THE COORDINATED DIRECT INVESTMENT SURVEY GUIDE

The International Monetary Fund (IMF) issued this guide in 2009 to help users to prepare the Coordinated Direct Investment Survey (CDIS) according to the main principles to be followed in this concern. The purpose of the Coordinated Direct Investment Survey (CDIS) is to improve the quality of direct investment position statistics and this accomplished by gathering comprehensive and harmonized data on direct investment positions, broken down between equity and debt, and for debt to be further broken down between claims and liabilities, by economy of direct investor (for inward direct investment), or of direct investment enterprise (for outward direct investment).

The following is a summary containing the main points in this guide:

1- Data to be compiled for the CDIS

Direct investment arises when a unit resident in one economy makes an investment that gives a significant degree of influence over the management of an enterprise that is resident in another economy. This concept is operationalized where a direct investor (DI) owns equity that entitles it to 10 per cent or more of the voting power in the Direct Investment Enterprise (DIE) (which is usually equal to ownership of ordinary shares). Once that threshold has been reached, the entities involved are said to be in a direct investment relationship, and the equity and debt positions between the DI and the DIE, and between all DIEs of the same DI, are included in direct investment, except for debt between financial intermediaries (banks). Included in direct investment also are entities that have a common investor but which do not hold 10 percent or more equity in each other. These entities are known as "fellow enterprises". Data in the CDIS are recorded by economy based on the location of the immediate counterpart to a direct investment position.

Estates, trusts, and partnerships

- Estates, trusts, and partnerships are treated as separate institutional units if they are constituted in a different territory from that of their owners or beneficiaries.
- It should be noted that sometimes an economy has a separate physical or legal zone that is under its control, but to which, to some degree, separate laws are applied. For example, a free trade zone or offshore financial center may be exempt from certain taxation or other laws. These special zones should always be included in the economic territory, because of the need to view the whole economy,

to have comprehensive global data, and to be compatible with partner data.

INFORMATION TO BE COLLECTED IN THE SURVEY

This part defines equity and debt instruments and explains the valuation methods to be used when requesting the data on FDI positions.

Equity

- *Equity comprises all instruments and records acknowledging, after the claims of all creditors have been met, claims on the residual value of a corporation or quasi corporation. Equity is treated for statistical purposes as a liability of the issuing institutional unit (a corporation or other unit) to its owner(s).*

- Ownership of equity in legal entities is usually evidenced by shares, stocks, participations, depositary receipts, or similar documents. Shares and stocks have the same meaning, while depositary receipts are securities that represent ownership of shares held by a depositary. Participating preferred shares are those that provide for participation in the residual value upon the dissolution of an incorporated enterprise. Such shares are also equity securities, whether the income is fixed or determined according to a formula. (Nonparticipating preferred shares are treated as debt instruments. See below.) Equity securities comprise listed (listed on stock exchanges) and unlisted shares. For listed shares, also referred to as quoted shares, the existence of quoted prices means that current market prices are usually readily available.

- Equity that is not in the form of securities includes equity in quasi corporations, such as branches, trusts, limited liability partnerships, other types of partnerships, unincorporated funds, and notional units created for ownership of real estate and other natural resources. Where significant, cross-border ownership in land and other natural resources should also be included. Where capital equipment is provided without explicit recognition of a counterpart financial claim, this is regarded as the injection of equity.

Intercompany lending

- Intercompany lending‖ is used to describe direct investment debt positions between affiliated enterprises and includes all debt instruments. Debt instruments are those that require the payment of principal and/or interest at some point(s) in the future. The term debt instrument is applicable to both the liability and the corresponding debt claim. Debt instruments comprise deposits, debt securities, and other debt (comprising loans, trade credit, other accounts payable/receivable, and insurance technical reserves). These instruments may earn interest but this is not a necessary criterion for an instrument to be classified as debt. All intercompany lending **between** affiliated financial intermediaries (except insurance corporations and pension funds) is excluded from direct investment, regardless of the type of debt instrument(s) involved.

Deposits

Deposits include all the following claims:

(1) claims on a deposit-taking corporation and, in some cases, other institutional units; and
(2) claims that are represented by evidence of deposit. These deposits may be in the form of transferable balances (on which, for example, cheques may be written) or other, less liquid, forms of deposit.

