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D.9 Reconciling BPM-Based Direct Investment and AMNE Statistics

Prepared by the Direct Investment Task Team (DITT)

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Multinational enterprises (MNEs) pose growing challenges for the compilation of macroeconomic statistics, especially in how to attribute their activities to specific economies. Both direct investment (DI) and Activities of MNE statistics provide valuable insights into the operations and financing of MNEs. However, there are many differences between the two sets of statistics, including in their populations, definitions, classifications, and variables covered, that can make it difficult to use them together. Thus, reconciling the two sets of statistics could provide comprehensive and integrated data on the financing and operations of MNEs to address some of the measurement challenges posed by MNEs and to support analyses and policymaking as well as to act as a data integrity check to identify errors and/or omissions in DI data and improve data quality. In addition, the Globalization Task Team is discussing how to address the challenges posed by MNEs for macroeconomic statistics, including the possibility of separately identifying foreign-controlled corporations, domestic MNEs, and other corporations in the Institutional Sector Accounts. This guidance note (GN) discusses steps that compilers could take to reconcile the statistics, such as linking micro-data or collecting additional data. The GN recommends that a framework for reconciling DI and statistics on MNEs be developed including by identifying additional breakdowns of either sets of statistics, new supplemental presentations, and perhaps additional variables to enable the two sets of statistics to be used together.

SECTION I: THE ISSUE

BACKGROUND

- 1. Internationalization and globalization have led to increasingly complex corporate structures which can cross multiple economic borders.** Multinational enterprises (MNEs) have developed in this way for many reasons, including the benefits of geographical diversification, responding to trade barriers, closer proximity to markets and reducing the cost of labor, transportation, and taxes.
- 2. This presents growing challenges in measuring the activities and financing of MNEs and increases the importance of having comprehensive data on their operations to respond to the needs of the analysis of the global economy.** Both direct investment (DI) and activities of multinational enterprise (AMNE) statistics offer valuable insights into the operations and financing of MNEs that could be helpful in addressing these measurement challenges, especially if the relevant principles and guidelines for compiling two sets of statistics were reconciled. AMNE statistics provide economic measures of activities—such as number of affiliates, turnover and employment—while DI statistics measure the financing of MNEs through the transactions between resident companies and their nonresident affiliates or parent company. AMNE statistics allow users to better understand the location and nature of MNE operations than DI statistics because the ultimate source and destination of DI can be masked in DI statistics by investment passing through special purpose entities (SPEs) in various locations. This is being considered in guidance note D.6 on Ultimate Investing Economy (UIE)/ Ultimate Host Economy (UHE) and Pass-through Funds.

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3. **DI statistics are produced in adherence to the framework for the *System of National Accounts 2008 (2008 SNA)* and the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*.** These statistics use the residency approach—providing information on resident institutional units' financial claims and liabilities with the rest of the world (RoW). While this approach was adequate historically, with increasing global interconnectivity a need has emerged to look beyond this approach to determine where ultimate control and risk exposure is held by MNEs.

4. **The nationality approach²—which is a complement to the residency approach—focusses on the location of the entity that ultimately controls the units.** This approach is used in the compilation of AMNE statistics, which are only classified by ultimate partner country. Whilst DI have typically been on an immediate partner country basis, reporting by UIE is becoming more available. The nationality approach goes beyond the scope of the framework for national accounts and international accounts, but is closely related to DI concepts and measures, which are underpinned by the Framework of Direct Investment Relationships (FDIR). These challenges are prompting wider consideration as to how best to measure the operations of MNEs. This includes the work of the Globalization Task Team (GZTT), who are exploring breaking down institutional sector accounts and gross value added (GVA) into foreign-controlled corporations, domestic MNEs, and other corporations within the framework of national accounts.

5. **Using DI and AMNE statistics to provide comprehensive and integrated financial and economic MNE data can support valuable analysis and be a useful tool for policy makers, as well as act as a data integrity check to identify any errors or omissions and lead to improved data quality.** An illustration is provided in the Organisation for Economic Co-operation and Development (OECD) Working Group on International Investment Statistics (WGIIS) Final Report (2013) on the "Harmonisation and Integration of Financial and Economic Measures of Multinational Enterprises," which demonstrates how combined data could provide a complete picture of the financial structure and financing of an MNE. For example, this could give information on the cross-border risk exposure of financial and nonfinancial corporations.

