



GLOSSARY OF FOREIGN DIRECT INVESTMENT TERMS AND DEFINITIONS

This glossary forms part of the 4th Edition of the *OECD Benchmark Definition of Foreign Direct Investment* and is intended to assist both the compilers and users of direct investment statistics.

- Acquisition** An acquisition is a business transaction between unrelated parties based on terms established by the market where each enterprise acts in its own interest. The acquiring enterprise purchases the assets and liabilities of the target enterprise. In some cases, the target enterprise becomes a subsidiary or part of a subsidiary of the acquiring enterprise.
- Activity of Multinational Enterprises** In principle quantitative or qualitative information directly concerning multinational firms could be classified under activity of multinational enterprises. However, within the framework of the *OECD Handbook on Economic Globalisation Indicators*, data on the activity of multinationals covers all economic and industrial data which are not associated with FDI, portfolio or other financial transactions. Data collected by the OECD within the framework of the surveys on the economic activity of multinationals include 18 variables, notably gross output, turnover, value added, number of people in employment, employee compensation, gross operating surplus, gross fixed capital formation, R&D expenditures, number of researchers, total exports and imports, intra-firm exports and imports, and technological payments and receipts.
- Affiliated enterprises** Affiliated enterprises are enterprises in a direct investment relationship. Thus, a given direct investor, its direct investors, its *subsidiaries*, its *associates*, and its *branches*, including all *fellow enterprises*, are affiliated enterprises. It is possible for a given enterprise to be a member of two or more groups of affiliated enterprises.
- All-inclusive concept** The application of the all-inclusive concept is one of the two main approaches to measuring earnings. The concept is explained in the *International Accounting Standard, "Unusual and Prior Period Items and Changes in Accounting Policy"*. When earnings are measured on the basis of this concept, income is considered to be the amount remaining after all items (including write-offs and capital gains and losses, and excluding dividends and any other transactions between the enterprise and its shareholders or investors) causing any increase or decrease in the shareholders' or investors' interests during the accounting period, are allowed for. *This concept is not recommended by the Benchmark Definition (see also entry on Current Operating Performance Concept).*

Ancillary corporation

An *ancillary* corporation is a wholly-owned subsidiary whose productive activities are ancillary in nature: that is, confined to providing services to the parent corporation and/or other ancillary enterprises owned by the same parent corporation. The kinds of services which may be produced by an ancillary unit are transportation, purchasing, sales and marketing, various kinds of financial or business services, computing and communications, security, maintenance, and cleaning. In some cases, the ancillary unit is located in a different economy from the companies it serves. An ancillary corporation is recognized as a separate institutional unit when it is resident in a different economy from that of any of its owners, even if it is not, in practice, autonomous.

Assets, Direct Investment

Direct investment assets can be ascribed to the following three categories:

- (i) investment by a resident direct investor in its non-resident direct investment enterprises
- (ii) reverse investment by a resident direct investment enterprise in its non-resident direct investor(s)
- (iii) investment by a resident fellow enterprise in non-resident fellow enterprises.

Asset/liability principle

The asset/liability principle records all FDI financial claims on and obligations to non-residents using the normal balance sheet data showing gross assets and liabilities for positions, and net transactions for each category. The data presented on this basis, while compiled distinguishing the nature of the relationship between the counterparts (according to Framework for Direct Investment Relationships), do not incorporate any offsetting of reverse direct investment transactions or positions in equity or debt between a direct investment enterprise and its direct investor. Similarly, the asset/liability presentation does not incorporate any offsetting of any transactions or positions between fellow enterprises.

Associate, Direct Investment Enterprise

An associate is a direct investment enterprise

- (i) in which an investor owns directly at least 10% of the voting power and no more than 50%;
- (ii) where an investor and its subsidiaries combined own at least 10% of the voting power of an enterprise but no more than 50%, the enterprise is regarded as an associate of the investor for FDI purposes;
- (iii) where an associate, either as an individual or in combination with its subsidiaries, own more than 50% of an enterprise, this enterprise is regarded for FDI purposes as an associate of the higher level investor.

Balance of Payments

The Balance of Payments is a statistical system through which economic transactions occurring during specific time periods between an economy and the rest of the world can be summarised in a systematic way. The IMF *Balance of Payments and International Investment Manual* provides conceptual guidelines for compiling balance of payments statistics according to international standards.

Book value Book value is a term that broadly encompasses many different accounting methods. It represents the values that appear on the books of an enterprise. It could represent the values on the books of direct investors or on the books of direct investment enterprises.

