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

Foreign Direct Investment Relationship Framework Exercises - Answers
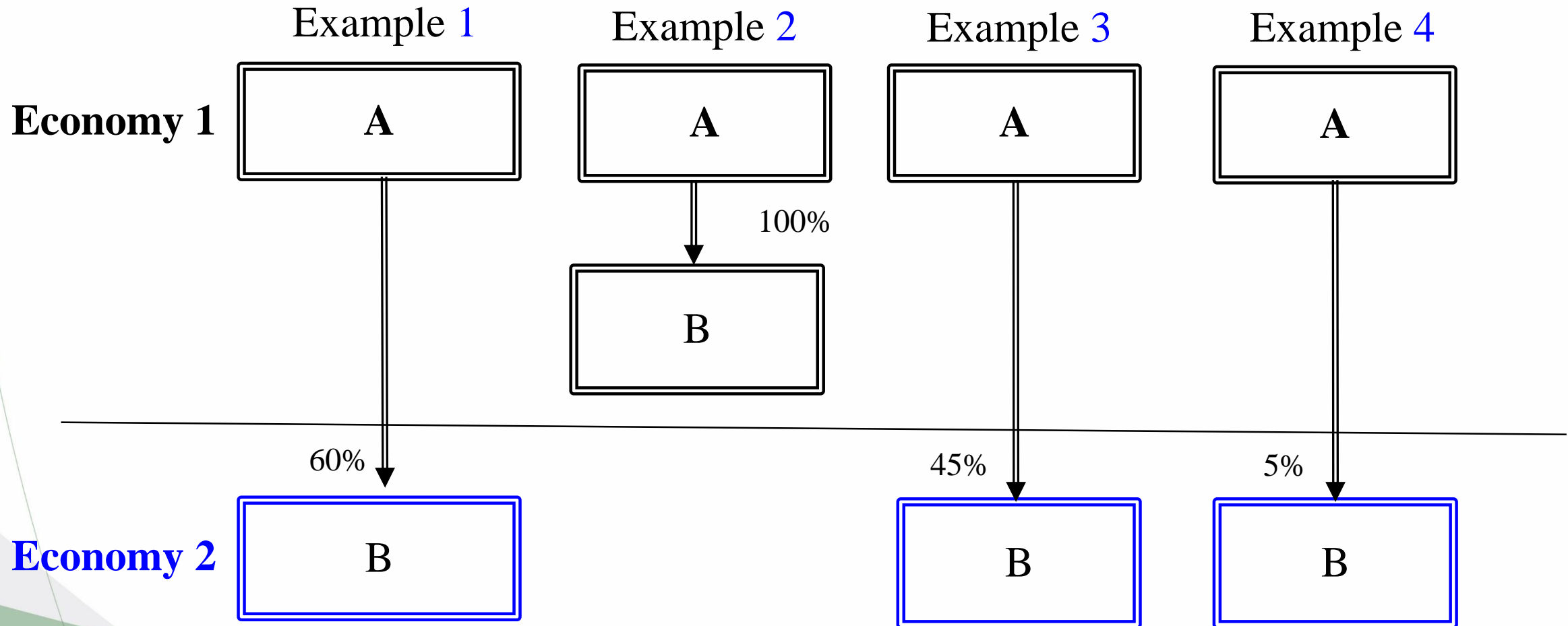
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Muscat, Oman

