



## APPENDIX

# 4

## Foreign Direct Investment

### Introduction

**A4.1** This appendix presents additional material on treatment of direct investment (DI)<sup>1</sup> in international accounts. It provides further detailed discussion on some complex conceptual aspects of the DI, as well as further discussion of the compilation of DI profits.

**A4.2** DI arises when a unit resident in one economy makes an investment that gives control or a significant degree of influence over the management of a company that is resident in another economy. This concept is operationalized where a direct investor owns equity that entitles it to 10 percent or more of the voting power (if it is incorporated, or the equivalent for an unincorporated company) in the direct investment enterprise (DIENT). Voting power is usually equal to ownership of ordinary shares. Once that threshold has been reached, the entities involved are said to be in an immediate DI relationship when they are residents in different economies. The equity and debt transactions and positions between the direct investor and the DIENT, and between all DIENTs of the same direct investor, are included in DI, except for debt between selected financial intermediaries. DI also includes transactions and positions between companies that are in indirect DI relationships (see paragraph 10.7 in Chapter 10 for defining direct investment relationships). In summary, DI statistics comprise cross border transactions and positions between companies that are in a DI relationship.

**A4.3** The coverage of DI for analytical purposes includes income flows and financial transactions recorded in the direct investment functional category in the balance of payments and financial positions

recorded in the direct investment functional category in the IIP.

**A4.4** DI tends to involve a lasting relationship of a direct investor with the DIENT to ensure a significant degree of influence by the direct investor in the management of the DIENT, although it may be a short-term relationship in some cases. By the very nature of its motivation, DI tends to promote stable economic links between economies through direct access for direct investors in home economies to production units in host economies. Within a proper policy framework, DI assists host economies in developing local companies, promotes international trade through access to markets, and contributes to the transfer of technology and know-how. In addition to its direct effects, DI has an impact on the development of labor and financial markets, and influences other aspects of economic performance through its other spillover effects. For these reasons, DI is of analytical and policy interest in its own right, in addition to its contribution to broader macroeconomic indicators.

**A4.5** In addition to the discussion of DI in the various chapters of this *Guide* (investment income flows in Chapter 13, financial transactions in Chapter 10, and positions in Chapter 9), Appendix 6a of the *BPM6* discusses various issues in DI. The IMF conducts the Coordinated Direct Investment Survey (CDIS), a collection of inward and outward FDI positions, and the *CDIS Guide* provides further discussion of DI.<sup>2</sup> In addition, the Organisation for Economic Co-operation and Development (OECD) has a leadership role in research on DI concepts, undertakes a collection of DI positions, transactions, and income flows from member economies, and publishes the OECD *Benchmark Definition of Foreign Direct Investment*, 4th edition,

<sup>1</sup> In this appendix, the terms “direct investment” and “foreign direct investment” are used interchangeably and have the same meaning.

<sup>2</sup> The CDIS database as a data source is also discussed in Chapter 7.

which describes a range of analytical constructs to assist with the further analysis of DI statistics.

**A4.6** This appendix deals with specific issues associated with measuring and analyzing DI.

### Statistical Units

**A4.7** The choice of statistical unit is one of the most important decisions that the compiler will make for the compilation of DI statistics. The choice of statistical unit for collection and compilation purposes can affect the classification of data and, in some cases, may affect the extent of DI relationships that are identified.

### Company

**A4.8** A company is defined as an institutional unit engaged in production. Investment funds and other corporations or trusts that hold assets and liabilities on behalf of groups of owners are also companies, even if they are engaged in little or no production. Companies may be corporations (including quasi-corporations), nonprofit institutions, or unincorporated companies (including households or government units in their capacity as producers of goods and services).

**A4.9** Companies usually maintain some level of business accounts that are sufficient to satisfy reporting purposes.

### Global and Local Enterprise Group

**A4.10** Enterprise groups may be either global or local. A global enterprise group refers to an investor and all the companies under that investor. A local enterprise group refers to an investor and legal entities under that investor that are resident in the reporting economy (see *BPM6*, paragraph 4.54–4.56).

**A4.11** The local enterprise group may be used for compiling and presenting DI statistics; the ownership links that involve nonresidents are not recognized for the formation of local enterprise groups. For example, two DIENTs located in the same economy, with a common nonresident direct investor but no links directly between them, are not recognized as belonging to the same local enterprise group (although they would belong to the same global enterprise group).

**A4.12** Local enterprise groups usually maintain and have available consolidated accounts. The level of

consolidation is often governed by domestic reporting requirements and the organizational structure, and these may not align well with DI concepts.

**A4.13** Unless instructions to survey respondents are clear and the compiler is careful, consolidation of companies into local enterprise groups may result in the incorrect inclusion of influencing links within an economy that should break a DI ownership chain when there is an influencing link from abroad (see *BPM6*, paragraph 6.35).

### Notional Units

**A4.14** When land located in a territory is owned by a nonresident company (with the exception of land owned by foreign governments or international institutions for diplomatic enclaves or military bases), a notional unit is identified for statistical purposes as being the owner of the land. Because land and buildings produce rental services, the notional unit is usually a company. A notional unit is also identified for a long-term lease by a nonresident lessee of land, or buildings, or land and buildings together.

**A4.15** The nonresident is treated as owning the resident notional unit rather than the land and structures directly. The notional resident unit is nearly always a DIENT (the exception being for land where an individual nonresident's voting power is below 10 percent) and consequently the nonresident is nearly always a direct investor with an equity investment in the notional unit.

**A4.16** The notional unit is created with an injection of equity from the nonresident direct investor. A detailed discussion of notional units is presented in the *BPM6*, paragraphs 4.34–4.40. Information on notional units and, in particular, the income flows and injections of equity after the initial injection should only be compiled where they are significant for either the host economy or the economy of the nonresident investor.

**A4.17** Individuals who have migrated to a new economy and become residents there frequently own land or buildings in their economy of origin. These properties should be added to direct investment assets in the IIP of the host economy (and to direct investment liabilities of the originating economy consistently), through a reclassification (other changes in volume), not by imputing transactions in the balance

of payments. Notional units should be created as a result of this change in the residence status of an owner.

**A4.18** When a migrant's relatives occupy these properties (real estate) without paying rents (or below market prices), the compiler of the host economy of the migrant should record these rents at market prices through the following imputed transactions: direct investment income, credit and an offsetting entry in the secondary income account, personal transfers, debit (*BPM6*, paragraph A5.18). The compiler of the economy of origin should record these imputed transactions with the corresponding opposite entries. The value of these transactions would be calculated as the difference between actual transactions and market equivalent values. In practice, it is difficult to identify such transactions and calculate their value. The compiler should assess the magnitude of such phenomena in the economy, and if it is deemed to be significant, the collection of data could be organized using the household surveys, or surveys of bodies/agencies (e.g., rental offices) that are identified as possible data sources.

**A4.19** When a migrant uses the rent receipts to maintain and repair his/her property, several transactions should be recorded in the host economy; particularly direct investment income, credit, and an offsetting entry in the financial account under direct investment, net acquisition of financial assets. The latter reflects the increase in the value of the property. The compiler of the economy of origin of the migrant should record these transactions through two opposite entries, accordingly.

### Entities Established Abroad for Fiscal Purposes

**A4.20** In some instances, a government can establish entities in the economic territory of another government for the purpose of carrying out general government activities (i.e., fiscal activities). Fiscal purposes can be distinguished from commercial purposes because fiscal purposes are always oriented to serving the objectives for the government's home territory.

**A4.21** Such entities are considered residents in the economy of their incorporation; however, they are not considered as part of the general government in either the economy of residence or the economy of government

that uses the entities. Also, such entities are not treated as territorial enclaves (e.g., embassies or other diplomatic establishments) when they operate under the law of the host economy (*BPM6*, paragraph 4.93).

**A4.22** To avoid misleading understanding of government expenditures, a special approach is applied in treating transactions and positions of such government entities because, unlike in the private sector, such nonresident entities undertake functions at the request of general government for public policy purposes in another economy and not for commercial purposes. The special treatment refers to the borrowing by such entities on behalf of the government that results in entries under the DI category that are presented in Table A4.1.

**A4.23** Due to their specific features and activity, the best data sources on transactions of fiscal entities are government administrative records (in economy of residence of government) or enterprise surveys (in economy of residence of fiscal entity).

