





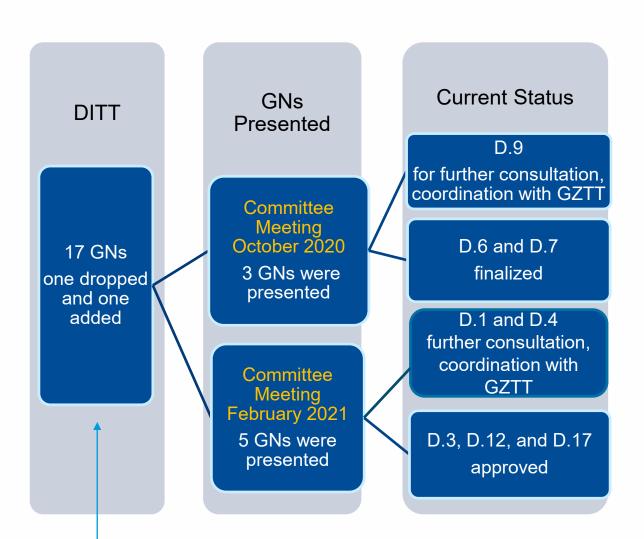
Direct Investment Task Team (DITT)

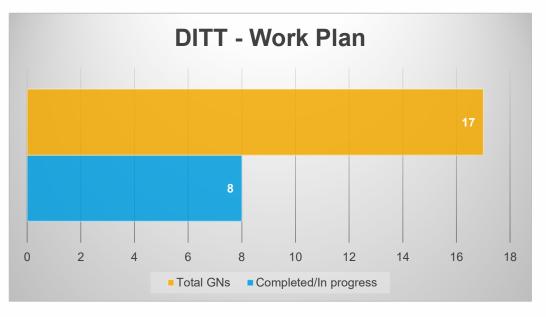
MARCH 30, 2021

DITT Chairs and Secretariats

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

Overview of DITT Work Program





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

 In 2021, the Committee will meet three times due to the number of Guidance Notes (GNs) to be discussed 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 IMFBP

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 <u>testing</u> 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 <u>testing</u> 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.

Additional clarification could be included as part of the BPM7 CG on practical implementation, the type of funds concerned, and their institutional sector classification.

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.

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

Cls 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 GZTT 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"

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

Summary of Discussion

Strong support for the recommendation

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

Actions

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

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

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 **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

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"

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D.1: Testing Exercise

Why?

 to gather practical guidance on collection and compilation The testing strategy

Collaboration from IOs and regional organizations

How?

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

Questionnaire – shall we re-adapt the one designed by Eurostat?

Who?

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

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. Coordinated and aligned with GZTT recommendations

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

| Issues | Teams (Lead and Contributors) | |
|--|--|--|
| High Priority | | |
| D.5 Eliminating Imputations for Entities Owned or Controlled by General Government for Fiscal Purposes | IMFBP (lead) and Eurostat | |
| Medium Priority | | |
| D.8 Public Private Partnerships | Zambia (lead), IMF, and South Africa | |
| D.11 Removing Debt Between Affiliated Insurance Corporations and Pension Funds | France (lead), Canada, and Luxembourg | |
| D.14 Financial Conduits | Luxembourg (lead), Germany, IMFBP, Russia, and OECD [may go via written procedure] | |
| D.18 Cash Pooling in Direct Investment | ECB (lead), and IMFBP | |

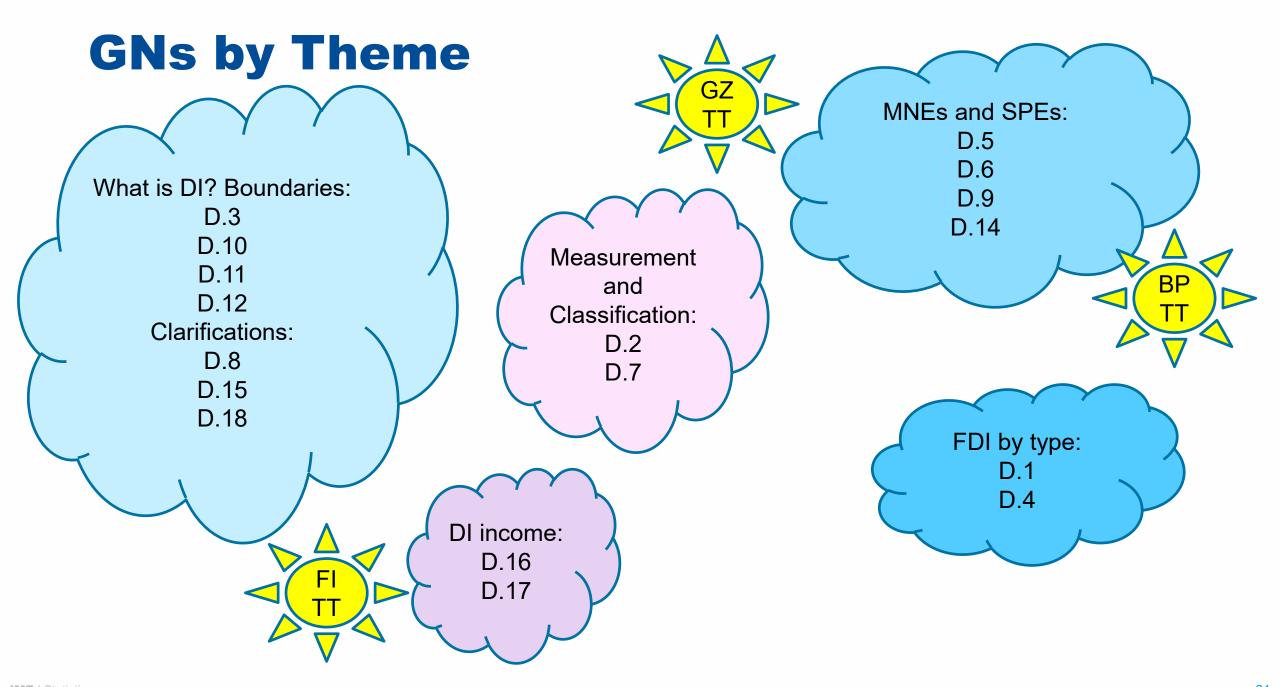
Forthcoming GNs: Committee meeting October 2021

| Issues | Teams (Lead and Contributors) | |
|---|--|--|
| High Priority | | |
| D.2 Valuation of Unlisted Equity | Spain (lead), Canada, China, Russia, ECB, and IMFBP | |
| Medium Priority | | |
| D.10 Can DI be Achieved Other than by Ownership of Equity? | Japan (lead), and Australia | |
| D.15 Treatment of Payments Made by Non-resident Affiliates on Behalf of DI Enterprises | Brazil (lead), Australia, and China | |
| D.16 Treatment of Retained Earnings | ECB (lead), Brazil, Eurostat, and IMFBP | |

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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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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Mr. Fernando Nieto, Spain

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Mr. Ray Mataloni, United States

Mr. Piet Swart, South Africa

Mr. Wilson Phiri, Zambia