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OECD Benchmark Definition of Foreign Direct Investment
Fourth Edition

ANNEX 1

Changes from Benchmark Definition of Foreign Direct Investment 3rd Edition

445. This revision of the third edition of the Benchmark Definition started in 2004.[55] However, it was not possible to finalise all the research in time for publication of the fourth edition in 2008. One of the main novel features of the *Benchmark Definition* is the introduction of a research agenda which includes work to be conducted after the publication of the present edition. Results of that work will be published as an addendum to the fourth edition as soon as it is completed.

This revision of the *Benchmark Definition* involves several types of changes relating to

- *i)* Changes in concepts, definitions and methods
- *ii)* Greater clarity of recommendations and underlying rationale
- *iii)* Changes in the structure of the manual

1. Changes in concepts, definitions and methods

446. *Permanent Debt:* The previous (third) edition of the *Benchmark Definition* referred to the concept of "permanent debt " and recommended that in the case of banks, financial intermediaries (*e.g.* dealers in securities and certain other financial instruments), and Special Purpose Entities whose sole purpose is to serve as financial intermediaries, all inter-company debt flows (with the exception of those considered to represent permanent debt or equities) with related affiliates should not be counted as part of direct investment. The concept of *permanent debt* was abandoned in the latest version of the *Benchmark Definition* so that all inter-company debt flows between related financial intermediaries are excluded from direct investment (see Section 4.4.3).

447. *Fully Consolidated System* versus *Framework for Direct Investment Relationships:* Since its first edition, the Benchmark Definition recommended the use of the Fully Consolidated

55. IMF/OECD Direct Investment Technical Expert Group (DITEG) was created in 2004 as a joint IMF/OECD expert group to make recommendations on the methodology of FDI statistics within the framework of the revision of the IMF *Balance of Payment and International Investment Position Manual* and the OECD *Benchmark Definition of Foreign Direct Investment*. DITEG held three meetings (in 2004 and 2005). The joint group was co-chaired by IMF and OECD and was serviced by a joint IMF/OECD Secretariat. Based on DITEG recommendations, the OECD Working Group on International Investment Statistics (WGIIS) agreed on a final set of standards which served as the basis for the revision of the *Benchmark Definition*. The Benchmark Advisory Group assisted the Secretariat in drafting the revised manual under the guidance of WGIIS which had the technical responsibility of the revision of international standards for FDI statistics.

System (FCS) which is the scheme used hitherto to identify foreign direct investment (FDI) relationships. FCS was not fully comprehensive particularly for horizontal enterprise relationships but focused on vertical relationships. The FCS, was replaced by a more comprehensive scheme in this latest edition of the Benchmark Definition, the Framework of Direct Investment Relationships (FDIR) (see Section 3.4 and Annex 4).

448. *Debtor/creditor principle*: In contrast to the third edition, this version of the *Benchmark Definition* makes a clear recommendation that FDI transactions and positions be compiled according to the debtor/creditor principle for partner country allocation (but not according to the transactor principle – see Section 3.4.4).

449. *Collective Investment Institutions (CII)*: Hereafter, Collective Investment Institutions are included in FDI statistics as long as investments in, or investment by, them meet the FDI criteria. Previously, international standards were not clear on the treatment of CIIs, leading many compilers to treat all investment in, or by, CIIs as excluded from FDI, as they were (primarily) included under portfolio investment (see Section 6.3) for both assets and liabilities.

450. *Non-profit institutions serving households (NPISH)*: Transactions/positions by non-profit institutions serving households are included in FDI if they meet the FDI criteria. A NPISH can be a direct investor but not a direct investment enterprise.

451. *Fellow enterprises*: As an improvement from the previous edition of the *Benchmark Definition*, the definition of fellow enterprises was clarified. Enterprises that have little (or no) equity in each other but are influenced by the same enterprise are referred to as fellow enterprises; they were previously referred to as "fellow subsidiaries " (see Chapter 3, sub-section 3.4.3.4 and Box 3.4).

452. *Directional principle* : The *directional principle* in this edition of the Benchmark Definition was extended to cover transactions/positions between fellow enterprises, in addition to *reverse investments* included in the directional principle applied in the *Benchmark Definition*, 3rd edition. The direction of a transaction/position between fellow enterprises is determined according to the residence of the ultimate controlling parent of the fellow enterprise (see Chapter 4).

453. *Special Purpose Entities (SPE)*: According to the 3rd edition of the *Benchmark Definition*, all FDI transactions/positions should be recorded for the country or industry of the first counterpart enterprise (including SPEs). This treatment has led to distortion of FDI statistics at the country and regional levels as well as worldwide. This 4th edition of the Benchmark Definition introduces the notion of *pass-through capital* in standard and supplemental FDI series to partially resolve the problem caused by such transactions.