### Special Purpose Entities<sup>3</sup>

**A4.24** Although there is no internationally agreed definition of special purpose entities (SPE), it is generally agreed that they display the following characteristics: their owners are not residents of the territory of incorporation, main parts of their balance sheets are claims on or liabilities to nonresidents, they are companies with little or no physical presence in their host economy, little or no employment, little or no significant production, and few (if any) nonfinancial assets, and many SPEs have bank accounts in the host economy (although they may be of a temporary nature). SPEs are often used to channel funds to and borrow funds from third economies; these funds may include equity investments where the SPE is used to route an ownership change through another economy. SPEs may offer taxation, regulatory, or confidentiality benefits due to the regulatory regime in the host economy. SPEs are often associated with offshore financial centers but may be located elsewhere. Examples of SPEs (and alternative terminology used for SPEs) include financing subsidiaries, conduits, holding companies, shell companies, shelf companies, and brass-plate companies.

<sup>3</sup> See the *BPM6*, paragraphs 4.50–4.52.

**Table A4.1 Treatment of Borrowing on Behalf of the Government of Another Economy****Economy of direct investor (government)*****At the time of borrowing (transactions equal to the amount of the borrowing)***

Increase: Direct investment—equity—assets (direct investor in direct investment enterprise)

Increase: Direct investment—debt instruments—liabilities (direct investment enterprise in direct investor)

***At the time the borrowed funds are passed to the government (transactions equal to the amount of the fund passed to the government)***

Increase: Reserve assets or other investment—assets—currency and deposits—general government

Decrease: Direct investment—equity—assets (direct investor in direct investment enterprise)

***If funds are not passed to the government: At the time the borrowed funds are spent or provided by the borrowing entity to a third party (transactions equal to the amount of the funds spent or provided)***

Secondary income—general government—debit or capital account—capital transfers—general government—other capital transfers—debit

Decrease: Direct investment—equity—assets (direct investor in direct investment enterprise)

**A4.25** As companies incorporated within their host economy, SPEs are recognized as separate institutional units. SPEs are recorded as DIENTs and direct investors, where appropriate.

**A4.26** For some analytical purposes, it may be desirable to “look through” SPEs in the DI ownership change to the first “non-SPE” and to allocate positions and transactions to the economy of the first non-SPE. There is no agreed method of looking through SPEs to the first non-SPE.

**A4.27** By their very nature, the compiler might find it difficult to obtain data from SPEs. Nonetheless nearly all their assets and liabilities are likely to be with nonresidents (apart from any deposits or loans they may have with resident banks); it is important that such corporate structures are identified and that their data be collected for international accounts statistics.

**A4.28** Data can be collected through different sources; the compiler should assess which data sources are available, and also which of them possess the most comprehensive information. Also, the legal regulation in place guiding the activity of SPEs should allow for collection of data for statistical purposes. The data sources that should be considered by the compiler for collecting data on SPEs activity are presented ahead.

**A4.29** Surveys of SPEs could be an efficient approach to data collection; however, some SPEs have no offices in the host economy and act through representatives such as law firms and/or accounting firms. In these cases, the compiler should request

the legal representatives, if resident in the host economy, to provide from their principals’ accounts the necessary information for the compilation of the balance of payments and IIP. The compiler should consider the size of the SPEs’ assets; sometimes a very small number of SPEs cover a high percentage of total DI. In this manner, a small sample could provide a very good basis for providing estimates for the total.

**A4.30** Financial statements—in some cases, SPEs are required to report annual financial statements to government agencies and the compiler may obtain SPEs’ data from those agencies.

**A4.31** Tax records could be an alternative avenue for the collection of data; however, by their nature many SPEs are exempted of taxes. When such tax records are collected by the tax agency, the compiler should correspond with the tax agency to obtain the information required for balance of payments and IIP purposes as part of the tax filing requirements.

**A4.32** Other data sources such as an ITRS, approvals of foreign investments, and the financial press could be used to identify SPEs and to verify collected information. The compiler should be aware of the limitations and coverage of each of these listed sources. For instance, because the SPEs by their nature and regulatory acts guiding their activity are meant to deal mainly with nonresidents, if not totally, they may not have financial transactions conducted through domestic banks that would be captured by an ITRS.

## Specific Direct Investment Flows and Positions

### *Pass-through capital*<sup>4</sup>

**A4.33** As with SPEs, there is no internationally agreed definition of pass-through capital. The term is used to refer to funds that pass through a company (usually an SPE) in an economy to a third economy with little or no impact on the economy through which the capital passes.

**A4.34** Pass-through capital is to be recorded in direct investment as assets and liabilities of the economy through which the funds pass.

**A4.35** Pass-through capital has the impact of increasing the gross direct investment flows and positions into and out of an economy. Some analyses use the gross flows as a scaling factor for the size of certain types of transactions or positions, and the inclusion of pass-through capital in the gross flows may distort these analyses. On the other hand, the inflow and outflow of pass-through capital often involve different economies, or the inflow has a number of different attributes than the outflow (e.g., debt vis-à-vis equity, domestic currency vis-à-vis foreign currency, fixed vis-à-vis floating interest rate on debt, short-term vis-à-vis long-term debt). For these reasons, it is important to keep track of the gross flows and positions for compiling the balance of payments and IIP accounts, and for financial surveillance purposes.

**A4.36** The recording of these funds are connected with the activities of SPEs. Therefore, the same main data sources as noted earlier (see paragraphs A4.29–A4.33) can be used to capture information on pass-through capital.

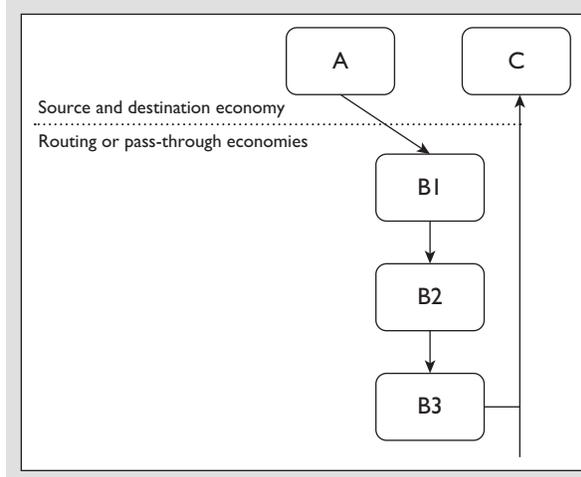
### *Round tripping*<sup>5</sup>

**A4.37** Round tripping is a specific case of pass-through funds where funds invested in a SPE in a second economy are to be invested back into the source economy. Round tripping is usually associated with source economies where there are incentives (tax or otherwise) for outward or inward DI. Round tripping can pass through more than one link and more than one economy before it returns to the source economy.

<sup>4</sup> See the *BPM6*, paragraphs 6.33–6.34.

<sup>5</sup> See the *BPM6*, paragraph 6.46.

**Figure A4.1** A Case of Round-Tripping with Many Companies in Routing Economies



**A4.38** Round tripping is to be recorded in DI in the accounts of each of the economies through which the pass-through funds transit. Figure A.4.1 shows an example of round tripping where a company A in the reporting economy provides DI funds through three nonresident related companies (B1, B2, and B3) for investment ultimately in another company (C) in the reporting economy. In the simple case, there may be only one company B.

**A4.39** If a resident company with a foreign direct investor identifies a resident as the ultimate investor (defined ahead), then this is an example of round tripping. Round tripping is more easily identified in the source/destination economy. The compilation of supplementary data on funds in transit (pass-through funds and round tripping) is recommended in the *BPM6* for economies with large values of such transactions.

### **Voting Power**

**A4.40** The basis for identifying DI and for classifying ownership links within DI relationships is voting power (see *BPM6*, paragraph 6.19). Although equity is often used as a proxy for voting power, voting power is not the equivalent of equity. Circumstances including the issue of various classes of shares with higher weight, nonvoting shares, and “golden shares” (shares usually held by government that provide a controlling interest) can cause equity percentages to vary from

the voting power in a company. Indeed, some forms of equity are recorded as debt in the IIP and balance of payments accounts. The compiler should be alert to these situations and treat them appropriately in the accounts.

**A4.41** Derivative instruments can be constructed in a manner that provides access to voting power without delivering ownership of the underlying equity. Voting power accessed through these instruments is not recognized in determining whether a DI relationship exists.

**A4.42** In some economies, regulations disallow foreign investors from owning more than 49 percent of the voting power. Voting power of 49 percent in these economies should be recognized as substantial influence and not control.

## Valuation

### Unlisted Equity

**A4.43** The underlying principle for the valuation of equity is the market value of that equity. Listing on an organized 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.

