project Group on Income

The results of the work of project groups were approved by WIIS in March 2007.

III. DIRECT INVESTMENT RELATIONSHIP

12. The classification of financial positions and flows to direct investment requires that the two institutional units be resident in different economies and that they be in a direct investment relationship. While direct investment measures a wide variety of instruments, direct investment relationships are based on equity only. The legal structures of related enterprises can consist of many enterprises linked through complex ownership chains (see text box 2 for a description of direct investor and direct investment enterprise)

Box 2. Direct Investment, Direct Investor and Direct Investment Enterprise

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

Direct investment involves both the initial equity transaction that meets the 10 per cent threshold and all subsequent financial transactions between the direct investor and the direct investment enterprise and among affiliated enterprises, both incorporated and unincorporated. Direct investment is not solely limited to equity investment but also relates to reinvested earnings and inter-company debt.

A *foreign direct investor* is an entity (an institutional unit) that has acquired at least 10% of the voting power of a corporation, or equivalent for an unincorporated enterprise, resident in an economy other than its own. A direct investor could be from any sector of the economy and could be any of the following:

(i) an individual;
(ii) a group of related individuals;
(iii) an incorporated or unincorporated enterprise;
(iv) a public or private enterprise;
(v) a group of related enterprises;
(vi) a government;
(vii) an estate, trust or other societal organisation; or
(viii) any combination thereof.

13. 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.

A *foreign direct investment enterprise* is an enterprise in which a non-resident investor owns 10% or more of the voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise.

In contrast to some other statistical measures such as those on the Activities of MNEs, 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 just one economy or in several economies.

If a direct investment enterprise is an incorporated enterprise then it will be either a *subsidiary* or an *associate* of the direct investor.

A *subsidiary* company is a direct investment enterprise that is incorporated in its country of residence and that is a controlled affiliate of the direct investor.

An *associate* company is a direct investment enterprise that is incorporated in its country of residence and that is a non-controlled affiliate of the direct investor.

14. The Framework for Direct Investment Relationships (FDIR)[5] 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 direct investment enterprises to be included in FDI statistics.

15. The FDIR identifies all enterprises affiliated with a direct investor. For example, within a group, it is possible that a direct investment enterprise itself owns 10% or more of the voting power of another enterprise, in which case the direct investment enterprise is itself a direct investor in a further direct investment enterprise.

16. The FDIR principally identifies all enterprises over which the investor has significant influence. In this determination, three degrees of influence are recognised for each enterprise. They are categorised as controlled, influenced, and not influenced.

- (i) The degree of influence that may be exercised through controlling links (more than 50%) is not diminished by the existence of multiple links.
  - (a) An enterprise controlled by a controlled affiliate or by a group of controlled affiliates (which may also include the investor) is itself regarded as a controlled affiliate.
  - (b) An enterprise controlled by a non-controlled affiliate is also regarded as a non-controlled affiliate.
- (ii) The degree of influence that may be exercised through a single or cumulative influencing link (from 10% to 50%) is diminished by one degree.
  - (a) Thus, an enterprise influenced by a controlled affiliate or the group of controlled affiliates (which may include the investor) is regarded as a non-controlled affiliate.
  - (b) An enterprise influenced by a non-controlled affiliate is not influenced by the investor in question, i.e. it is not regarded as an affiliate of the investor within the FDIR.
- (iii) 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.

17. 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 alternate methods due to practical difficulties, they should include this information in their metadata. However, such countries should endeavour to apply the FDIR over time.

IV. VALUATION

18. The underlying principle for the valuation of equity is the market value of that equity. Listing in an organised 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.

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[5] FDIR replaces the former Fully Consolidated System (FCS) described in *Benchmark Definition*, 3rd edition.

19. The Benchmark Definition recognises five methods for approximating market value for unlisted equity:

(i) Recent transaction price
(ii) Market capitalization method
(iii) Net asset value (NAV)
  - Including goodwill and intangibles
  - Excluding goodwill and intangibles
(iv) Present value
(v) Own funds at book value (OFBV)
(vi) Apportioning global value

20. The choice of method depends primarily on having information available to support the application of the method. In practice, one or more of these methods could be ruled out because of a lack of information available to support the application of the method. 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.

