Direct Investment Task Team (DITT)

MARCH 30, 2021

DITT Chairs and Secretariats
Outline

- Welcoming Remarks
- Outcome of February 2021 BOPCOM Meeting
- Forthcoming Testing and Stock Taking Exercises
- Way Forward
- Concluding Remarks
Overview of DITT Work Program

DITT
17 GNs
one dropped
and one added

GNs
Presented
Committee Meeting
October 2020
3 GNs were presented
Committee Meeting
February 2021
5 GNs were presented

Current Status
D.9
for further consultation, coordination with GZTT
D.6 and D.7
finalized
D.1 and D.4
further consultation, coordination with GZTT
D.3, D.12, and D.17
approved

D.13 “Treatment of Large Construction Financed by Government” was dropped.
D.18 “Cash Pooling” was added.
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February 2021 Committee Meeting: DITT GNs

During this meeting, 5 GNs were presented:

- **D.1**: Greenfield and Extensions of Capital
  - UNCTAD (co-lead), Eurostat (co-lead), Japan, UK, and Zambia

- **D.3**: Treatment of Collective Investment Institutions
  - US (lead), Brazil, Luxembourg, South Africa, and ECB

- **D.4**: Corporate Inversions
  - US (lead), Italy, and UK

- **D.12**: Including Intra-concern Derivatives in DI
  - Poland (lead), Italy

- **D.17**: Identifying Super Dividends and the Borderline Between Dividends and Withdrawals of Equity
  - Germany (lead), Australia, Spain, US, and IMF BP
D.1 Greenfield Investment (GI)

**Recommendation**

*Develop* a transactions approach to measuring FDI flows for GI and extensions of capacity

- Supplemental reporting
- Requires definition of GI and extensions of capacity

**Outcome of Public Consultation**

Strong support for including guidance on the definition and collection of data on GI and extension of capacity in the *BPM7*

- Explore the capital approach through the work on MNEs being carried out with the Globalization Task Team (GZTT).
- Recommended *testing* before developing detailed guidance on the transactions approach.
D.1 Greenfield Investment (GI) (continued...)

Committee Discussion

Almost all Committee members agreed GI data are highly relevant.

Majority supported using the transactions approach (more consistent with the overall BoP framework)

A few members supported the capital approach as closer to user needs and analytically more useful, and stressed it is covered in foreign affiliate statistics

Committee members urged to include:
- Prepare a clear definition of GI and extension of capacity
- Clarify the scope of its coverage (i.e., equity/debt or both, reinvested earnings?)
- Clarify the recording (gross or net basis) to ensure comparability across countries
- Provide a practical guidance on its data collection and compilation in the updated Compilation Guide

Committee largely favored the need for testing the proposed approaches before including it in the BPM7

Actions

Elaborate a GI definition and a plan for the testing exercise (June 2021)

Undertake the testing In collaboration with the WGIIS, to seek volunteers to undertake testing on the approaches for GI measurement

Present the results of the testing, including the analytical usefulness of the transaction approach (date to be defined—dtbd)

Prepare an updated version of D1 (dtbd)
- (i) incorporating the results of the testing
- (ii) revising the GN, including
  - (a) a proposed definition of GI and extension of capacity,
  - (b) clarifying the scope of their coverage, and
  - (c) clarifying the recording
- The updated D1 will be circulated to the Committee for final approval via written procedure.
D.3 Treatment of Collective Investment Institutions (CIIs)

**Recommendation**

*Change* the current treatment—CIIs are included in DI if they meet the operational definition—due to both conceptual and practical issues.

Modifying the operational definition of DI to exclude certain investments in or by CIIs, but could not agree between two options:

- **(A3.2)** to treat all investments (even over 10 percent) in CIIs as portfolio investment, while keep investments by CIIs of over 10 percent in DI in accordance with BPM6 standards; or
- **(A3.3)** to exclude all investments in or by CIIs from DI except for private equity and real estate investment funds.

**Outcome of Public Consultation**

Major support for changing the standards, but views were equally split between alternatives A3.2 and A3.3.