Outline

- ❑ Foreign Direct Investment Relationship (FDIR)
- ❑ Participation Multiplication Method (PMM)
- ❑ Direct Influence/Indirect Control Method
- ❑ Comparing FDIR, PMM and DIIC Methods
- ❑ FDIR and Enterprise Groups
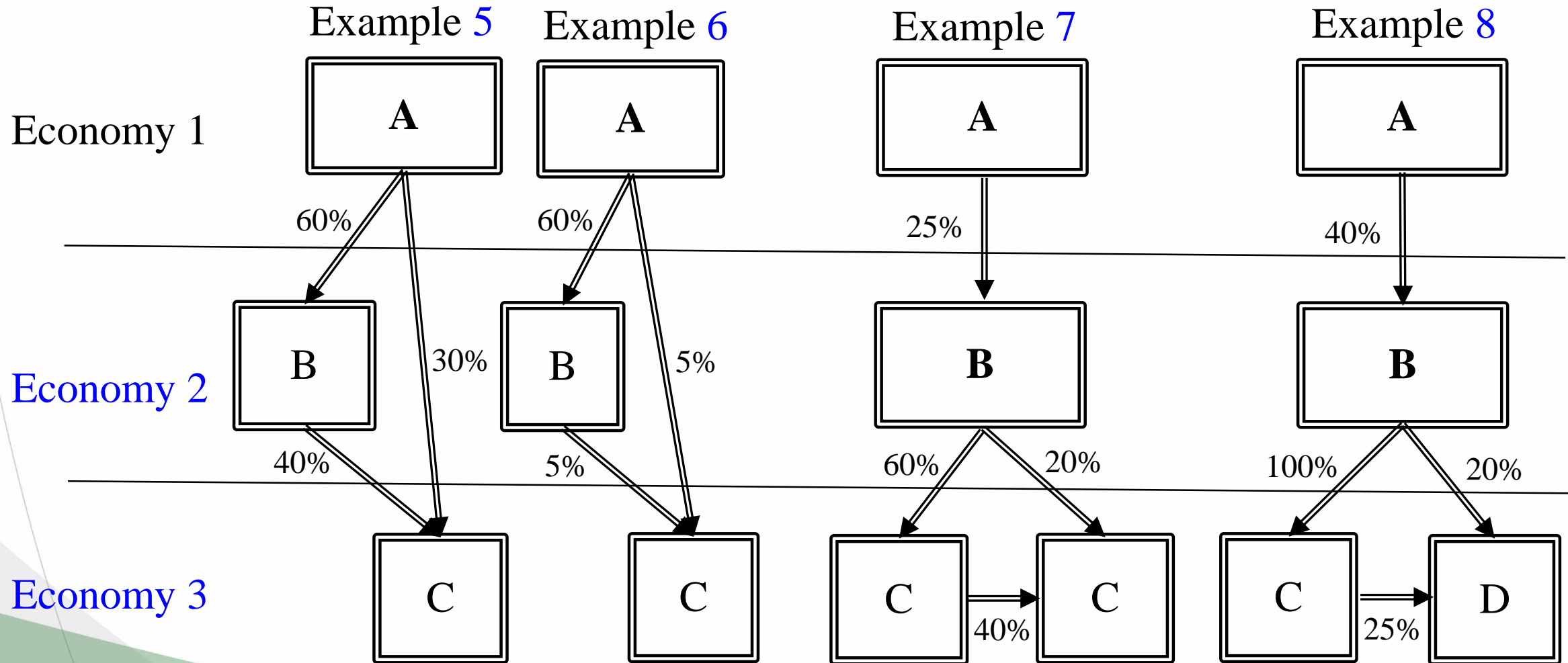- ❑ Classifying financial transactions and positions

Example 1   Example 2   Example 3   Example 4

Economy 1

A   A   A   A

100%

B

Economy 2

60%   45%   5%

B   B   B

❑ Mark the correct answer under the columns respective to the examples

Questions / Answers	Example 1	Example 2	Example 3	Example 4
A is a direct investor of **B**	✓		✓	
A is a portfolio investor of **B**				✓
A is neither direct nor portfolio investor of **B**		✓		
B is a subsidiary of **A**	✓			
B is an associate of **A**			✓	
B is an affiliate of **A**	✓		✓	
B is not FDIR to **A**, and vice-versa		✓		✓

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Example 5   Example 6   Example 7   Example 8