V. SCOPE OF FOREIGN DIRECT INVESTMENT

V.1 Standard features of FDI statistics

21. Direct investment statistics take into consideration a wide range of elements and method of calculation as investors apply a large variety of financing structures and instruments. The growing complexity of the measurement of the direct investment activity was accelerated with the expansion of globalisation and its effects. Taking into account these economic and financial developments over the past decade or so which may directly or indirectly impact the measurement of the FDI activity, two standard presentations of direct investment statistics were adopted:

(i) FDI statistics for main aggregates of standard components (BOP statistics);
(ii) FDI statistics by (i) geographical allocation; and (ii) industry classification (FDI statistics)

V.1.1 Aggregate FDI components

22. The analytical presentation of FDI statistics showing non-resident assets and liabilities of direct investors and direct investment enterprises is a new feature of the *Benchmark Definition*. It complies fully with the overall presentation of macro-economic statistics of an economy. Conceptually, these data are in line with the balance of payments statistics and the international investment position[6] as well as the national accounts presentation of the institutional sectors of the economy. Direct investment measured in terms of assets and liabilities constitute the basis for compiling FDI statistics from which can be derived other presentations provided that a number of additional relevant information is included in national data collection systems.

[6] The asset/liability approach constitutes a break in series from previous aggregate data compilation of balance of payments and international investment position.

Exhibit 1. FDI Transactions According to 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
Of direct investment enterprises in other affiliated enterprises abroad	***Of direct investment enterprises to other affiliated enterprises abroad***
A5 Equity	**L5** Equity
A6 Debt instruments	**L6** Debt instruments

Note: The presentation for FDI Positions is the same with the exception that A1.1 and A1.2 and L1.1 and L1.2 are not shown separately

23. Aggregate FDI statistics include all types of enterprises (operational affiliates as well as Special Purpose Entities-SPE). These statistics are compiled according to first counterparty. Considering that the details are not shown, the level of counterpart information is not relevant for aggregate data dissemination but constitutes the basis for data compilation. Industry classification is not relevant for these data.

V.1.2 Detailed FDI statistics

24. As from its first edition, the *Benchmark Definition* recommends that countries compile and disseminate detailed FDI statistics broken down by (i) geographical allocation; and (ii) industry classification. Such statistics provide a further refinement to an aggregate statistical framework which is traditionally used for balance of payments and international investment position presentations. It allows FDI analyses by source and destination which cannot be achieved by aggregate data. Current standards for detailed FDI statistics have also maintained the directional principle as in the previous version of the *Benchmark Definition* (in contrast to aggregate statistics described above)

Exhibit 2: FDI Transactions) According to Directional Principle

Outward Foreign Direct Investment	**Inward Foreign Direct Investment**
Outward equity transactions	*Inward equity transactions*
A1 Equity assets of DI in DIE	**L1** Equity liabilities of DIE to DI
A1.1 Equity transactions	**L1.2** Equity transactions
A1.2 Reinvestment of earnings	**L1.2** Reinvestment of earnings
-L3 Equity liabilities of DI to DIE*	**-A3** Equity assets of DIE in DI*
A5 Equity assets of DIE in other affiliated enterprises abroad	**L5** Equity liabilities of DIE to other affiliated enterprises abroad
Outward debt instruments transactions	*Inward debt instruments transactions*
A2 Debt instruments assets of DI in DIE	**L2** Debt instruments liabilities of DIE to DI
-L4 Debt instruments liabilities of DI to DIE*	**-A4** Debt instruments assets of DIE in DI*
A6 Debt instruments assets of DIE in other affiliated enterprises abroad	**L6** Debt instruments liabilities of DIE to other affiliated enterprises abroad

* entered as a deduction in outward or inward FDI

Note: The presentation for FDI Positions is the same with the exception that A1.1 and A1.2 and L1.1 and L1.2 are not shown separately

25. For positions data, foreign direct investment assets under the asset/ liability principle are greater than foreign direct investment outward position calculated under the directional principle. In the same manner, foreign direct investment liabilities under the asset liability principle are greater than the foreign direct investment inward position calculated under the directional principle. The difference between the two presentations is as follows:

- The asset position is greater than the outward position and the difference is equal to:

  (A1+A2+A3+A4+A5+A6) – (A1-L3+A5+A2-L4+A6) = **A3+L3+A4+L4**

- The liability position is greater than the inward position and the difference is equal to:

  (L1+L2+L3+L4+L5+L6) – (L1–A3+L5+L2–A4+L6) = A**3+L3+A4+L4**

26. The net asset (liability) position is the same for both presentations; the difference between foreign direct investment asset and foreign direct investment liability is equal to the difference between outward foreign direct investment and inward foreign direct investment.

V.1.3 Isolating "Genuine FDI"

27. The term "genuine" FDI was used as a working terminology to designate FDI excluding "pass-through" funds which could be channel either through SPEs or through operating affiliates of multinational enterprises. Including these transactions in the measurement of FDI may distort the reality and seriously impact policy analysis. Main problems are inflation of FDI transactions and distortion of bilateral and industry analysis of FDI.

28. Given the complex financing structures used by MNEs and the limitations of data collection systems compilers may face difficulties in identifying "genuine" FDI. To date no single method could provide a solution to resolve the problems. Therefore the *Benchmark Definition*, will deal, in the first instance, only with funds passing though SPEs and leave the funds channelled through operating affiliates to the research agenda. Most of the generic methods proposed to resolve the problems have led to possible deflation of FDI which is not desirable either.

