



## Twenty-Eighth Meeting of the IMF Committee on Balance of Payments Statistics

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### Developing CDIS Granular Data



## **Developing CDIS Granular Data.**

The Russian Federation has joined CDIS after the survey has been introduced by the IMF by sending the data on country structure of direct investments (DI) as at the end of 2009.

Before 2013 there were two institutions in Russia in charge of disseminating the data on DI. One type of data was published by the Bank of Russia (the BoR) the other – by the Federal State Statistical Service (Rosstat). The data in these two sets were not comparable because different data sources with different level of coverage were used (i.e., Rosstat's statistics didn't include information of the banking sector and part of purchase transactions conducted with residents' traded financial liabilities).

The CDIS data were presented by the BoR and were consistent with the data published in the IIP.

In 2013 it has been decided that the BoR is to be fully responsible for direct investment statistics. Rosstat has ceased to prepare any materials on this topic.

Changes were made to the Federal Law on the Central Bank in 2013. According to the new legislation the BoR independently determines methodology for DI statistics and has the authority to request and collect data from legal entities. It is responsible for compiling and disseminating DI statistics for the Russian Federation.

Data on DI which are also used to form CDIS reports are collected by the BoR on sectoral basis.

Volume of DI of *General Government* abroad is insignificant. Data are reported on the basis of banking reporting forms and inquiries made by the BoR to the other public institutions.

*Central bank* doesn't have any DI abroad.

*Banking sector.* As at January 1<sup>st</sup>, 2015 there are 834 deposit-taking corporations operating in the Russian Federation, of which 113 have more than 50% of their shares owned by non-residents. According to Russian legislation it is prohibited to open branches of foreign banks in Russia. All deposit-taking corporations quarterly report data which are used to form the IIP and include information necessary to report to the CDIS.

In 2014 the DI report used by the banking sector has been supplemented with data on financial flows and non-resident sectors broken down by countries which allowed to improve forming DI statistics in sectoral breakdown.

*Other financial corporations.* In 2013 ministry controlling other financial corporations' activities was integrated with the BoR. That allowed the BoR to collect data directly from this category of respondents.

Starting in the second half of 2015 a new quarterly reporting form on DI has been introduced which includes information on stocks and flows broken down by countries. After discussions with experts in charge of the regulation of other financial corporations' activities a decision was taken to use sample instead of census. This is explained by large number of other financial corporations on one hand and insignificant

volume of their stocks and flows in structure of DI on the other. Later on the list of respondents and requested data might be changed or redefined.

These two categories are in active cooperation with the BoR, there is a number of workgroups including specialists from the BoR, banks and other financial corporations. Associations of banks, insurance companies and other financial corporations are also actively cooperating with the BoR on statistical matters.

While reporting the data on DI instruments used in DI transactions between financial intermediaries should be excluded. Respondents from the financial sector often have difficulties separating financial intermediaries from non-residents providing financial services in DI relations.

*Non-financial corporations.* Before 2015 non-financial corporations reported DI statistics broken down by countries to the BoR once a year. According to information from statistical and commercial databases the BoR sent survey forms to major participants of DI asking them to fill in the forms. Occasionally some of the respondents refused to fill the forms referring to high workload or confidentiality of data. The more data the BoR was trying to collect the lower was the percentage of active respondents.

Additional sources for the BoR while forming the data for CDIS were ITRS reports of banks and disclosed financial statements. Statistical databases and commercial databases were also used while determining the list of survey respondents.

In 2015 the BoR using changes were made to the Law on the Bank has introduced an obligatory quarterly reporting form on DI for non-financial corporations. This reporting form is the same as the IIP form broken down by countries.

This year the BoR has asked 9.5 thousand companies to fill in the survey with 1Q2015 data. 7 thousand companies have responded. The BoR continues its active work with respondents to raise their numbers and is pretty sure that more and more companies will be sending in their reports.