**A4.44** Six methods for approximating market value for unlisted equity are considered acceptable proxies (see *BPM6*, paragraph 7.16):

- Recent transaction price
- Own funds at book value (OFBV)
- Net asset value
  - Including goodwill and intangibles
  - Excluding goodwill and intangibles
- Market capitalization method
- Present value
- Apportioning global value

**A4.45** 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.

**A4.46** Each method is described in more detail ahead, giving information on what is needed to apply the method and caveats on its use. If there is a material change in a company'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.

### *Recent transaction price*

**A4.47** Unlisted equity may trade from time to time, and recent prices at which the equity exchanged hands may be used. The transaction price must represent an "arm's length" price between an independent buyer and seller, where neither party is under compulsion or duress to engage in the transaction. More recent transactions are preferable, and it is desirable that the transaction should have occurred within the past year. If the most recent transaction is more than one year old, the compiler may wish to consider an alternate method.

*Usage:* A recent, arm's length transaction price is required.

*Caveats:* Not often available due to the low frequency of trades in unlisted equity. When a transaction price has been used in the past to value the equity, but the information is becoming dated, a strategy to splice the valuation with a valuation calculated from another method may be useful.

### *Own funds at book value*

**A4.48** OFBV involves valuing a company at the value appearing in its books following International Accounting Standards (IAS). OFBV is based on the books of the DIENT and can be seen on its balance sheet as shareholder's equity. The definition of OFBV contains paid-up capital. IAS require most financial assets to be revalued on, at least, an annual basis and for plant and equipment to be depreciated.

**A4.49** OFBV is the method recommended for the CDIS and described in the *CDIS Guide*.

*Usage:* This method may be used where books are kept on the basis of IAS, and data are available from the books of the DIENT.

*Caveats:* In some cases, IAS may prohibit the recognition of certain intangible assets produced by a company for itself (e.g., brands, mastheads, publishing titles, customer lists). Goodwill can only be bought; it cannot be internally generated. Assets in some asset classes (assets held to maturity) may be valued at nominal or historic cost. These will all cause distortion from the market valuation.

### **Net asset value, including goodwill and identified intangibles**

**A4.50** Net asset value (NAV) is total assets at current/market value less total liabilities (excluding equity) at market value. Under this valuation method, all financial and nonfinancial assets and liabilities of the company, including intangible assets, are stated in terms of current period prices. The valuations should be based on very recent appraisals—certainly they must be within the prior year. Appraisals may be conducted by knowledgeable management or directors of the firm, and/or provided by independent appraisers. A capitalization ratio may be calculated and applied (with or without liquidity adjustments) if sufficient information is available (see market capitalization method).

*Usage:* At a minimum, this method requires an asset and liability valuation to be undertaken by the company.

*Caveats:* NAV provided by a company may exclude some classes of assets (e.g., intangibles), while other assets may be valued using a method that results in a distortion from the current market value (e.g., historic cost or nominal value). To the extent that valuations are poor or assets are excluded from the NAV, this method can be a weak approximation of market value and other methods may be more appropriate. Calculation of capitalization ratios requires a reasonably broad stock market with high trading volume.

### **Net asset value, excluding goodwill and identified intangibles**

**A4.51** Under this valuation method, all financial and nonfinancial assets and liabilities of the company, excluding intangible assets, are stated in terms of current period prices. The valuations should be based on very recent appraisals—certainly they must be

within the prior year. Appraisals may be conducted by knowledgeable management or directors of the firm, and/or provided by independent appraisers.

**A4.52** Note that the difference between this method, and the one immediately preceding, is that this method excludes goodwill and identified intangibles. However, it is often very difficult to estimate the value of these assets. If the compiler can develop relatively accurate estimates of unquoted equity that include goodwill and identified intangibles he/she is encouraged to do so. Doing so promotes consistency between the estimates for quoted shares (these shares trade at prices that reflect the value of intangible assets) and the estimates for unquoted shares.

*Usage:* The compiler who cannot accurately provide estimates that include goodwill and identified intangibles may use this method.

*Caveat:* Goodwill and intangible assets may account for much or most of the current value of many DIENTs. This valuation might not be representative of market value.

### **Market capitalization method**

**A4.53** This method proposes the use of a capitalization ratio as the ratio of the stock exchange market capitalization to OFBV calculated from a set of listed companies. In constructing the capitalization ratio under this method, stock market data for an individual economy may be used when the stock market in that economy is broad and trading volume is relatively high, and broad regional indexes should be used when these circumstances do not exist. The estimate of market values of direct investment equity in unlisted companies is calculated by multiplying own funds at book value (owners' equity) of unlisted DIENTs by the capitalization ratio [that is, by the stock exchange market capitalization (numerator) to the own funds at book value of listed companies (denominator)]. Capitalization ratios developed from broad stock exchange data should be adjusted, or individual ratios should be developed for separate industry groups, if the industries represented in the broad stock exchange for a given economy are not representative of the industry mix of DIENTs located in the same economy.

*Usage:* Useful exercise if the overall companies listed in the stock exchange are good representatives of the national industry. Compared to some

of the other valuation methods (including OFBV), this method more fully includes intangible assets such as goodwill in the valuation.

*Caveats:* Some very large local foreign direct investment unlisted companies might represent almost the entire industry. Another strategy is then required to better reflect the market valuation of that company. Apart from this, some other considerations could be seen as caveats of this method—for example, some specialists question the assumption that quoted and non-quoted companies should use the same ratio to own funds. Being quoted in a public market means that a company has to comply with more strict rules, provide more detail information to market participants, and so forth. Also, because the equity is liquid, it may trade at a premium over unlisted equity. On the other hand, most unlisted DIENTs are controlled by their direct investors, and controlling interests generally trade at premiums over noncontrolling interests.

#### **Present value/price to earnings ratio**

**A4.54** The value of unlisted equity can be estimated as the present value of the forecast stream of future earnings. This method has at its heart the issue of choosing an appropriate discount rate, which can be inferred from the implicit discount rate obtained for listed equity, and forecasting the future profits. At its simplest, this method can be approximated by applying a market or industry price-to-earnings ratio to the (smoothed) recent past earnings of the unlisted company to calculate a price. In this case, the recent past earnings are used as the basis to forecast the future earnings, and the market price-to-earnings ratio implies the discount rate.

*Usage:* This method is most appropriate where there is a paucity of balance sheet information but earnings data are more readily available. It also requires an appropriate discount rate or reasonably broad-based price-to-earnings ratio to be calculated.

*Caveats:* Earnings for an individual company can have a highly irregular component and can be negative (leading to negative equity valuations). As a result, if earnings information over a longer period of time is available, the earnings of the company should be smoothed. If earnings for

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

#### **Apportioning global value**

**A4.55** If the equity in a particular DIENT is unlisted, but the company belongs to a global enterprise group whose equity is listed, the current market value of the global enterprise group can be calculated and apportioned to the operations in each economic territory. The current market value of the global enterprise group should be based on its market price on the exchange on which it is traded, and the apportionment of this value to each economic territory should be based on an appropriate indicator (e.g., sales, net income, assets, or employment). Where possible, compilers in partner economies may wish to consider using the same indicator.

*Usage:* Current market capitalization of the global enterprise group is required. An indicator that is well correlated with market value and readily available is also necessary. This may be more likely to occur in enterprise groups that are horizontally integrated.

*Caveats:* Weaknesses in the correlation between market value of equity and the variable used for apportioning the global value will lead to distortions—sensitivity to the distortion is greatest when the proportion allocated to an economic territory is small or when the global enterprise group undertakes different types of activities in different economic territories. In this case, other methods may be preferable.

#### **Treatment of Transfer Pricing**

**A4.56** When a transaction in goods or services occurs between two companies, this transaction should be recorded at market prices. The *BPM6* defines market prices as “amounts of money that willing buyers pay to acquire something from willing sellers . . . on commercial considerations only—sometimes called ‘at arm’s length’” (*BPM6*, paragraph 3.68).

**A4.57** Due to the nature of the relationship between companies related under the DI relationship, the transaction value for a good or service between related companies may not always reflect market values. “Transfer pricing” refers to this distortion between transaction values and market values. It can be motivated by in-

come distribution or equity injections. In the unusual case where the distortion is significant and data are available to do so, the *BPM6* suggests that adjustments be made to remove the impact of transfer pricing.

