

**Thirteenth Meeting of the
IMF Committee on Balance of Payments Statistics
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**Direct Investment: Report by IMF on Updating the SIMSDI Survey of National Practices
and Clarifications of Direct Investment Recommendations**

**International Monetary Fund
Statistics Department**

REPORT ON UPDATING THE SIMSDI SURVEY OF NATIONAL PRACTICES FOR COMPILING FOREIGN DIRECT INVESTMENT (FDI) STATISTICS

I. Introduction

1. In May 1997, after consulting the IMF Committee on Balance of Payments Statistics (the Committee) and the OECD Working Party on Financial Statistics (WFS), the IMF and OECD launched the *Survey of Implementation of International Methodological Standards for Direct Investment (SIMSDI)*, the purpose of which was to determine the extent to which countries had adopted the recommendations on FDI statistics set out in the fifth edition of the IMF's *Balance of Payments Manual (BPM5)* and the third edition of the *OECD Benchmark Definition of Foreign Direct Investment (OECD Benchmark)*.
2. A report on the outcome of the 1997 survey, summarizing the survey findings and identifying the major improvements since the 1991 survey undertaken for the IMF Report *Measurement of International Capital Flows*, was presented to the Committee at its October 1998 meeting (BOPCOM98/1/12). The draft *SIMSDI* report was endorsed by the Committee, subject to minor revisions, and posted on the Fund's Internet website for the Committee. The OECD WFS and the Committee on International Multinational Enterprises (CIME) endorsed the report, which was distributed to OECD member countries and posted on the OECD website in May 1999. The successful outcome of the 1997 survey resulted from close and effective cooperation between the Fund and the OECD.
3. In a progress report to the October 1999 meeting of the Committee (BOPCOM99/19), the Fund referred to the development in late 1998 of two Internet metadatabases, available through the OECD to balance of payments compilers and international organizations, that contain the detailed methodological information obtained from the 1997 survey—one database containing the completed survey questionnaires, and one showing summary analytical tables on specific methodological topics. That progress report also envisaged (i) countries being asked to update the metadata submitted in response to the 1997 survey; and (ii) the IMF and OECD seeking the permission of their members for the metadata to be made available to the general public. (The formal approval of most of the OECD member countries to make the information available to the general public had been obtained by the OECD in 1999.)

II. Recent Developments

4. As envisaged in the 1999 *Annual Report* of the Committee, in March 2000 a final version of the *1997 SIMSDI Report*, which included minor editorial changes made by the IMF, was posted on the Committee's Internet website and distributed to all member countries of the Fund.
5. In the letter accompanying the final version of the *1997 SIMSDI Report*, the Fund sought the permission of its members to make the metadata available to the public at large. While responses have not yet been received from all countries, the response to date of many of the respondents has been positive. However, a number of countries, including one OECD member country, have indicated that their 1997 metadata is outdated and that they would prefer that it not be made available to the general public.
6. In the course of 2000, the issue has arisen of how best to update the SIMSDI metadata. At the time of the 1997 survey, the OECD member countries had envisaged that the metadata

would be updated by submitting changes to the OECD as methodological changes were implemented. The 1999 *Annual Report* of the Committee also indicated that the IMF member countries would be asked to “update their previous survey responses in order that the database can be made current.” However, on closer examination of the practicalities of updating the metadata in the 1997 SIMSDI survey, the Fund has now reached the conclusion that the SIMSDI questionnaire needs to be revised and a new survey undertaken.

7. The Fund considers that the questionnaire needs to be revised in order to accomplish the following:

(a) Obtain information on practices related to recent methodological changes or clarifications—such as the clarifications of methodology discussed at the October 1999 Committee meeting (see below), and the April 2000 supplement to *BPM5* regarding the treatment of financial derivatives.

(b) Address shortcomings that were identified in the 1997 questionnaire based on the experience gained in its implementation. These shortcomings hampered the interpretation of some of the survey responses, and the Fund has concluded that the questionnaire should be revised by, for example:

- Providing space for comments after each question, with provision for separate comments on the practices for compiling inward and outward FDI, as the practices can differ. (The 1997 questionnaire provided space only at the end of selected sections and it was often difficult to determine the specific question to which the comments related, and whether the comments referred to practices for compiling inward or outward FDI, or both.)
- Adding definition boxes at the beginning of relevant sections to elucidate the intended meaning of questions. (The 1997 questionnaire used definition boxes only sparingly, requiring respondents to refer back to earlier pages in order to determine the definition being used in specific questions. The completed questionnaires sometimes included contradictory statements, which appeared to indicate that the respondents had perhaps not referred to the earlier definitions when preparing their responses to later questions.)
- Clarifying the wording of questions that, as the responses to the 1997 survey had indicated, had been misunderstood by respondents—for example, questions on the time of recording dividends, and on the types of equity transactions included in the direct investment data were not always clearly understood.
- Covering a wider range of possible scenarios—for example, by adding the date at which dividends are declared payable to the list of options regarding the time at which dividends are recorded in the direct investment data, and by adding separate lines for realized and unrealized exchange rate gains and losses to the items which compilers may possibly be including in their calculation of reinvested earnings.

(c) Add questions regarding (i) dissemination contacts (names/positions, addresses, contact numbers etc.) from whom the general public can obtain copies of the disseminated FDI data; and (ii) the means of dissemination of the data. (The Fund’s experience with the electronic bulletin

board on the Special Data Dissemination Standard [SDDS] indicates that the general public are very interested in this information.)