Data collection started this year with a number of respondents sending in their reports on paper and electronically to the BoR territorial units all over the country.

In 2016 the BoR is planning to transfer data collection process totally to the BoR's portal on the Internet so that all the respondents could report to the BoR directly.

*Individuals.* DI of individuals are included in CDIS in part of investment into real estate. The main data source is ITRS: banks' reports on personal transfers for real estate purchases. However country breakdown is not always correct for this kind of data as often the receiving country is not a final destination but a place of transit. For example the main destination country for real estate purchase transfers is Switzerland from where the funds are further transferred to the countries in which the real estate is really purchased.

Further detailing of data for CDIS purposes is possible in following ways:

1. Additional data sources;
2. Further detailing of existing report forms.

Using of additional data sources for CDIS purposes is somewhat limited.

Statistical information collected by other ministries is usually meant for purposes other than statistics and can be used only while forming the list of survey respondents.

It should be noted that other ministries are reluctant to share detailed data on the reporting units.

In some cases the data exchange conditions offered by other ministries are unacceptable for the BoR because of confidentiality obligations to the respondents.

ITRS is a useful data source allowing to receive data on separate transactions in DI which presents the possibility of further calculation of some indicators such as volume of liabilities in the form of negotiable equity securities, debt securities and loans. However the use of ITRS is limited: some of the additional data is not connected to the payment itself (universal controlling parent, volume of reinvested earnings).

While forming DI statistics the BoR also makes active use of financial information reported by companies (IFRS and US GAAP reports). Data on separate transactions in terms of DI is presented in audited reports of companies in a very detailed way.

Other important sources used by the BoR are companies' websites, commercial databases on companies, including those specializing in M & A.

In general high concentration of DI is characteristic for Russia: rather few reporting companies (compared to the total

number) make the most of DI volume. The BoR makes out this list of companies and tries to keep close contact with them.

Main way of detailing of data for CDIS purposes by the BoR is further detailing of existing report forms.

The BoR has started reporting data on DI transactions broken down by country on quarterly basis since 2007.

The existing database allows the BoR to prepare and publish data on DI following breakdowns:



Taking into consideration Russia's vast territory and federal structure since 2015 the BoR has started to prepare a new presentation of DI data which is of great interest to the users:



Problem of further data detailing for CDIS is the need for reporters to form data which are not used by them for any other purposes.

The term fellow enterprises is not used in consolidated financial reporting and inside accounting policy of enterprises which requires some specific education as well as specific knowledge of the business group's structure for the companies' specialists that is needed only for correct reporting of DI statistics.

In many cases reporting DI and DIENT enterprises and fellow enterprises do not have sufficient data to define their counterparty's sectoral classification as they don't need this information.

Question about ultimate investing economy sometimes arouses difficulties for the reporters. It can be explained by the following reasons:

1. In some cases ownership chains are so complicated that DIENT enterprises and fellow enterprises are not able to analyze their structure and determine ultimate investing economy. Moreover there is an issue for direct investors in using two different principles for consolidation: for DI statistics (Framework for Direct Investment Relationships) and for international financial reporting, i.e. IFRS and US GAAP (Participation Multiplication Method).
2. Problem to determine ultimate investing economy usually rises in cases when DIENT enterprises and fellow enterprises are under the control of an entity which is a resident of some offshore zone especially if final beneficiary is an individual.

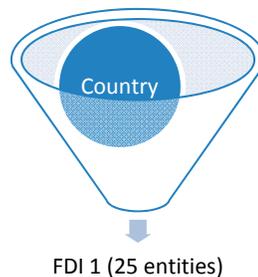
Thus for primary report compilers the key factor to report new data is that it should be formalized and they should have the possibility to sort it out from the existing data arrays. The necessity to conduct their own investigations and make their own expert decisions is seen very negatively by primary report compilers.