**A4.58** Identification of instances of transfer pricing and selection of the best market value equivalents to replace reported transaction values is an exercise calling for cautious and informed judgment. In most cases, sample surveys, contacts with companies and government agencies engaging in international transactions on a large scale, exchanges of information between compilers in partner economies, or similar statistical research will be necessary to provide the basis for such judgment. Adjustments for transfer pricing have implications for the data of the counterpart economy; therefore it is useful to exchange information with compilers in counterpart economies (to the extent possible) to avoid asymmetries. More details on treatment of transfer pricing are presented in Chapter 11 of this *Guide*.

#### **Hidden dividends**

**A4.59** Where a DIENT is overinvoiced on a good or service provided by the direct investor, the difference in payment between the market value and the invoice price is effectively a distribution by the DIENT to the direct investor (a “hidden dividend”). Distributed earnings and total earnings of the DIENT should be adjusted upwards by the difference (in the balance of payments, this would be balanced by a downwards adjustment to the value of trade in goods or services).

**A4.60** Where a direct investor is underinvoiced on a good or service provided by the DIENT, the difference in payment between the market value and the invoice price is effectively a return of assets by the DIENT to the direct investor or a rundown of the assets of the DIENT by the direct investor. This is treated as a hidden dividend; the earnings of the DIENT should be adjusted upwards, and the value of

the good or service should be adjusted upwards, by the difference, as in the previous case.

**A4.61** The compiler should recall that dividends and remitted earnings are required to be paid out of the accrued profits. If the accumulated profits do not cover the dividends and distributed earnings, then the additional payment should be treated as a withdrawal of equity.

#### **Hidden injections of equity**

**A4.62** Where a DIENT is underinvoiced on a good or service provided by the direct investor, or a direct investor is overinvoiced on a good or service provided by the DIENT, the difference between the market value and the invoice price is effectively an injection of equity into the DIENT by the direct investor. This injection takes the form of provision of additional assets (underinvoiced goods) or cash (overinvoices). Equity transactions should be adjusted to remove the impact of the transfer pricing. Also, the earnings of the DIENT should be adjusted downwards by the same amount.

#### **Ultimate Controlling Parent**

**A4.63** This part of the *Guide* focuses on defining relationships between companies that are important for analytical purposes—either through identifying the economy in which ultimate control over an inward investment is located; and through applying the directional principle to DI data for fellow enterprises and reverse investment.

**A4.64** The ultimate controlling parent (UCP) of a resident company in a direct investment relationship is important to identify for the purposes of correctly applying the directional principle in compiling partner economy statistics (the directional principle is described in Chapter 7, along with the asset/liability presentation; see also Table A4.2). The economy of residence of the UCP determines the treatment of positions between fellow enterprises (see Figure A4.2).

**Figure A4.2 Linkages Between UCP’s Residence and Treatment of Fellow Enterprises**

If the UCP is <i>resident</i>	⇒	Positions and transactions between <i>fellow enterprises</i> are recorded as <i>outward</i>
If the UCP is <i>nonresident</i>	⇒	Positions and transactions between <i>fellow enterprises</i> are recorded as <i>inward</i>
If there is <i>no UCP</i> or if UCP is <i>unknown</i>	⇒	<i>Asset</i> positions and transactions between <i>fellow enterprises</i> are recorded as <i>outward</i> , and <i>liability</i> positions and transactions between <i>fellow enterprises</i> are recorded as <i>inward</i>

**Table A4.2 Treatment of Direct Investment under the Assets/Liabilities Presentation and Directional Principle**

Assets/liabilities presentation	Directional principle
<b>Assets:</b>	<b>Outward investment:</b>
Investments by resident direct investors in their direct investment enterprises abroad <i>plus</i>	Investments by resident direct investors in their direct investment enterprises abroad <i>minus</i>
Reverse investments by resident direct investment enterprises in their direct investors abroad <i>plus</i>	Reverse investments by direct investment enterprises abroad in their resident direct investors <i>plus</i>
Investments by resident fellow enterprises in other fellow enterprises abroad	Investments by resident fellow enterprises in other fellow enterprises abroad where the ultimate controlling parent is a resident <i>minus</i>
	Investments by fellow enterprises abroad in resident fellow enterprises where the ultimate controlling parent is a resident
<b>Liabilities:</b>	<b>Inward:</b>
Investments by direct investors abroad in their resident direct investment enterprises <i>plus</i>	Investments in resident direct investment enterprises by direct investors abroad <i>minus</i>
Reverse investments by direct investment enterprises abroad in their resident direct investors <i>plus</i>	Reverse investments by resident direct investment enterprises in their direct investors abroad <i>plus</i>
Investments by fellow enterprises abroad in resident fellow enterprises	Investments in resident fellow enterprises by fellow enterprises abroad where the ultimate controlling parent is a nonresident <i>minus</i>
	Investments by resident fellow enterprises in fellow enterprises abroad where the ultimate controlling parent is a nonresident

**A4.65** The UCP of a fellow enterprise is identified by proceeding up the ownership chain from the resident fellow enterprise through the controlling links (ownership of more than 50 percent of the voting power) until an individual, household, or company that is not controlled by another company is reached. If there is no company, individual, or household that controls the resident company, then the resident company may be considered to be its own UCP.

**A4.66** Model form 18 in Appendix 8 requests information on whether the UCP is a resident or nonresident.

### Reverse Investment

**A4.67** Reverse investment refers to asset positions held by DIENTs in their direct investors. In the case of equity positions, the ownership of the equity by the DIENT is such that it does not provide voting power of 10 percent or more (otherwise, mutual DI occurs, where each company is a direct investor in the other).

**A4.68** Reverse investment is treated differently under the directional principle when compared with its treatment under the asset/liability presen-

tation. Under the asset/liability presentation, reverse investment is recorded on a gross asset and liability basis. Under the directional principle, reverse investment is considered a (negative) inward investment position for the DIENT and as a (negative) outward position for the direct investor (see Table A4.3).

### Presentational Method of Direct Investment

**A4.69** The standard components on the balance of payments and on the IIP use the assets/liabilities presentation of DI, which is organized according to whether an investment relates to an asset or liability. The directional principle, which is organized according to the direction of the DI relationship (inward, DI in the reporting economy, and outward, DI abroad), is the principle used in the CDIS. It can be applied to IIP, balance of payments financial account, and investment income.<sup>6</sup> When the CDIS is

<sup>6</sup> The rearrangement of standard components for direct investment positions and transactions is shown in Box 6.4 of the *BPM6*.

**Table A4.3 Assets/Liabilities Presentation Compiled from Foreign Direct Investment Survey (model survey form 18 in Appendix 8)**

IIP standard components	Foreign direct investment survey form positions
<b>Direct investment assets</b>	
<i>Equity and investment fund shares</i>	
Direct investor in direct investment enterprise (DIENT)	Equity claims on DIENT (outward +)
Direct investment enterprise in direct investor (DI) (reverse investment)	Equity claims on DI (inward –)
Between fellow enterprises	
if ultimate controlling parent is resident	Equity claims on fellows if ultimate controlling parent is resident (outward +)
if ultimate controlling parent is nonresident	Equity claims on fellows if ultimate controlling parent is nonresident (inward –)
if ultimate controlling parent is unknown	Equity claims on fellows if ultimate controlling parent is unknown (outward +)
<i>Debt instruments</i>	
Direct investor in direct investment enterprise	Debt claims on DIENT (outward +)
Direct investment enterprise in direct investor (reverse investment)	Debt claims on DI (inward –)
Between fellow enterprises	
if ultimate controlling parent is resident	Debt claims on fellows if ultimate controlling parent is resident (outward +)
if ultimate controlling parent is nonresident	Debt claims on fellows if ultimate controlling parent is nonresident (inward –)
if ultimate controlling parent is unknown	Debt claims on fellows if ultimate controlling parent is unknown (outward +)
<b>Direct investment liabilities</b>	
<i>Equity and investment fund shares</i>	
Direct investor in direct investment enterprises	Equity liabilities to DI (inward +)
Direct investment enterprises in direct investor (reverse investment)	Equity liabilities to DIENT (outward –)
Between fellow enterprises	
if ultimate controlling parent is resident	Equity liabilities to fellows if ultimate controlling parent is resident (outward –)
if ultimate controlling parent is nonresident	Equity liabilities to fellows if ultimate controlling parent is nonresident (inward +)
if ultimate controlling parent is unknown	Equity liabilities to fellows if ultimate controlling parent is unknown (inward +)
<i>Debt instruments</i>	
Direct investor in direct investment enterprises	Debt liabilities to DI (inward +)
Direct investment enterprises in direct investor (reverse investment)	Debt liabilities to DIENT (outward –)
Between fellow enterprises	
if ultimate controlling parent is resident	Debt liabilities to fellows if ultimate controlling parent is resident (outward –)
if ultimate controlling parent is nonresident	Debt liabilities to fellows if ultimate controlling parent is nonresident (inward +)
if ultimate controlling parent is unknown	Debt liabilities to fellows if ultimate controlling parent is unknown (inward +)

