



**Unclassified**

Organisation de Coopération et de Développement Economiques  
Organisation for Economic Co-operation and Development

**English - Or. English**

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
INVESTMENT COMMITTEE**

Unclassified

**Workshop on International Investment Statistics**

**UPDATE ON THE REVISION OF THE OECD BENCHMARK DEFINITION OF FOREIGN DIRECT INVESTMENT**

**Note prepared by the OECD Secretariat for the  
IMF Committee on Balance of Payment Statistics**

**Meeting of 29 October - 1 November 2007, Washington D.C.**

Contact Ayse Bertrand Tel: +33 1 45 24 91 24 E-mail: <a href="mailto:ayse.bertrand@oecd.org">ayse.bertrand@oecd.org</a>
--

English - Or. English

## **UPDATE ON THE REVISION OF THE OECD BENCHMARK DEFINITION OF FOREIGN DIRECT INVESTMENT**

### **1. Introduction**

1. The present document provides an update on the revision of the *Benchmark Definition of Foreign Direct Investment (Benchmark Definition)* carried out under the auspices of the OECD Workshop on International Investment Statistics (WIIS)<sup>1</sup>. In October 2006, IMF Committee on Balance of Payments Statistics (BOPCOM) was informed of WIIS decision to postpone the revision timetable by one year to address outstanding analytical needs of users for more meaningful FDI data by source and destination.

2. In 2007 WIIS held two meetings, 26-28 March 2007 and 1-3 October 2007<sup>2</sup>, the work of WIIS focused (i) pending methodological issues; and (ii) new methodologies to meet outstanding user needs. WIIS formed small project groups under the supervision of the Benchmark Advisory Group (BAG).<sup>3</sup> Project groups covered funds passing-through SPEs; FDI reallocated according to ultimate investing/host country; FDI by type (Mergers and Acquisitions, Greenfield investment, extension of capital, and financial restructuring); and FDI income. The results of their work are incorporated in the draft *Benchmark Definition*.

3. According to the new time-table (see Annex 1) the 4<sup>th</sup> edition of the *Benchmark Definition* will be published in the first half of 2008. In preparation for this objective, WIIS Chair provided progress reports to the OECD Investment Committee (its parent committee) for their feedback which was very positive.

### **2 Remaining methodological issues**

#### **2.1 Issues resolved by BOPCOM in 2006 / unresolved by WIIS**

4. With regard to pending methodological issue, WIIS took the following decisions, thus eliminating possible divergences with the IMF BOPCOM decisions of October 2006:

- 1) *Treatment of collective investment institutions (CII)*: investments “in” and investments “by” CIIs where they meet the threshold of 10% ownership of the voting power should be treated as direct investment;
- 2) *Treatment of Non-profit institutions serving households (NPISH)*:
  - An NPISH could be a direct investor but not a direct investment enterprise;

---

<sup>1</sup> WIIS Bureau: Chairman: Paul Mahoney (Australia); Vice-chairmen: Roger De Boeck (Belgium); John Fitzpatrick (Ireland) and Satoru Hagino (Japan); Secretariat: Ayse Bertrand (OECD)

<sup>2</sup> Participants to WIIS meetings in 2007: All OECD Member countries with the exception of New Zealand; Eurostat, ECB, IMF, and UCTAD; other observers.

<sup>3</sup> BAG Chairman: Christian Lajule (Canada)

- Therefore, where an NPISH established non-resident enterprise with a market orientation, it would be a direct investor in that enterprise, if the direct investment criteria applied;
  - Where an NPISH has a financial claim on a related non-resident NPISH, there should be no direct investment claim. Rather such a claim should be treated either as a portfolio investment or other investment;
  - The principle should apply to all non-profit institutions, not just NPISHs.
- 3) *Treatment of goods and services provided in-kind by an entity in a direct investment relationship to a related entity:*
- the provision of goods and services provided in-kind should be treated in the same manner as for transfer pricing between a direct investor and its direct investment enterprise;
  - where such transactions occur between affiliated enterprises that do not have an equity relationship, the transaction should be regarded as an injection of equity into the affiliate receiving the good or service in-kind by the affiliate providing the good or service; but such cases are likely to be rare. The equity position will be immediately revalued to zero.

5. WIIS expressed concerns about the order in which residence and institutional unit are discussed in the *Benchmark Definition* (which follows, in this case, the *Balance of Payments Manual*). Concern was also expressed about the use of the term “centre of predominant economic interest” in relation to attributing residency, particularly the word “predominant”. More specifically, WIIS considered that when the institutional unit is identified its residence will be an automatic consequence. It was agreed that the WIIS Chair will send a letter drawing the attention of the Chairman of the IMF Committee on Balance of Payments Statistics to these related issues.