454. FDI transactions and positions by partner and by industry should be recorded on a directional principle. In the standard directional presentation, compilers should provide the key FDI statistics excluding resident SPEs but also giving separate details for these resident SPEs. In addition, compilers are strongly encouraged to provide supplemental series looking through all (including non-resident) SPEs. These novel features are improvements for obtaining analytically more meaningful data as compared to recording transactions/positions for the first counterpart. This edition also devotes an annex to SPEs (see Annex 7).

455. *Standard FDI statistics – Aggregate data (asset/liability)*: Historically, the *Benchmark Definition* related to detailed FDI statistics presented by partner country and by industry classification. Presentation of aggregate FDI series as additional standard FDI data was

introduced in the present edition. These data are based on the asset/liability principle and are fully consistent with the balance of payments statistics under the functional category *Direct Investment*. The *Benchmark Definition* provides clear guidance on the building blocks required for deriving data according to the directional principle from those based on the asset/liability principle (see Section 3.4.5 and Chapter 4).

456. *Supplemental FDI statistics:* Compilers are strongly encouraged to provide on a supplemental basis FDI series by partner country and by industry classification looking through all SPEs (see reference above).

457. For the first time the Benchmark Definition introduces the concept of analysing *FDI by type* and the creation of supplemental series on Mergers and Acquisitions (M&A) transactions by country allocation and industry classification for equity transactions. A new methodology for data collection for M&As is also proposed in Annex 9.

458. Previously the *Benchmark Definition* recommended the compilation of FDI statistics according to ultimate host/investing country without providing any specific methodology for such compilation. The present edition includes guidance for compiling inward *FDI positions* according to ultimate controlling investor country/industry with presentation of these supplemental data by country and by industry (see Section 7.2).

2. Greater clarity of recommendations and underlying rationale

459. This edition of the *Benchmark Definition* includes additional description and explanation with a view to clarifying the recommendations. In the past, misinterpretation of certain recommendations has led to differences in country practices and to deviations from standard methodologies. The following improvements are worth noting:

i) Explanations of the *components*, a*ccounts* and *scope* of foreign direct investment are given much more detailed attention in Chapter 4.

ii) *Market valuation*, which is central to FDI statistics, is one of the more difficult recommendations that compilers encounter. Several methods to estimate market values for unlisted companies are provided in the present edition allowing alternative approaches for compilers to choose from depending on the information available to them and the intended purpose of the information compiled (see Annex 5).

iii) An annex was dedicated to reinvested earnings to clarify the methodology required to measure and to record this item (see Annex 6).

iv) Concepts such as FDI influence and control, enterprise group, etc are clarified by the introduction of the Framework for Direct Investment Relationships replacing the earlier Fully Consolidated System (see above).

v) In the absence of a universal definition of Special Purpose Entities, some practical criteria were provided to guide national compilers when identifying such entities;

vi) Rules for the allocation of industry sector were clarified to indicate that as first priority countries should report FDI statistics according to the industry of the direct investment enterprise, for both inward and outward investment (see Section 7.3).

vii) Further consistency with other international manuals was achieved in various concepts such as the treatment of land and buildings, natural resource exploration, construction, shipping, and banking activities.

viii) Further clarification is given on borderline cases as guidance to compilers (see Annex 3).

3. Structure of the *Benchmark Definition*

460. Not only was the structure of the current edition of the *Benchmark Definition* substantially modified but also new chapters/sections were included:

- Chapter 2: Uses of FDI statistics.
- Chapter 8: FDI and Globalisation.

In addition, a section was devoted to statistical units (in Chapter 3).

461. More extended use was made of annexes for compilation and clarification of various recommendations. Several annexes were added on the following topics:

- Presentation of FDI statistics: standard and supplemental presentations including information on country and industry classifications (Annex 2).
- Borderline cases: provides guidance to compilers for excluding activities which may represent similarities to FDI but which do not fully qualify as FDI (Annex 3).
- Framework for Direct Investment Relationships: provides examples of the FDI relationships for the recommended and for the alternate methods (Annex 4).
- Explanation of various methods to estimate market value including pros and cons for each method (Annex 5).
- Reinvested earnings: provides technical guidance on recording reinvested earnings (Annex 6).
- Special Purpose Entities: the content of this annex has been substantially modified (Annex 7).
- Collective Investment Institutions are a new feature in FDI statistics: this annex provides further information on CIIs (Annex 8).
- Guidance is provided on how to compile FDI by type, distinguishing mergers and acquisitions (Annex 9).
- Further clarifications are provided on recording FDI according to the ultimate investing country (Annex 10).
- Guidance on the specific data compilation needs of Economic or Currency Unions (Annex 11).
- General guidance on FDI data collection is provided in Annex 12.
- Future research work to complement current standards is listed in Annex 13.

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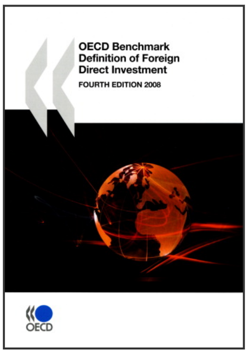
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