

ANNEX 10

Ultimate Investing Country

1. Reallocating positions to the ultimate investing country

608. Standards in this *Benchmark Definition* recommend allocating Foreign Direct Investment (FDI) transactions and positions by partner country and by industry for data presented on a directional basis (see Chapter 4 for an explanation of FDI presented on a directional basis). Hence, these items are attributed to the country of the immediate counterparty and the industry of the immediate counterparty for outward FDI.

609. In the case of inward FDI, the following presents a general example of how positions can be attributed to the country of the ultimate investor(s) in the resident direct investment enterprise.

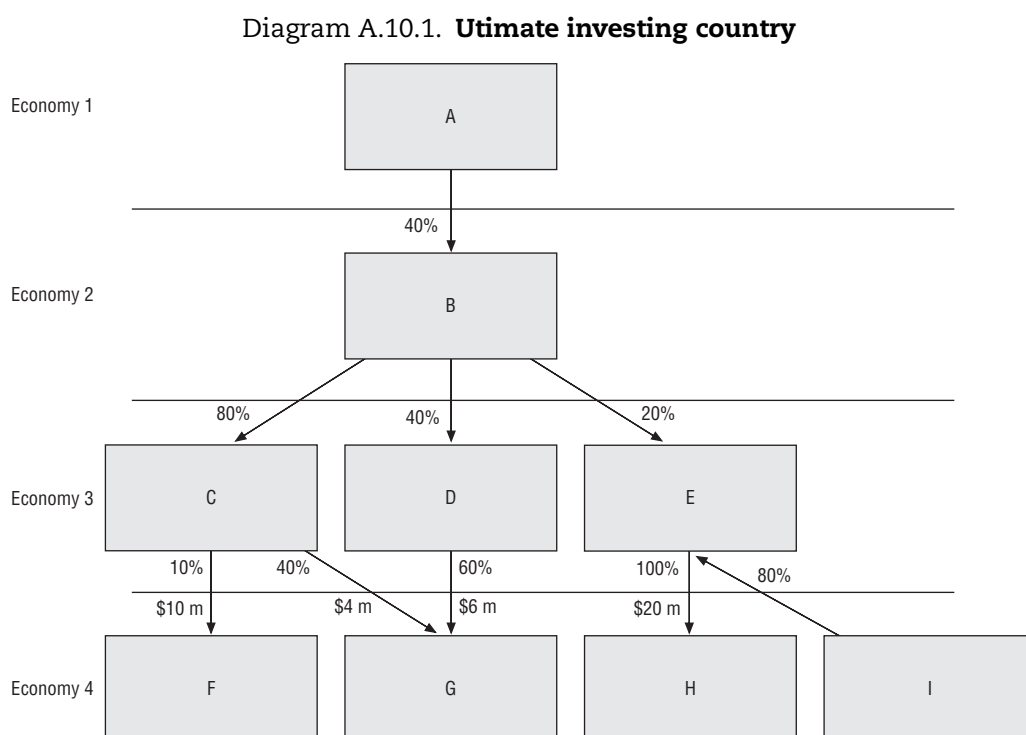
610. The ultimate investor, for this purpose, is the enterprise that has control over the investment decision to have an FDI position in the direct investment enterprise. As such, the ultimate investor controls the immediate direct investor. It is identified by proceeding up the immediate direct investor's ownership chain through the controlling links (ownership of more than 50% of the voting power) until an enterprise is reached that is not controlled by another enterprise. If there is no enterprise that controls the immediate direct investor, then the direct investor is effectively the ultimate investor in the direct investment enterprise.

611. The country in which the ultimate investor is resident is the ultimate investing country (UIC) for the investment in the direct investment enterprise. It is possible that the ultimate investor is a resident of the same economy as the direct investment enterprise. This is an example of round-tripping.

612. In order to transform from the standard presentation by country using the directional principle to the supplemental UIC presentation, the entire FDI position that is attributed to the country of residence of the immediate direct investor is reallocated to the UIC. Where there is more than one immediate direct investor in a direct investment enterprise, the entire inward FDI position of *each* immediate direct investor is reallocated to the respective UICs based on the ultimate controlling parent (UCP) of *each* of the immediate direct investors. This method ensures that the levels of direct investment into a country according to the standard presentation and according to the supplemental UIC presentation are the same.

2. An illustration of the reallocation process

613. Diagram A.10.1 below illustrates a number of relationships for direct investment enterprises in economy 4.



614. According to the standard presentation by country (on an immediate investor basis), Economy 4 would show \$40 m of inward FDI positions from Economy 3. According to the supplemental presentation of inward positions by UIC:

- the \$10 m investment from C into F would be reallocated to Economy 2 as enterprise B is the ultimate investor in enterprise F (as the UCP of enterprise C);
- the \$4 m investment from C into G would be reallocated to Economy 2 as enterprise B is the ultimate investor in enterprise G (as the UCP of enterprise C);
- the \$6 m investment from D into G would remain allocated to Economy 3 as enterprise D is the ultimate investor in enterprise G (no enterprise exerts control over enterprise D, so enterprise D is its own UCP); and
- the \$20 m investment from E into H would be reallocated to Economy 4 as enterprise I is the ultimate investor in enterprise H (as the UCP of enterprise E).

