

**Eighteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Washington, D.C., June 27–July 1, 2005**

Ultimate Beneficial Owner/Ultimate Destination

I. DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)
II. OUTCOME PAPER (DITEG) # 12(i)

April 8, 2005

- 1. Topic: Country Identification on the basis of Ultimate Beneficiary Owner and Ultimate Beneficiary Affiliate.**
- 2. Issues – see DITEG Issues Papers #12(i) by the United States (BEA – November 2004), Eurostat (November 2004 and February 2005) and Australia (ABS – March 2005).**
- 3. Recommendations:**
 - (i) In its December 2004 meeting, DITEG agreed that the geographic allocation on the basis of the Ultimate Beneficiary Owner (UBO) for inward FDI will provide useful supplementary information especially for FDI stocks and income, as well as for FATS.
 - (ii) A follow-up paper was deemed necessary to compare two methods of identifying UBOs based on different ownership relationships. It was also agreed that more work should be done for allocating outward FDI on the basis of the Ultimate Beneficiary Affiliate (UBA).
 - (iii) In its meeting of March 2005, DITEG readdressed the issue, especially also discussing the identification of the UBA. The meeting recognised that sets of (often complex) rules could be devised to reflect chains of ownership or significant influence or control.
 - (iv) There was a preference to base the ownership chain between the extremes of an FDI relationship on control (more than 50% ownership)¹. It was felt that this ensures relative simplicity, as only one path is possible, and it will, moreover, result in consistency with FATS data. The meeting noted that many direct investment positions are greater than 50%. It was recognized that some countries limit foreign equity to, for instance, 49%, so as not to allow inward FDI to result in control. Two views were represented at the meeting:
 - (a) as the restrictions do not allow control, any UBO system based on control should not include these positions, reflecting the reality of the situation;

¹ The group seemed to show some preference for the terminology of Ultimate Investing Country (UIC) and Ultimate Host Country (UHC) over UBO and UBA. But given the fact that in a second step the preference went to ownership relations of more than 50%, UBO and UIC on the one hand and UBA and UHC will always refer to the same country. This makes the choice between both terminologies less relevant.

- (b) as the restrictions artificially prevent control, a 49% holding can be deemed to represent an interest which can be considered equivalent to control, and such positions should be included.

On balance, the meeting supported (b).

- (v) There was support for the UBO allocation to align with direct investment data, such that it reflects the amount of equity owned, rather than allocating 100% of the equity to the controlling entity as in FATS.
- (vi) As far as the enterprises in the middle of the ownership chain are concerned, where FDI capital passes in transit, DITEG recommended to see if the Dutch proposal to net out FDI transactions (particularly of SPEs², which was rejected for the *standard* b.o.p. and i.i.p. presentation), could be useful in the framework of UBO/UBA chains.
- (vii) DITEG felt the need for an additional Issue paper that will take into account the above recommendations. It should aim at finding a consistent methodology as regards where and to what extent FDI capital should be assigned up and down an ownership chain. Eurostat agreed to produce this Issue paper, which will be addressed to the Benchmark Advisory Group (BAG).

4. Rejected Alternatives.

It was recognised that using a “mirror image” of the FCS to determine the UBO is not feasible.

5. Questions for the IMF Committee on Balance of Payments (the Committee) and the OECD Workshop in International Investment Statistics (WIIS)

- (i) *Do members believe that consideration should be given to limiting the application of the UBO concept to chains of control (greater than 50 per cent ownership), or should it be extended to include chains of influence (10 to 50 per cent ownership), recognizing the extra complexity and ambiguity introduced by allowing multiple paths?*
- (ii) *Do members agree that data allocated by UBO should align with FDI data, as described in (3)(v) above?*
- (iii) *Do members agree that for those countries that do not allow inward FDI to have control, that consideration should be given to applying the UBO/UBA concept to include FDI ownership of 49% (or more)?*

² Background paper 11 of DNB, March 2005.

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD
WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS**

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

ISSUES PAPER (DITEG) # 12

COUNTRY IDENTIFICATION

**(ULTIMATE BENEFICIAL OWNER/ULTIMATE DESTINATION AND
IMMEDIATE HOST/INVESTING COUNTRY)**

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**COUNTRY IDENTIFICATION
(ULTIMATE BENEFICIAL OWNER/ULTIMATE DESTINATION AND IMMEDIATE
HOST/INVESTING COUNTRY)**

I. Current international standards for the statistical treatment of the issue

1. The *BPM5* treats regional allocation principles in §§481-498. *BPM5* discusses the distinction between the *transaction principle* and the *debtor/creditor principle*. In both cases reference is made to the *immediate host/investing country* of the transactor or debtor/creditor, respectively. Financial flows may be geographically allocated either on the basis of the *transaction principle* or on the basis of the *debtor/creditor principle* (§482). International investment position data are to be allocated on the basis of the *debtor/creditor principle* (§484).
2. The OECD *Benchmark Definition of Foreign Direct Investment (Benchmark Definition)* also recommends that direct investment flows, income and stocks be allocated to the country of the *immediate host/investing country* (§§46-47).
3. The *Benchmark Definition*, however, suggests that the stocks of direct investment net assets be also compiled in respect of the ultimate host or controlling country (§45).

II. Concerns/shortcomings of the current treatment

4. The *Benchmark Definition* does not give definitions of the ultimate host or controlling country.
5. A less important concern is that the reference to “net assets” is not completely clear about the components of FDI stocks to be compiled in respect of the ultimate host or controlling country.
6. There is a widespread interest among users in knowing more than the immediate host/investing country. Investors frequently use entities located in offshore centres or SPEs to

channel FDI funds, while users are also interested in knowing about the ultimate country of control or destination. Data available in some EU Member States for inward stocks compiled in respect to the ultimate controlling country, when compared to data according to the immediate investing country, show that the impact of the reallocation may be substantial¹.

III. Possible alternative treatments

7. In practical applications, the reclassification of inward stocks by *ultimate controlling country* is more developed than the reclassification of outward stocks by *ultimate host country* (see also point 10 below). The rest of this paper therefore considers mainly the case of inward FDI stocks. After a preliminary distinction on the concept of control, a definition for the *ultimate controlling country* is proposed and the case of *other capital* stocks is discussed.

8. Given the interest of users in this subject, it is proposed that, for inward stocks at least, the ‘suggestion’ given in §45 of the *Benchmark Definition* be strengthened and transformed into a ‘recommendation’.

9. However, supplementary definitions seem needed to overcome the concerns mentioned above regarding the definition of *ultimate controlling country* and the identification of the components of FDI stocks to be reallocated.

