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Progress on the Coordinated Direct Investment Survey

**Prepared by Statistics Department
International Monetary Fund**

Progress on the Coordinated Direct Investment Survey

This paper provides an update of progress on the Coordinated Direct Investment Survey (CDIS) since the Committee meeting in October 2006, and seeks guidance and support from the Committee on the contemplated next steps. At the 2006 meeting, the Committee considered a paper¹ by the IMF Statistics Department (STA) on the outcomes of the feasibility study² on conducting a CDIS, and both member countries and international organizations serving on the Committee gave overwhelming, in-principle, support for proceeding with this initiative.

Progress since the 2006 Committee meeting

Taking into account the discussions at the 2006 Committee meeting, STA finalized the feasibility study and transmitted it to the Committee. STA also recommended to IMF management that CDIS be conducted, and the recommendation was accepted in May 2007. A report on the results of the feasibility study was sent to the IMF's Executive Board, for information.

Immediately following management approval for the CDIS, a Task Force was formed³ to provide content and advice for a Compilation Guide, as set out in the report presented to the 2006 Committee meeting. The terms of reference for the Task Force were those adopted by the Committee at its meeting in 2006 (see Annex 1). The Task Force met at the IMF headquarters at the end of June 2007 and discussed an outline of a draft guide (a version that

¹ Coordinated Direct Investment Survey, End-2009 Reference Year: Broad Outline of Timeline and Modalities for Conducting the Survey (BOPCOM-06/10)

² "Task Force on the Feasibility of Conducting a Coordinated Direct Investment Survey"

³ The members of the Task Force are: Brazil, the People's Republic of China, Hong Kong Special Administrative Region, France, Japan, Mexico, the Netherlands, Oman, South Africa, the United Kingdom, the United States, the European Central Bank, Eurostat, the Organisation of Economic Cooperation and Development, the United Nations Conference on Trade and Development, the World Bank, and the IMF.

incorporates the discussion is provided in Annex II). In accordance with the feasibility study, the Task Force confirmed that the CDIS will:

- draw heavily from the near final drafts of the new *Balance of Payments and International Investment Position Manual* (BPM6) and the *OECD Benchmark Definition of Foreign Direct Investment* (BD4);
- gather comprehensive data on foreign direct investment (FDI) positions on assets and liabilities, as relevant to countries, as at end-2009, employing enterprise surveys, broken down by counterpart country, and that attribution of investment reflect the immediate host/immediate investing country;
- collect comprehensive data on FDI positions, separately for equity investment and other capital. As concluded at the 2006 Committee meeting, the appropriate valuation basis for equity in the CDIS is own funds at book value in order to obtain as much comparability in the data as possible;
- in addition, countries are encouraged to collect a number of supplementary data sets.

The Task Force also confirmed that participants in the CDIS will be requested to provide preliminary results by the end of September 2010. The IMF hopes to publish those results within a few months after the date the information is reported. Revised information will be requested by March 2011. Data on supplementary items also will be sought at that time. All participants are encouraged to improve the quality of the data they may currently produce. The IMF will be seeking information from participants on any data improvements prompted by their participation in the CDIS.

In late August 2007, the IMF's Managing Director sent letters to the entire IMF membership, as well as a few non-members, informing them of the CDIS initiative and inviting their participation. The letter of invitation contained an attachment, setting out the purpose, content, and other important attributes of the CDIS (the attachment with minor update is provided in Annex III.) Responses have been received from about 85 countries, with all but two countries agreeing to participate (one of those said it would wait to decide in the second half of 2008).

Next Steps

The highly collaborative interagency process adopted in defining the content, timing, scope, and other relevant elements of the CDIS will be pursued in setting out the next steps.

Collaboration among national, international, and regional organizations will help to assure broad support and a robust outcome, including substantial improvements in the overall quality of direct investment data worldwide. Some important prior consultations include the support of this Committee in 2003 for the IMF to study the feasibility of conducting a CDIS; support of the IMF's interagency partners in conducting the feasibility study; the approval and financial support from IMF management earlier this year (during a period of tightening resources) to conduct the survey, and the formation of the Task Force on Conducting the CDIS.

An immediate step is the next (and final) meeting of the Task Force on January 22 – 23, 2008 that the Hong Kong Census and Statistics Department has kindly agreed to host. On the basis of a common understanding of the overview of the CDIS (see Annex III), the meeting will focus on two main topics: the CDIS guide and an implementation strategy for the CDIS.