6. **However, at present, AMNE and DI statistics are not based on compatible statistical concepts and definitions.** Relevant guidance on their compilation and further information can be found in Appendix 4 on Statistics on the Activities of Multinational Enterprises (AMNE) in the *BPM6*, Chapter 8 on FDI and Globalisation in the *OECD Benchmark Definition of Foreign Direct Investment, fourth edition (BD4)*, the Eurostat *Foreign Affiliates (FATS) Recommendation Manual³* (2012), and the United Nations *Manual on Statistics of International Trade in Services 2010 (MSITS)*.

7. **The first distinction between the AMNE and DI statistics are their populations, with AMNE using the Ultimate Controlling Investor (UCI) concept, while DI typically reports statistics using the Immediate Controlling Parent (ICP).** Secondly, AMNE statistics limit the population to those that are

² For this purpose, the 'nationality approach' relates to the country of residence of the ultimate investor.

³ The FATS recommendations manual will be updated in view of the new data requirements of Regulation (EU) 2019/2152 on European business statistics, replacing the FATS Regulation as of reference year 2021. One area which will be reflected is that the Ultimate Controlling Institutional unit (UCI) and the Global Decision Centre (GDC) will no longer be considered the same concept, which should alleviate interpretational differences which led to inconsistent country designations for the same MNE historically.

majority-owned (or controlled), typically with more than 50 percent equity ownership in each affiliate,⁴ while DI statistics include influence relationships of 10 percent or more. The GZTT is also focusing on a control concept for identifying MNEs in the institutional sector accounts. In addition, AMNE statistics assign full economic values to the UCI for any control relationship. For example, under an 80 percent control relationship, profit would be assigned proportionally (80 percent) to the UCI under DI but would be 100 percent assigned under AMNE. The AMNE statistics are nationality-based and can also include information on affiliates in the domestic economy of the UCI. Diagram 1 in Annex I illustrates the differences between the DI and AMNE populations, with Foreign Affiliate Statistics (FATS)⁵ lying in the intersection of these two populations. Finally, AMNE statistics are sometimes collected on a fiscal or accounting year basis whereas the DI statistics are collected on a calendar-year basis.

8. **Reconciling AMNE with DI statistics requires detailed information on the transactions of each affiliate with other affiliates as well as the UCI.** This includes not only those links between affiliates in the same country, but also between fellows that share a common parent. Having this detail allows for local enterprise information to be collected on economic variables like employment. However, these should be consolidated for others, like sales/turnover or assets and liabilities, to avoid double-counting transactions between different parts of the MNE or asset/liability positions which are removed by that process. This also links with topic D.1 on greenfield DI by identifying the purpose of transactions.

9. **An OECD WGIIS Final Report (2013) provided a consistent theoretical framework for reconciling the financial and economic activities of MNEs.** The WGIIS report does not recommend any modifications to *BD4*, which is consistent with the *BPM6* and the 2008 SNA, but does recommend an analytical framework to provide consistent data series for financial and economic activities of MNEs, largely based on existing datasets. The framework—which aimed to provide a meaningful set of indicators to analyze MNEs—included looking at cross border and domestic financing, and total assets and liabilities, to understand the economic involvement of the group and its cross-border and local exposures. Further information is available in Annex I.

10. **Not all countries collect information on the activities of MNEs.** In 2013, the WGIIS conducted a voluntary survey of current OECD members and five key partner countries. Of the 40 countries invited to participate, 20 completed the survey. The majority were able to provide at least some of the information on the activities of MNEs in terms of resident affiliates, investors and affiliates abroad. More countries collected information on the economic indicators of MNEs than balance sheet information. There were also some cases where only consolidated results were available. Another main finding was that in more than half of the respondents' different agencies were in charge of collecting DI and AMNE information using different agencies, and so these agencies would need to collaborate to produce linked statistics. There were also some WGIIS participants that did not collect the financial and/or economic information on MNEs. Outside the OECD, there will likely be other countries that do not collect any information on the activities of MNEs. Information collected on MNEs may, nonetheless, have improved over the recent past.

⁴ It is worth noting that control can be identified with less than 50 percent equity ownership where there is no majority shareholder. This concept is known in the FATS methodology as 'effective minority control'.

⁵ FATS are similar to AMNE statistics but exclude the operations of the parent company.