(d) Delete questions for which information was not used either in the 1997 analytical tables or in the report on the 1997 SIMSDI results—for example, questions on the:

- Coverage of the “most timely” data versus the “most comprehensive” data for direct investment income transactions. (As these questions in the 1997 survey covered only the direct investment income transactions, it was not possible to reach conclusions about the possible differences in coverage of the overall “most timely” data, versus the overall “most comprehensive” data.)
- Time of recording of exchange rates.

8. These changes would result in a lengthier questionnaire, primarily because of the addition of space for comments after each question, and the inclusion of more frequent definition boxes. The Fund therefore considers it essential that, to ensure that respondents are not discouraged by the appearance of the questionnaire, the accompanying letter to respondents explain the reasons for the increased length and clearly indicate that comments should be provided only if respondents felt that their country practices required further explanation.

9. In light of the Fund’s views on the best means for updating the 1997 SIMSDI survey, and the fact that the Committee has previously endorsed the proposal that the information would be kept current by asking member countries to update their previous survey responses, we feel it appropriate to seek the Committee’s endorsement of the proposal to amend the 1997 SIMSDI questionnaire and to conduct a new survey using the revised questionnaire.

10. The Fund acknowledges the importance of both the OECD WFS and the IMF Committee on Balance of Payments Statistics endorsing the proposal to revise the SIMSDI questionnaire and conduct a new survey. Therefore, in addition to seeking the endorsement of the IMF Committee, it is envisaged that the proposal to change the means of updating the 1997 SIMSDI survey information will be submitted for endorsement at the next meeting of the OECD WFS in November 2000.

11. If the proposal to revise the 1997 questionnaire and undertake a new survey were endorsed, the Fund recognizes that the revised questionnaire would then need to be endorsed by the IMF Committee and the OECD WFS. There are two options for seeking the endorsement of the revised questionnaire. Option 1 would be to send the revised questionnaire to the individual IMF Committee members for their comments/approval and also submit it for endorsement to the next bi-annual meeting of the WFS (expected to be held in the early part of 2001). Option 2 would be to submit the revised questionnaire to the next bi-annual meeting of the WFS (as envisaged in Option 1) and to then submit it for endorsement to the October 2001 meeting of the IMF Committee. The Fund’s preference is for Option 1, as being the quickest means of obtaining the desired endorsement. Although the option has the disadvantage of limiting the scope for the cross-flow of discussion on the part of IMF Committee members, this could be addressed by using e-mail to exchange views. Option 2 would mean a delay of a further year, with the result that the new survey would not be carried out until early 2002.

12. ***In order to advance the work on updating the SIMSDI metadata, the views of the Committee members would be appreciated on the following questions:***

- *Does the Committee endorse the view that the issue of updating the information from the 1997 SIMSDI survey should be addressed by amending the survey questionnaire and conducting a new survey?*
- *Recognizing that the accompanying letter to respondents would explain the reasons for the increase in size and emphasize the fact that comments should be provided only if respondents felt that their country practices required further explanation, does the Committee support the view that the SIMSDI questionnaire should be amended with the objectives of (i) obtaining information on practices related to recent methodological changes or clarifications; (ii) addressing the shortcomings of the 1997 survey questionnaire identified above; (iii) obtaining information on dissemination means and contact; and (iv) deleting questions for which the information was not used either in the 1997 analytical tables or in the report on the 1997 SIMSDI results?*
- *Does the Committee have any comments or additional suggestions for improvements to the content or format of the SIMSDI questionnaire? (A copy of the 1997 questionnaire is attached.)*
- *On the assumption that the Committee endorses the view that the questionnaire should be revised and a new survey conducted, does the Committee further agree that it should be given the opportunity to endorse the revised questionnaire? If so, by what means—circulation to individual committee members, or as a formal submission to the October 2001 meeting of the Committee?*

Report on Consultations with the OECD and ECB on Clarifications of Direct Investment Recommendations

I. Introduction

13. At the October 1999 meeting of the Committee, the Fund proposed clarifications of the FDI recommendations set out in *BPM5* and the *OECD Benchmark* regarding the treatment in FDI data of (i) intercompany transactions between two affiliated financial intermediaries; (ii) transactions involving cross-border investment in the extraction of natural resources; and (iii) instances of the shut-down of direct investment enterprises established for exploration of natural resources. (BOPCOM99/19).

14. While the Committee members supported the views set out in BOPCOM99/19, they recognized the possible impact of the clarifications on the FDI statistics of certain countries, and suggested that the Fund consult with the ECB Working Group on Balance of Payments and External Reserves (WGBPER) and the OECD WFS.

II. Recent Developments

15. In December 1999 the Fund wrote to the ECB and OECD informing them of the Committee's request, attaching a copy of the *Clarifications* paper, and asking for their assistance in seeking the views of the members of their working groups.

16. The issues were discussed at the February 2000 meeting of the ECB WGBPER, and the majority of the working group members agreed with the clarifications.

17. The OECD has yet to discuss the issues in the *Clarifications* paper with the members of the WFS, but it is expected that these will be discussed at the next meeting of the OECD WFS in November 2000.

18. ***In order to advance the work on clarifying the recommended treatment in FDI data of (i) intercompany transactions between two affiliated financial intermediaries; (ii) transactions involving cross-border investment in the extraction of natural resources; and (iii) instances of the shut-down of direct investment enterprises established for exploration of natural resources, the Committee is asked to formally approve the recommended treatment set out in BOPCOM99/19, subject to the majority agreement of the members of the OECD WFS.***