29. More specifically, compilers are recommended to “look through” SPEs and to allocate transactions or positions with foreign SPEs to the country of the first known non-SPE. Due to the fungibility of funds and the use of SPEs as financial turning tables for different destinations/countries, it may not always be possible to look through SPEs in an unambiguous way. Compilers are therefore encouraged to intensify bilateral exchanges of information.[7] Some bilateral asymmetries may remain, but these would seem less serious than distortions of geographical breakdowns, in which countries with many SPEs would give the wrong impression to be overly attractive as a place for direct investors. As a complement, it is recommended to analyse and present separate tables for SPEs.

V.2 Supplemental features of FDI statistics

V.2.1 FDI by type

30. Direct investment will have, all other aspects being equal, a different impact, in particular, on the “host” economy depending on the type of FDI. It is generally considered that cross-border investments in the form of M&As will not involve significant changes in the performance of economic variables such as production, employment, turnover, etc. unless the acquired enterprise is subject to drastic restructuring. On the other hand, new investments, greenfield investments and extension of capital, are likely to add new dimensions to the economic performance of the host economy and the earnings of the direct investor.

31. Moreover, to measure the impact of FDI in host and home economies, users need detailed analytical information: FDI by type broken down by partner country and by industry. This novel feature of FDI statistics is at the centre of arguments which have led to the revision of the *Benchmark Definition*, i.e. to align international standards to economic and financial developments since the last edition. To avoid any confusion, it should be clear to the reader that the statistics of M&As shown as an “of which” category of FDI are not identical to what is generally referred to as “M&A statistics” by private commercial sources compiled and disseminated outside the context of foreign direct investment statistics. It is more appropriate to call the former “purchase of existing shares” and the latter M&A statistics while the scope and the coverage of the two data sets differ but they remain complementary.

32. In the current edition of the *Benchmark Definition* the main focus to compile and disseminate FDI by type is M&A type transactions. Compilers are strongly encouraged to provide “M&A transactions” as an “of which” item of total inward and outward equity transactions. More specifically, data relate only to FDI financial flows in the form of equity but exclude reinvested earnings and debt instruments (inter-company loans).

33. The examination of greenfield investments, extension of capital, and financial restructuring is deferred to the research agenda while they require further research which may not be completed on time for the publication of the present edition. However, after deducting M&A equity transactions from the total, users would be able to obtain, as residual, “other types” of investments.

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[7] The allocation of inward amounts across outward destinations may still require some rules of thumb, which countries are asked to clarify in meta-data.

Exhibit 3. Components of M&A transactions

Foreign Direct Investment

Inflows: Gross investments and divestments by non-residents

Investment in equity	Divestment in equity
Of which:	*Of which:*
Acquisition of existing stake in resident companies by non-residents	Sale of existing stake in resident companies by non-residents
(i) partner country and	(i) partner country and
(ii) industry	(ii) industry

Outflows: Gross investments and divestments by residents

Investment in equity	Divestment in equity
Of which:	*Of which:*
Acquisition of existing stake in non-resident companies by residents	Sale of existing stake in non-resident companies by residents
(i) partner country and	(i) partner country and
(ii) industry	(ii) industry

Memo items: Total of which M&A under control

(i) partner country and

(ii) industry

Note: The above presentation relates to the conceptual framework by country allocation and by industry classification. For data dissemination, data may be disseminated at higher level of aggregation if limited by confidentiality.

V.2.2 FDI according to ultimate host/investing country

34. As a basic principle, it is recommended that all FDI transactions and positions be compiled by immediate host country and immediate investing country. As a matter of principle, for outward investment, this method takes into consideration only the economy of the directly owned non-resident enterprise. For inward investment, geographic classification is allocated to the economy directly owning the domestic enterprise, i.e. the resident direct investment enterprise.

35. It is recognised that there is a substantial analytical need to follow funds back to their origin and also to their ultimate destination. Therefore, it would be very useful that supplemental presentations of direct investment positions on an ultimate investing/host country basis be compiled and disseminated. Notwithstanding this general recommendation, the *Benchmark Definition*, in the first instance, will incorporate only guidance with regard to ultimate investing country (i.e. for inward investment of the reporting economy). Such a step-wise approach was necessary due to conceptual difficulties which may benefit further research. The methodology for inward investment is currently under discussion.