## 2.2 *Issues for clarification*

6. WIIS made the following clarifications:

- (i) in cases enterprises keep their books in a currency other than the local currency, the changes that result from the conversion to local currency should be treated as price changes.
- (ii) the exclusion of reinvestment of earnings for positions can only be applied if FDI data are reported at market value;
- (iii) an enterprise group represents enterprises under the control or influence of the same owner and that a global enterprise group could have multiple local enterprise groups with multiple points of entry into the economy;
- (iv) the concept “acting in concert” in the context of FDI statistics is limited to the related members of the household sector (a family) that are residents in the same economy. The corresponding concept for enterprises is “group of related enterprises”;
- (v) the *Benchmark Definition* should indicate that voting power can be acquired by means other than ownership of equity (e.g. by equity swaps and repurchase agreements). It was agreed to include this issue in the research agenda.

- (vi) that “ownership of land”, a notional unit, is not a sufficient criterion to qualify as a “branch” which has to be a direct investment enterprise

### **2.3 Other decisions**

7. WIIS agreed on the following:

- (i) to extend the directional principle to transactions/positions between fellow enterprises and considered several proposed methods for recording. WIIS endorsed the method whereby when there are equity or debt transactions/positions between fellow enterprises, the direction of transactions/positions should be determined according to the residency of the ultimate direct investor. In other words, if the ultimate direct investor is a non-resident, all transactions/positions between a resident direct investment enterprise and a non-resident direct investment enterprise are classified as “inward” FDI. If the ultimate direct investor is a resident, all transactions/positions between a resident direct investment enterprise and a non-resident direct investment enterprise are classified as “outward” FDI;
- (ii) in the absence of an universal definition of SPEs, BAG was asked to develop a typology of SPEs as a guide for compilers and to ensure some degree of cross-country consistency between to identify these entities. BAG was also asked to co-ordinate the typology with SNA where it was agreed not to define these entities. WIIS examined the typology proposed by BAG and agreed on a flexible description including the funds channelled within and outside the enterprise group.
- (iii) not to be prescriptive on the unit for compilation beyond the local group, but recommended that a breakdown between financial and non-financial intermediaries be required as a minimum;
- (iv) to maintain the terms “subsidiary” and “associate” to designate controlled and un-controlled affiliates described in the Framework of Direct Investment Relationship (FDIR);
- (v) the term “fellow enterprises” will replace “other affiliated enterprises”;
- (vi) decided to limit the recording of reinvested earnings only when the 10% threshold is met (i.e. to exclude reinvested earnings from reverse investments transactions, positions and income), considering the basic rationale that the direct investor has influence on the savings of the direct investment enterprise. This decision turns over the March 2007 decision that “reinvested earnings be imputed on all equity positions in a direct investment relationship even where the 10% threshold has not been met”;
- (vii) Declined further refinement to the standard presentation to distinguish between interest on long and short-term debt instruments on “income on debt”.

### **3. FDI statistics: standard and supplemental presentations**

#### **3.1 Standard presentation**

8. WIIS agreed that there will be two standard presentations: one for aggregate FDI data and the other for FDI statistics by partner country and by industry.

9. *Aggregate FDI statistics*: FDI transactions/positions based on asset/liability principle for the first counterparty and including all types of enterprises and transactions/positions. These data are identical to IMF's balance of payments and international investment position data in their scope and coverage.

10. *FDI statistics by partner country and by industry classification*: inward/outward FDI transactions/positions based on extended directional principle and excluding resident SPEs. Given practical concerns raised by some countries with regard to the identification of non-resident SPEs, this decision overturns the WIIS decision of March 2007 to look through all SPEs.

### 3.2 *Supplemental presentations*

11. *FDI statistics by partner country and by industry classification*: inward/outward FDI transactions/positions of resident SPEs;

12. *FDI statistics by partner country and by industry classification- FDI by type*: inward/outward FDI equity transactions for purchase/sale of existing equity (mergers and acquisitions- M&A)

13. *FDI statistics by partner country and by industry classification*: inward FDI equity and debt positions according to ultimate investing country (UIC). The presentation of the data according to UIC should focus on the location of the enterprise having ultimate control of the inward investment positions rather than on the enterprise having control of the assets, which is akin to economic definition of stocks. Therefore, reallocation of inward investment positions would be according the ultimate controlling economy/industry of the direct investor. In other words, ultimate controller will be identified at the point in the ownership linkage at which the control chain is interrupted. This method allows reallocating inward investments in an unambiguous way for all ultimate investors of the same resident enterprise. It also allows for the resident enterprise of the reporting economy to be ultimate investor itself.