10. The case of outward stocks by *ultimate host country* is treated more concisely and in less detail. Information on outward FDI stocks by ultimate host country is until now collected, according to table 12 in IMF-OECD (2003, p.79), only by Denmark, Estonia and Luxembourg². A tentative definition for the ultimate host country is proposed in §15. If a general definition is agreed, more analysis would be needed, at least for the case of multiple *ultimate host countries*. A discussion of the *other capital* component is similarly not provided here for outward stocks.

Inward stocks by ultimate controlling country

11. Considering the case of inward stocks, it should be preliminarily observed that the concept of control³ may in general be interpreted as referring to the direct investment

¹ See chapter 7 of the report of the Eurostat/ECB Task Force on FDI (Eurostat/ECB, 2004). Data for inward FDI stocks according to the ultimate controlling country were provided by Austria, Denmark and Germany.

² According to the same source, however, Estonia and Luxembourg do not disseminate data by ultimate host country.

³ In the *Benchmark Definition* control is not explicitly defined. However, it can be said that the definition of subsidiary in §14 of the *Benchmark Definition* gives a definition of control in the sense that A is controlled (directly or indirectly) by B if A is a subsidiary (or a branch) of B. §14 makes reference to the majority ownership criterion and to other forms of control.

enterprise as a whole, or to any given position of inward FDI held by an immediate direct investor⁴ (there can be more than one immediate direct investor for the same direct investment enterprise, or the enterprise may be nationally controlled). The second interpretation is equivalent to referring control to the immediate direct investor itself.

The two concepts obviously give different results in cases such as: i) there is more than one foreign owner above 10% in a direct investment enterprise, one of which controls the enterprise; ii) there is one or more foreign owners below 50% and the direct investment enterprise is controlled by a resident entity.

In statistics such as those on ‘operating data of foreign affiliates’ (also called FATS), the concept of control is actually referred to the enterprise as a whole.

It seems however that the second interpretation (namely, to refer control to the immediate direct investor) is the correct one in the context of the FDI methodology. Paragraph 43 of the *Benchmark Definition* refers to the stock of net assets *due to the immediate investing country*, reanalysed by country of ultimate control.

Several arguments in favour of the second interpretation can be given. First, FDI statistics measure lasting interest, which obviously does not necessarily imply control on the enterprise. Secondly, in ‘operating data’, variables such as turnover or employment are allocated 100% to the controlling country. FDI positions refer instead to the capital stock of the direct investment enterprise only in proportion to the share held by the immediate direct investor. Thirdly, if control was referred to the direct investment enterprise, for all resident associate companies the “ultimate controlling country” would be the compiling country. Finally, for subsidiaries, there would be the additional question of how to allocate minority shares (above 10%) held by a direct investor other than the one controlling the subsidiary.

On the other hand, the main argument in favour of the first interpretation seems to refer to the fact that for compilers it would be easier to obtain information on the ultimate controlling country of the enterprise than on that of the immediate direct investor. Collecting data for the ultimate controlling country of the immediate direct investor (when this is not the same as for the direct investment enterprise) may be difficult and may result in statistics of lower quality.

To sum up this part, main intermediate conclusions are:

i) in the framework of the present FDI methodology, for determining the ultimate controlling country of inward FDI stocks, control is to be referred to the immediate direct investor, not to the resident direct investment enterprise;

⁴ The qualification “immediate” may be redundant, but is kept in the rest of this paper for clarity to indicate the first non resident entity directly holding an inward FDI position. The immediate investing country is the country of residency of the immediate direct investor. Incidentally, while checking the definition of direct investor in chapter XVIII of *BPM5*, it was noticed that §359 refers to the direct investor as a “resident entity”, which is not the case for inward FDI.

ii) point i) implies that for a given resident direct investment enterprise there may be more than one ultimate controlling entity and, if they reside in different countries, more than one *ultimate controlling country*.

12. Having clarified these points, the following definition of *ultimate controlling country* is proposed:

The ultimate controlling country is the country of residency of the first person (proceeding up the chain beginning with and including the immediate direct investor) that controls the immediate direct investor and is not controlled by another person.

13. Regarding the identification of components of FDI stocks to be re-allocated according to the *ultimate country of control* criterion, two points seem to deserve consideration by the DITEG:

i) the meaning of “net assets” needs clarification.

It may be preferable to speak of net liabilities for inward stocks and net assets for outward stocks. ‘Net’ in both cases seems to refer to the case of reverse investment below 10%.

ii) should the reallocation concern only the *equity capital and reinvested earnings* component or also the *other capital* component of FDI liabilities?

During the discussion at the EU Task force on FDI (Eurostat/ECB, 2004) it emerged that the interpretation of the methodology differs among compilers. Some compilers consider also the other capital component and some do not.

It seems however to be no difficulty in including also the *other capital* component if (as proposed above) the reallocation by country of ultimate control is referred to the immediate direct investor. Stocks of *other capital* can be reallocated applying the same principles as for the *equity capital and reinvested earnings* component.

Outward stocks by ultimate host country

14. Regarding outward stocks, the problem of defining the *ultimate host country* may be considered in a symmetric way with respect to the case of inward stocks by *ultimate controlling country*. That is to say, net assets invested in the immediate direct investment enterprise are reallocated to the country where the immediate direct investment enterprise ultimately holds FDI stocks.

15. The following definition of “ultimate host country” is proposed:

The ultimate host country is the country of residency of the first affiliate (proceeding down the chain beginning with and including the immediate direct investment enterprise) that is

controlled by the immediate direct investment enterprise and does not control any other affiliate.

16. Clearly, the immediate direct investment enterprise may hold different chains of control ending up in different *ultimate host countries*. A criterion for breaking down net assets (invested in the immediate direct investment enterprise) among the different destinations is not proposed at this stage. Given the potential complexity of the reallocation, one possible option could be to recommend a reallocation by *ultimate host country* only for cases in which the immediate direct investment enterprise is a holding company and/or an SPE.

IV. Points for discussion

1. *Do DITEG members agree that the Benchmark Definition should recommend allocation of FDI inward stocks by ultimate controlling country?*
2. *Do DITEG members agree with the definition of ultimate controlling country proposed in §12?*
3. *Do DITEG members agree that the reallocation by ultimate controlling country should refer to both equity capital and reinvested earning and other capital inward stocks?*
4. *Do DITEG members agree that the reallocation by ultimate controlling country should refer to net liabilities, i.e. liabilities to the immediate direct investor minus assets below 10% possibly held by the direct investment enterprise in the capital of the immediate direct investor?*
5. *Do DITEG members agree with the definition of ultimate host country proposed in §15?*
6. *Do DITEG members agree that §359 of BPM5 needs redrafting in the part where it says that the direct investor is a resident entity (see footnote 3)?*

References

Balance of Payments Manual, fifth edition (*BPM5*), IMF, 1993.