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ANNEX 1. SELECTED DELIBERATIONS OF THE OECD WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS 2004-2007

Topic	WIIS deliberations
1. **Direct Investment: 10 per cent threshold of voting power/equity ownership, employment:**	(1) To maintain the current 10 per cent threshold, thus not endorsing the recommendation of DITEG to change the threshold to 20 per cent; (2) To maintain the strict application of the 10 per cent threshold with a view to achieving cross-country comparability of FDI statistics; (3) Not to include the employment criteria in the definition of FDI; (4) To further clarify the definition of: “ordinary shares” and “voting rights”, “subsidiary”, “associate”, and “branch”, in co-ordination with the definitions used for the System of National Accounts (SNA).
2. **Indirect investment- Fully Consolidated System (FCS), US Method, or EU Method**	The Framework of Direct Investment Relationship describes the conceptual basis for delineating the scope of the FDI relationship based on influence and control through a chain of equity holdings. It replaces the earlier Fully Consolidated System (FCS) reflects the ideal. Two alternate approaches were also accepted - Participation Multiplication Method – PMM (former US Method) and the Direct Influence/ Indirect Control Method – DIICM (the former EU Method)
3. **(a) SPE’s, shell companies, holding companies, holding companies, off-shore enterprises**	(1) It was agreed that there is no single definition of SPEs and no single classification of all types of entities. The classification of SPEs will be co-ordinated with SNA. (2) The proposal to use elements of ISIC classification was not accepted.
(b) SPEs inclusion in direct investment of transactions between non-financial die and affiliated financial SPEs	(1) A single solution could not address all problems related to the operations of SPEs and agreed (but not unanimously) with the identification of three main statistical problems: (i) large volume of gross (inward and outward) flows and stocks due to the operations of SPE holding companies in countries which are SPE hosts; (ii) loss of information on the final destination / ultimate origin of direct investments passing through SPEs located in third countries; and (iii) how to record financial flows / stocks due to the existence of conduits and SPVs raising funds in offshore centres for their direct investors. (iv) The solutions responding to users’ requests concerning SPEs should be provided. (2) WIIS agreed to extend the directional principle for detailed FDI statistics and to look through SPEs.
4. **Asset/liability principle, Directional principle / Reverse investment**	(1) Aggregate (BOP) direct investment positions, financial transactions and income will be presented on a gross basis under assets, liabilities, payables and receivables (but not including reverse investments on a net basis). Investments by a direct investment enterprise in its direct investor will continue to be considered as direct investment even when the equity holding is less than 10%. (2) Detailed FDI statistics (by partner and industry) will continue to be recorded according to directional principle for direct investment positions, financial transactions and income on a net basis (i.e. including reverse investments). However, the formula for deriving gross FDI data will be provided.
5. **Valuation of direct**	The market price principle is the basic principle for the valuation of direct investment equity positions and endorsed the following methods as appropriate proxies for market

Topic	WIIS deliberations
investment equity;	valuation for the valuation of unquoted direct investment equity: (i) value of recent transactions (within the previous twelve months); (ii) net asset value, including intangibles and goodwill; (iii) net asset value, excluding intangibles and goodwill; (iv) apportioning global value of a group to a local operation, using an appropriate indicator; (v) own funds at book value; (vi) use of capitalization ratios (stock market indices) to own funds at book value of listed companies; and use of models that revalue non-financial assets.
6. **Reinvested earnings:** (a) as affecting national savings; (b) of indirectly owned direct investment enterprises	(1) To retain the current treatment but to co-ordinate work in other (namely in the context of the SNA). (2) Clarification of how to record reinvested earnings along the chain of indirectly owned direct investment enterprises.
7. **Permanent debt between affiliated financial intermediaries**	(1) The Basle Tier 2 Capital definition was not appropriate for use as the definition of permanent debt between affiliated financial intermediaries. The group also concluded that all “unsecured and subordinated debt” should not be regarded as permanent debt. (2) Compilers should no longer define nor include “permanent debt” in direct investment and that all debt between affiliated financial intermediaries should be excluded from direct investment. WIIS also noted concerns expressed by only a few delegates that this deliberation may lead to excluding too much from FDI.
(3) **Geographic classification principles and Country Identification**	(1) The preferred method is the debtor/creditor principle. (2) In addition to the basic principle for the identification of immediate host/investing country, it would be useful to identify on a supplemental basis the ultimate investing/host country for analytical purposes.
(4) **Principles for classification by industry**	(1) The classification refers to the categories of the United Nations International Standard Industrial Classification (ISIC) and does not recommend other regional classifications. (2) To maintain the present recommendation of the methodology, namely that FDI statistics by industrial activity should refer (i) to the activity of the direct investment enterprise and (ii) to the activity of the direct investor, for both inward and outward statistics (in line with the existing recommendations of the *Benchmark Definition*). WIIS agreed that data be compiled at least according to the activity of the direct investment enterprise in both cases (inward and outward investment). However, concerns were expressed with regard to the practical implementation of the recommendation by some countries.
(5) **FDI by type: Mergers & Acquisitions (M&A), greenfield investment, extensions of capital**	(1) To incorporate new breakdowns by type of FDI as supplemental items in the *Benchmark Definition*. : Mergers & Acquisitions, greenfield investment, extensions of capital. WIIS recommended to limit the initial recommendations to M&A and to defer the others to the research agenda.
OTHER FDI ISSUES	