## 4 **Implementation of the Benchmark Definition of FDI – 4<sup>th</sup> edition:**

14. WIIS endorsed a set of proposals for the implementation of the *Benchmark Definition*:

- (i) WIIS considered that, for the sake of international consistency of the data, it would be useful to approach the implementation of the *Benchmark Definition, 4<sup>th</sup> edition*, in a co-ordinated manner. Within that context, the group indicated 2009 as the recommended reference year for the implementation of revised guidelines for both FDI transactions and positions;
- (ii) WIIS asked the Secretariat to form a drafting group (in consultation with the WIIS Bureau) to revise the Survey of Implementation of Methodological Standards for Direct Investment (SIMSDI)<sup>4</sup> and to present the final draft to WIIS for approval the latest at its March 2009 meeting;
- (iii) WIIS strongly supported a new proposal to create an electronic internet database including the recommendations of the *Benchmark Definition, 4<sup>th</sup> edition* and related practical guidance. Delegates agreed that such a tool will allow a world-wide dissemination of FDI statistical standards. They also indicated the usefulness of offering the user the possibility to include annotations and linking the *Benchmark Definition* to SIMSDI information provided by countries;

---

<sup>4</sup> WIIS took note that IMF will no longer pursue the exercise on SIMSDI due to resource implications and that the exercise will continue only as on OECD self-evaluation/assessment and metadata tool.

- (iv) Delegates also recommended the distribution of a small pamphlet including a summary of main concepts/definitions and uses of FDI statistics as an easy communication tool for the non-specialised public;
- (v) WIIS agreed to provide a tool kit including an implementation package for compilers;
- Easy and user-friendly access to information;
  - A network of experts prepared to provide support electronically;
  - Provision of regional seminars ;
  - Technical assistance visits;
  - Staff exchange;
  - Evaluation tools (e.g. SIMSDI)
- (vi) WIIS also welcomed the proposal to include a regular “Tour d’Horizon” item on WIIS agendas to exchange information on recent trends and developments in FDI and FDI statistics.
- (vii) WIIS agreed that at the time of publication a press release could inform the public of the *Benchmark Definition, 4<sup>th</sup> edition*; such releases are conducted in consultation with the OECD Public Affairs and Communications Directorate (PAC). The press release could be accompanied by a special issue of the OECD Investment Newsletter. All this material would be disseminated via the internet as well. Moreover, the newsletters or web sites of national and international agencies could also make announcements.
- (viii) WIIS agreed to make the best use of OECD network of experts. OECD permanent delegations may be invited to a special (short) meeting back to back with a WIIS session. WIIS could organise seminars on specific subjects back to back with regular meetings. WIIS Bureau, the BAG Chair, and other delegates could usefully play an active role in disseminating information at local, regional or international conferences, seminars organised on statistics. These events may be valuable opportunities to inform a wider public of the revision of the *Benchmark Definition* and its novel features. For non-members, one could also explore the possibility of using the existing outreach framework to disseminate the information and to provide training to non-OECD countries. Possibilities of co-operation with other international organisations involved closely with emerging economies (such as UNCTAD, World Bank) could be explored.
- (ix) WIIS agreed that it may be useful to translate the *Benchmark Definition* to languages other than the official languages of the OECD (English and French).

## **5. Research agenda for the Benchmark Definition**

15. To optimise the input, WIIS recommended that the work on the research agenda be conducted in clusters, each including all directly related subjects. WIIS asked the Secretariat to form (in consultation with the WIIS Bureau) small teams of delegates willing to contribute to either one of the following six priority clusters for which work will be carried out in parallel (see list below).

16. WIIS considered that research work should commence as soon as possible on items identified as priority. WIIS did not create a formal process to progress other items on the research agenda but invited delegates to continue to undertake work in these areas. The Secretariat was asked to present a scoping paper at the next meeting, including proposals for the management of the research agenda. Nonetheless, there was already a general agreement that, to achieve international consistency for the recommended reference year (2009), it is important and necessary to set a moratorium until 2010 for the standard presentation of FDI statistics.