Debt securities

Debt securities are negotiable instruments serving as evidence of a debt normally traded in financial markets. They include bills, bonds, certificates of deposit, bankers' acceptances, commercial paper, debentures, asset-backed securities, index-linked securities15, and, also, nonparticipating preferred stocks or shares (instruments that pay a fixed income but do not provide for participation in the distribution of the residual value of an incorporated enterprise on dissolution). Bonds that are convertible into equity should be classified as debt prior to the time that they are converted to equity.

Other debt

Other debt comprises: loans (including financial leases), trade credit (that is, direct credit between an importer and an exporter; trade credit includes prepayments), and all other accounts receivable/payable.

Excluded instruments

Financial derivatives and one-off guarantees are excluded from direct investment. Financial derivatives are excluded largely on practical grounds. One-off guarantees represent loans or securities that are guaranteed with such particular circumstances that it is not possible for the degree of risk associated with them to be calculated with any degree of precision. They are recognized as financial assets or liabilities only at activation, that is, when the event occurs that makes the guarantor responsible for the liability.

Equity

Market value is the recommended basis for valuation for equity in *BPM6* and *BD4*. However, several different methods are offered as alternatives in these manuals to facilitate implementation. For the purposes of the CDIS, where the focus is on consistency of valuation for bilateral data, unlisted (or unquoted) equity should be valued using the concept of ―own funds at book value‖ (OFBV), and listed (or quoted) equity should be valued at its most recent bid/ask price or at the price at which it was last traded.

This concept reflects the value of the enterprise recorded in the books of the DIE, which is the sum of the following:

(i) paid-up capital (excluding any shares on issue that the enterprise holds in itself and including share premium accounts);
(ii) all types of reserves identified as equity in the enterprise's balance sheet (including investment grants when accounting guidelines consider them company reserves); and
(iii) accumulated reinvested earnings (which may be negative), which would take into account charges for consumption of fixed capital16. This valuation principle applies equally to incorporated enterprises and quasicorporations.

> Essential features of OFBV that make its use appropriate for measuring direct investment equity positions at market value include: most financial instruments on the DIE‘s balance sheet are reflected at an estimate of their current fair values; cumulative reinvested earnings are included; and depreciation on items of property, plant, and equipment is reflected.

Listed (or quoted) shares are equity securities that are listed on an organized stock exchange. Their values can, therefore, be determined by multiplying the number of shares held by the direct investor(s) or fellow enterprises by the most recent bid/ask price (a midpoint should be used) or at the price at which the shares were last traded. Usually, the equity securities of only a relatively small portion of direct investment enterprises are traded on organized stock exchanges.

Debt securities

In the CDIS, debt securities are to be valued at market prices, and all types of debt other than debt securities – that is, loans, deposits, trade credit, other accounts payable/receivable – are to be valued at nominal value. *Nominal value* is defined as the amount the debtor owes to the creditor, which comprises the outstanding principal amount including any accrued and unpaid interest. That is, it represents the value of funds advanced less any repayments plus outstanding accrued interest; nominal value also takes into account any adjustments to reflect changes in debt denominated in a foreign currency. The rate of exchange to be used is the mid-point between the buy and sell rates on the reference date. Accordingly, let us assume that DIE B borrowed $100 from its DI A, when the exchange rate was 2:1 between the local currency and the dollar. At that point, the debt should be recorded on B‘s books, in local currency, at 200. However, at a later date, if the exchange rate has changed to 3:1, and assuming there has been no further lending or any repayments, and setting aside any accrual of interest, B should record its liability to A as 300 in local currency (which still equals $100).

International Standard Industrial Classification of All Economic Activities (ISIC) - Revision 4

- Agriculture, forestry and fishing
- Mining and quarrying
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water supply; sewerage, waste management and remediation activities
- Construction
- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Transportation and storage
- Accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific and technical activities
- Administrative and support service activities
- Public administration and defence; compulsory social security
- Education
- Human health and social work activities
- Arts, entertainment and recreation
- Other service activities
- Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use
- Activities of extraterritorial organizations and bodies