Topic	WIIS deliberations
(6) **Land and buildings owned by non-residents**	(1) Concepts and treatments be clarified in the OECD *Benchmark Definition of Foreign Direct Investment* (recognising the existence of long-term leases on land and buildings) and WIIS stressed the importance of consistency of the concepts and treatments with the System of National Accounts and the national accounts. (2) Where an effective change in ownership takes place through a lease on land (and buildings), in a manner comparable to a finance lease, a notional enterprise should be created, in the same way as when land (and buildings) are acquired outright. The claim on the direct investment entity should be considered to be equity (rather than debt) and that the value of the asset would fall as the lease moves to maturity (assuming that there are no price changes). (3) For the valuation of real estate, compilers should be encouraged for the use of real state price indexes (despite their methodological heterogeneity among countries) rather than a more general price index to calculate the market value of real estate stocks. However the use of acquisition cost was not totally rejected but was proposed as an inferior option.
(7) **Multi-territorial enterprises**	The current treatment will be generalised to all enterprise where identification of separate units in different economies is not possible. Fore joint sovereignty zones, guidance will be provided but will include some flexibility.
(8) **Transfer pricing between banks**	Payments by a branch to its non-resident head office that result in a zero balance in the branch's income account should be treated as income, and not to try to separate any other elements (such as service payments).
(9) **Shipping companies**	(1) There are three main institutional units, namely i. the owner (the lessor); ii. the operator (the lessee); and iii. ticket offices/management offices/ sales promotion offices which, in general, do not qualify for FDI. (2) If the owner and the operator are the same entity, then they comprise a single institutional unit. (3) Following the basic asset/liability principle, the statistical treatment of shipping transactions related to branches should meet the criteria to be included under FDI. (4) Different types of leasing arrangement may exist that can make it difficult to determine whether the ship is being leased or effectively sold to the institution that operates it. Such operations may be either considered as FDI or could be treated simply as merchandise trade. (5) Solutions that apply to shipping companies be also extended to the treatment of other mobile equipment, as appropriate, e.g. aircraft leasing arrangements.
(10) **Natural resource exploration and construction**	(1) The starting points of the statistical treatment of construction and natural resource exploration are: (i) identification of a possible notional enterprise, to which ownership of certain assets is transmitted, and (ii) examination of how services are being delivered. (2) The application of notional enterprise to these activities should be in line with the SNA and ESA.
Mutual funds (units, sectorisations, residence,	WIIS agreed that the standard rule for establishing a direct investment relationship should apply: • were a retail mutual fund to hold 10 per cent (or more) of the voting power in

Topic	WIIS deliberations
transactions	an institutional unit resident in another economy; and • were a feeder fund to hold 10 per cent or more of the voting power in its non-resident master fund.
(11) **FDI glossary**	WIIS agreed to incorporate an FDI glossary which will be limited to direct investment terms only and cross-reference the primary sources for terms which have a broader coverage than direct investment.
FUTURE RESEARCH WORK	
(12) **Pass-through funds**	(1) Improve the treatment of pass-through funds including those channelled through operating affiliates.
(13) **Geographic classification : Ultimate host country**	(1) Develop methods for outward investment
(14) **FDI by type**	(2) Develop definitions and methods for greenfield investments, extension of capita, financial restructuring
(15) **Round tripping**	(1) The data on round tripping should be included in FDI statistics and concepts and the methods need to be developed for supplemental series.
(16) **FDI stocks (financial versus economic measurement**	(2) Work should proceed on developing supplemental FID position and FDI income statistics as part of work on providing globalization statistics in response to user needs;

ANNEX 2. THE SCOPE OF FOREIGN DIRECT INVESTMENT STATISTICS

Standard features and presentation	*Basic presentation*	*Type of statistics*	*Components*	*FDIR coverage*	*Counterpart (level)*	*Type of data*
(1) FDI statistics according to Assets/Liabilities principle (new basis)	(i) Assets (ii) Liabilities	(1) Positions	(a) Equity (b) Debt instruments	All	Immediate	Only aggregate
	(i) Assets (ii) Liabilities	(2) Transactions	(a) Equity (b) Reinvestment of earnings (c) Debt instruments	All	Immediate	Only aggregate
	(i) Assets (ii) Liabilities	(3) Income	(a) Distributed earnings (b) Reinvested earnings (c) Interest (on debt instruments	All	Immediate	Only aggregate
(2-A) FDI statistics: according to Directional principle (current basis)	(i) Inward (ii) Outward	(1) Positions	(a) Equity (b) Debt instruments	All	Immediate	(1) By partner country (2) By industry
	(1) Inward (2) Outward	(2) Transactions	(a) Equity (b) Reinvestment of earnings (c) Debt instruments	All	Immediate	(1) By partner country (2) By industry
	(i) Inward (ii) Outward	(3) Income	(a) Distributed earnings (b) Reinvested earnings	All	Immediate	(1) By partner country (2) By industry