**Summary of Discussion**

Unanimous support to modify the current standards.

Views were split between alternatives A3.2 and A3.3 with a slight majority supporting A3.2.

Recognized the practical challenges in either alternative, with a recognition that A3.2 is easier on practical grounds and slightly preferred.

**Actions**

DITT to revise the GN, including the slight preference for A3.2.

Updated D3 (stating the agreed proposals that should go into BPM7) to be recirculated to the Committee for final approval via written procedure.

Additional clarification could be included as part of the BPM7 CG on practical implementation, the type of funds concerned, and their institutional sector classification.
**D.4 Corporate Inversions (CIs)**

**Recommendation**

*Strengthen* the current guidance on publishing supplementary detail on CIs and define CIs for economies where they are important.

**Outcome of Public Consultation**

- Some support that CIs have distorted the analytical value of DI statistics if not separately identified.
- Support for supplemental statistics on a voluntarily basis.
- Official definition of CIs for statistical purposes is needed.

**Summary of discussion**

- CIs distort the analytical usefulness of DI data in countries where this phenomenon is important.
- Need for an official definition of CIs for statistical purposes.
- Support for a voluntary supplemental data collection for those countries where this may be important.

**Actions**

- Update D.4 by (i) addressing the comments and (ii) stating the proposals that should go into BPM7, including the definition of CIs and typology of corporate actions.
- Before sending D.4 back to the Committee, DITT to consult with the GZTT.
- The updated D.4 will be circulated to the Committee (via written procedure) for final approval.

- While most agreed with the definition in D.4, some suggested to clarify the borderline between CIs and other forms of corporate restructuring, like changes in registered offices, which can have a similar economic effect but need to be treated differently.

- A typology of corporate actions, indicating in each case whether the actions should be treated as transactions or as other changes in volume (OCV) would be helpful.

- The Committee agreed to consult the GZTTT in finalizing the GN.
D.12 Including Intra-concern Financial Derivatives in DI

**Recommendation**

*Maintain* the current classification but adding a supplementary item, on a voluntary basis, “of which between affiliates”

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**Outcome of Public Consultation**

Unanimous support for the recommendation

Significant support to include a detailed elaboration of data sources to identify those statistics in the revised *BPM7 CG*

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**Summary of Discussion**

Strong support for the recommendation

Agreed to include the requested information in the *BPM7 CG*

Supported research into financial derivatives within company groups as they may behave differently and serve different purposes (e.g., shifting income) than financial derivatives between unaffiliated parties

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**Actions**

DITT to prepare a final version of D.12 stating the final recommendation
D.17 Superdividends

Recommendation

*Discard* the concept of superdividends for accumulated reserves from ordinary earnings for DIEs

Outcome of Public Consultation

generally agreed with the recommendation

Summary of Discussion

Most members supported the recommendation

A few members supported ESA 2010 approach and stressed that the recommendation would result in inconsistency of dividends in DI with other dividends in macroeconomic accounts

Others noted that DI income is measured in a unique way due to the recording of reinvested earnings and considered that such an inconsistency does not exist

Agreed to consult the AEG and to take into consideration the outcomes from the discussion on F.2 “Asymmetric Treatment of Retained Earnings Between Direct and Portfolio Investment and Potential Extension to Domestic Relationships” and D.16 “Treatment of Retained Earnings”

Actions

DITT to revise the GN in light of the discussions and to consult with AEG to ensure consistency with national accounts

Final decision will take into consideration the outcome of the AEG consultation and the discussion on F.2 and D.16
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D.1: Testing Exercise

Why?
- to gather practical guidance on collection and compilation

How?
- A targeted approach to selected countries rather than a general approach through a survey

Who?
- The audience: Which countries? What about an appropriate geographical representation?