Benchmark Definition of Foreign Direct Investment (Benchmark Definition), third edition, OECD, 1996

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IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD
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DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

ISSUE PAPER 12i

COUNTRY IDENTIFICATION—USE OF ULTIMATE
OWNER CLASSIFICATIONS IN UNITED STATES
INWARD DIRECT INVESTMENT STATISTICS

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November 2004

1. The OECD *Benchmark Definition of Direct Investment* notes that analysis of direct investment may require classification of the data by country on two bases: 1) by ultimate host country/ultimate investing country, and 2) by immediate host country/immediate investing country. Of these two, the preferred basis for classification for most direct investment statistics, according to the *Benchmark Definition*, is immediate host country/immediate investing country. Specifically, the *Benchmark Definition* recommends that direct investment balance of payments flows be classified only by immediate host/immediate investing country and that the stock of direct investment net assets and direct investment earnings also be classified primarily on this basis. Although the *Benchmark Definition* recognizes that classification by ultimate host country/ultimate investing country can be useful, it notes that for outward investment “recording earnings on the basis of the ultimate host country would appear more appropriate in the case of operating data of affiliates, for those countries that collect such data.” For inward investment, the *Benchmark Definition* points out that the share of earnings and net assets attributable to the ultimate parent company will not normally be known because the host country does not know the percentage share holdings in the various intermediary companies between the direct investment enterprise and the company that ultimately owns it.

2. In accordance with the *Benchmark Definition*, the standard presentation by the United States of the direct investment position and of balance of payments flows is based on data classified by immediate host country/immediate investing country. The United States also collects extensive data on the operations of direct investment enterprises and, for these data, the country of ultimate host country/ultimate investor country is the principal basis for classification.¹ The remainder of this paper discusses how the United States

¹ The data on the operations of direct investment enterprises, which are collected in mandatory surveys, include such items as balance sheets and income statements, sales of goods and services, employment and employee compensation, U.S. trade in goods, research and development expenditures, taxes, and external financial position.

uses ultimate investor classifications in the inward investment data on the operations of direct investment enterprises.

3. The data on the operations of inward direct investment enterprises are collected in order to be able to monitor, assess the impact of, and guide U.S. policy on foreign direct investment in the United States. For these purposes, the country that ultimately owns or controls a direct investment enterprise and, therefore, derives the benefits from owning or controlling the enterprise, is considered most important. To adequately evaluate many of the issues of concern to policymakers and researchers pertaining to direct investment, information on the ultimate owner is essential. For example, an understanding of the ramifications of technology transfer associated with a direct investment partly depends on knowledge of the country of the ultimate investor because the ultimate investor is frequently the source for transfers of technology to or the recipient of technology transfers from the direct investment enterprise. The country of the immediate investor is often irrelevant, particularly if, as is often the case, the immediate investor serves only as a conduit for financing and income flows.

4. The United States refers to the ultimate investor as the “ultimate beneficial owner” (UBO), the immediate owner as the “foreign parent,” and the direct investment enterprise as the “U.S. affiliate.” Using the U.S. terminology, the UBO is defined as that person, proceeding up the U.S. affiliate’s ownership chain beginning with and including the foreign parent, that is not owned more than 50 percent by another person. The foreign parent is the first person outside the United States in the U.S. affiliate’s ownership chain that has a direct investment in the U.S. affiliate. If the foreign parent is not owned more than 50 percent by another person, the foreign parent and UBO are the same. Unlike the foreign parent, the UBO may be either a U.S. person or a foreign person (though most are foreign). Both the UBO and foreign parent are “persons,” where person is broadly defined to include any corporation, individual, branch, partnership, association, associated group, estate, trust, or other organization and any government.

5. The United States collects UBO information in mandatory annual and benchmark survey reports filed by U.S. affiliates. The definitions discussed above are provided on the survey forms, and the U.S. affiliate is required to provide information on the country and industry of its UBO based on those definitions. The United States does not collect information on the UBO's percent ownership share in the U.S. affiliate or on intermediary companies between the foreign parent and the UBO. The United States believes its method of collecting the information yields accurate information on the country and industry of the UBO. For the majority of cases, there is little evidence that the absence of information on the UBO's ownership interest in the U.S. affiliate or of information on intermediary companies has affected the quality of the information provided.

6. Although information on intermediary companies between the foreign parent and the UBO could be useful in answering some research and policy questions, the information is not collected by the United States because of concerns about the difficulty of obtaining the information and about the burden that would be imposed on survey respondents. Also, it is not clear how information on the often complex structures of intermediary companies would be tabulated if it were collected. Ownership chains can involve a number of tiers—a single UBO's ownership chain might involve companies in several countries before reaching the U.S. affiliate--and the chains can vary significantly from company to company. Presenting such complex and varying information in a meaningful way would be problematic.

7. In collecting the UBO information, the primary goal is to obtain accurate information on the country and industry of the UBO; information pertaining to the identity of the UBO itself (such as its name) is of secondary importance. The United States recognizes that a UBO that is an individual (or group of individuals) may prefer not to be specifically identified and, in such cases, the U.S. affiliate is not required to report the name of its UBO. A similar situation that might affect reporting arises if the UBO does not want to make requested information available to the U.S. affiliate for inclusion in a survey report. Because of concerns about such situations, the first U.S. surveys that obtained UBO information permitted the UBO itself to directly supply the requested

information. However, the early surveys indicated that this was not a significant issue, and the United States no longer provides instructions on its survey forms regarding direct reporting of information by a UBO.

8. Although the United States obtains information on the industry of UBO in addition to the country, its use of the industry classifications is limited. Most tables that disaggregate the operations data by industry are based on data classified by industry of the U.S. affiliate; only a few are classified by industry of UBO. The industry classifications obtained for UBO's are much less detailed than those for U.S. affiliates. In the 2002 benchmark survey, UBO's were assigned to 1 of 32 broad categories while U.S. affiliates were assigned to 1 of almost 200 industry classifications (the attachment lists the 2002 UBO industry categories). In the case of UBO's that are business enterprises, the classifications are assigned based on the UBO's worldwide consolidated activities, including the activities of the U.S. and foreign entities in the ownership chain below it.² The industry classification of the UBO can and often does differ from that of the foreign parent. (Classifications can differ even in cases where the UBO and the foreign parent are the same company.) This difference occurs because the industry classification of the foreign parent reflects only the activities of the parent and the foreign parent consists *only* of the first person outside the United States in the U.S. affiliate's ownership chain; all other affiliated foreign or U.S. persons are excluded.

² UBO's that are not business enterprises are classified based on the type of entity--for example as individuals, estates, or trusts.

When the United States first began collecting UBO information, the industry was assigned based on the activities of the UBO itself rather than on its worldwide activities. Many UBO's are holding companies, and tabulations based on the information collected in the early surveys tended to classify a substantial portion of the data as holding companies. Because of this problem, beginning with the 1987 benchmark survey of foreign direct investment in the United States the basis for assigning industry classifications was changed to the UBO's worldwide activities.

