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Changes to Foreign Direct Investment (FDI) Survey to Meet the BPM6 Requirements

Foreign Direct Investment Relationship Framework

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- The OECD *Benchmark Definition of Foreign Direct Investment (FDI) - 4th Edition (BMD4)* provides:
 - ❖ operational guidelines on how FDI activity should be measured; and
 - ❖ sets the world standard for collecting FDI statistics.

BMD4 is fully compatible with

- the underlying concepts and definitions of the IMF's *Balance of Payments and International Investment Positions Manual, 6th edition (BPM6)*, and
- the general economic concepts set out by the UN's *System of National Accounts 2008 (2008 SNA)*.

Changes to Foreign Direct Investment Survey

- With the introduction of the *BMD4* and the *BPM6* the *FDI* surveys around the world have undergone changes to meet the new requirements. The main changes to the survey include:
 - ❖ the move to an *Extended Directional Principle* where loans to fellows are taken into consideration when calculating both inward and outward positions; these were previously excluded under *BPM5*.
 - ❖ publishing data on an *asset and liability basis* where previously only directional FDI was available, that is, inward, outward.
 - ❖ producing estimates both including and excluding special purpose entities (SPEs) which are defined as legal entities with little or no employment and are ultimately controlled by an overseas parent company.
- The first two changes are incorporated in our Model Questionnaire for the GCC Coordinated Foreign Investment Survey (GCC-CFIS).

Investment

- ❑ An **investment** is an asset or item acquired with the goal of generating **income** or **appreciation**.
- ❑ In an economic sense, an investment is the purchase of **goods that are** not consumed today but **are used in the future to create wealth**.
- ❑ In **finance**, an investment is **a monetary asset** purchased with the idea that the asset will provide **income** in the future or will later be sold at a higher price for a profit (**holding gains** that sometimes also referred to as “capital gains”).

Source: <https://www.investopedia.com/terms/i/investment.asp>

Five Main Functional Categories of Investment

- Direct Investment is one of the five main functional categories of investment used in international accounts to classify **financial transactions**, **positions** and **primary income**.
 1. Direct investment
 2. Portfolio investment
 3. **Financial** derivatives (other than reserves) and employee stock options,
 4. Other investment
 5. Reserve **assets**.

Foreign Direct Investment

- ❑ *Foreign Direct Investment* arises when an **investor** resident in one economy, makes an investment that gives **control** or a **significant** degree of **influence** on the management of an enterprise that is resident in another economy.
- ❑ Direct Investment includes all kind of **cross-border** investment made by an entity resident in one economy (**direct investor**) to acquire a **lasting interest** in an enterprise operating in another economy (**DIENT**).
- ❑ Key words

DI	Direct Investor ;
DIENT	Direct Investment Enterprise ;
Foreign	Cross-border, resident and non-resident (<i>resident in another economy</i>);
Direct	Control or a significant degree of influence , where a DI owns equity that entitles it to 10 percent or more of the voting power in the DIENT (which is usually equal to ownership of ordinary shares).

Direct Investor

- ❑ A **direct investor** is an entity or group of related entities that *is able to exercise control or a significant degree of influence* over another entity that is resident of a different economy (*abroad*).
- ❑ A **direct investment enterprise (DIENT)** is an entity *subject to control or a significant degree of influence* by a direct investor.
- ❑ A single entity may be, at the same time:
 - ✓ a direct investor: immediate investor (that is, the first foreign parent),
 - ✓ a **DIENT**: reverse investment (when an affiliate invests in its parent), and
 - ✓ a fellow enterprise (FE) in its relationships to other enterprises (i.e. enterprises that do not have a FDIR themselves but that have a direct investor in common.).