Economy 1

A   A   A   A

60%   60%   25%   40%

B   30%   B   5%   B   B

Economy 2

40%   5%   60%   20%   100%   20%

Economy 3
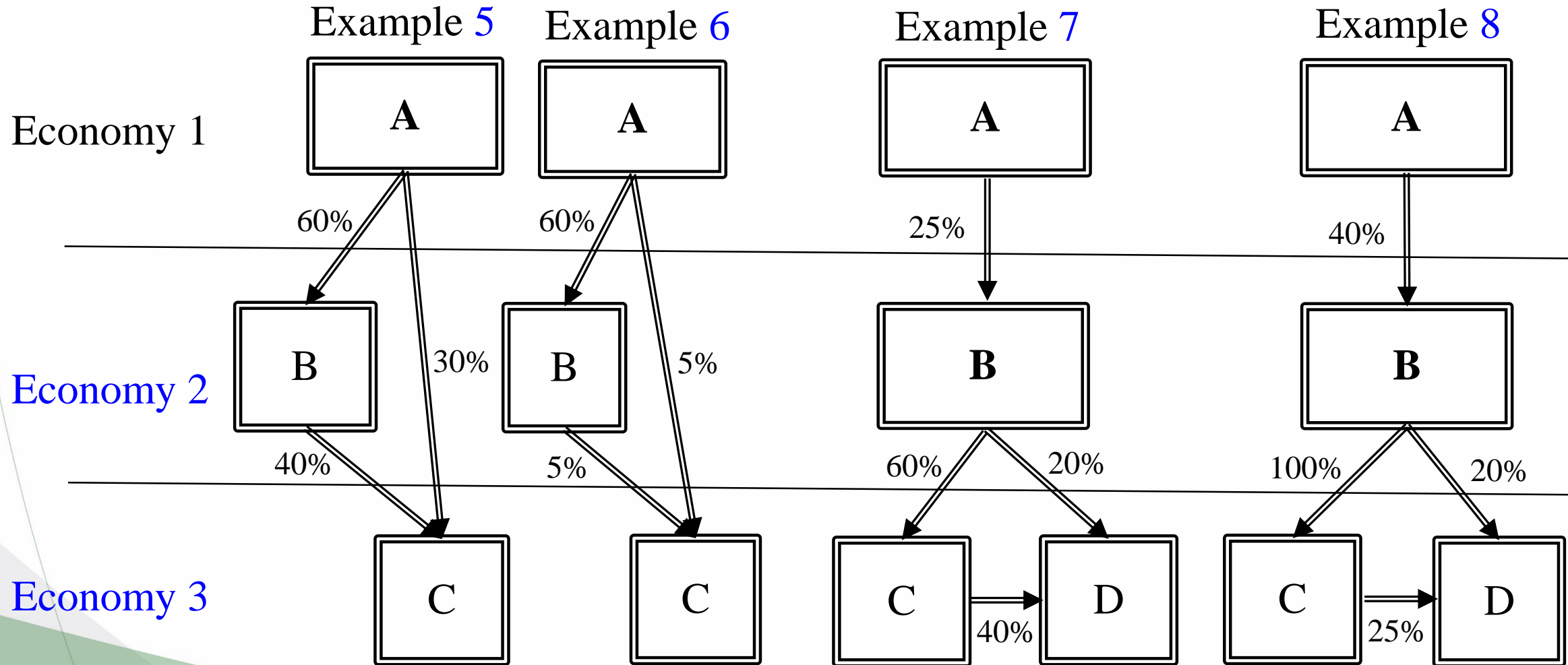
C   C   C → C   C → D
                    40%   25%

❑ Mark the correct answer under the columns respective to the examples

Questions / Answers	Example 5	Example 6	Example 7	Example 8
C is a subsidiary of **A**	✓			
C is an associate of **A**		✓	✓	✓
C is an affiliate of **A**	✓	✓	✓	✓
C is not in FDIR to **A**				
D is a subsidiary of **A**				
D is an associate of **A**			✓	
D is an affiliate of **A**			✓	
D is not affiliated to **A**				✓

Participation Multiplication Method or PMM

❑ 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.