**Table A4.3 Assets/Liabilities Presentation Compiled from Foreign Direct Investment Survey (model survey form 18 in Appendix 8) (continued)**

Balance of payments standard components	Foreign direct investment survey form transactions (increases-decreases)
<b>Direct investment assets</b>	
<i>Equity and investment fund shares</i>	
Equity other than reinvestment of earnings	
Direct investor in direct investment enterprises	Equity claims on DIENT (outward +)
Direct investment enterprises in direct investor (reverse investment)	Equity claims on DI (inward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Equity claims on fellows if ultimate controlling parent is resident (outward +)
if ultimate controlling parent is nonresident	Equity claims on fellows if ultimate controlling parent is nonresident (inward -)
if ultimate controlling parent is unknown	Equity claims on fellows if ultimate controlling parent is unknown (outward +)
Reinvestment of earnings	(Net income of the DIENT—realized and unrealized holding gains or losses included in net income) * percentage held in the nonresident DIENT (outward +)
<i>Debt instruments</i>	
Direct investor in direct investment enterprise	Debt claims on DIENT (outward +)
Direct investment enterprise in direct investor (reverse investment)	Debt claims on DI (inward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Debt claims on fellows if ultimate controlling parent is resident (outward +)
if ultimate controlling parent is nonresident	Debt claims on fellows if ultimate controlling parent is nonresident (inward -)
if ultimate controlling parent is unknown	Debt claims on fellows if ultimate controlling parent is unknown (outward +)
<b>Direct investment liabilities</b>	
<i>Equity and investment fund shares</i>	
Equity other than reinvestment of earnings	
Direct investor in direct investment enterprise	Equity liabilities to DI (inward +)
Direct investment enterprise in direct investor (reverse investment)	Equity liabilities to DIENT (outward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Equity liabilities to fellows if ultimate controlling parent is resident (outward -)
if ultimate controlling parent is nonresident	Equity liabilities to fellows if ultimate controlling parent is nonresident (inward +)
if ultimate controlling parent is unknown	Equity liabilities to fellows if ultimate controlling parent is unknown (inward +)
Reinvestment of earnings	(Net income of the DIENT—realized and unrealized holding gains or losses included in net income) * percentage held in the resident DIENT (inward +)

**Table A4.3 Assets/Liabilities Presentation Compiled from Foreign Direct Investment Survey (model survey form 18 in Appendix 8) (concluded)**

<i>Debt instruments</i>	
Direct investor in direct investment enterprise	Debt liabilities to DI (inward +)
Direct investment enterprise in direct investor (reverse investment)	Debt liabilities to DIENT (outward -)
Between fellow enterprises	
if ultimate controlling parent is resident	Debt liabilities to fellows if ultimate controlling parent is resident (outward -)
if ultimate controlling parent is nonresident	Debt liabilities to fellows if ultimate controlling parent is nonresident (inward +)
if ultimate controlling parent is unknown	Debt liabilities to fellows if ultimate controlling parent is unknown (inward +)

used as the data source for compiling DI data, the compiler should rearrange the CDIS data reported under directional principle to the assets/liabilities presentation.

**A4.70** Chapter 7 of this *Guide* as well as Tables A4.2 and A4.3 describe two presentations of DI information—under the asset/liability presentation and under the directional principle. The identification of fellows is important for the appropriate classification of positions and flows under the directional principle.

## Compilation

### Calculating DI Earnings

**A4.71** DI earnings measure earnings from current operations. Therefore, this amount should be calculated before recognition of holding gains and losses and extraordinary items. Operational earnings of the DIENT should be reported after deducting provisions for depreciation and for corporate taxes charged on these earnings by the government in the host economy. Depreciation should, in principle, be measured at current replacement cost, particularly if market values are available for position figures. If data on depreciable assets and on depreciation are available only on a book value or historical cost basis, those values should be adjusted wherever possible to a current replacement cost basis. The compiler should base the estimates of DI earnings, and of DI positions, on a current market value basis. If market values are un-

available, DI data at book value should be adjusted to estimates of market value.

**A4.72** The earnings of DIENTs reported using the Current Operating Performance Concept (COPC) should exclude the following:

- Any gains or losses arising from valuation changes, such as inventory write-offs, write-downs, or write-ups
- Gains or losses on plant and equipment from the closure of part or all of a business
- Writing-off of intangible assets, including goodwill, due to unusual events (the standard amortization of intangible assets is, however, included as an expense under the COPC)
- Extraordinary gains or losses (e.g., losses by an insurer due to a catastrophic event)
- Writing-off of research and development expenditures capitalized in a prior period
- Provisions for losses on long-term contracts
- Exchange rate gains and losses incurred by the DIENT both from its trading activities and from its holdings of foreign currency assets and liabilities
- Unrealized gains or losses from the revaluation of fixed assets, investments, and liabilities
- Realized gains or losses made by the company from the disposal of assets (other than inventory) or liabilities

**A4.73** The exclusion of realized and unrealized holding gains and losses is applicable to all DIENTs, including those such as banks and securities dealers for whom the making of such gains is an important or even the main part of their business. This promotes consistency with the calculation and treatment of earnings in the national economic accounts, as prepared pursuant to SNA guidelines.

**A4.74** Earnings of a DIENT under COPC include the full profit accruing to that DIENT from any further companies in which the DIENT is, itself, a direct investor—the earnings of the DIENT include accrued reinvested earnings from DI by the company, not just any remitted earnings.

**A4.75** In line with the FDIR, the reinvested earnings of each company down the ownership chain should be attributed to each of the immediate direct investors up the chain. Table A4.4 illustrates this point. If A (Level 1) is owned 100 percent by B (Level 2), B is owned 50.01 percent by C (Level 3), and C is 40 percent owned by D (Level 4), then A's reinvested earnings represent part of the net investment income of B, and, as a result, they are part of the sources of revenue that form part of the reinvested earnings that are deemed distributed to C by B, and then as part of C's reinvested earnings that are deemed distributed to D. Where ownership is less than 100 percent, the

proportional ownership should be applied, even when there is more than one direct investor. This principle applies whether A, B, and C are each in separate economies from D, or are in the same economy, but separate from D.

**A4.76** In the situation where company C owns 50 percent or less of B, then companies A and B are not in a DI relationship with company D under the FDIR. As company D is not considered to have significant influence over company B, company D cannot be considered to have significant influence over the earnings distribution and savings decisions of company B. As a result, the reinvested earnings that accrue to company C from company B are not considered part of company C's current operating profit that accrues to company D. The calculation in Table A4.4 would show 16 in reinvested earnings accruing to company D from company C (rather than 60) with 16 being reinvested by company D in company C.

**A4.77** Normally, when companies perform the consolidation of transactions for a group, they use data on the total profits, including holding gains and losses, foreign exchange gains and losses, write-offs and write-downs, and dividends. It is, therefore, important that clear instructions be provided to respondents to enable them to report on the required basis.

**Table A4.4 Calculation of Reinvested Earnings along a Direct Investment Ownership Chain**

	Level 1	Level 2	Level 3	Level 4
	A	B	C	D
Ownership by next level	100 percent	50.01 percent	40 percent	
Net operational surplus	200	250	300	350
<i>Minus</i> Corporate taxes payable	-50	-60	-70	-90
<i>Plus</i> Dividends receivable from direct investment enterprise (DIENT)		+50	+60	+100
<i>Minus</i> Dividends payable to all shareholders	-50	-120	-250	
<i>Plus</i> Reinvested earnings receivable from DIENT		+100	+110	+60
<i>Minus</i> Reinvested earnings payable to direct investors	-100	-110	-60	
<i>Equals</i> Net saving	0	110	90	420
<b>In direct investment transactions and positions account</b>				
Direct investment liabilities reinvestment of earnings	+100	+110	+60	
Direct investment assets reinvestment of earnings	0	+100	+110	+60

## Model Forms

**A4.78** Model form 17 in Appendix 8 requests information on DI in the context of a comprehensive collection of information on external financial assets and liabilities. Model form 18 in Appendix 8 focuses specifically on DI. Both forms collect sufficient

information for the application of the directional principle as well as the asset/liability presentation.