9. A U.S. affiliate may have more than one foreign parent and, therefore, may also have more than one UBO. In such cases, U.S affiliates are required to identify the UBO for each foreign parent ownership chain. (An affiliate could have two foreign parents if, for example, one parent has a 30 percent ownership interest in the affiliate and another has a 70 percent interest.) In tabulations that present data by country of UBO, data for U.S. affiliates with more than one UBO are assigned to the country of the UBO in the ownership chain of the foreign parent with the largest ownership interest.

10. UBO information was first collected in the 1980 benchmark survey of foreign direct investment in the United States. In addition to the data for 1980, the benchmark survey information was used to identify the UBO's of U.S. affiliates that reported in annual surveys covering 1977-79. Since 1980, all annual and benchmark surveys have collected UBO information, and published reports with tabulations of data classified by country and industry of UBO are available for each of the years 1977-2002.

11. Almost all of the tables that present the operations data disaggregated by country are based on data classified by country of UBO. However, a few tables provide data classified by country of foreign parent (that is, by country of the immediate investor). Comparisons of data from the 2002 benchmark survey of foreign direct investment in the United States indicate that distributions based on data classified by country of UBO differ significantly from distributions based on the data classified by country of foreign parent. For example, when distributed by country of UBO, totals for the United Kingdom, Italy, and Hong Kong are substantially higher than those shown when data are distributed by country of foreign parent (see the attached table). For other countries—most notably, Switzerland, the Netherlands, Ireland, and some Caribbean countries—totals shown when data are distributed by country of foreign parent are substantially higher than those shown when distributed by country of UBO. Another difference is that values are shown for the United States in the data distributed by country of UBO.

12. In addition to the operations data, the United States publishes a limited amount of data on the inward direct investment position and on direct investment balance of payments income classified by country of UBO; these data are available for the years 1987-2003. In order to tabulate the direct investment position and income data by country of UBO, the UBO information collected in the annual and benchmark surveys is linked to information on balance of payments transactions and positions obtained in quarterly direct investment surveys. In the tabulations of the data, values shown for the direct investment position and income are not prorated to reflect the UBO's percent ownership share in its U.S. affiliate because, as noted earlier, this information is not obtained in the U.S. surveys. Also in the tabulations, values associated with U.S. affiliates with more than one UBO are assigned to the country of the UBO in the ownership chain of the foreign parent with the largest ownership interest.

13. Questions for discussion:

- *Do DITEG members have comments on the UBO concept as used by the United States?*
- *Do DITEG members have comments on the methods used by the United States to obtain UBO information?*
- *Should the benchmark definition recommend that information on the ultimate investor be collected by host countries?*
- *Do DITEG members agree that it is not necessary to collect information on the ultimate investor's percent ownership interest in the direct investment enterprise or on intermediary companies between the immediate and ultimate investing companies?*

ATTACHMENT

UBO Industry Categories Used in the 2002 Benchmark Survey of Foreign Direct Investment in the United States

- 01 Government and government-owned or -sponsored enterprise, or quasi-government organization or agency
- 02 Pension fund—Government run
- 03 Pension fund—Privately run
- 04 Estate, trust, or nonprofit organization
- 05 Individual

Private business enterprise, investment organization, or group engaged in:

- 06 Insurance
- 07 Agriculture, forestry, fishing, and hunting
- 08 Mining
- 09 Construction
- 10 Transportation and warehousing
- 11 Utilities
- 12 Wholesale and retail trade
- 13 Banking, including bank holding companies
- 14 Holding companies, excluding bank holding companies
- 15 Other finance
- 16 Real estate
- 17 Information
- 18 Professional, scientific, and technical services
- 19 Other services

Manufacturing, including fabricating, assembling, and processing of goods:

- 20 Food
- 21 Beverages and tobacco products
- 22 Pharmaceuticals and medicine
- 23 Other chemicals
- 24 Nonmetallic mineral products
- 25 Primary and fabricated metal products
- 26 Computer and electronic products
- 27 Machinery manufacturing
- 28 Electrical equipment, appliances, and components
- 29 Motor vehicles and parts
- 30 Other transportation equipment
- 31 Other manufacturing
- 32 Petroleum manufacturing, including integrated petroleum and petroleum refining without extraction

Selected Financial and Operating Data of Majority-Owned U.S. Affiliates, by Country of UBO and Country of Foreign Parent, 2002

