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## Appendix 6a. Topical Summary—Direct Investment

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### A. Purpose of Topical Summaries

A6a.1. Appendices 6a-6c bring together topics that cut across different chapters. They seek to give an overview of these topics, in contrast to the main part of the manual which is organized according to accounts, rather than topics. These appendices are designed in a “sign-post” style—that is, they give only a brief introduction and give references as to where more information is available in the chapters, rather than duplicate that information.

### B. Overview of Direct Investment

Reference:  
*OECD Benchmark Definition of Foreign Direct Investment* (fourth edition)

A6a.2. Direct investment arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy. Direct investment refers to the flows and positions that arise between parties in a direct investment relationship.

A6a.3. In operational terms, a direct investment relationship is defined as arising when an entity has voting power of ten percent or more in the enterprise (paragraph 6.9). The definition also spells

out how control or a significant degree of influence may be achieved by immediate ownership or indirectly, by ownership of enterprises that in turn own other enterprises (paragraph 6.12).

A6a.4. Direct investment relationships and associated concepts are defined in paragraphs 6.8-6.24. More details are available in the Framework for Direct Investment relationships in the *OECD Benchmark Definition of Foreign Direct Investment*. Some important terms are defined briefly in Box A6.1.

A6a.5. While a direct investment relationship is defined in terms of voting power, most flows and positions between the entities, including loans and trade credit are classified as direct investment (paragraphs 6.25-6.36). The only financial flows and positions excluded are debt between selected affiliated financial corporations and financial derivatives (paragraph 6.27). Debt included in direct investment is called intercompany lending (paragraph 6.26). “Funds in transit” or “pass-through funds” refers to funds that pass through an enterprise in one economy to other affiliates, with the funds not staying in that economy. Unless classified as debt between affiliated financial intermediaries, such debt is included in direct investment data, but may be identified separately (paragraphs 6.34-6.35).

A6a.6. The typical direction of direct investment is from the direct investor to its direct investment enterprise. However,

there may also be flows in the reverse direction, and between fellow enterprises, as discussed in paragraphs 6.37-6.41. While the primary presentation of data in this manual is according to whether the item relates to an asset or liability, an alternative presentation called the directional principle, based on the direction of the direct investment relationship can be derived from the components and is of analytical interest—see paragraphs 6.42-6.45 and Box 6.3.

A6a.7. Issues associated with direct investment positions are discussed in paragraphs 7.14-7.25. Valuation of equity not listed on a market is discussed in paragraphs 7.15-7.19. Entities that borrow on behalf of their affiliates are discussed in paragraphs 7.20-7.22.

A6a.8. Issues associated with financial account transactions in direct investment are discussed in Chapter 8. Reinvestment of earnings is the counter-entry to reinvested earnings in the primary income account, and is discussed in paragraphs 8.15-8.16. The possibility of imputed direct investment flows arising from goods, services or other items supplied above or below value or with no payment is discussed in paragraph 8.17. Corporate inversion and other restructuring are discussed in paragraphs 8.19-8.22.

A6a.9. Issues associated with income on direct investment are discussed in Chapter 11. Reinvested earnings are discussed in paragraphs 11.31-11.34, 11.38-11.45, and 11.88-11.94.

A6a.10. In addition, the general accounting principles, issues of units and residence, and classification of instruments are also applicable to direct investment. They are

dealt with in Chapters 3, 4, and 5 respectively. The case of transfer pricing between affiliated enterprises is discussed in paragraphs 3.77-3.78.

A6a.11. The identification of institutional units in the case of branches, notional resident units for ownership of real estate and other natural resources, multiterritory enterprises, joint ventures, quasicorporations identified prior to incorporation, trusts, and special purposes entities are dealt with in paragraphs 4.24-4.49) and pertain particularly to direct investment.

A6a.12. Standard components and selected supplementary items are shown in Appendix 9. Because of interest in different types of direct investment, additional breakdowns could be provided on a supplementary basis for components of particular relevance to an economy. Examples include partner data, mergers and acquisitions, funds in transit, industry data, and private equity. Industry classification is discussed in paragraph 6.45. Identification of mergers and acquisitions is discussed in paragraph 8.18.

A6a.13. Direct investment data may be classified by partner economy, as discussed in paragraphs 4.142-4.147.

A6a.14. While balance of payments and international investment position data show the international flows and positions, another aspect of the impact of direct investment is on domestic variables such as employment, sales, value added, and gross fixed capital formation. These statistics are called Activities of Multinational Enterprises and are discussed in Appendix 4.

## DIRECT INVESTMENT

### Box A6a.1 Direct Investment Terms

*Direct investment relationship:* A direct investment arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy (paragraph 6.9).

*Control* is determined to exist if the direct investor owns more than 50 per cent of the voting power in the direct investment enterprise. A significant degree of *influence* is determined to exist if the direct investor owns from 10 to 50 percent of the voting power in the direct investment enterprise. The control or influence may be immediate (through ownership of voting power) or indirect (through ownership of enterprises that in turn have voting power). More detail on the identification of control and influence is given in paragraphs 6.11-6.14).

*Direct investor:* An entity or group of related entities that is able to exercise control or influence over another entity that is resident of a different economy (paragraph 6.11).

*Direct investment enterprise:* An entity subject to control or a significant degree of influence by a direct investor is called the direct investment enterprise (paragraph 6.11). A direct investment enterprise is either a *subsidiary* or an *associate* (paragraph 6.15).

*Affiliate:* Any enterprise in a direct relationship with another, or that has the same direct investor is an affiliate. Affiliates of an enterprise consist of its direct investor(s), direct investment enterprise(s), or other affiliate(s).

When two direct investment enterprises have the same direct investor, but neither is a direct investor in the other, then they are in a direct investment relationship as *fellow enterprises* (paragraph 6.17).

*Reverse investment:* Reverse investment arises when a direct investment enterprise owns some, but less than 10 percent of the voting power in, or has lent funds to, its immediate or indirect direct investor (paragraph 6.40).