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Example 5   Example 6   Example 7   Example 8

Economy 1

A   A   A   A

60%   60%   25%   40%

Economy 2

B   30%   B   5%   B   B

40%   5%   60%   20%   100%   20%

Economy 3

C   C   C   D   C   D

40%   25%

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Participation Multiplication Method: Answers

❑ Please use PMM and calculate participation of **A** in **C** and **D**

Questions / Answers	Example 5	Example 6	Example 7	Example 8
A participation percentage in **C**				
direct participation in **C**	30%	5%	-	-
indirectly through **B**	24%	3%	15%	40%
Total holding of **A** in **C**	54%	8%	15%	40%
A participation percentage in **D**				
indirectly through **B**			5%	8%
indirectly through **C**			6%	10%
Total holding of **A** in **D**			11%	18%

❑ Mark the correct answer under the respective columns

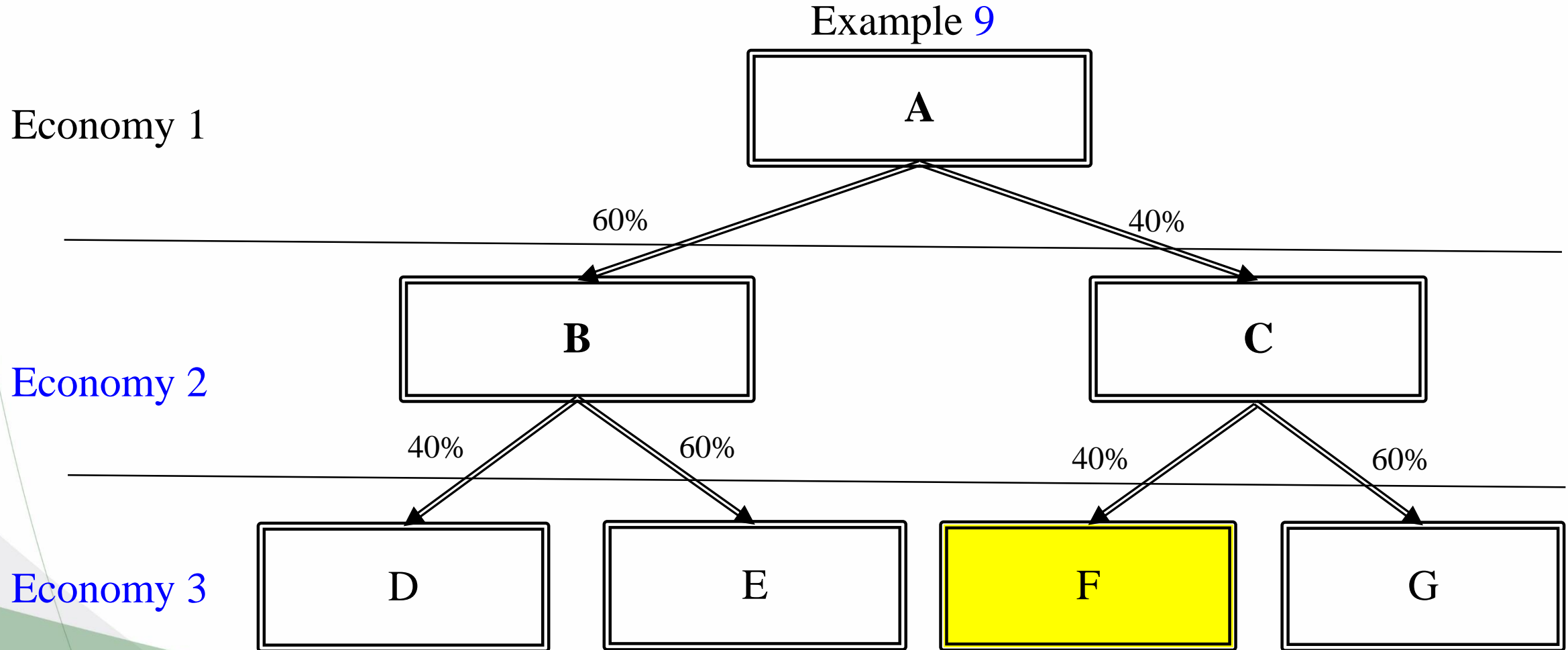|	Example 5		Example 6		Example 7		Example 8	
	FDIR	PMM	FDIR	PMM	FDIR	PMM	FDIR	PMM
C is a subsidiary of **A**	✓	✓						
C is an associate of **A**			✓		✓	✓	✓	✓
C is an affiliate of **A**	✓	✓	✓		✓	✓	✓	✓
C is not in FDIR to **A**				✓				
D is a subsidiary of **A**								
D is an associate of **A**					✓	✓		✓
D is an affiliate of **A**					✓	✓		✓
D is not in FDIR to **A**							✓	