Direct Investor and Direct Investment Enterprise

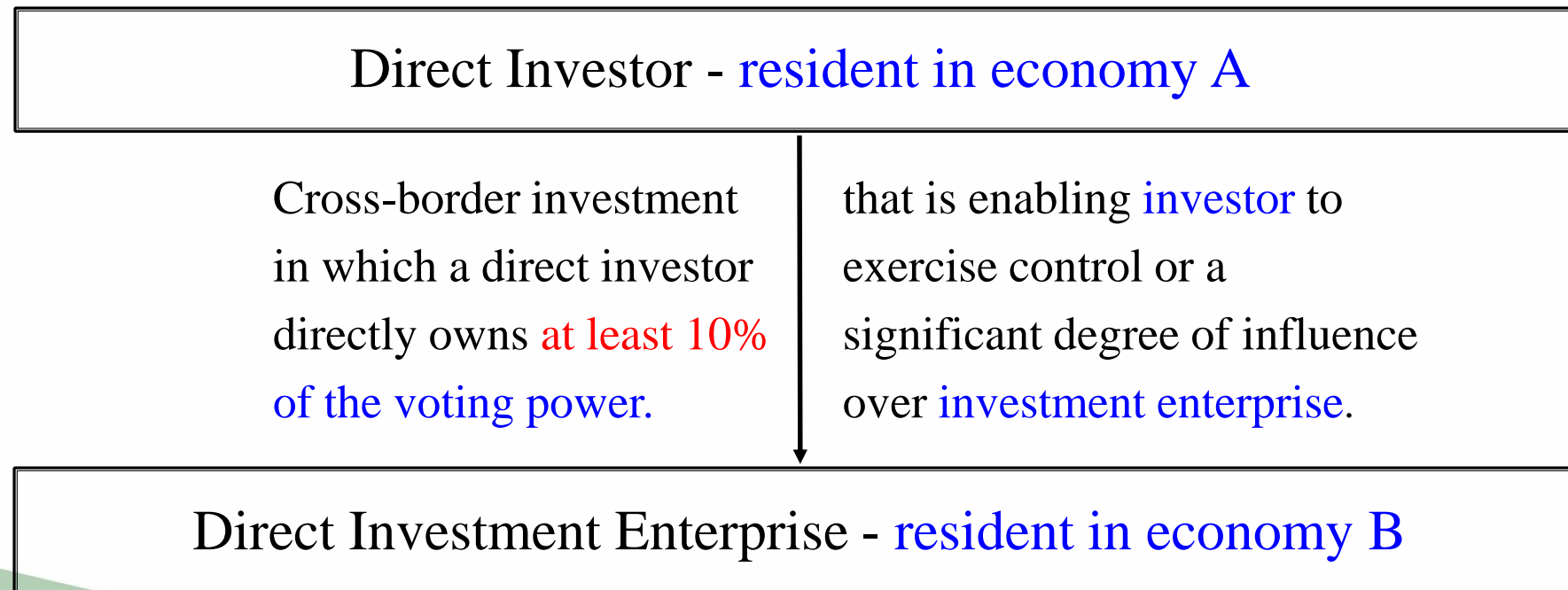
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Foreign Direct Investment Relationship

- ❑ In practice, the lasting interest is deemed to exist through either **immediate** or **indirect** direct investment relationships.
- ❑ Once the threshold of **10 percent** has been reached, the **equity** and most **debt instrument flows** and **positions** between these entities involved, including loans and trade credit, are classified as direct investment.
- ❑ The **only financial flows** and positions **excluded from FDI** statistics are:
 - ❖ **Debt** between selected **affiliated financial corporations**.
 - ❖ **Financial derivatives**.

Immediate Foreign Direct Investment

- ❑ In practice, the lasting interest is deemed to exist through either **immediate** or **indirect** direct investment relationships.
- ❑ **Immediate direct investment relationship** arises when a direct investor directly owns at least 10% of the voting power in a direct investment enterprise.



Subsidiary and Associate

“A”
Direct Investor (**DI**) in *economy A*

“A” is able to exercise **control** over **B** by owning **more than 50 percent** of the voting power in the “B”

“B”
Direct Investment Enterprise in *economy B* - **Subsidiary** of “A”

“A” is able to exercise a **significant degree of influence** over “C” by owning **from 10 to 50 percent** of the voting power in the “C”

“C”
Direct Investment Enterprise in *economy B* - **associate** of “A”

Indirect Foreign Direct Investment Relationship

- Indirectly controlled or influenced direct investment relationships arise when a direct investor indirectly owns a direct investment enterprise either through
 - ❖ a chain of control (i.e. ownership > 50% at each stage), or
 - ❖ a chain of control ending with an influence of at least 10% of the voting power of the direct investment enterprise.