	By country of UBO					By country of foreign parent				
	Millions of dollars				Thousands of employees	Millions of dollars				Thousands of employees
	Total assets	Gross property, plant, and	Sales	Value added		Total assets	Gross property, plant, and	Sales	Value added	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
All countries	4,556,582	1,016,004	2,043,500	453,637	5,420.3	4,556,582	1,016,004	2,043,500	453,637	5,420.3
Canada	325,469	84,674	128,411	36,589	470.5	340,756	91,643	142,428	38,642	486.2
Europe	3,418,922	639,160	1,246,557	290,887	3,751.9	3,480,720	653,881	1,289,920	307,719	3,892.6
Austria	3,459	1,352	2,993	483	10.4	3,448	2,715	5,315	1,100	12.4
Belgium	41,275	10,513	23,252	6,194	132.6	43,221	14,420	25,498	6,949	139.6
Denmark	15,881	3,070	9,411	2,427	44.7	19,319	2,454	6,561	2,080	41.0
Finland	13,909	7,946	16,672	4,108	38.5	13,033	(D)	15,934	(D)	K
France	447,432	69,059	150,885	40,926	468.0	446,954	61,343	144,952	38,757	446.3
Germany	534,078	176,956	290,353	56,951	676.4	516,865	167,080	277,724	52,470	627.1
Ireland	12,179	5,831	10,714	3,385	36.1	30,956	9,101	28,455	6,710	120.2
Italy	38,212	11,698	22,134	5,070	87.7	13,795	5,359	8,917	2,441	39.9
Luxembourg	7,721	3,331	3,515	1,029	13.6	159,164	(D)	31,537	(D)	M
Netherlands	529,883	80,285	226,982	38,487	547.3	627,778	105,098	274,014	50,600	751.7
Norway	7,020	2,411	8,956	979	17.7	7,630	2,330	8,904	1,111	14.0
Spain	7,932	2,835	5,464	927	18.0	5,612	2,368	3,354	534	13.1
Sweden	58,142	15,476	43,049	11,891	225.7	60,651	14,209	48,614	13,785	223.9
Switzerland	878,483	35,898	111,395	27,596	429.9	967,226	57,571	179,253	48,115	598.3
United Kingdom	819,758	210,411	314,944	89,658	995.8	561,273	167,800	220,450	62,738	618.0
Other	3,559	2,089	5,841	775	9.4	3,796	1,997	10,438	5,305	38.0
Latin America and Other Western Hemisphere	222,161	65,316	122,170	37,045	352.3	198,143	74,226	105,342	28,724	309.1
South and Central America	33,109	15,894	44,126	10,167	65.7	24,854	11,494	35,363	8,601	55.1
Brazil	3,873	1,946	(D)	675	5.3	868	393	420	94	0.8
Mexico	18,132	6,500	15,769	3,496	47.1	12,436	3,556	12,642	2,572	40.6
Panama	(D)	(D)	1,312	513	6.5	(D)	(D)	(D)	(D)	I
Venezuela	(D)	(D)	(D)	(D)	H	(D)	(D)	(D)	(D)	H
Other	798	295	1,053	(D)	G	570	116	1,190	129	2.3
Other Western Hemisphere	189,052	49,422	78,044	26,877	286.7	173,288	62,732	69,979	20,123	254.1
Bahamas	1,032	398	346	120	2.6	2,624	1,414	1,836	499	4.7
Bermuda	121,159	35,152	62,552	22,154	223.4	60,380	26,230	21,880	5,129	63.1
Netherlands Antilles	(D)	(D)	(D)	(D)	J	12,464	9,615	8,304	3,126	37.6
United Kingdom Islands, Caribbean	55,661	7,306	9,714	2,147	36.5	71,882	23,337	30,023	8,102	106.0
Other	(D)	(D)	(D)	(D)	I	25,939	2,135	7,937	3,267	42.6
Africa	6,073	3,306	5,387	1,150	10.3	10,042	7,267	6,949	1,449	12.5
South Africa	4,984	2,931	5,009	1,069	9.7	(D)	(D)	(D)	177	2.1
Other	1,089	375	378	81	0.6	(D)	(D)	(D)	1,271	10.4
Middle East	22,888	17,667	30,331	7,275	40.7	13,562	11,124	26,062	6,033	21.7
Israel	3,779	1,038	(D)	634	9.6	2,241	708	1,676	427	7.4
Kuwait	1,661	1,330	499	190	0.9	(D)	(D)	(D)	(D)	F
Lebanon	674	738	422	218	2.3	1	1	(*)	(*)	(*)
Saudi Arabia	11,542	10,594	(D)	4,993	9.8	(D)	(D)	(D)	(D)	H
United Arab Emirates	2,723	2,778	521	244	1.6	241	286	97	63	0.6
Other	2,509	1,189	2,245	997	16.6	1,071	519	1,197	595	8.5
Asia and Pacific	540,946	198,098	492,116	75,627	754.3	513,359	177,864	472,799	71,070	698.2
Australia	67,658	18,659	22,642	6,656	55.0	65,250	16,897	20,625	6,138	46.7
China	1,096	546	1,427	251	3.4	661	426	709	113	1.5
Hong Kong	6,521	4,738	4,461	1,231	11.3	1,422	971	1,076	327	3.6
India	390	129	489	91	1.7	299	105	339	80	1.3
Japan	430,565	150,705	414,472	61,976	628.2	423,939	147,366	411,145	61,094	610.8
Korea, Republic of	12,760	5,876	30,576	1,948	11.9	12,748	5,865	30,575	1,949	11.9
Malaysia	1,687	1,064	879	334	5.4	556	337	462	76	1.9
New Zealand	351	67	1,031	19	0.3	368	94	1,018	21	0.6
Singapore	5,800	4,393	4,841	1,131	15.2	3,679	2,678	2,680	517	9.3
Taiwan	13,004	10,894	10,734	1,836	18.6	4,050	2,956	3,562	667	8.7
Other	1,115	1,027	565	154	3.2	387	168	607	89	2.1
United States	20,122	7,783	18,529	5,064	40.1
Addenda:										
European Union (15)	2,531,643	600,017	1,122,436	261,881	3,298.3	2,502,708	592,506	1,091,821	253,280	3,244.2
OPEC	(D)	(D)	(D)	(D)	J	18,965	15,871	42,916	10,384	10.8

D Suppressed to avoid disclosure of data of individual companies.

NOTE. Size ranges are given in employment cells that are suppressed. The size ranges are: A--1 to 499; F--500 to 999; G--1,000 to 2,499; H--2,500 to 4,999; I--5,000 to 9,999; J--10,000 to 24,999; K--25,000 to 49,999; L--50,000 to 99,999; M--100,000 or more.

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD
WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS**

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

ISSUES PAPER (DITEG) # 12 / 2

**COUNTRY IDENTIFICATION:
THREE METHODS TO DETERMINE ULTIMATE BENEFICIARY OWNER AND
ULTIMATE BENEFICIARY AFFILIATE**

**Prepared by Mark van Wersch,
Eurostat, Unit C-4**

February 2005

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ISSUES PAPER (DITEG) #12 / 2

**COUNTRY IDENTIFICATION:
THREE METHODS TO DETERMINE ULTIMATE BENEFICIARY OWNER AND
ULTIMATE BENEFICIARY AFFILIATE**

I. Coverage of this Issue paper and concepts used

1. During the DITEG meeting of December 2004, Eurostat presented a possible method to determine the Ultimate Beneficiary Owner for inward FDI relationships¹. Also for this meeting the US prepared a document describing its method to classify inward direct investment by Ultimate Owner². DITEG concluded that the geographic allocation on the basis of the Ultimate Beneficiary Owner for inward FDI will provide useful supplementary information, especially for FDI stocks and income as well as for FATS. It was agreed that more work should be done for allocating outward FDI to the Ultimate Host Country.

2. Eurostat agreed to prepare a new Issue paper for the DITEG meeting of March 2005 in which the US-method and the method originally proposed by Eurostat for assigning inward investment to the UBO (for short: US- / EU-method) are compared. It should be mentioned that Eurostat prepared its original proposal for DITEG mainly to facilitate the discussion. At this stage Eurostat does not have an outspoken preference for any method.

3. This paper is based on a set of hypothetical FDI relationships within a group of related enterprises. The example is confined to stocks of equity capital, but it seems that the results would be the same if reinvested income flows were considered. The inclusion of other capital in the example could, on the other hand, affect the preferences regarding the methodology. This will be mentioned below when applicable.

4. This paper uses the following concepts. Ultimate Beneficiary Owner (UBO), Ultimate Beneficiary Affiliate (UBA), Intermediary Affiliate (IMA) and direct investment enterprise (DIE).