Standard features and presentation	*Basic presentation*	*Type of statistics*	*Components*	*FDIR coverage*	*Counterpart (level)*	*Type of data*
			(c) Interest (on debt instruments			
(2-B) FDI statistics: according to Directional principle excluding SPEs	(i) Inward (ii) Outward	(1) Positions	(a) Equity (b) Debt instruments	All -excluding SPEs	First non-SPE*	(1) By partner country (2) By industry
	(i) Inward (ii) Outward	(2) Transactions	(a) Equity (b) Reinvestment of earnings (c) Debt instruments	All -excluding SPEs	First non-SPE*	(1) By partner country (2) By industry
	(i) Inward (ii) Outward	(3) Income	(a) Distributed earnings (b) Reinvested earnings (c) Interest (on debt instruments	All -excluding SPEs	First non-SPE*	(1) By partner country (2) By industry
(2-C) Memo item: Pass-through funds	(i) Inward (ii) Outward	(1) Positions	(a) Equity (b) Debt instruments	SPEs only*		Only aggregate
	(i) Inward (ii) Outward	(2) Transactions	(a) Equity (b) Reinvestment of earnings (c) Debt instruments	SPEs only*		Only aggregate
	(i) Inward (ii) Outward	(3) Income	(a) Distributed earnings (b) Reinvested earnings (c) Interest (on debt instruments	SPEs only*		Only aggregate

* SPE = according to national definitions

Supplemental features and presentation *FDI of which:*	*Basic presentation*	*Type of statistics*	*Components*	*FDIR coverage*	*Counterpart (level)*	*Type of data*
(3-A) M&A transactions according to Directional principle 10%-100% *	(i) Inward (ii) Outward	Transactions	Equity	All -excluding SPEs involved in capital in transit	Final destination	(a) By partner country (b) By industry
3-B Sub-category: **M&A transactions according to Directional principle +50%**	(i) Inward (ii) Outward	Transactions	Equity	All -excluding SPEs involved in capital in transit	Final destination	(1) By partner country (2) By industry
(4.) FDI statistics: according to UIC/UHC	(i) Inward (ii) Outward	(1) Positions	(i) Equity (ii) Debt instruments		Ultimate controlling parent (inward) as in AMNE statistics**	(1) By partner country (2) By industry

SPE = according to national definitions

** UIC/UHC under discussion

ANNEX 3. FRAMEWORK OF DIRECT INVESTMENT RELATIONSHIP

36. Summary of the guiding principles and norms that determine the extent of a direct investment relationship.

Basic types of affiliates:

(i) A controlled affiliate is an enterprise in which the investor has control of more than 50% of the voting power.

(ii) A non-controlled affiliate is an enterprise in which the investor has control of at least 10% of the voting power and no more than 50%.

Principles for extending the relationship through indirect ownership:

(i) A series of controlled affiliates can continue as long as control exists at each stage in the ownership chain – a chain such as that in Figure 1 can continue indefinitely.

(ii) Any controlled affiliate can extend the relationship to a non-controlled affiliate by owning from 10% to 50% of the voting power of that enterprise.

(iii) A non-controlled affiliate can extend the relationship only to another non-controlled affiliate by owning more than 50% of the voting power of that enterprise. Such a chain of non-controlled affiliates can be extended as long as majority ownership of voting power exists at each stage.

Basis for extending the relationship through joint ownership:

(i) Where the investor and its controlled affiliates combined own more than 50% of the voting power of an enterprise, the owned enterprise is a controlled affiliate of the investor.

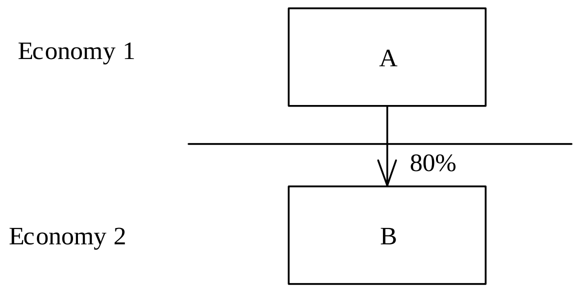
(ii) Where the investor and its controlled affiliates combined own at least 10% of the voting power of an enterprise but no more than 50%, the owned enterprise is a non-controlled affiliate of the investor.

37. Where an investor's non-controlled affiliate and its controlled affiliates combined own more than 50% of the voting power of an enterprise, the owned enterprise is a non-controlled affiliate.