- Indirect Foreign Direct Investment Relationship include:
 - ✓ investment in indirectly influenced or controlled enterprises,
 - ✓ investment in fellow enterprises,
 - ✓ debt (except for debt between selected affiliated financial corporations), and
 - ✓ reverse investment (when an affiliate invests in its parent)

Indirect Foreign Direct Investment Relationship

□ Indirect Foreign Direct Investment Relationship include:

- ✓ investment in indirectly influenced or controlled enterprises,
- ✓ investment in fellow enterprises,
- ✓ debt (**except** for **debt between** selected **affiliated financial corporations**), and
- ✓ reverse investment (when an affiliate invests in its parent)

Inclusion in /Exclusion from/ the FDIR Framework

□ Controlling links

FDIR

Where **more than 50%** of the voting power is held

Treatment in the FW

The degree of **FDI influence** exercised through chain of **controlling links** is **not diminished** by the existence of **multiple links**.

Subsidiary of an investor

The investor **A** and its subsidiary(s) combined own **more than 50%** of the voting power of that subsidiary enterprise;

Subsidiary of the investor **A**

Subsidiary of a subsidiary or a group of related subsidiaries

An enterprise is controlled by a subsidiary or by a group of related subsidiaries (which may also include the investor **A**);

The controlled enterprise is itself regarded as a subsidiary of the investor **A**

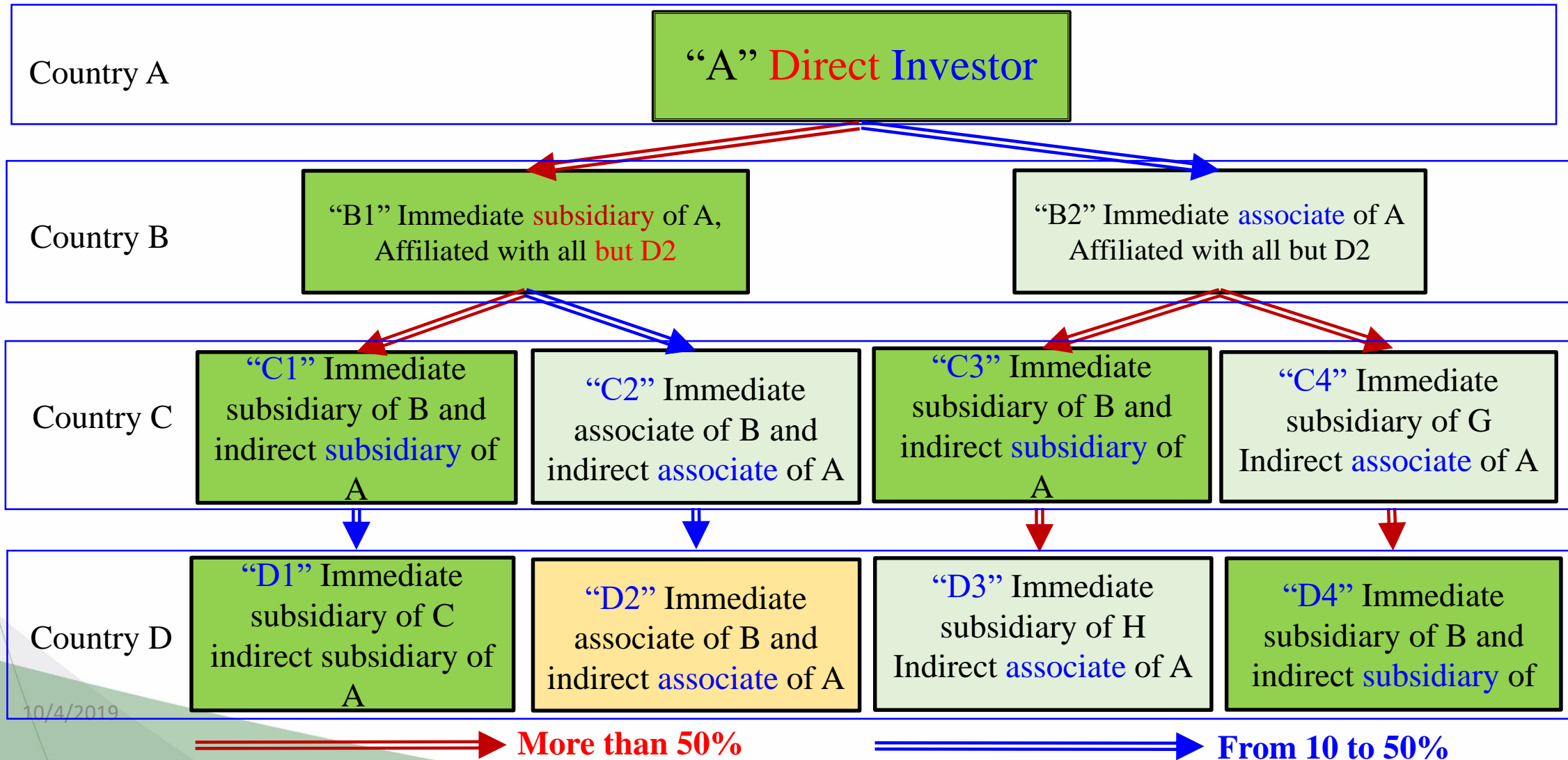
Inclusion in /Exclusion from/ the FDIR Framework