ISSUES FOR DISCUSSION

11. **There is currently no agreed framework for reconciling AMNE with DI statistics.** In addition to the slightly different populations, the residency versus nationality approach—which is under discussion as part of the Compendium of Research Issues (CRI) for the Balance of Payments Task Team (BPTT)—can also lead to problems reconciling the two. Such a framework could include many different stages towards reconciling DI with AMNE statistics in practice. These include but are not limited to:

- Exploring existing sources on the economic activities of MNEs that could be linked to DI;
- Using ownership information from business registers to start exploring DI and AMNE datasets;
- Collecting information on the consolidated assets and liabilities of MNEs as part of data collection;
- Collecting information on more of the economic activities of MNEs similar to FATS: sales, turnover or output; employment; value added; imports and exports of goods and services; and the number of enterprises;
- Expanding data collection to include more financial and economic variables, particularly on the intra-company activities; and
- Having all of this information at a detailed local enterprise level to facilitate full reconciliation with DI statistics.

12. **Furthermore, reconciled DI-AMNE information could lead to developing alternative presentations of national accounts.** Harrison (2014) provides one example where an alternative sectorization on the basis of foreign ownership and company size could help identify the amount of primary income which relates to foreign affiliates. This presentation of national accounts would show the flows involving foreign affiliates compared with the other categories but could also provide details around re-invested earnings and dividends in primary income by type (and size) of ownership for example. This also leads to the presentation of results for companies that are domestically controlled rather than resident.

13. **A fully reconciled DI-AMNE dataset could also complement the Country by Country (CbC) reporting within the Base Erosion and Profit Shifting (BEPS) initiative.** The linked DI-AMNE dataset could provide additional context to information received as part of CbC reporting while the CbC returns could provide additional information on the activities of MNEs with no additional responder burden as they have prepared this information for the BEPS initiative purpose.

SUPPLEMENTARY INFORMATION

- International Monetary Fund (2009), *Balance of Payments and International Investment Position Manual, sixth edition*, Appendix 4: Statistics on the Activities of Multinational Enterprises.
- Organisation for Economic Co-operation and Development (2008), *OECD Benchmark Definition of Foreign Direct Investment, fourth edition*, Chapter 8: FDI and Globalisation.
- United Nations (2010), *Manual on Statistics of International Trade in Services 2010*, Chapter IV: Foreign affiliates statistics (FATS) and the international supply of services.

- Eurostat (2012), *Foreign Affiliates Statistics (FATS) Recommendations Manual*.
- Harrison, A (2014) “Global corporate Income”, IARIW paper for Session 7c.
- Organisation for Economic Co-operation and Development (2005), *OECD Handbook on Economic Globalisation Indicators*.

SECTION II: OUTCOMES

14. **DITT members generally agreed that insights from linked DI and AMNE statistics would be well received, although they noted the importance to ensure consistency in both sets of statistics.** There were suggestions to develop statistical definitions and primary breakdowns closer to accounting standards and in terms of economic and financial variables that could be included within AMNE statistics, income statement, employment data and balance sheet data, amongst others, were proposed.

15. **DITT members also noted that there can be institutional barriers to sharing DI and AMNE statistics as AMNE statistics are outside of the BPM Framework they are often the responsibility of a different agency.** This is often due to limited data agreement between either different organizations that collect this information, or for onward sharing. In that respect, they considered that linking microdata through the use of a common indicator such as the Legal Entity Identifier (LEI) could be helpful, although it was noted that this was not available globally and not mandatory for all operations.

16. **DITT members acknowledged that if a new reconciliation framework only looked at control relationships, it would be more feasible for compilers.** DITT members also took note of the work on MNEs undertaken by the GZTT; it would be beneficial to align any recommendations with their work.

17. **The recommendations include:**

- Develop a framework for reconciling DI and AMNE statistics. This would include identifying additional breakdowns of either sets of statistics, new supplemental presentations, and perhaps additional variables to enable the two sets of statistics to be used together. An example of an additional breakdown would be to separately identify control relationships within DI statistics to align with AMNE. Compilers of DI statistics are encouraged to explore the feasibility of producing reconciled statistics either from the direct collection of AMNE information or linking to other existing information. Where such information is not collected at present, compilers are invited to explore options to begin collecting these data and to learn from the experiences of countries that record this information.
- There are a number of options that compilers could follow towards reconciling DI with AMNE statistics. At this point, we recommend:
 - Explore linking of DI microdata⁶ with pre-existing datasets to investigate the economic activities of MNEs.

⁶ This would be aided by a common identifier, such as the LEI—if available—which could use level II information to identify all of the entities of the MNE. It would also be aided by having expanded public information on MNEs through other sources, such as the OECD’s Analytical Database on Individual Multinationals and Affiliates (ADIMA), as well as private sources such as the European Groups Register (EGR) and Moody’s Orbis.

- At least consider the extent to which AMNE-type information currently exists and where gaps in this information can be found. Countries are encouraged to include as many aspects towards producing reconciled DI-AMNE statistics in their ongoing development of statistical outputs.
- No change to Appendix 4 in the *BPM6*.