Examples of FDIR

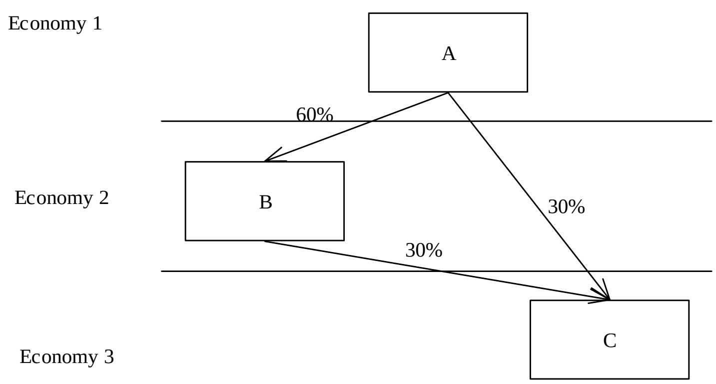
(i) A *controlled affiliate* is an enterprise in which an investor owns more than 50% of the voting power. In Figure 1, B is a controlled affiliate of A.

Figure 1. Controlled affiliate



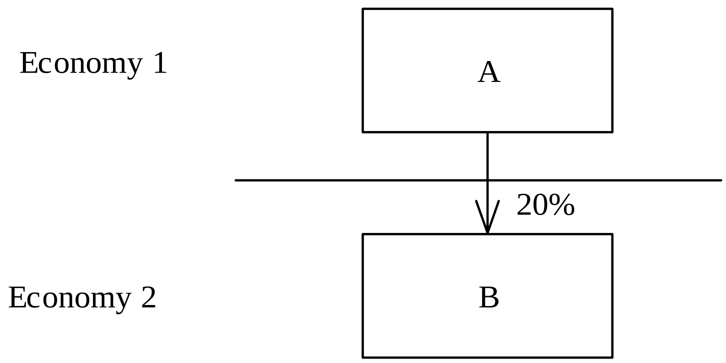
(ii) Where an investor and its controlled affiliate(s) combined own more than 50% of the voting power of an enterprise, the owned enterprise is also regarded as a controlled affiliate of the investor. In Figure 2, C is a controlled affiliate of A.

Figure 2. Controlled affiliate



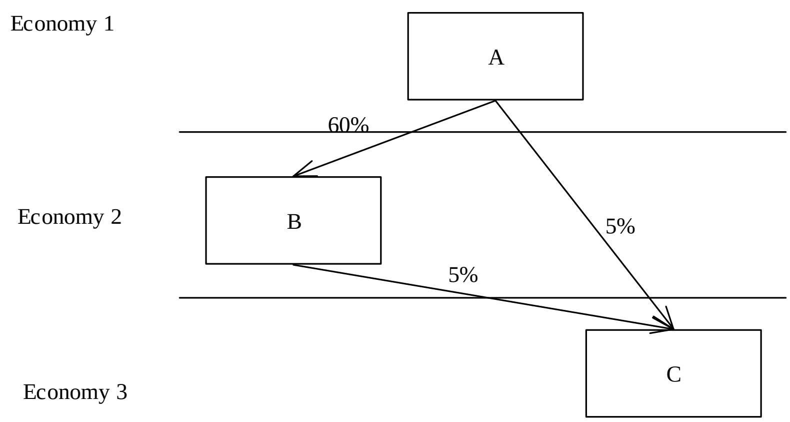
(iii) A *non-controlled affiliate* is an enterprise in which an investor owns at least 10% and no more than 50% of the voting power. In Figure 3, B is a non-controlled affiliate of A.

Figure 3. Non-controlled affiliate



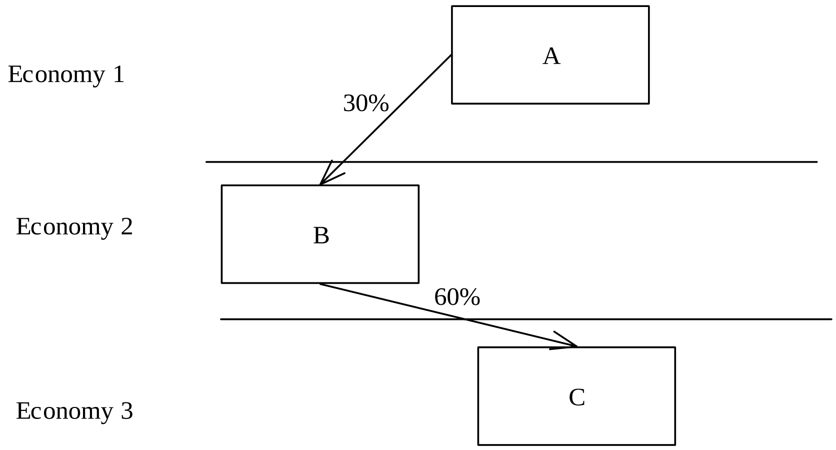
(iv) Where an investor and its controlled affiliate(s) combined own at least 10% but no more than 50% of the voting power of an enterprise, the owned enterprise is regarded as a non-controlled affiliate of the investor. In Figure 4, C is a non-controlled affiliate of A.