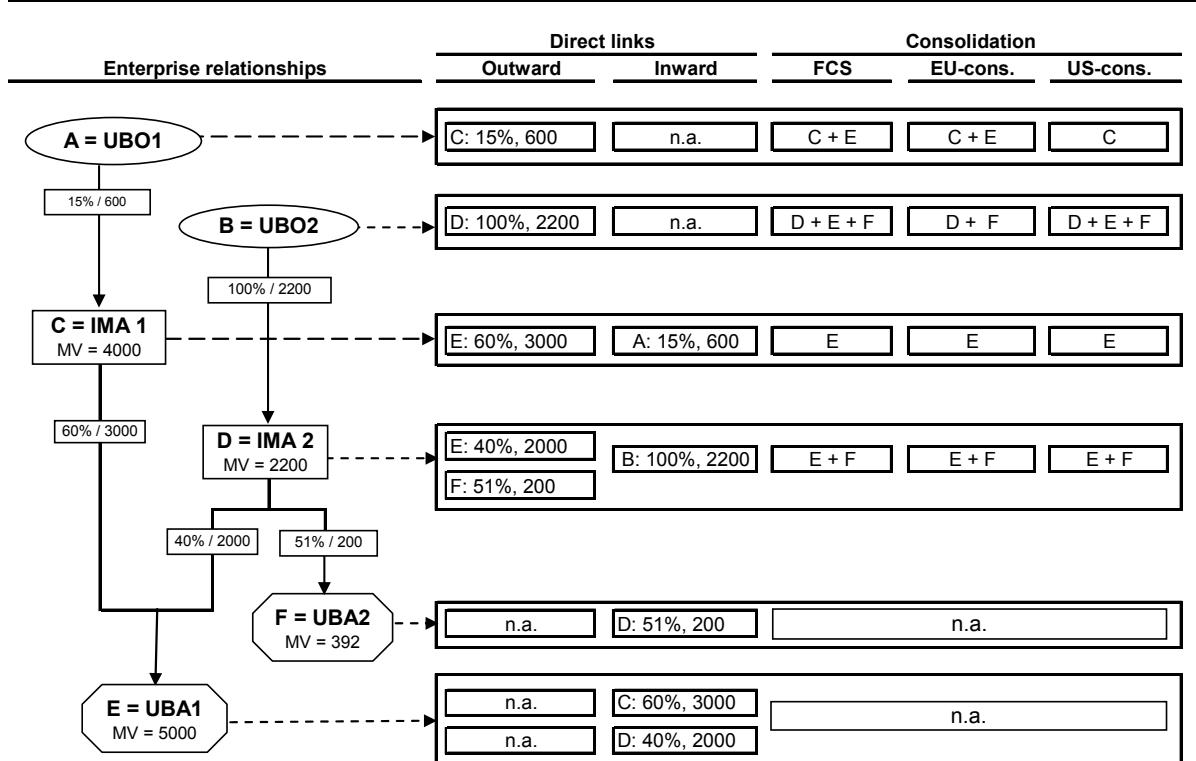
¹ DITEG Issue paper 12: *Country Identification (Ultimate Beneficiary Owner/Ultimate Destination and Immediate Host/Investing Country)*, Paolo Passerini, Eurostat, November 2004.

² DITEG Issue paper 12i: *Country identification – Use of Ultimate Owner Classification in United States Inward Direct Investment Statistics*, Ned G. Howenstine, U.S. Bureau of Economic Analysis, November 2004.

II. Basic example

5. The left side of Scheme 1 shows the enterprise relationships between two UBO's (A and B), two IMA's (C and D) and two UBA's (E and F). Each enterprise is considered to be resident of a separate country. Given the percentages of ownership shown on the left side, the data on the right present the resulting direct FDI-links and the consolidation according to the Fully Consolidated System (FCS), the EU- and the US-methods³. Given this example, in the US-system A would not consolidate E because A's multiplicative ownership of E does not exceed 10%; in the EU-system B would not consolidate E because the consolidation criterion for indirect links is an ownership of more than 50%).

Scheme 1 Enterprise structure and resulting direct and indirect (consolidation) relationships
All amounts pertain to equity capital



Explanatory note. MV = market value. N.a. means not applicable. The figures in the small rectangular boxes (e.g. 15% / 600) indicate the share in the first 'shot' DIE and its market value.

6. As the scheme shows, the direct FDI-links are typically symmetrical (mirrored) throughout the related enterprises. This characteristic does not (necessarily) apply to the concepts of UBO and UBA as will be seen below. In the example D can be considered an

³ See for instance DITEG Outcome paper 3, *Indirect FDI relationships and alternatives for the Fully Consolidated System*, for a description of these methods.

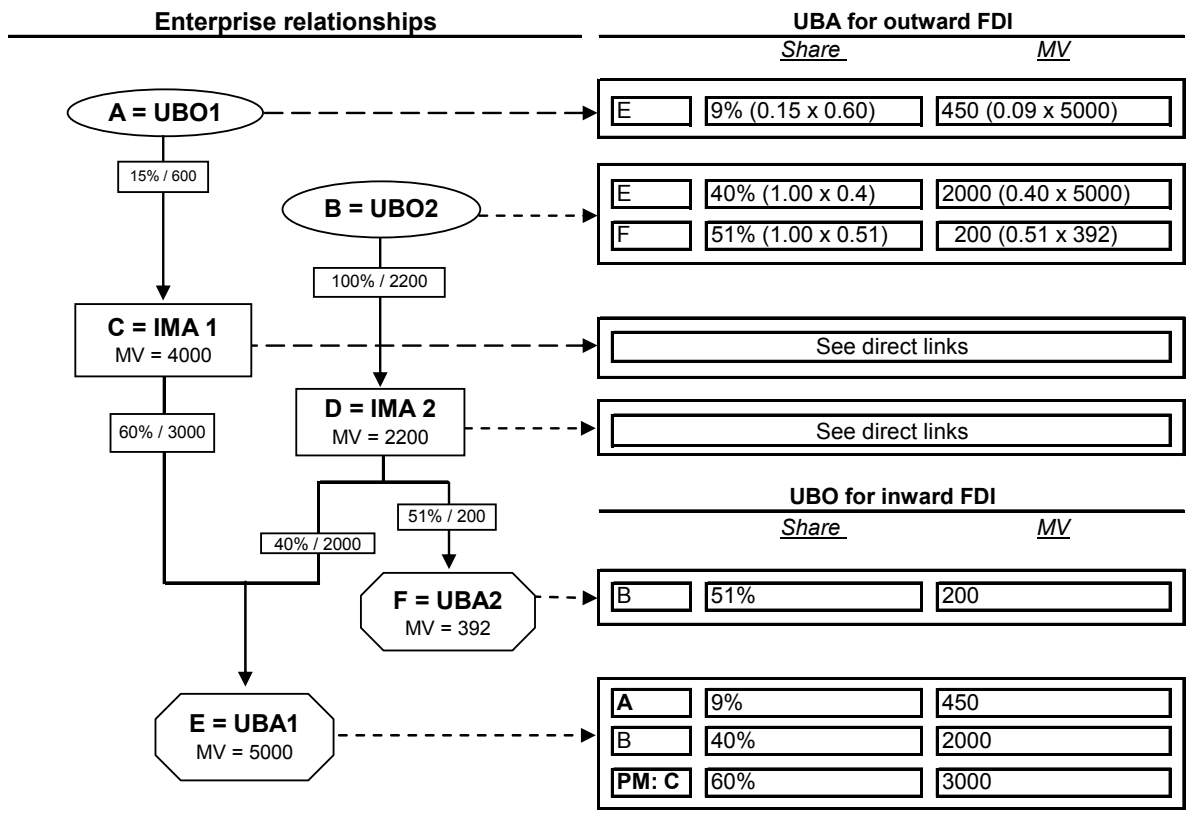
SPE / holding company. All the equity capital obtained from its parent is passed on to D's affiliates.