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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Example 9

Economy 1

A

60%   40%

Economy 2

B   **C**

40%   60%   40%   60%

Economy 3

D   **E**   **F**   **G**

Direct Influence/Indirect Control Method: Answers

❑ Mark the correct answer under the respective columns

	A	B	C	D	E	F	G
A is in DIIC Method based FDIR with		✓	✓		✓		
B is in DIIC Method based FDIR with	✓		✓	✓	✓		
C is in DIIC Method based FDIR with	✓	✓				✓	✓
D is in DIIC Method based FDIR with		✓			✓		
E is in DIIC Method based FDIR with	✓	✓	✓	✓			
F is in DIIC Method based FDIR with			✓				✓
G is in DIIC Method based FDIR with	✓	✓	✓		✓		

Comparing FDIR and DIIC: Answers

❑ Mark the correct answer under the respective columns

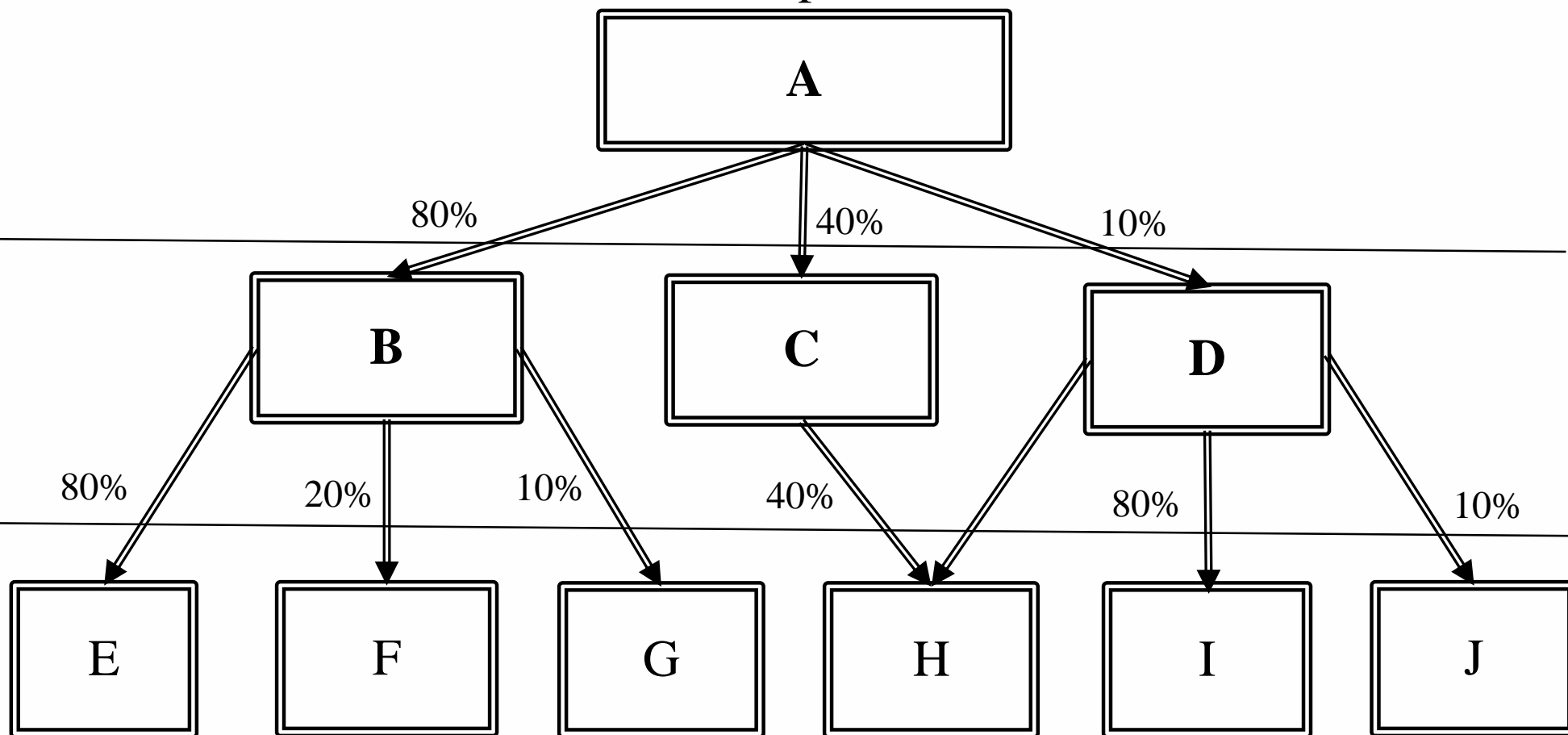| Please indicate if is in indirect FDIR.	Ent A		Ent B		Ent C		Ent D		Ent E		Ent F		Ent G	
	FDIR	DIIC	FDIR	DIIC	FDIR	DIIC	FDIR	DIIC	FDIR	DIIC	FDIR	DIIC	FDIR	DIIC
A is in FDIR with			✓	✓	✓	✓	✓		✓	✓			✓	✓
B is in FDIR with	✓	✓			✓	✓	✓	✓	✓	✓			✓	✓
C is in FDIR with	✓	✓	✓	✓			✓		✓	✓	✓	✓	✓	✓
D is in FDIR with	✓		✓	✓	✓				✓	✓			✓	
E is in FDIR with	✓	✓	✓	✓	✓	✓	✓	✓					✓	✓
F is in FDIR with					✓	✓							✓	✓
G is in FDIR with	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		