□ A single or cumulative non-controlling link

FDIR	Where more than 50% of the voting power is held	Treatment in the FW
<p>A single or cumulative non-controlling link (where from 10% to 50% of the voting power is held). The degree of FDI influence is diminished by one degree. Meaning that, an associate of an associate is not considered as being in a FDIR.</p>		
Associate of an investor	The investor A and its subsidiary(s) combined own at least 10% but no more than 50% of the voting power of that associate enterprise;	Associate of the investor A
Subsidiary of an investor's associate	The investor's (A) associate and its subsidiaries combined own more than 50% of an enterprise.	The owned enterprise is an associate of the investor A
Associate of another associated enterprise	An associate of another associated enterprise is not, in any FDI sense, influenced by the investor A , and, therefore, is not included in the FDIR.	No FDI relationship to investor A



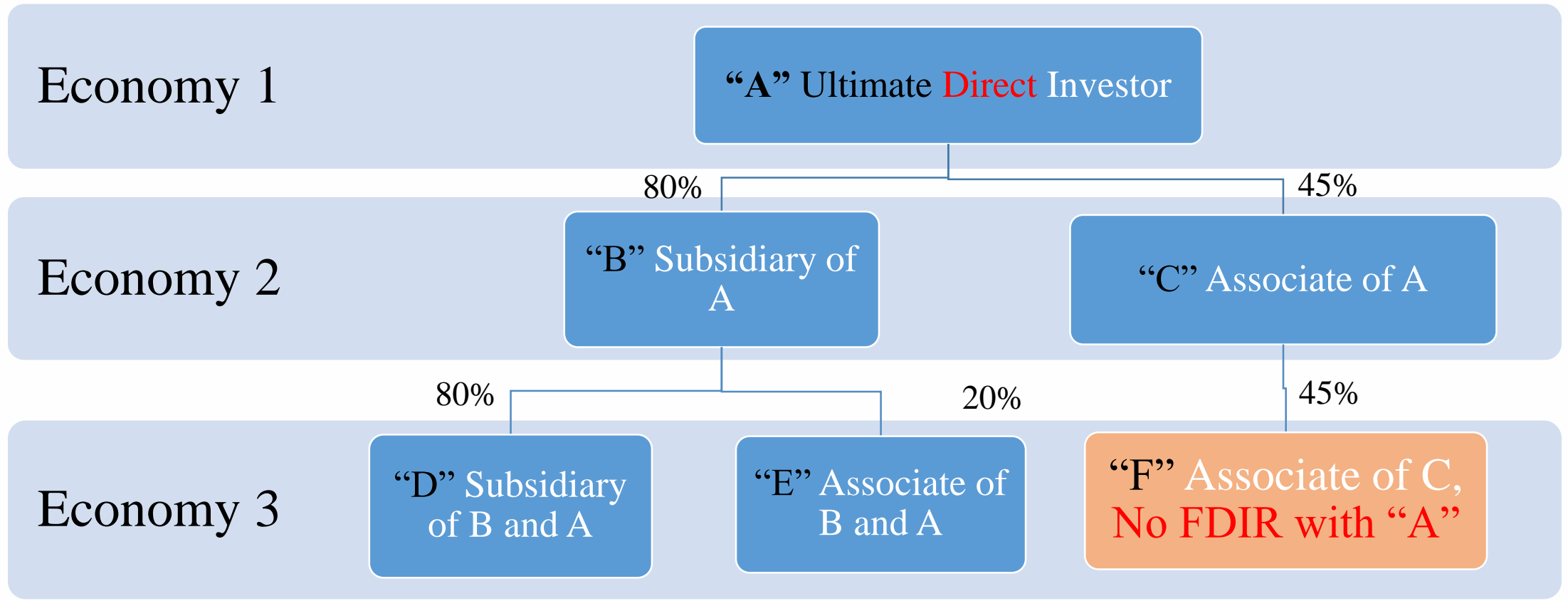
Direct and Indirect DIR (example)