Some confusion while analyzing the data on DI both for domestic and international users is a result of difference between two methods of DI statistics compilation: assets/liabilities principle in the IIP and directional principle in the CDIS.

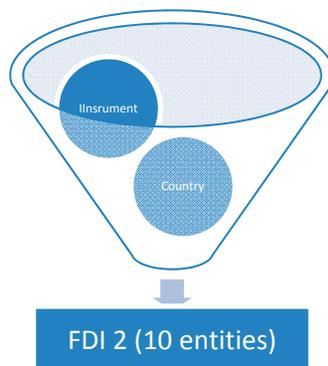
Another important issue for compiling more detailed data on DI is the confidentiality issue.

In process of further detailing the data more and more indicators come to be included into “confidential” category, which lessens the usefulness of the data for users. Confidentiality of separate indicators is also the reason for incorrect interpretation of indicators broken down by country and impossibility of cross-country checks.

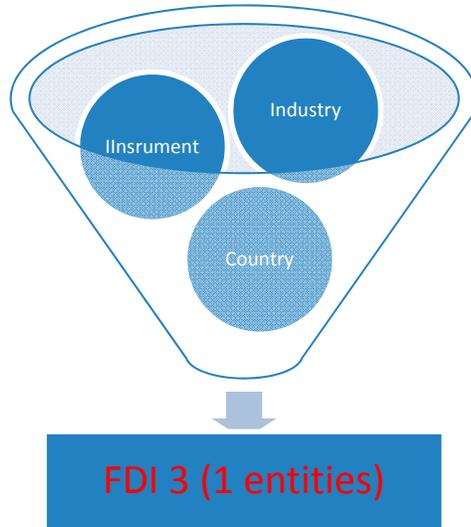
Stage 1



Stage 2



Stage 3



In the following example data on Stage 3 FDI can get “lost” from total country data which will misrepresent the whole DI picture.

On the other hand the issue of confidentiality on such a level of detailing is of great importance for primary report compilers and in some cases authorities.

At the same time it should be noted that higher detailing of DI data is undoubtedly important from the point of analytical usefulness, making it more attractive for users. Publishing separate segments of DI statistics attracts new users both inside the country and abroad assisting its popularization.

In Russia local authorities turned out to be very interested in data on volume of DI broken down by country for separate Russian regions. Certain interest to industrial breakdown was demonstrated by representatives of a number of ministries. This growth in popularity may have positive effect on the BoR’s cooperation and exchange of information with these ministries for the purpose of DI statistics.

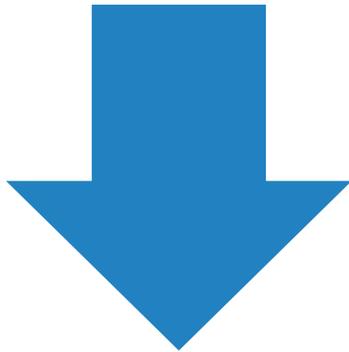
Growth in interest for such information is also seen in analytical divisions of large corporations which might indirectly stimulate those companies to submit data required from them.

Further detailing of DI data also makes cross-checking of data with other countries easier.

At the moment Russia is in active cooperation with Republic Belarus on the question of matching the DI data on bilateral basis. Stocks on DI are cross-checked while preparing bilateral balance of payments. The same kind of initiative is being worked on with Kazakhstan.

Periodically data on DI are cross-checked on bilateral basis with central banks of other partner countries.

Thus just like any other process further detailing of DI data has both pros and cons that should be taken into consideration while making the decision on the level of detail required by the CDIS:



**Pros:**

Analytical utility of the DI data;  
Simplification of DI data cross-check with other countries;  
More possibilities to reveal errors and inaccuracies on the stage of primary reporting.



**Cons:**

Confidentiality issue;  
Growing burden on the reporting units;  
Necessity to access additional data sources, often not synchronized with DI statistics;  
Reporters lacking the data necessary to present statistics of required detailing level.