III. Measuring the actual indirect ownership links

7. On the right side of Scheme 2 the indirect ownership links between A and B on the one hand and E and F on the other are shown. These links have been calculated by multiplying the respective ownership shares in the chains, without using any cut-off criterion, e.g. regarding influence. As a result, the indirect links between the included enterprises are completely symmetrical (for instance both B and E compute the same market value for B's share in E).

Scheme 2 Assessing the indirect ownership links with the enterprises at the extremes of the chain

All amounts pertain to equity capital



8. It should be noted that the terms UBO and UBA (as assigned to A, B, E, F) have so far been used without the underlying concepts having been defined. Strictly speaking A, B, E and F only represent the extremes of the chains in the example. From A's point of view, E may very well be considered its UBA. After all, A holds 600 FDI equity of which 450 can be

assigned to E. E on the other hand has a direct equity liability to C of 3000, much more than its indirect liability to A. As regards E, enterprise C would therefore be the more likely candidate to be considered its UBO.

9. The (purely mathematical and symmetrical) indirect links shown in Scheme 2 are used as reference for the results obtained when applying the EU- and US-method to determine the UBO's and UBA's in Section V.

IV. SPE's and data on UBO's / UBA's

10. In the simplified example of Scheme 2 with only one layer of Intermediary affiliates, notably C and D, the direct and indirect links of the IMA's are identical, because in this case both data sets refer to the extremes of the chains (A, B, E, F). It should be observed that, also if there are more layers of IMA's, their indirect links with the extremes of the chains will not be mirrored by the indirect links compiled by the extremes which look through the IMA's. This raises the question how the indirect links of e.g. enterprise D, which could be an SPE / holding company, should be interpreted.

11. DITEG previously has recommended that the transactions and positions of SPE's with related non-resident enterprises should remain in the functional category of FDI. An important reason for that recommendation was to retain the symmetry of FDI data relating to direct / first shot links (Scheme 1). At the same time it was recommended that further work be done to improve the analytical value of FDI data for countries with large numbers of SPE's. Supplementary UBO / UBA data could be useful in that respect. The positions of D in Scheme 2 vis-à-vis its UBO and UBA's represent the FDI equity that has passed through D's economy, without having much impact there. In D's statistics, these positions could be identified under a separate FDI category, e.g. as 'FDI equity capital in transit' between the countries of B, E and F. Additionally, it could be considered to include this item also in the b.o.p. flows. But it would probably be more difficult to collect these data for flows, for instance because there may be a time gap between the inward and outward flows.

V. Measuring the indirect ownership links using the EU- and US-method

12. Scheme 3 shows the results when Eurostat's original proposal and the US-method for compiling UBO data are applied to the basic example of Scheme 1. Both methods have been extended to also cover UBA data, because the collection of supplementary UBA data may be considered useful, for instance to determine the ultimate origin and destination of equity capital transferred through SPE's.

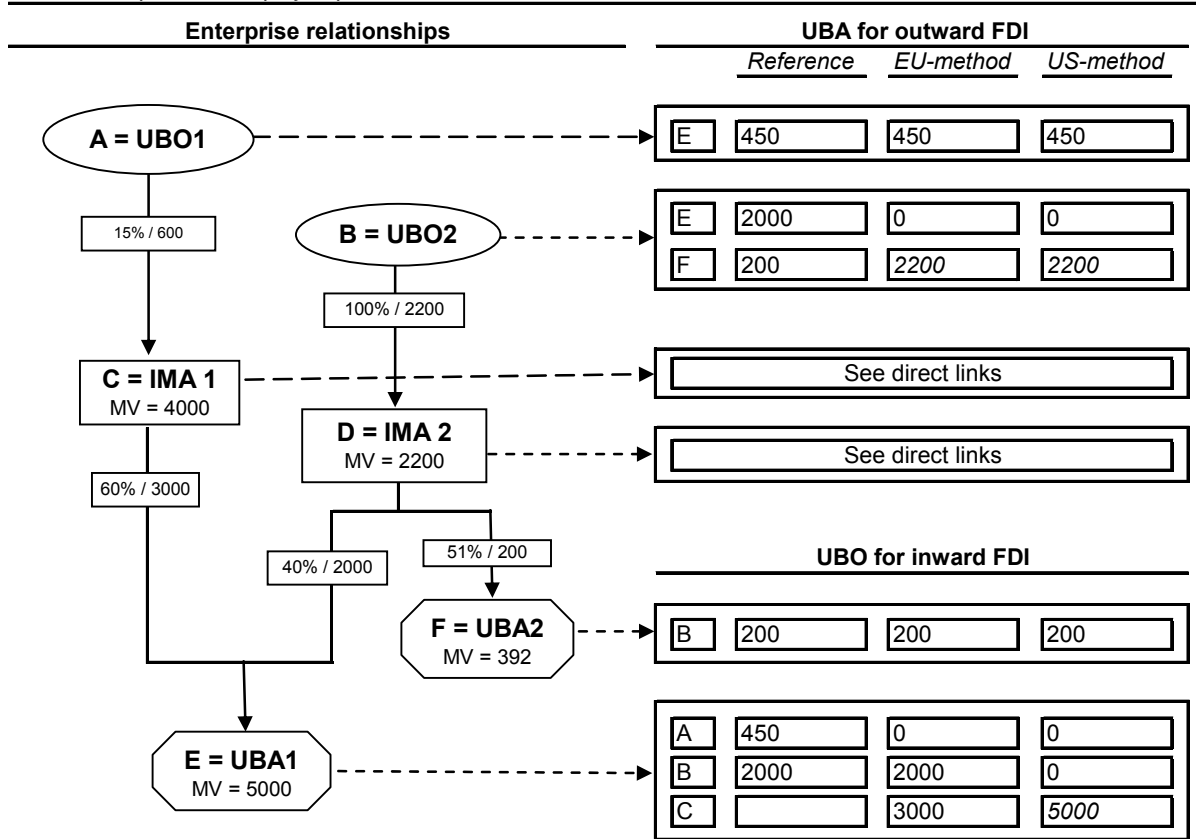
Application and extension of the US-method

13. The US-method only follows *one* ownership chain to determine the UBO of a DIE. The first / direct link is the foreign parent with a share of more than 10%. If the DIE has more than one owner, the chain will only follow the direct parent owning the highest share.