**A4.79** Box A4.1 presents Mauritius' practice in collecting and compiling data on special purpose entities. The questionnaire used for collecting data is presented in Annex 1 of this appendix.

### Box A4.1 Compiling Data on Special Purpose Entities in Mauritius

#### *Background*

This example covers the collection and compilation of offshore banking data in Mauritius. The effective integration of the offshore and onshore banking business in July 2005 in balance of payments statistics of Mauritius contributed to significant net errors and omissions. An "external financing" data gap had emerged as banks' foreign assets continued to grow, reflecting the increase foreign currency deposits of the offshore vehicles, while no data were available on the latter's liabilities to nonresidents. For this reason, in 2007 the Bank of Mauritius (BOM)—the institution responsible for the compilation of the balance of payments and IIP statistics in Mauritius—started to implement a survey covering the offshore business sector.

There are two different types of global business corporations (GBC) in Mauritius: Type 1 GBCs (GBC1) are considered tax residents of Mauritius, and Type 2 GBCs (GBC2) are considered nonresidents for Mauritius tax purposes. The legislation requires that management companies (MC) administer GBC1s and act as registered agents for GBC2s. Both GBCs and MCs are supervised by the Financial Services Commission (FSC) responsible for all non-deposit-taking financial institutions in Mauritius.<sup>1</sup>

#### *Approach applied in conducting the survey*

The survey was carried out by the BOM and the FSC. As the regulator of the MCs and GBCs, the FSC has the power to ensure compliance, and therefore it was decided that the FSC would act as a facilitator and undertake the survey on BOM's behalf. The key issue in launching the survey was how to minimize the reporting burden and costs for the MCs, which would be the ones doing the painstaking work of collecting the required information from individual balance sheets. It was decided to adopt a phased approach where only information on GBC1's activities and positions should be collected until such time that the authorities amend the statutory requirements for GBC2s. Given the magnitude of the task, the option of having a census survey was ruled out and a sample survey was chosen.

An analysis of information on the total assets of all GBC1s showed that a relatively small number of units would provide robust data. The FSC decided that the survey frame will include twelve MCs administering 70 percent of the GBC1's total assets. MCs that had the financial information in electronic spreadsheets would report the data for the whole population. The MCs that did not have the information available in electronic spreadsheets would report data for at least 75 percent of the total balance sheet value of the GBC1s they administer. Additionally, the latter group had to report at the same time the total balance sheet value of all the GBC1s under their administration, so that their sample value could be grossed up to the total value.

The questionnaire was designed in a simple way, which reflected elements of a typical balance sheet requesting transactions separately from positions data between resident and nonresident companies. To measure the extent of integration of GBC1s' economic activity with the domestic economy, selected transactions and positions data between residents were also collected. The BOM questionnaire for collecting data on offshore activity is presented in the annex of this appendix. The questionnaire was supplemented by the CDIS and Coordinated Portfolio Investment Survey forms.

#### *Incorporation of survey results in balance of payments and IIP statistics*

For the incorporation of survey's results, a three-tier approach was implemented:

- 1) For the MCs that did not have an electronic spreadsheets (that reported on a sample basis), their estimates were grossed up to the total assets of all GBC1s under their administration.

### Box A4.1 Compiling Data on Special Purpose Entities in Mauritius (*concluded*)

- 2) The total assets of 12 surveyed MCs were grossed up to the universe estimate using the information provided by the FSC on the total assets of all GBC1s under the administration of the MC's population.
- 3) The survey collection and the balance of payments statistics compilation had different frequency—the former collected annual data while the latter statistics were published on a quarterly basis. To overcome this problem, an indicator series based on the cross border transactions' settlement data for all GBCs reported by banks on a monthly basis was used for apportioning the annual data into four quarters.

#### *Difficulties encountered in conducting the survey*

- During the sensitization meetings, the BOM had difficulties in convincing the MCs to report their offshore transactions and positions with nonresidents. The MCs' arguments were that other competitive offshore jurisdictions were not reporting those data. Also, they viewed the new survey as an additional reporting burden as they were already collecting CPIS data and providing them to the regulator.
- The FSC was sensitive to the high probability of the exercise of collecting offshore data doing damage to the industry that generally thrived on confidentiality. A high risk that GBCs investors would leave the Mauritian jurisdiction to move to other jurisdictions without such collections was predicted by the MCs. The GBCs needed to be convinced about the advantages of collecting the data and given assurances about the confidentiality policy.
- During the first survey exercise, BOM was not granted access to the individual survey returns and therefore was unable to validate the aggregated data. Because BOM could not interact directly with the MCs and the communication with reporters was done through the FSC, the data validation was difficult. This changed for the second survey exercise. The direct interaction of the balance of payments compiler with the responding MCs at all stages of the survey increased the quality of survey results.
- Because the Type 2 GBCs were not required to manage and control their business from Mauritius nor to prepare and audit their financial accounts in Mauritius, the balance of payments compiler considered inappropriate their inclusion in the survey. The alternative course of action would be to amend the financial summary requirements to collect the balance of payments and IIP data and as a substitute to use appropriate estimation methods. The BOM plans to extend the survey coverage to GBC2s; however, no decision has been taken yet.

#### *Lessons learned*

- The support and commitment of the regulator was crucial. In conducting such a survey, all parties involved have to take ownership of the project with a clear demarcation of responsibilities. In the case of Mauritius, the fact that the government had committed to subscribe to the IMF Special Data Dissemination Standard provided the motivation to all parties.
- The compiler should understand the difficulties of the task and be well prepared to accommodate the respondents' needs, as well as the concerns of the regulator and the regulatees regarding the reporting burden and costs by adopting a phased approach.
- The survey is aimed at facilitating the compiler's task to compile the balance of payments and IIP statistics. In the same time, the MCs have to be motivated by the benefits of the collection of offshore data, so that the survey exercise is seen as a win-win exercise for all groups affected.
- The compiler should be sensitive to the reporting burden and cost. The survey design should be reviewed over time to attain this objective, and respondents have to be informed about that changes are made with the goal to reduce the reporting burden for the MCs.
- Sensitization and follow-up meeting before, during, and after the survey exercise are equally essential. Such interactions with the respondents help the compiler to understand the offshore sector and improve the questionnaire design.
- The reporting burden could be eased to a large extent by the use of IT. In the near future, the BOM plans to design a Web-based questionnaire and to incorporate the editing of checks electronically into the survey form. Respondents will then be able to see for themselves where data inconsistency may arise.

<sup>1</sup> As of the end of 2012, there were 10,728 GBC1s, 15,208 GBC2s, and 164 MCs in Mauritius.

## Annex to Appendix 4

## Balance of Payments Survey of Category 1 Global Business Companies (GBC1s)



Statistics Division  
Bank of Mauritius

Ref:

GBC 10

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CONFIDENTIAL

**1 Purpose of Collection**

The purpose of this survey is to collect information from the financial statements and supporting details of GBC1s to facilitate compilation of their transactions and positions vis-a-vis nonresidents for compiling the balance of payments accounts and the external assets and liabilities position of Mauritius. Balance of payments statistics are published in the Bank's *Monthly Statistical Bulletin* and in the *Annual Report* and are also posted on the Bank of Mauritius website <http://bom.intnet.mu>.

**2 Role of Management Companies in Filling the Questionnaire**

The intention is that management companies (MC) set up a template for Tables A, B, and C in the questionnaire that is linked to the spreadsheets on which the financial accounts of GBC1 are maintained. The accounting period should be for the accounting year followed by the GBC1 in reporting to its shareholders. Each MC will provide an aggregated return to the Financial Services Commission. Two approaches are recommended. For those MCs that have the financial information in spreadsheets (or some other easily aggregated software) for GBC1s that they manage, the information should be provided as an aggregate for all such GBC1s. This approach will not require any decision on what GBC1 should be included, thereby reducing the burden on the MCs. For those MCs that do not have the information available in spreadsheets (or some other easily aggregated software), it is recommended to report transactions and positions data that account for at least 75 percent of the total balance sheet value of the GBC1s they manage.

**3 Collection Authority**

By virtue of the section 51A(1) of the Bank of Mauritius Act 2004, the responsibility for the preparation of the balance of payment accounts and the external assets and liabilities position of Mauritius is vested on the Bank of Mauritius. In this regard, section 51A(2) states that the Bank may, by notice in writing, require any person to furnish, within such time and in such form and manner as the Bank may determine, such information and data as the Bank may require for the preparation of the balance of payments accounts and the external assets and liabilities position of Mauritius.