It is planned that, following that meeting, the guide will be finalized and placed on the IMF's website. In addition, starting in mid-2008, a series of regional seminars will be held. At the seminars, the guide will be discussed. A similar round of seminars will be held in 2009, where the focus will be on practical issues that participants may have encountered in their preparations for undertaking the survey.

A preliminary timeline of target dates is given in Annex IV.

Organizational arrangements for an implementation strategy

The objective of the CDIS is to have as many countries as possible participating, encouraging improvements for countries that already produce direct investment data and inviting the others in producing direct investment data. It is expected that many possible participants will be seeking technical assistance, especially those participants who have not conducted a comprehensive direct investment survey previously.

To leverage resources and fully engage interested parties, the IMF will keep working with and consulting organizations that have been actively supporting or have an interest in the conduct of the CDIS, including the ECB, Eurostat, UNCTAD, the World Bank, the Association of Southeast Asian Nations, the Organisation for Economic Cooperation and Development, the United Nations, the Economic and Social Commission for Western Asia, and the Economic Commission for Latin America and the Caribbean. Also, the members of the two task forces have been extremely supportive. The IMF will also seek and establish collaboration with other national and international organizations, as appropriate.

Questions for the Committee

- 1. Does the Committee have any comments on the draft outline for the CDIS guide?*
- 2. Does the Committee have any comments on the purpose, content, and other important attributes of the CDIS, as provided in Annex III?*
- 3. Does the Committee have any suggestions on how the effectiveness of the regional seminars may be maximized, particularly in regard to the proposed partnerships with other interested organizations in implementing the survey and providing technical assistance?*
- 4. Does the Committee have any comments on the Preliminary Timeline of Selected CDIS Activities (Annex IV)?*

Terms of Reference for end-2009 Coordinated Direct Investment Survey

The objectives of the Coordinated Direct Investment Survey (CDIS) are:

- Collect comprehensive and harmonized information, with geographic detail, on the stock of inward foreign direct investment (FDI) as at end 2009;
- For the major investing countries, also collect comprehensive and harmonized information, with geographic detail, on the stock of outward FDI; and
- Exchange bilateral data among the participating countries. The data will also be disseminated on the IMF's public website.

By exchanging comparable or harmonized data (subject to confidentiality constraints), participating countries should be able to improve and/or validate their international investment position statistics on the stock of FDI as well as associated financial flows and investment income.

The reporting requirements (“core data”) for participation in the CDIS would be:

- Gather and compile comprehensive data on FDI positions as at end 2009, employing enterprise survey(s).
- Collection and reporting of component detail on stocks of FDI equity (including reinvested earnings) and other FDI, each broken down by counterpart country (bilateral data).
- Attribution of country of investment/investee to be based on the immediate host country/immediate investing country.
- Employment, in enterprise surveys, of a common definition of book value for valuing FDI positions, specifically “own funds at book value.”⁴

Countries can, of course, collect additional information in national FDI surveys to meet user requirements, including requirements of international and regional organizations. Moreover, countries participating in the CDIS will also be encouraged to collect and report a number of supplementary data series. These series do not have to be collected for a country to participate in the CDIS.

⁴ In enterprise surveys, direct investors and direct investment enterprises would both use information drawn from accounts on the liabilities side of the direct investment enterprise's balance sheet to value outward and inward FDI positions, respectively.

Draft Outline of CDIS Guide

Preface

The Task Force on the Coordinated Direct Investment Survey: Members and Terms of Reference

Terms of Reference

Chapter 1: Introduction

Background

Organization of the Guide

Chapter 2: Scope of the Survey

Core items

Geographic detail

Supplementary items

- *income*

- *industry*

- *ultimate direct investor*

- *round tripping*

- *market valuation*

(These items are discussed in more detail in Annex VIII.)

Underlying concepts

Economic Territory

Residence

Direct investment

Direct investment relationships

Strict Asset/Liability Presentation, Reverse Investment and the Directional Principle

Equity and debt

Equity

Intercompany lending

Items not treated as a financial asset (or liability)

Immediate counterparty

Mutual direct investment, reverse investment and investment in other affiliate

Valuation principles

Appendix: Example of direct investment relationship between DI and DIE, reverse investment between a DIE and a DI, and between two affiliated enterprises with no equity investment between them

Chapter 3: Units to be surveyed

General principles on defining institutional units

Households
Corporations
Estates, trusts, and partnerships
International financial centers and “pass through funds”
 Appendix: Examples of treatment of direct investment enterprises that are resident in
 the same economy

Chapter 4: Undertaking the CDIS

Legal and Confidentiality Considerations
What, if any, is the legal authority to collect the information?
Joint responsibility
Compiling, Maintaining, and Using an Information Database of Respondents
Details Stored on a Information Database
Compiling an Information Database
Use of the Information database
Timetable
Initial Contact with Potential Respondents
Type of survey (census or sample)
How to Address Low Coverage or Low Response Rates
Quality Control
Quality Control Checks Through the Survey Form
Quality Control Through Analytical Checks
*Quality Control from the Viewpoint of the Counterpart Economy of the Direct
 Investor and Direct Investment Enterprise*

Annex I Model Survey Form for Inward Direct Investment

Annex II Country Codes

Annex III Residence

General principles
Residence of households
Residence of enterprises
Nonprofit institutions serving households.