The UBO is the first enterprise moving up the chain that is not owned more than 50% by another enterprise. If the first / direct link of the DIE is not controlled itself, this immediate parent is also the UBO. In the US-method the (market) value of the equity liability of the DIE is fully assigned to the (unique) UBO.

Scheme 3 Application of the EU- and US-methods to determine both UBO's and UBA's

All amounts pertain to equity capital



Explanatory note. The amounts in italic print refer to under- or overestimations resulting from the methods used. These results are, however, to some extent related to the figures chosen in the example.

14. Applying the US- method to the example of Scheme 1 results in C being the UBO of E, because C owns a larger share of E than D. Moreover, since A does not control C, it is not the UBO of E. Consequently, the full market value of the foreign participations in E, 5000, will be assigned to its UBO C. This is shown in the last column of Scheme 3, under the heading 'UBO for inward FDI'. In the example, this implies a large overestimation since 40% (2000) of C is owned up the chain D / B. It can further be assessed that B is the UBO of F since B controls F's direct parent D. The total foreign participation in F (200) will therefore be assigned to B.

15. The US-method can be reformulated to determine the UBA going down the ownership chain. The first / direct link in that case is the foreign affiliate that is owned by more than 10% by a domestic enterprise. If more direct links fulfil this criterion, only the one owned by the largest share will be followed to determine the UBA. The chain will continue down the ownership ladder to include enterprises that are controlled by the direct link and its subsidiaries. If there is more than one subsidiary at any given level down the chain, only the link owned by the largest share will be pursued. If the first direct link does not have any subsidiaries, it is also the UBA. Since only one chain resulting in one UBA is pursued, the full FDI equity capital held by the enterprise at the top of the chain will be assigned as a liability to the (unique) UBA.

16. Applying this method, it can be seen from Scheme 3 (under the heading 'UBA for outward FDI') that E is the UBA of A. F is the UBA of B because B is the parent of D while D controls F (but not E). Consequently the full outward FDI equity capital of B (2200) will be assigned to F. In the chosen example this results in a large overestimation because the total FDI equity capital liability of F is only 200. The largest part of B's FDI equity capital (2000) is indirectly invested in E which is however not included in the relevant ownership chain.

Application and extension of the EU-method

17. Contrary to the US-method the original proposal by Eurostat ('EU-method') allows more than one UBO to be assigned to a direct investment enterprise. In particular, all foreign parents holding more than 10% of a DIE are at the basis of an upward chain of ownership. For each chain, the UBO is the first enterprise moving up the ownership ladder that is not owned more than 50% by another enterprise. If a first / direct link is not controlled itself, this immediate parent is also UBO. The (market) value of the share of each direct link is assigned to the UBO of that chain. The effect of this method in the example of Scheme 3 is that E will consider both B and C as its UBO's, whereas according to the US-method only C is UBO to E.

18. If the EU-criteria are 'mirrored' for the sake of determining UBA's, this means that FDI investors need to follow each chain starting with each of their first shot DIE's. Each chain will continue down the ownership ladder to include enterprises that are controlled by the direct link or its subsidiary. If there is more than one subsidiary at any given level down a chain from the first shot DIE, only the link owned by the largest share will be pursued. If a first shot DIE does not have any subsidiaries, it is also a UBA. The market value of the participation in a first shot DIE will be assigned to the UBA of that DIE chain.

19. In the example shown in Scheme 3, the adjusted EU-method to determine the UBA's for A and B gives the same results as the US-method, because both A and B are parent to only one first shot DIE. Consequently, there is only one ownership chain to be pursued. From B's first shot affiliate (D), only the chain down to D's subsidiary (F) will be followed, making F the single UBA of B. The difference between the extended US- and EU-methods

can be shown by identifying D's UBA's as they would be assessed by compilers in the *country of D*. In the adjusted US-method only the chain to the affiliate owned by the largest share would be pursued, making F the only UBA of D. In the EU-method both D's first shot DIE's would be included, making E and F UBA's to D.

Assessment of the US- and EU methods for UBO data

20. The EU-method to determine the UBO will give more accurate data than the US-method, especially when there is more than one *direct* link going up the ownership chain (like is the case for E in Scheme 3). The additional amount of data needed for this method, could on the other hand make it easier to implement the US-method. To reach a balanced judgment on the preferability of each system, it would be useful to dispose of quantitative data showing the relative occurrence of more than one foreign parent.

VI. Final remarks regarding the combined collection of UBO and UBA data

21. The reference method (using a strict multiplicative calculation) gives the most accurate UBO / UBA data because it takes into account all ownership relationships between the related enterprises, including ownership shares and their (market) values. The method leads to complete symmetry between the UBO / UBA data for the enterprises at the extremes of the ownership chains. The strict multiplicative calculation, on the other hand, is not necessarily compatible with the FDI ownership criteria and additional requirements would therefore have to be assessed. Most importantly, the method would not seem feasible in practice because the amount of data needed would be prohibitive.

22. As was shown in Scheme 3, the criteria proposed to define UBO and UBA relationships (in the EU- and US-systems) result in asymmetries between the UBO and UBA data. The UBO/UBA data are further not always compatible with the consolidation criteria⁴. If, therefore, supplementary data on both UBO's and UBA's were to be collected in the future, more work would need to be done to assess how to interpret the data, especially in international comparisons. Also, the extensions of the EU- and US-methods suggested above on behalf of the compilation of UBA data are not yet sufficiently elaborated and would also need more work⁵.

IV. Points for discussion

⁴ In all three methods shown in Scheme 3, A assigns E as its UBA. But only in the FCS and EU-consolidation (shown in Scheme 1) does A consolidate E in its FDI data. E on the other hand does not consider A as its UBO in either the EU- or the US-method.

⁵ An illustration of this problem was given in Scheme 3. In both the EU- and US-methods F is considered the UBA of B. Consequently, all FDI assets of B (2200) are assigned to F, but this amount largely exceeds the total of F's FDI equity liability (200). This implies that for UBA data a criterion based only on relative shares does not suffice to determine the downward chain. Additionally, the absolute market values of the affiliates down the chain must be taken into account.

1. *Do DITEG members agree that both UBO and UBA data may be useful to present supplementary FDI data for countries with large activities of SPE's ?*
2. *Do DITEG members have a preference for the US-method or for the method originally proposed by Eurostat. Do DITEG members need quantitative data on the occurrence of more than one direct foreign parent to come to a balanced decision.*
3. *Do DITEG members want more work to be done on the criteria to determine the UBA?*