### ***Research agenda topics***

(\*) = Priority

1. Pass-through capital (\*)
  - a) Segregating capital transiting through SPEs and operational affiliates of multinational enterprises (MNE) (\*)
  - b) Updating the typology of SPEs, as appropriate; (\*)
  - c) Identifying non-resident SPEs [including origin/destination matrix developed by the Netherlands];
  - d) Exploring the usefulness and feasibility of a register for SPEs; (\*)
2. Ultimate investing/host country
  - a) FDI positions allocated according to ultimate investing/host country; (\*)
  - b) Round tripping; (\*)
3. FDI by type
  - a) M&As: divestments resulting from buy-backs; (\*)
  - b) Greenfield investment; (\*)
  - c) Extension of capital; (\*)
  - d) Financial restructuring; (\*)
4. Globalisation (\*)
  - a) Possible reconciliation of FDI statistics and statistics on the activities of MNE; (\*)
  - b) Economic definition of FDI stocks (\*)
  - c) Hybrid system to identify direct investment relationship; (\*)
5. Extended directional principle: further examination of the deflation of FDI (\*)
6. Developing a reference survey (including the new recommendations) to assist compilers; (\*)

7. Special studies on FDI by type of entity: investment funds; hedge funds; private equity funds; sovereign wealth funds; use of derivatives to gain control; stapled securities;
8. Explore possible synergies with on-going work on business registers;
9. Equity and debt transactions/positions between financial institutions;
10. Treatment of negative equity;
11. FDI by enterprise size;
12. Sales of patents;
13. Possible reconciliation of FDI statistics and trade statistics.
14. Time of recording for reinvested earnings on the same basis as the payment of dividends;
15. Privatisation and FDI;
16. Multi-territory enterprises;



**ANNEX 1**  
**TIMETABLE FOR BENCHMARK DEFINITION**  
**OF FOREIGN DIRECT INVESTMENT, 4<sup>TH</sup> EDITION**

<i>Pour memoire: end of phase 2 - Drafting of the Benchmark Definition, 4<sup>th</sup> edition by BAG and WIIS (final meetings)</i>		
<b>2nd WIIS meeting 2007</b>	1-3 October 2007	WIIS will review of Draft <i>Benchmark Definition, 4<sup>th</sup> edition 3rd revision and make recommendations to BAG for finalising the draft for approval.</i>
<b>6th BAG meeting</b>	4-5 October 2007	Back-to-back with WIIS BAG will review the 3 <sup>rd</sup> revision of the <i>Draft Benchmark Definition, 4<sup>th</sup> edition</i> in the light of WIIS comments and make arrangements for finalising the draft for approval.
<i>Phase 3: Approval of the Benchmark Definition, 4<sup>th</sup> edition</i>		
<i>Draft Benchmark Definition, 4<sup>th</sup> edition – [3rd revision]</i>	19 October 2007	Additional written comments to the OECD Secretariat on the draft Benchmark Definition including decisions of WIIS October 2007.
<i>Draft Benchmark Definition, 4<sup>th</sup> edition – [advance version of 4<sup>th</sup> revision]</i>	12 November 2007	A revised preliminary draft to be circulated among BAG members for review and completion.
<b>WIIS approval of the <i>Draft Benchmark Definition, 4<sup>th</sup> edition</i> – [4<sup>th</sup> revision]</b>	3 December 2007 - sendout 4 January 2008 – WIIS endorsement/comments	OECD Secretariat will circulate the draft [OLIS document] for WIIS approval by written procedure

<b><i>Phase 3: Approval of the Benchmark Definition, 4<sup>th</sup> edition</i></b>		
<b><i>Submission to the Investment Committee: Draft Benchmark Definition, 4<sup>th</sup> edition – [5<sup>th</sup> revision]</i></b>	15 February 2008	OECD Secretariat will send the draft [OLIS document] for approval by IC at its March 2008 Meeting.
<b>IC approval of the 4<sup>th</sup> edition of Benchmark Definition</b>	25-26 March 2008	Presentation by the WIIS Bureau and approval by IC for transmission to the Council
<b>Approval of the Benchmark Definition, 4<sup>th</sup> edition – FINAL – by the OECD Council</b>	In the first half of 2008 <sup>5</sup>	In both official languages of the OECD, English and French
<b>Publication of the Benchmark Definition, 4<sup>th</sup> edition</b>	The latest by end-June 2008	The exact calendar will be determined together with OECD Public Affairs and Communications Directorate.

---

5. The exact calendar will be determined in due time depending on the completion of the second language version of the draft and the Council schedule.