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

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

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

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

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

4. The United States refers to the ultimate investor as the “ultimate beneficial owner” (UBO), the immediate owner as the “foreign parent,” and the direct investment enterprise as the “U.S. affiliate.” Using the U.S. terminology, the UBO is defined as that person, proceeding up the U.S. affiliate’s ownership chain beginning with and including the foreign parent, that is not owned more than 50 percent by another person. The foreign parent is the first person outside the United States in the U.S. affiliate’s ownership chain that has a direct investment in the U.S. affiliate. If the foreign parent is not owned more than 50 percent by another person, the foreign parent and UBO are the same. Unlike the foreign parent, the UBO may be either a U.S. person or a foreign person (though most are foreign). Both the UBO and foreign parent are “persons,” where person is broadly defined to include any corporation, individual, branch, partnership, association, associated group, estate, trust, or other organization and any government.
5. The United States collects UBO information in mandatory annual and benchmark survey reports filed by U.S. affiliates. The definitions discussed above are provided on the survey forms, and the U.S. affiliate is required to provide information on the country and industry of its UBO based on those definitions. The United States does not collect information on the UBO’s percent ownership share in the U.S. affiliate or on intermediary companies between the foreign parent and the UBO. The United States believes its method of collecting the information yields accurate information on the country and industry of the UBO. For the majority of cases, there is little evidence that the absence of information on the UBO’s ownership interest in the U.S. affiliate or of information on intermediary companies has affected the quality of the information provided.

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

7. In collecting the UBO information, the primary goal is to obtain accurate information on the country and industry of the UBO; information pertaining to the identity of the UBO itself (such as its name) is of secondary importance. The United States recognizes that a UBO that is an individual (or group of individuals) may prefer not to be specifically identified and, in such cases, the U.S. affiliate is not required to report the name of its UBO. A similar situation that might affect reporting arises if the UBO does not want to make requested information available to the U.S. affiliate for inclusion in a survey report. Because of concerns about such situations, the first U.S. surveys that obtained UBO information permitted the UBO itself to directly supply the requested
information. However, the early surveys indicated that this was not a significant issue, and the United States no longer provides instructions on its survey forms regarding direct reporting of information by a UBO.

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

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

When the United States first began collecting UBO information, the industry was assigned based on the activities of the UBO itself rather than on its worldwide activities. Many UBO’s are holding companies, and tabulations based on the information collected in the early surveys tended to classify a substantial portion of the data as holding companies. Because of this problem, beginning with the 1987 benchmark survey of foreign direct investment in the United States the basis for assigning industry classifications was changed to the UBO’s worldwide activities.
9. A U.S. affiliate may have more than one foreign parent and, therefore, may also have more than one UBO. In such cases, U.S affiliates are required to identify the UBO for each foreign parent ownership chain. (An affiliate could have two foreign parents if, for example, one parent has a 30 percent ownership interest in the affiliate and another has a 70 percent interest.) In tabulations that present data by country of UBO, data for U.S. affiliates with more than one UBO are assigned to the country of the UBO in the ownership chain of the foreign parent with the largest ownership interest.

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

11. Almost all of the tables that present the operations data disaggregated by country are based on data classified by country of UBO. However, a few tables provide data classified by country of foreign parent (that is, by country of the immediate investor). Comparisons of data from the 2002 benchmark survey of foreign direct investment in the United States indicate that distributions based on data classified by country of UBO differ significantly from distributions based on the data classified by country of foreign parent. For example, when distributed by country of UBO, totals for the United Kingdom, Italy, and Hong Kong are substantially higher than those shown when data are distributed by country of foreign parent (see the attached table). For other countries—most notably, Switzerland, the Netherlands, Ireland, and some Caribbean countries—totals shown when data are distributed by country of foreign parent are substantially higher than those shown when distributed by country of UBO. Another difference is that values are shown for the United States in the data distributed by country of UBO.
12. In addition to the operations data, the United States publishes a limited amount of data on the inward direct investment position and on direct investment balance of payments income classified by country of UBO; these data are available for the years 1987-2003. In order to tabulate the direct investment position and income data by country of UBO, the UBO information collected in the annual and benchmark surveys is linked to information on balance of payments transactions and positions obtained in quarterly direct investment surveys. In the tabulations of the data, values shown for the direct investment position and income are not prorated to reflect the UBO’s percent ownership share in its U.S. affiliate because, as noted earlier, this information is not obtained in the U.S. surveys. Also in the tabulations, values associated with U.S. affiliates with more than one UBO are assigned to the country of the UBO in the ownership chain of the foreign parent with the largest ownership interest.

13. Questions for discussion:

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

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

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

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

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

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

20 Food
21 Beverages and tobacco products
22 Pharmaceuticals and medicine
23 Other chemicals
24 Nonmetallic mineral products
25 Primary and fabricated metal products
26 Computer and electronic products
27 Machinery manufacturing
28 Electrical equipment, appliances, and components
29 Motor vehicles and parts
30 Other transportation equipment
31 Other manufacturing
32 Petroleum manufacturing, including integrated petroleum and petroleum refining without extraction
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**Addenda:**
- European Union (15): 2,531,643 600,017 1,122,436 261,881 3,293.8 2,502,708 592,506 1,091,821 253,280 3,244.2
- GPEC 355,594 2,689 1,187 54.8 387 168 607 89.1

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

**D Suppressed to avoid disclosure of data of individual companies.**