**4 Confidentiality**

Information provided in the questionnaire by individual enterprises shall not be published without the written consent of the enterprise. The information supplied will be published only in aggregated form.

**5 Offence**

Any person who fails to comply with a requirement under section 51A(2) of the Bank of Mauritius Act 2004 shall commit an offence and shall, on conviction, be liable to a fine not exceeding 50,000 rupees for each day on which the offence occurs or continues.

**6 Queries**

Technical concepts in the questionnaire will be familiar to the director, finance manager, or accountant of your enterprise. Queries or assistance regarding the completion of this form may be addressed to:

Name: Mr. Vikram Punchoo  
 Title: Head, Statistics Division  
 Tel: 202-3949  
 E-mail: vikram.punchoo@bom.mu

Name: Mrs. Padma Hurree Gobin  
 Title: Chief, Statistics Division  
 Tel: 202-3981  
 E-mail: padma.hurreegobin@bom.mu

### Explanatory Notes for Filling the Questionnaire

#### 7 Residents and Nonresidents

An institutional unit (which may be an individual, an enterprise, or any other entity) is a resident of the Mauritian economy, regardless of its nationality, if it exists, within Mauritius, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time—exceeding one year—in economic activities and transactions on a significant scale. Corporations and nonprofit organizations normally may be expected to have a center of economic interest in the economy in which they are legally incorporated and registered. Representation of foreign governments and international organizations are excluded.

Nonresidents are institutional units, regardless of their nationality, living or operating outside the economic territory of Mauritius for one year or more and include the following:

- (1) Individuals having their principal residence outside the economic territory of Mauritius or enterprises operating abroad for a year or more
- (2) Foreign governments
- (3) Bilateral development assistance organizations (e.g., Commonwealth Development Corporation (UK)) or international organizations with shareholders who are governments of more than one economy (e.g., International Finance Corporation; World Bank; African Development Bank, etc.)

If you are not sure of the residency status of any organization, please give its name.

#### 8 The Reporting Year: 20XX

This questionnaire asks for opening position as of 1 January 20XX ( $\equiv$  C.O.B. 31 December 20XX-1), transactions as well as revaluation and other changes during the year 20XX, and closing position as of end-December 20XX. If the financial accounts are for some other period, please provide the information on the basis of the accounting year as reported in question 1.8.

#### 9 Valuation Principles

Please provide all data in U.S. dollars.

#### 10 Shareholders Funds

Please report on a fair value basis for collective investment funds, and on a book value basis for other entities, if fair value is not available.

#### 11 Loans and Trade Credit (assets and liabilities)

Please report on a nominal value basis (after allowing for any changes that may result from changes in exchange rates).

#### 12 Debt Securities on Issue

Please report the market value of the securities on issue, at the balance sheet date (for positions) and the actual proceeds (or retirement values), for transactions, with both positions and transactions inclusive of accrued interest.

### 13 Debt and Equity Securities Held

Please report the market value of the securities held at the balance sheet date (for positions) and the actual purchase/sale price, for transactions.

#### 13a Exceptions to the Rule of Foreign Direct Investment

- (1) Debt positions between affiliated financial intermediaries except insurance companies and pension funds (a subset of financial corporations) are excluded from direct investment.

The financial corporations covered by the financial intermediary exclusion are deposit-taking corporations, money market funds (MMF), non-MMF investment funds, and other financial intermediaries except insurance companies and pension funds. (In other words, the usual direct investment definitions apply for insurance corporations, pension funds, other financial institutions, and financial auxiliaries.) All debt positions between these selected types of affiliated financial corporations are excluded from direct investment (but equity positions between all types of affiliated financial corporations should be included in direct investment). For example, deposits and other amounts lent by a parent bank or other financial intermediary to its direct investment enterprise located abroad that is also a financial intermediary, and deposits and other borrowings taken from such offices, should not be classified as direct investment.

- (2) Equity in international organizations is excluded from direct investment, even in cases in which voting power is 10 percent or more. These equity contributions are included in portfolio investment (if in the form of securities) or other investment—equity (if not in the form of securities).
- (3) Financial derivatives and one-off guarantees are excluded from direct investment. Financial derivatives are excluded largely on practical grounds. One-off guarantees represent loans or securities that are guaranteed with such particular circumstances that it is not possible for the degree of risk associated with them to be calculated with any degree of precision. They are recognized as financial assets or liabilities only at activation—that is, when the event occurs that makes the guarantor responsible for the liability.
- (4) Direct investment also includes investment in real estate, properties, vacation homes, and lease of land for long periods, provided the property is located in an economy other than that of the direct investor.

### 14 Affiliated Enterprises

These refer to enterprises that hold 10 percent or more of the GBC1 shares or equivalent or are owned by another enterprise which has such a holding in the GBC1. Affiliates include parent companies, branches, and associate companies.

### Section A. Characteristics of the Management Company

**15 Name of management company** .....

.....

**16 Address of management company**

.....

.....

**17 E-mail address** ..... **Tel no.** ..... **Fax no.** .....

.....

**18 Website of management company** .....

**19 Name of person completing form** .....

Functional title ..... E-mail address .....

Tel no. .... Fax No. ....

**20 Name of alternative contact person** .....

Functional title ..... E-mail address .....

Tel no. .... Fax no. ....

**21 If the questionnaire is being completed for the management company by an agent (such as its accounting firm), please provide the name, postal and e-mail addresses, and phone number below:**

Name of firm .....

Address .....

E-mail address .....

Tel no. ....

Fax no. ....

**22 Total number of GBC1 under management and administration** .....

**23 Number of GBC1 companies surveyed** .....

**24 Gross value of all GBC1s' assets that your company manages (U.S dollars millions):**

.....

### Section B. Aggregated Balance Sheet of GBC1s Managed by Your Company

Please report the opening and closing balances, as well as the transactions, other changes in volume and revaluation changes, for the assets, liabilities, and shareholders' funds, of the population of GBC1s managed by your company.

Reporting Currency: U.S. dollars (millions)

	Assets	Opening balance as of 01.01.20XX	Transactions		Other changes in volume	Revaluation changes	Closing balance as of 31.12.20XX
			(+)	(-)			
1.1	Shares in unaffiliated nonresident enterprises						
1.2	Shares in affiliated nonresident enterprises						
1.2.1	<i>of which:</i>						
	<i>(1) Shares held in affiliated investment funds</i>						
1.2.2	<i>(2) Direct investor in direct investment enterprises</i>						
1.2.3	<i>(3) Reverse investment</i>						
1.2.4	<i>(4) Between fellow enterprises</i>						
1.3	Loans to unaffiliated nonresident enterprises						
1.3.1	<i>of which:</i>						
	<i>(1) Short-term on an original maturity basis</i>						
1.3.2	<i>(2) Long-term due for receipt within one year or less</i>						
1.3.3	<i>(3) Long-term due for receipt in more than one year</i>						
1.4	Loans to affiliated nonresident enterprises						
1.4.1	<i>of which:</i>						
	<i>(1) Loans to affiliated investment funds</i>						
1.4.2	<i>(2) Direct investor in direct investment enterprises</i>						
1.4.3	<i>(3) Reverse investment</i>						
1.4.4	<i>(4) Between fellow enterprises</i>						
1.5	Debt securities issued by affiliated nonresident entities						
1.5.1	<i>of which:</i>						
	<i>(1) held on affiliated investment funds</i>						
1.5.2	<i>(2) Direct investor in direct investment enterprises</i>						
1.5.3	<i>(3) Reverse investment</i>						
1.5.4	<i>(4) Between fellow enterprises</i>						
1.6	Debt securities issued by unaffiliated nonresident entities						
1.6.1	<i>of which:</i>						
	<i>(1) Short-term on an original maturity basis</i>						
1.6.2	<i>(2) Long-term due for receipt within one year or less</i>						
1.6.3	<i>(3) Long-term due for receipt in more than one year</i>						
1.7	Deposits held at nonresident banks						

Section B. Aggregated Balance Sheet of GBC1s Managed by Your Company (*continued*)

Reporting Currency: U.S. dollars (millions)