Annex IV Debt instruments

Currency and deposits
Currency
Deposits
Debt securities
Loans

Annex V Framework of Direct Investment Relationships (FDIR)

Annex VI Alternative approaches to the FDIR

Participation Multiplication Method
Direct Influence / Indirect Control Method

Annex VII Types of institutional unit

Corporations
Quasicorporations identified prior to incorporation
Enterprises
Identification of institutional units with cross-border elements
Branches
Notional resident units for ownership of land and other natural resources by nonresidents
Multiterritory enterprises
Joint ventures
Trusts
International organizations and nonprofit institutions serving households
Nonprofit institutions serving households.
Flexible corporate structures with little or no physical presence

Annex VIII Supplementary Items

Industry classification
Direct investment income
Debt securities with embedded derivatives
Market valuation of equity
Ultimate investing country

Annex IX Example of application of the Current Operating Performance Concept

COORDINATED DIRECT INVESTMENT SURVEY—AN OVERVIEW

This attachment sets out the purpose, content, and other important aspects of the Coordinated Direct Investment Survey (CDIS). The CDIS is being conducted for the reference year ending December 31, 2009 under the auspices of the International Monetary Fund (IMF) with the collaboration of the IMF's interagency partners, which include the European Central Bank (ECB), the Organisation for Economic Cooperation and Development (OECD), the Statistical Office of the European Communities (Eurostat), the United Nations Conference on Trade and Development (UNCTAD), and the World Bank.

Globally, the quality of current data on direct investment is quite uneven. To overcome some of the shortcomings, the IMF Committee on Balance of Payments Statistics, at its October 2006 meeting, called on the IMF's Statistics Department to proceed with a CDIS. A feasibility study has shown strong country support for such an initiative.

Technical preparations for the survey are underway. A survey guide will be published in early 2008 that sets out the principles under which the survey will be conducted, as well as provide practical guidance for those economies that do not have experience in conducting a direct investment survey.

1. Purpose

The purpose of the CDIS is to improve the coverage and comparability of international investment position (IIP)⁵ statistics on foreign direct investment (FDI). All participants in the CDIS agree to collect information on the stock of inward and outward, as relevant, FDI as at end-December 2009 by counterpart country

This initiative can be expected to result in substantial improvements in the quality of FDI data and provide national compilers and users of statistics with a valuable database on FDI positions by individual counterpart country. The partner country data will provide a check on the coverage of recorded estimates of direct investment capital.

2. Content of CDIS

The CDIS will be harmonized, using the same reference date (end-December 2009), the same valuation principles, and the same sources of information (valuing equity positions based on the books of direct investment enterprises) for both inward and outward foreign direct investment.

⁵ The IIP is a statistical statement that shows, at a point in time, the value of financial assets of residents of an economy that are claims on nonresidents and gold bullion held as reserves, and the liabilities of residents of an economy that are owed to nonresidents.

Participation in the CDIS requires the provision of information on the stock of inward and outward, as relevant, FDI capital, separately for equity investment and intercompany debt, by individual counterpart country. The country-level estimates would be reported using the “directional principle.”⁶

In addition to the “core” series, the CDIS will cover a number of additional series on a supplementary basis, further enhancing the usefulness of the database. Countries may wish to collect the “supplementary” data but are not required to do so for participation in the CDIS. The supplementary data will be described in the CDIS Survey Guide.

To improve comparability of data across countries, the valuation principle to be used for equity capital will be “own funds at book value” and the valuation principle for intercompany debt will be nominal value. “Own funds at book value” includes paid-up capital (net of own shares), reserves from equity (including share premium accounts and investment grants), and the value of undistributed profits and losses (including results for the current year). This valuation method includes the following important elements: cumulative reinvested earnings are included; depreciation on fixed assets (i.e., plant and equipment) has been reflected; and most financial instruments are carried at a value that approximates their current market or fair value. The nominal value of a debt instrument is the amount that the debtor owes to the creditor (including unpaid interest).