615. The supplemental presentation for Economy 4 would record \$14 m inward FDI from Economy 2 as the UIC, \$6 m inward FDI from Economy 3 as the UIC, and \$20 m inward FDI from Economy 4 as the UIC (round-tripping). No investment in Economy 4 is reallocated to Economy 1 as enterprise A is not the UCP of any of the immediate direct investors in Economy 4.

616. From this example, it can be seen that the entire immediate direct investment position is reallocated to the UIC – the percentage ownerships in the chain of control above

the immediate direct investor do not affect the value recorded. It can also be seen that where a direct investment enterprise has multiple direct investors (for example, enterprise G), the investment from each immediate direct investor is reallocated to the respective UICs based on the UCP of each of the immediate direct investors.

3. Experience of the United States

617. The table below shows as an example the foreign direct investment position in the United States at year-end 2004 both by country of immediate investor (the standard presentation) and by UIC (the supplemental presentation). It can be observed in this table that some of the direct investment into the United States has the United States as the UIC, providing evidence of round-tripping from the United States back into the United States.

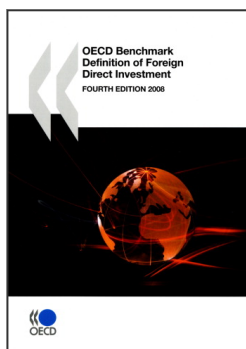
Table A.10.1. **Foreign direct investment of the united states by immediate and ultimate investor**

Positions at year-end 2004

	By country of immediate partner		By country of ultimate investor	
	Millions of dollars	Per cent	Millions of dollars	Per cent
All countries	1 526 306	100.0	1 526 306	100.0
Canada	133 761	8.8	139 904	9.2
Europe	1 078 287	70.6	977 346	64.0
Austria	3 720	0.2	2 627	0.2
Belgium	11 285	0.7	11 750	0.8
Denmark	5 450	0.4	4 005	0.3
Finland	5 509	0.4	6 990	0.5
France	148 242	9.7	149 436	9.8
Germany	163 372	10.7	171 683	11.2
Ireland	21 153	1.4	9 426	0.6
Italy	7 421	0.5	15 745	1.0
Liechtenstein	310	0.0	397	0.0
Luxembourg	107 842	7.1	8 813	0.6
Netherlands	167 280	11.0	139 952	9.2
Norway	3 136	0.2	2 604	0.2
Spain	5 669	0.4	7 102	0.5
Sweden	23 853	1.6	19 389	1.3
Switzerland	122 944	8.1	58 691	3.8
United Kingdom	251 562	16.5	366 024	24.0
Other	29 539	1.9	2 710	0.2
Latin America and Other Western Hemisphere	85 864	5.6	110 690	7.3
South and Central America	26 295	1.7	21 818	1.4
Brazil	1 286	0.1	3 188	0.2
Mexico	7 880	0.5	11 451	0.8
Panama	10 707	0.7	34	0.0
Venezuela	5 548	0.4	5 662	0.4
Other	874	0.1	1 483	0.1
Other Western Hemisphere	59 569	3.9	88 872	5.8
Bahamas	1 179	0.1	74	(*)
Bermuda	8 442	0.6	74 040	4.9
Netherlands Antilles	4 749	0.3	2 080	0.1
United Kingdom Islands, Caribbean	24 243	1.6	10 523	0.7
Other	20 956	1.4	2 155	0.1
Africa	1 611	0.1	1 839	0.1
South Africa	356	(*)	995	0.1
Other	1 255	0.1	845	0.1
Middle East	8 200	0.5	17 811	1.2
Israel	4 107	0.3	8 559	0.6
Kuwait	1 238	0.1	1 439	0.1
Lebanon	1	(*)	357	(*)
Saudi Arabia	(D)	(D)	4 716	0.3
United Arab Emirates	24	0.0	1 772	0.1
Other	(D)	(D)	969	0.1
Asia and Pacific	218 583	14.3	260 459	17.1
Australia	28 083	1.8	34 730	2.3
Hong Kong	1 709	0.1	29 895	2.0
Japan	176 906	11.6	180 451	11.8
Korea, Republic of	4 212	0.3	4 224	0.3
Malaysia	335	(*)	951	0.1
New Zealand	814	0.1	543	0.0
Philippines	25	(*)	101	0.0
Singapore	1 801	0.1	2 472	0.2
Taiwan	3 227	0.2	4 961	0.3
Other	1 470	0.1	2 131	0.1
United States	18 256	1.2

* Less than 0.05 per cent.

D: Suppressed to avoid disclosure of data of individual companies.



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