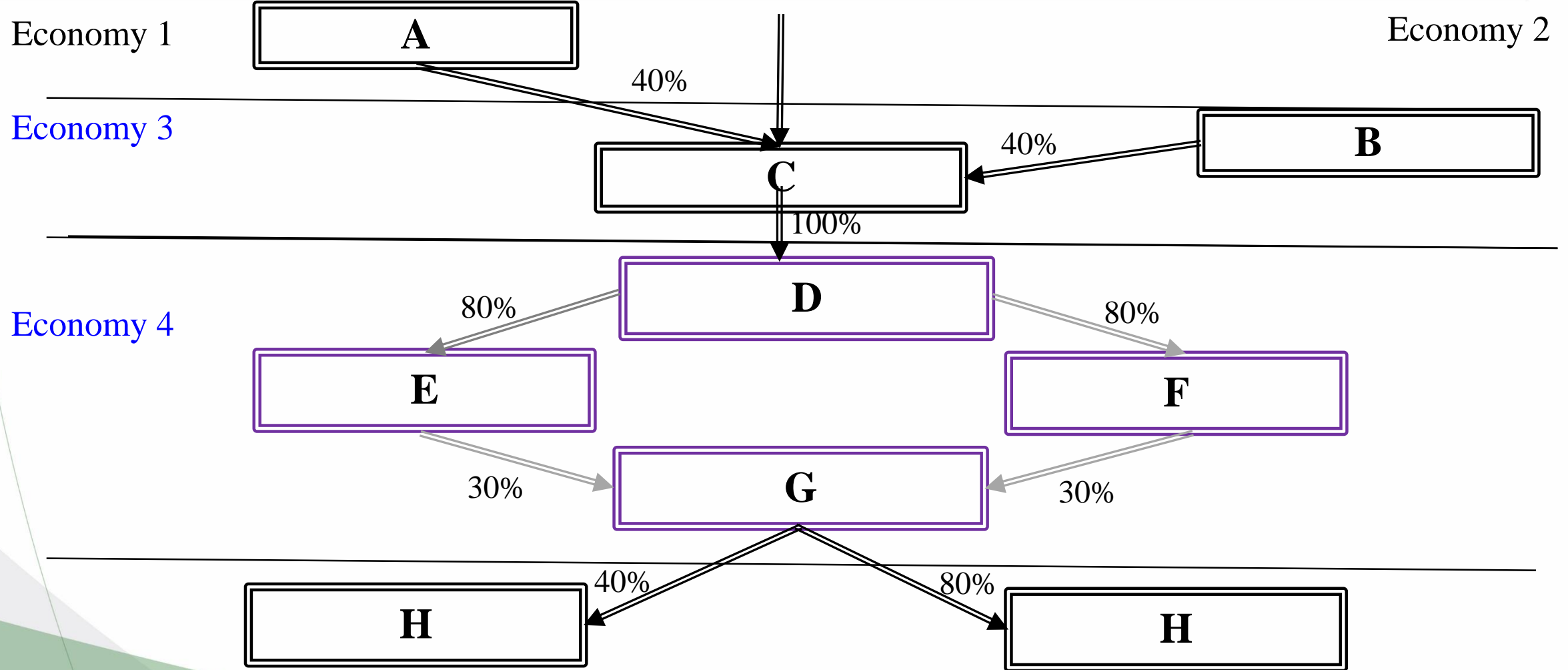# Comparing FDIR, PMM and DIIC Methods

Example 10

Comparing FDIR, PMM and DIIC Methods: Answers

❑ Please mark the appropriate cells where FDIR exist with the ultimate investor **A**

	FDIR	PMM	DIIC
B is in FDI Relationship with **A**	✓	✓	✓
C is in FDI Relationship with **A**	✓	✓	✓
D is in FDI Relationship with **A**	✓	✓	✓
E is in FDI Relationship with **A**	✓	✓	✓
F is in FDI Relationship with **A**	✓	✓	
G is in FDI Relationship with **A**	✓		
H is in FDI Relationship with **A**		✓	
I is in FDI Relationship with **A**	✓		✓
J is in FDI Relationship with **A**			

FDIR and Enterprise Groups: Answers

❑ Please mark the appropriate cells for FDIR based on investors A, B and C, Global Enterprise Group (GEG) and Local Enterprise Group (LEG)

	A	B	C	D	E	F	G	H	I
FDIR based on Investor									
A	✓	X	✓	✓	✓	✓	✓	X	✓
B		✓	X	✓	✓	✓	✓	X	✓
C			✓	✓	✓	✓	✓	✓	✓
Global Enterprise Group									
GEG			✓	✓	✓	✓	✓	X	✓
Local Enterprise Group (LEG)									
LEG				✓	✓	✓	✓	X	X

❑ FDI Relationship based on:

    A: A, C, D, E, F, G, I   (= for PMM and DIIC).

    B: B, D, E, F, G, I   (= for PMM and DIIC).

    C: C, D, E, F, G, H, I   (= for PMM, DIIC excludes G).

❑ Global Enterprise Group:

        C, D, E, F, G, I.

❑ Local Enterprise Group:

        D, E, F, G.

❑ In conducting FDI survey the Economies 3 and 4 have to identify all three FDI relationships to fully articulate the potential FDI counterparties that need to be considered in measuring FDI.

❑ In the case of economy 4, it is important not to stop at enterprise C, but to also identify the two direct investors, A and B.

❑ Also to note that:
  ❖ C is the Ultimate Controlling Parent for D, E, F, G and I.
  ❖ C is the parent of the local enterprise group (D, E, F and G).
  ❖ The local enterprise group (D, E, F and G) is the parent of I.

Classifying financial transactions and positions: Questions

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❑ Please mark the appropriate cells for recording direct investment positions and transactions for each economy according to FDIR

	A	B	C	D	E	F	G	H	I
For Economy 1									
Resident enterprise A		✓	✓	✓	✓	✓	✓	X	✓
For Economy 2									
Resident enterprise B	✓		X	✓	✓	✓	✓	X	✓
Resident enterprise C	✓	X		✓	✓	✓	✓	✓	✓
For Economy 3									
Resident enterprise D	✓	✓	✓		X	X	X	✓	✓
Resident enterprise E	✓	✓	✓	X		X	X	✓	✓
Resident enterprise F	✓	✓	✓	X	X		X	X	✓
Resident enterprise G	✓	✓	✓	X	X	X		✓	✓
For Economy 4									
Resident enterprise H	X	X	X	X	X	X	✓		✓
Resident enterprise I	X	X	✓	✓	✓	X	✓	✓	

THANK YOU