REJECTED ALTERNATIVES

18. **Requiring the full reconciliation of DI and AMNE statistics using detailed affiliate-level results.** In many cases, a fully reconciled MNE dataset with affiliate level transactions would not be feasible due to extensive data collection, responder burden and cost. Any compiler would also need to be sure of user demand for these statistics and that companies can provide the required level of detail. Nevertheless, this should not discourage those countries that do wish to pursue a full reconciliation of AMNE and DI statistics.

Questions for Discussion:

1. *Does the Committee agree that a framework for reconciliation between DI and AMNE statistics should be included in the BPM7 even though it goes beyond the existing BPM framework?*
2. *If the Committee agrees that a framework for reconciliation between DI and AMNE statistics be included in the BPM7, does it support a study/survey to take pulse of the community with regard to such framework (to support the DITT in developing the proposed framework for data compilation)?*
3. *Does the Committee perceive that the focus should be on a reconciliation with AMNE statistics, or is it more important to align with the work on MNEs by the GZTT?*
4. *Does the Committee support additional breakdowns of DI statistics, such as an 'of which for control relationships', to better align with the concept of MNEs used in AMNE and likely by the GZTT (please specify)?*

Annex I. Supplementary Information

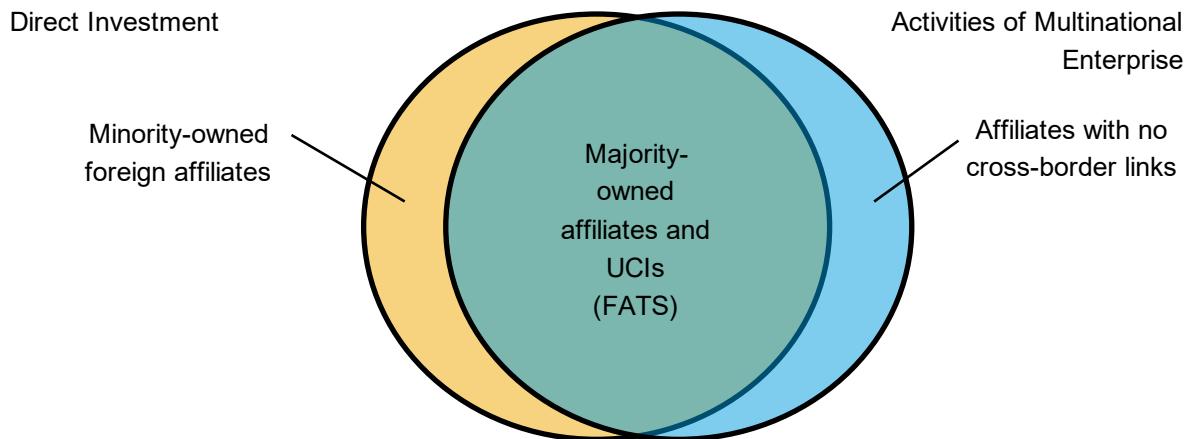
REFERENCES

OECD (2013), *Harmonisation and Integration of Financial and Economic Measures of Multinational Enterprises*, Final WGIIS report endorsed by the OECD Investment Committee in January 2013 (reference: "DAF/INV/STAT(2011)10/FINAL").

OECD (2016), *Harmonisation and Integration of Financial and Economic Measures of MNEs: Feasibility of and Priorities for Compilation*, presented at the WGIIS March 2016 meeting (reference "DAF/INV/STAT(2015)2/REV1"), Paris.

SUPPLEMENTAL INFORMATION

1. Diagram 1: DI and AMNE statistical populations



2. Extract from OECD (2013) on the highlights of the proposed MNE framework:

"The highlights of the new MNE Framework developed by the OECD WGIIS are to:

- (1) measure total assets/liabilities and selected details as well as total economic activities of MNEs according to a common data reporting framework (i.e. going beyond, but also including FDI);
- (2) cover both cross-border and domestic (local) financing;
- (3) include direct and indirect control relationships (more than 50 percent ownership of voting equity);
- (4) use stock data from balance sheets of direct investment enterprises as a matter of principle and to consider use of flow data, and data on the acquisition of equity by type (M&A, green field, etc.) as a supplement;
- (5) allocate to ultimate investor (ultimate controlling parent) and to ultimate host;

- (6) consolidate statistically for the group to eliminate double counting due to funds in transit or round-tripping; and
- (7) provide a set of meaningful indicators to analyze MNEs."