	Assets	Opening balance as of 01.01.20XX	Transactions		Other changes in volume	Revaluation changes	Closing balance as of 31.12.20XX
			(+)	(-)			
1.8	Cash, and deposits held at resident banks						
1.9	Nonfinancial assets owned in Mauritius						
1.9.1	<i>of which:</i>						
	(1) Buildings						
1.9.2	(2) Machinery and equipment						
	(3) IT inclusive of expenses to develop databases						
1.9.3	(4) Inventories of goods and other						
1.10	Shares in affiliated resident enterprises (other than GBCs)						
1.11	Nonfinancial assets owned abroad (such as property, equipment, inventories of goods, etc.)						
1.12	Interest income (net of tax) receivable from						
1.12.1	(1) Affiliated nonresidents						
1.12.2	(2) Unaffiliated nonresidents						
1.12.3	(3) Residents						
1.13	Dividend income (net of tax) receivable from						
1.13.1	(1) Affiliated nonresidents						
1.13.2	(2) Unaffiliated nonresidents						
1.13.3	(3) Residents						
1.14	Any other assets—other than shares, loans, and debt securities and not classified elsewhere—held with affiliated nonresidents (please specify) <sup>1</sup>						
1.14.1	-----						
1.14.2	-----						
1.14.3	-----						
1.15	Any other assets—other than shares, loans, and debt securities and not classified elsewhere—held with unaffiliated nonresidents (please specify) <sup>1</sup>						
1.15.1	-----						
1.15.2	-----						
1.15.3	-----						
1.16	Other assets held with residents						
1.17	<b>Total assets (1.1+1.2+1.3+1.4+1.5+1.6+1.7 +1.8+1.9+1.10+1.11+1.12+1.13+1.14+1.15 +1.16)</b>						

Section B. Aggregated Balance Sheet of GBC1s Managed by Your Company (*continued*)

	Liabilities	Opening balance as of 01.01.20XX	Transactions		Other changes in volume	Revaluation changes	Closing balance as of 31.12.20XX
			(+)	(-)			
<b>2.1</b>	Borrowing from affiliated nonresident enterprises						
2.1.1	<i>of which:</i>						
	(1) <i>Borrowings from affiliated investment funds</i>						
2.1.2	(2) <i>Direct investor in direct investment enterprises</i>						
2.1.3	(3) <i>Reverse investment</i>						
2.1.4	(4) <i>Between fellow enterprises</i>						
<b>2.2</b>	Borrowing from unaffiliated nonresident enterprises						
2.2.1	<i>of which:</i>						
	(1) <i>Short-term on an original maturity basis</i>						
2.2.2	(2) <i>Long-term due for payment within one year or less</i>						
2.2.3	(3) <i>Long-term due for payment in more than one year</i>						
<b>2.3</b>	Debt securities placed with affiliated nonresident entities						
2.3.1	<i>of which:</i>						
	(1) <i>Placed with affiliated investment funds</i>						
2.3.2	(2) <i>Direct investor in direct investment enterprises</i>						
2.3.3	(3) <i>Reverse investment</i>						
2.3.4	(4) <i>Between fellow enterprises</i>						
<b>2.4</b>	Debt securities placed with unaffiliated nonresident entities						
2.4.1	<i>of which:</i>						
	(1) <i>Short-term on an original maturity basis</i>						
2.4.2	(2) <i>Long-term due for payment within one year or less</i>						
2.4.3	(3) <i>Long-term due for payment in more than one year</i>						
<b>2.5</b>	Interest income (net of tax) payable to						
2.5.1	<i>of which:</i>						
	(1) <i>Affiliated nonresidents</i>						
2.5.2	(2) <i>Unaffiliated nonresidents</i>						
2.5.3	(3) <i>Residents</i>						
<b>2.6</b>	Dividend income (net of tax) payable to						
2.6.1	<i>of which:</i>						
	(1) <i>Affiliated nonresidents</i>						
2.6.2	(2) <i>Unaffiliated nonresidents</i>						
2.6.3	(3) <i>Residents</i>						
<b>2.7</b>	Tax payable to foreign governments						

## Section B. Aggregated Balance Sheet of GBC1s Managed by Your Company (concluded)

	Liabilities	Opening balance as of 01.01.20XX	Transactions		Other changes in volume	Revaluation changes	Closing balance as of 31.12.20XX
			(+)	(-)			
<b>2.8</b>	Any other liabilities— <i>other than shares, loans, and debt securities and not classified elsewhere</i> —to affiliated nonresidents (please specify) <sup>2</sup>						
2.8.1	-----						
2.8.2	-----						
2.8.3	-----						
<b>2.9</b>	Any other liabilities— <i>other than shares, loans, and debt securities and not classified elsewhere</i> —to unaffiliated nonresidents (please specify) <sup>2</sup>						
2.9.1	-----						
2.9.2	-----						
2.9.3	-----						
<b>2.10</b>	Other liabilities to residents						
<b>2.11</b>	<b>Total liabilities: (2.1+2.2+2.3+2.4+2.5+2.6+2.7+2.8+2.9+2.10)</b>						
<b>Shareholders' funds</b>							
<b>2.12</b>	Shares/units held by affiliated nonresidents						
2.12.1	<i>of which held by</i>						
2.12.2	(1) <i>Affiliated investment funds</i>						
2.12.3	(2) <i>Direct investor in direct investment enterprises</i>						
2.12.4	(3) <i>Reverse investment</i>						
2.12.4	(4) <i>Between fellow enterprises</i>						
<b>2.13</b>	Shares/units held by unaffiliated nonresidents						
<b>2.14</b>	Shares/units held by residents						
2.14.1	<i>held by non-GBCs</i>						
2.14.2	<i>held by GBCs</i>						
<b>2.15</b>	Retained earnings						
2.15.1	<i>otherwise due to nonresidents</i>						
2.15.1.a	<i>Affiliates</i>						
2.15.1.b	<i>Unaffiliates</i>						
2.15.2	<i>otherwise due to residents</i>						
<b>2.16</b>	Reserves provisions						
<b>2.17</b>	All other shareholders' funds						
<b>2.18</b>	<b>Total shareholders' funds (2.12+2.13+2.14+2.15+2.16+2.17)</b>						
<b>2.19</b>	<b>Total liabilities and shareholders' funds (2.11+2.18)</b>						

<sup>1</sup> Please note that items 1.14 and 1.15 are residual categories and to help us with any reclassification at our end, please specify the nature of the position or transaction. Please also note that unaffiliated nonresidents include banks.

<sup>2</sup> Please note that items 2.8 and 2.9 are residual categories and to help us with any reclassification at our end, please specify the nature of the position or transaction. Please also note that unaffiliated nonresidents include banks.

### Section C. Income and Expenditure

Please report Income and expenses during the year 20XX.

#### 1. Income from services provided to:

U.S. Dollars

	Residents <sup>1</sup>		Nonresidents	Total
	GBC1s	Other than GBC1s		
<b>Total</b>				
<i>of which (please list main services)</i>				
(1) Gains on foreign exchange / foreign currency translation				
(2) Net change in fair value of available –for sale investments				

#### 2. Recurrent expenses on goods and services paid to:

U.S. Dollars

	Residents <sup>1</sup>		Nonresidents	Total
	GBC1s	Other than GBC1s		
<b>Total</b>				
<i>of which:</i>				
(1) Fees paid to management companies				
(2) Management fees paid to CIS manager				
(3) Fund administration fees				
(4) Other administration expenses				
(5) Legal fees				
(6) Accounting fees				
(7) Auditing fees				
(8) Director fees				
(9) Secretarial fees				
(10) Consultancy fees				
(11) Advisory fees				
(12) Professional fees				
(13) Tax fees				
(14) Custody fees				
(15) Rental of premises				
(16) Rental of equipment				
(17) Bank charges				
(18) Bank interest				
(19) Insurance premium				
(20) Income tax				
(21) Rates and other taxes				
(22) License fees				
(23) Depreciation				
(24) Other expenses (please specify)				

**Section C. Income and Expenditure (concluded)**

**3. Other transactions**

U.S. Dollars			
<b>A. For goods which have not transited through Mauritius</b>			
(1) Value of goods sold	.....		
(2) Cost of sales	.....		
<b>B. Compensation of employees</b>			
	<b>Paid in Mauritius</b>	<b>Paid outside Mauritius</b>	<b>Total</b>
(1) Wages and salaries including bonus	.....	.....	.....
(2) Other <sup>2</sup>	.....	.....	.....

**4. Number of employees as of June 20XX**

	Residents	Nonresidents
Male		
Female		
Total		

<sup>1</sup> Receipt from and payment to GBC1s in Mauritius are considered to be with residents.

<sup>2</sup> Includes overtime, payment in kind, travelling allowances, other allowances, retirement pension, employer's contribution to pension fund and life insurance scheme, fringe benefits, and so forth.