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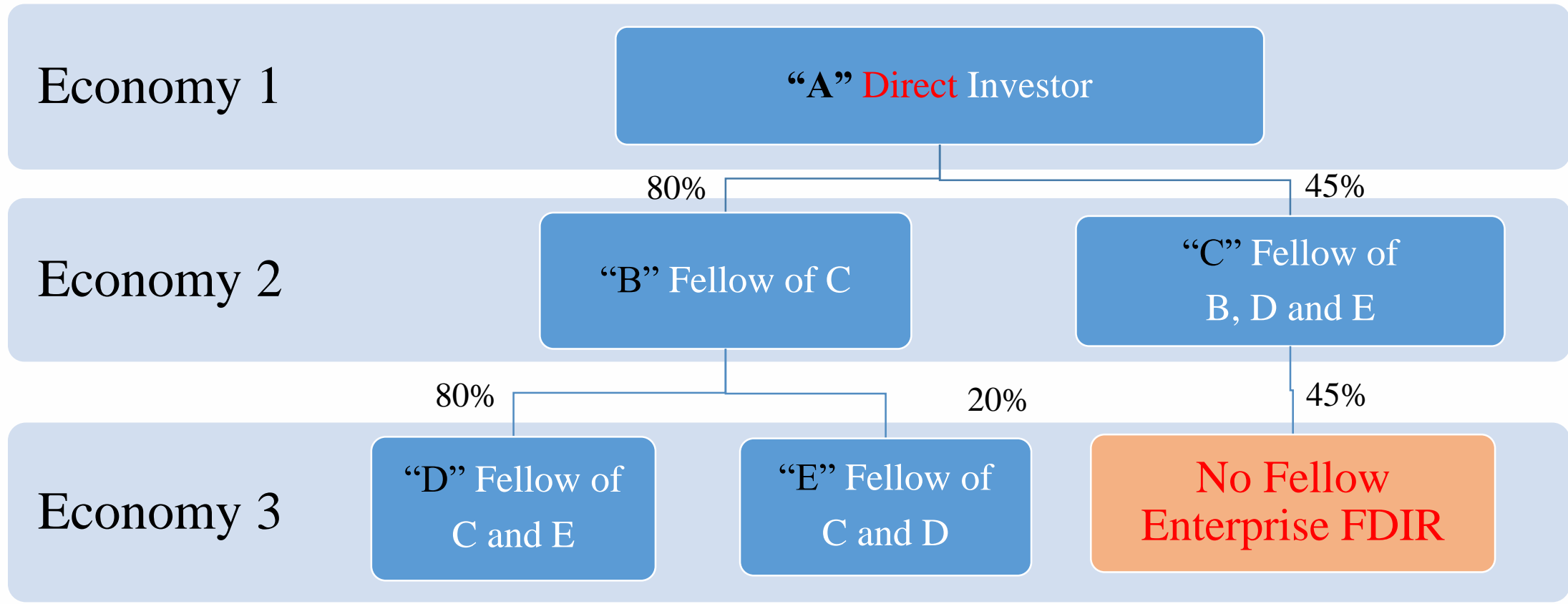