The testing strategy
- Collaboration from IOs and regional organizations
- Questionnaire – shall we re-adapt the one designed by Eurostat?
- Any other thoughts?
Stocktaking Survey on MNEs
(D.9: Reconciling DI with AMNE Statistics)

Recall October 2020 BOPCOM discussion:
• Launch a survey to gather feedback from compilers on such framework.
• Include a definition of MNE [GZTT GN Treatment of MNEs, which was circulated within the DITT for review]
• The framework should not only aim to reconcile DI with AMNE statistics but should also be fully coordinated and ultimately aligned with the work on MNEs by the GZTT.
• Introduce additional breakdowns of DI statistics to better align with the concept of MNEs used in AMNE.

Proposal
Focused approach (avoid fragmented discussion)

Joint exercise with the OECD-WGIIS and GZTT

Any views on the survey?

Design

Audience

Timeline
D.4: Typology of Corporate Inversions

Motivation

- Full typology (most usual cases)
- Indicate whether treated as transactions, or as
- Other Changes in Volume

What approach do we think of?
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## Forthcoming GNs: Committee meeting June 2021

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<td>D.5 Eliminating Imputations for Entities Owned or Controlled by General Government for Fiscal Purposes</td>
<td>IMFBP (lead) and Eurostat</td>
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<td><strong>Medium Priority</strong></td>
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<td>D.8 Public Private Partnerships</td>
<td>Zambia (lead), IMF, and South Africa</td>
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<td>D.11 Removing Debt Between Affiliated Insurance Corporations and Pension Funds</td>
<td>France (lead), Canada, and Luxembourg</td>
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<td>D.14 Financial Conduits</td>
<td>Luxembourg (lead), Germany, IMFBP, Russia, and OECD [may go via written procedure]</td>
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<td>D.18 Cash Pooling in Direct Investment</td>
<td>ECB (lead), and IMFBP</td>
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<td><strong>High Priority</strong></td>
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<td>D.2 Valuation of Unlisted Equity</td>
<td><em>Spain (lead)</em>, Canada, China, Russia, ECB, and IMFBP</td>
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<td><strong>Medium Priority</strong></td>
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<td>D.10 Can DI be Achieved Other than by Ownership of Equity?</td>
<td><em>Japan (lead)</em>, and Australia</td>
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<td>D.15 Treatment of Payments Made by Non-resident Affiliates on Behalf of DI Enterprises</td>
<td><em>Brazil (lead)</em>, Australia, and China</td>
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<td>D.16 Treatment of Retained Earnings</td>
<td><em>ECB (lead)</em>, Brazil, Eurostat, and IMFBP</td>
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WGIIS Activities

• **WGIIS webinar** to support the public consultation of the next round of GNs – end-May (one or two days event)

• WGIIS will support the **Research & Testing phase** foreseen for D.1 and D.9

• **BD4 Update** – creating an Expert Group to support the WGIIS Secretariat in the update of the *Benchmark Definition of FDI, 4th Edition* manual
  - Terms of Reference for the Benchmark definition Technical Expert Group (BTEG)
  - Some WGIIS participants expressed interest in joining the BTEG.
  - We would like to have a balanced geographical coverage – missing representatives from *North America* and *Asia*.
  - Call for participants to be issued soon – please contact the WGIIS Secretariat.
  - Your support would be very valuable in the revision of *BD4*, given your expertise and knowledge and your work on the various GNs.
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GNs by Theme

What is DI? Boundaries:
  D.3
  D.10
  D.11
  D.12

Clarifications:
  D.8
  D.15
  D.18

Measurement and Classification:
  D.2
  D.7

MNEs and SPEs:
  D.5
  D.6
  D.9
  D.14

FDI by type:
  D.1
  D.4

DI income:
  D.16
  D.17
Incorporation in the Update

Concern that there are a lot of changes being proposed: that is, supplemental presentations, more granular detail.

No change is a completely acceptable outcome (e.g., D.11, D.12, D.14).

Some changes may be grouped together:

- MNEs and UIE/UHE closely related
- FDI by type: combine greenfield and extensions of capacity with existing guidance on M&A, break out corporate inversions in the residual category
- Focus on compilation guidance rather than changes to the standards (e.g., D.18)
Thank you!
Direct Investment Task Team (DITT)

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