Figure 4. Non-controlled affiliate



(v) Where an investor's non-controlled affiliate (and the affiliate's controlled affiliates combined) own more than 50% of an enterprise, the owned enterprise is regarded as a non-controlled affiliate of the investor. In Figure 5, C is a non-controlled affiliate of A.

Figure 5. Non-controlled affiliate



ANNEX 4. REFERENCE INDICATORS OF GLOBALISATION RELATED TO FDI

(i) Extent of globalisation through FDI (total FDI or by industry

(a) Inward FDI financial flows as a percentage of GDP Outward FDI financial flows as a percentage of GDP

(b) Inward FDI income flows as a percentage of GDP

(c) Outward FDI income flows as a percentage of GDP

(d) Inward FDI positions as a percentage of GDP

(e) Outward FDI positions as a percentage of GDP

(ii) Contribution of host and investing economies or of industries to globalisation through FDI

(f) Relative share of inward FDI financial flows by partner country as a percentage of total inward FDI flows.

(g) Relative share of outward FDI financial flows by partner country as a percentage of total outward FDI flows.

(h) Relative share of inward FDI positions by partner country as a percentage of total inward FDI positions.

(i) Relative share of outward FDI positions by partner country as a percentage of total outward FDI positions.

(j) Relative share of inward FDI financial flows by industry as a percentage of total inward FDI flows.

(k) Relative share of outward FDI financial flows by industry as a percentage of total outward FDI flows.

(l) Relative share of inward FDI positions by industry as a percentage of total inward FDI position.

(m) Relative share of outward FDI positions by industry as a percentage of total outward FDI position.

(iii) Return on FDI

(n) Inward FDI equity income debits [debits for *a)* dividends/distributed branch profits, plus *b)* reinvested earnings/undistributed branch profits] as a percentage of inward FDI position [rate of return for total inward FDI or by industry or investing country].

(o) Outward FDI equity income credits [credits for *a)* dividends/distributed branch profits, plus *b)* reinvested earnings/undistributed branch profits] as a percentage of outward FDI position [rate of return for total outward FDI or by industry or investing country].

ANNEX 5. TIME-TABLE: REVISION OF THE OECD BENCHMARK DEFINITION OF FOREIGN DIRECT INVESTMENT

	Date	Comments
Phase 1: Methodological recommendations by DITEG[8] and deliberations by WIIS[9]		
1st DITEG meeting	June 2004, Paris	
WIIS meeting 2004	12-13 October 2004, Paris	WIIS deliberations on the results of the 1st DITEG meeting
2nd DITEG meeting	6-9 December 2004, Washington D.C.	
3rd DITEG meeting	7-11 March 2005, Paris	
WIIS meeting 2005	26-28 April 2005, Paris	WIIS deliberations on the results of the 2nd and 3rd DITEG meetings and recommendations on the draft outline of the Benchmark Definition, 4th edition
Phase 2: Drafting of the Benchmark Definition, 4th edition by BAG and WIIS		
1st BAG[10] meeting	29 April 2005, Paris	
2nd BAG meeting	16-18 November 2005, Paris	
WIIS meeting 2006	24-25-26 April 2006, Paris	
3rd BAG meeting	27-28 April 2006, Paris	
WIIS meeting 2006	17-18 October 2006, Vienna	
4th BAG meeting	19-20 October 2006, Vienna	
WIIS meeting 2007	26-28 March 2007, Paris	
5th BAG meeting	29-30 March 2007, Paris	

8. DITEG: IMF/OECD Direct Investment Technical Expert Group.

9. WIIS: Workshop on International Investment Statistics of the OECD Investment Committee.

10. BAG: OECD Benchmark Advisory Group.

	Date	Comments
Phase 3: Approval of the Benchmark Definition, 4th edition by WIIS, the Investment Committee and the OECD Council		
WIIS meeting 2006	1-3 October 2007, Paris	Final comments for approval
6th BAG meeting	4-5 October 2007, Paris	
Phase 3: Approval of the Benchmark Definition, 4th edition by WIIS, the Investment Committee and the OECD Council		
WIIS approval of *Draft Benchmark Definition, 4th edition*	Mid-December 2007	Approval by written procedure
Investment Committee - Approval of the *Draft Benchmark Definition, 4th edition*	25-27 March 2008	Approval by the Investment Committee at its plenary session
Council - Approval of the *Benchmark Definition, 4th edition* by the OECD	April 2008 (tentative date)	Final approval
Publication of the *Benchmark Definition, 4th edition*	Before end-June 2008	

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