Indirectly controlled or influenced FDIR

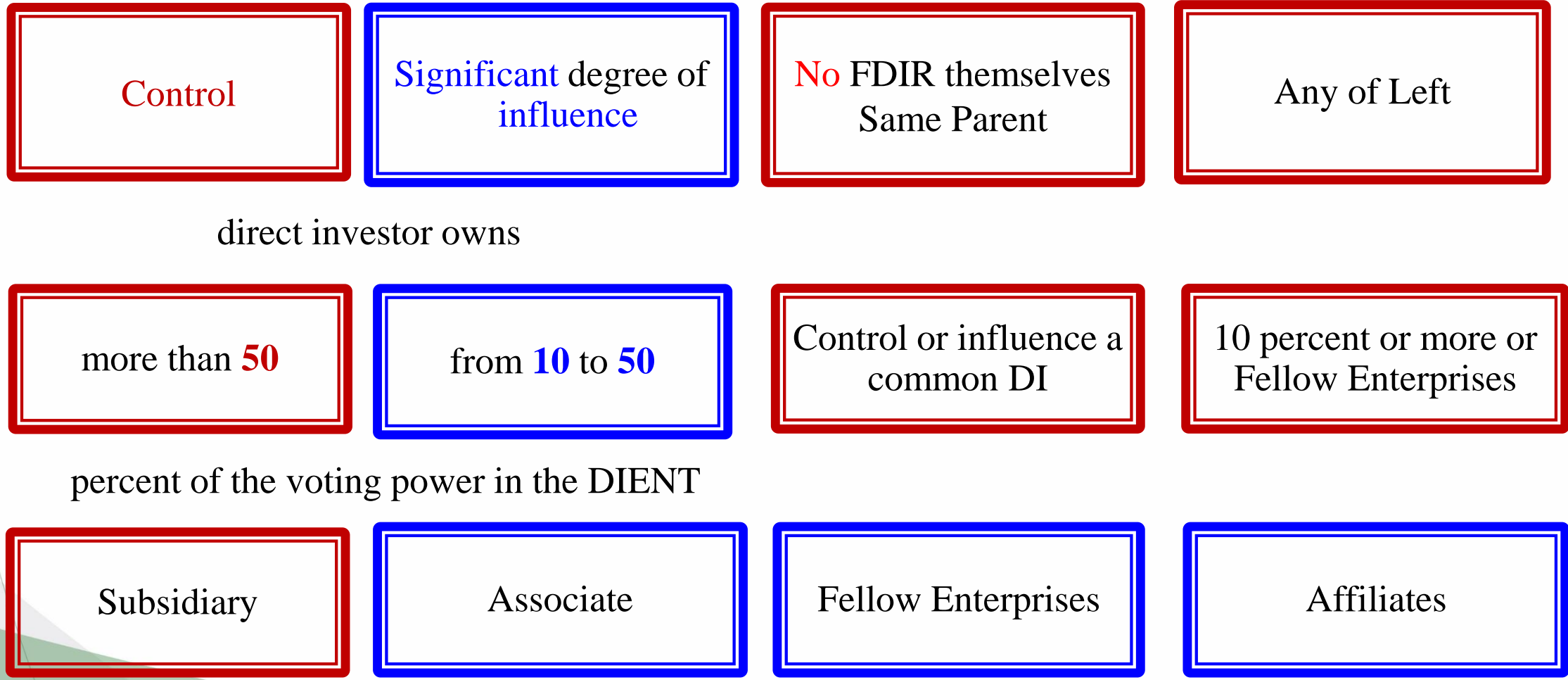




Fellow Enterprises



Subsidiary, Associate, Fellow Enterprises, Affiliates



Participation Multiplication Method or PMM

- ❑ Some practical difficulties may be encountered in applying the FDIR in full, and thus similar methods may be adopted, which include:
 - ❖ Participation multiplication method or PMM, and
 - ❖ Direct influence and indirect control method or DIIC.
- ❑ The PMM includes in direct investment all enterprises in which an investor has voting equity participation of at least 10%.
 - ❖ The calculation of participation percentage is based on a straight multiplication and summation of direct and indirect participation percentages:
 - ❖ An indirect participation in a given enterprise at the bottom of a chain of ownership is calculated by:
 - ✓ taking the investor's participation in the first enterprise, multiplied by
 - ✓ the first enterprise's participation in the next enterprise, multiplied by
 - ✓ the corresponding percentages for all other intervening enterprises in the chain, multiplied by
 - ✓ the last intervening enterprise's participation in the given enterprise.

Direct Influence/Indirect Control Method or **DIIC**



- ❑ The **DIIC** includes in direct investment:
 - ❖ All enterprises of which the voting power is 10% or more directly owned,
plus
 - ❖ All enterprises that are controlled by them (ownership of more than 50% of the voting power),
plus
 - ❖ All other enterprises in a continuous chain of majority ownership.
- ❑ This method **allows the first link** in an ownership chain **to be a non-controlling link**, **but all subsequent links must be controlling links**. Thus **the DIIC breaks the ownership chain at the second non-controlling link** (as in the **FDIR**) where the first link from the investor is a non-controlling link.
- ❑ On the other hand (and **contrary to the FDIR**), the **DIIC** breaks the ownership chain at the first non-controlling link where the first link from the investor is a controlling link.

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This presentation draws extensively from the

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