The CDIS will identify direct investment relationships using the new guidelines that will be included in the IMF’s updated *Balance of Payments and International Investment Position Manual*, sixth edition (*BPM6*) and the *OECD Benchmark Definition of Foreign Direct Investment*, fourth edition (*BD4*). When released, these two documents will be entirely compatible. A draft of the *BPM6* has been posted on the IMF’s public website at: <http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm> and a near final version of the manual will be posted late in 2007. The final *BD4* will be released toward the end of 2007 or early in 2008.

The CDIS Survey Guide will be published early in 2008. A task force was formed in mid-2007 to provide advice and content for the Guide. The task force comprises representatives from Brazil; the People’s Republic of China; Hong Kong Special Administrative Region; France; Japan; Mexico; the Netherlands; Oman; South Africa; the United Kingdom; the United States; the ECB; Eurostat; OECD; UNCTAD; the World Bank; and the IMF. The task force met in June 2007 and will meet again in January 2008. Survey Guide will be published in hard copy and also posted on the IMF’s website. It will also be translated into foreign languages.

3. Reporting dates

⁶ This is the basis described in the fifth edition of the IMF’s *Balance of Payments Manual* and in the third edition of the *OECD Benchmark Definition of Foreign Direct Investment*. In the updated editions of these manuals, both the directional principle and a gross asset-gross liability recording basis will be described. The gross asset-gross liability basis accords best with concepts used in presenting aggregate data in the national accounts, as prescribed by the *System of National Accounts*, and the directional principle continues to be recommended for country-level data.

The IMF will request data for the core items by end September 2010, with the revisions sought in March 2011, along with the supplementary information, for those economies that will collect these data.

4. Data improvements

Countries participating in the CDIS are encouraged to make efforts to improve their compilation of direct investment statistics. Countries with well developed data collection programs in place might do so by more comprehensively identifying direct investors and direct investment enterprises, and by more fully identifying intercompany debt positions that should be excluded from direct investment under the upcoming standards, such as financial intermediary-to-financial intermediary debt positions.⁷ For countries undertaking such a survey for the first time, the CDIS will provide an opportunity to embark on best practice for direct investment statistics.

5. Regional seminars

The IMF's Statistics Department, in cooperation with other interested organizations, will conduct a series of regional seminars for participating economies in 2008 and 2009. These seminars are intended to clarify the practical dimensions of what the survey seeks to collect. Participants will discuss their preparations for the survey, as well as draw on each other's experience on issues of concern in conducting surveys. For developing economies, the IMF is prepared to defray some of the airfare, accommodation, and per diem costs associated with attending these seminars (with a limit on the numbers of persons seeking to attend the seminars) according to its budget.⁸

⁷ Under the guidelines in the draft *BPM6*, all debt between related financial intermediaries should be excluded from direct investment. This represents a change from *BPM5*, where all intercompany debt **except** permanent debt between related financial intermediaries was excluded from direct investment.

⁸ The IMF's funding contributions will partly depend on the number of persons seeking to attend these seminars.

Preliminary Timeline of Selected CDIS Activities

- June 28-29, 2007** 1st Task Force meeting: Washington, DC. The TF agreed to an outline of the draft CDIS Survey Guide.
- August 31, 2007** Letters inviting participation in CDIS sent to countries. Letters make clear that participation carries a responsibility to provide data for core data items at a bilateral level for end-2009.
- July - Nov 2007** Fund staff flesh out a complete internal version of the Guide.
- Sept 30, 2007** Responses to the July 31 letters of invitations due.
- Oct 29 - Nov 1, 2007** BOPCOM meeting: Report on TF activities. BOPCOM members provide comments.
- July - Nov 2007** TF participants provide selected material for the Guide, including advice and content for the main text and special boxes. Fund staff use these inputs to expand/improve/update the internal version of the Guide.
- Dec 21, 2007** Chapters of the draft survey guide are fully fleshed out and polished. The Guide is sent to BOPCOM and TF members a month before the Task Force meeting.
- Dec 2007** Preliminary specifications for tables to be included in the data releases are developed for internal discussion. It is envisioned that the initial release of data will include tables and metadata only for core data items, for all participating countries, and would be released relatively quickly, followed by a subsequent release of updated tables and enhanced metadata. Some data may be published only on the Fund's web site and not in hard copy.
- Jan 22-23, 2008** 2nd Task Force meeting, in Hong Kong Special Administrative Region.
- Feb 2008** English version of Guide is finalized and is posted on the Web. Translation of Guide into foreign languages begins.
- June '08 - Sept '09** Regional CDIS seminars in partnership with other institutions.