Branch, Direct Investment Enterprise A branch is any unincorporated direct investment enterprise in the host country fully owned by its direct investor. Thus, this term encompasses branches as commonly defined – i.e. formally organised business operations and activities conducted by an investor in its own name – as well as other types of unincorporated operations and activities.

All or most of the following features should be present for a branch to be recognised:

- (i) undertaking or intending to undertake production on a significant scale based in the territory for one year or more in a territory other than that of its head office:
 - (a) if the production process involves physical presence, then the operations should be physically located in that territory. Some indicators of an intention to locate in the territory include purchasing or renting business premises, acquiring capital equipment, and recruiting local staff;
 - (b) if the production does not involve physical presence, such as in some cases of banking, insurance, or other financial services, the operations should be recognised as being in the territory by virtue of the registration or legal domicile of those operations in that territory;
- (ii) the recognition of the operations as being subject to the income tax system, if any, of the economy in which it is located even if it may have a tax-exempt status.

Business Register A business register is a list of enterprises or establishments maintained by countries to assist in the compilation of their business statistics generally and which can identify those enterprises involved in foreign direct investment and therefore help in the compilation of these statistics.

Centre of Predominant Economic Interest An institutional unit has a *predominant centre of economic interest* in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. The location need not be fixed so long as it remains within the economic territory. In most cases, it is reasonable to assume that an institutional unit has a predominant centre of economic interest in the territory if the unit has already engaged in economic activities and transactions on a significant scale in the country for one year or more, or if the unit intends to do so.

Collective Investment Institutions Collective investment institutions (CIIs) are incorporated investment companies and investment trusts, as well as unincorporated undertakings (mutual funds or unit trusts), that invest in financial assets (mainly marketable securities and bank deposits) and real estate using the funds collected from investors by means of issuing shares/units (other than equity). The CII can be open-ended, if there is no limit to the number of shares/units on issue, or closed-ended, where the number of shares/units

on issue is fixed. The shares/units can be quoted or unquoted. The CII may pay periodic dividends, capitalise the income or a combination of those approaches, depending on the terms set out in its prospectus. Also referred to as *collective investment scheme*, *collective investment vehicle*, *investment fund*.

Conduit

A conduit is an enterprise that obtains or borrows funds, often from unaffiliated enterprises, and remits those funds to its direct investor or another affiliated enterprise. Some conduits and holding companies may have a substantial physical presence as evidenced by office building, equipment, employees, etc. Others may have (little) or no physical presence and may exist only as *shell companies*.

Confidentiality

In compiling and presenting FDI statistics, compilers in many countries may encounter the possibility of confidential data occurring in the results to be disseminated. Such information generally does not directly identify the entity, e.g. the name and address of an enterprise, to which the data relate. However, the particular context in which the data are presented e.g. classification by: country of counterpart, activity of enterprise, type of financial instrument as well as cross-classifications of these attributes, may allow users to determine the identity of the entity in question and the value of its activity from the information provided (as well as other information they may have independently available to them). In general, the greater the level of detail in the analyses, as well as the degree of concentration of particular types of enterprises and their activities in a compiling country, the greater the likelihood of confidential data arising. For many countries, national statistical legislation prohibits the direct or indirect disclosure of information relating to a particular individual or entity. Many international organisations also operate statistical confidentiality regimes to ensure that confidential statistical information is not disseminated.

Current operating performance concept (COPC)

The current operating performance concept is the concept recommended by the Benchmark Definition to measure direct investment earnings. The concept is explained in the International Accounting Standard, "Unusual and Prior Period Items and Changes in Accounting Policy". When earnings are measured on the basis of this concept, such earnings consist of income from normal enterprise operations before non-recurring items (such as write-offs) and capital gains and losses are accounted for (see also entry on All-inclusive-concept not recommended by the *Benchmark Definition*).

Debt securities

Debt securities include bonds, debentures, commercial paper, promissory notes and other tradable non-equity securities.

Debtor/creditor principle

A *debtor* is a person or an entity which has a financial obligation to another person or entity. Conversely, a *creditor* is a person or entity which has a financial claim on another person or entity. Therefore, a debtor has a financial liability to a creditor and a creditor has a financial claim (an asset) on a debtor. For FDI statistical purposes, under the debtor/creditor principle, the FDI assets (both transactions and positions) of the compiling economy are allocated to the economies of residence of the non-resident debtors; its FDI liabilities are allocated to the economies of residence of the non-resident creditors allocated on the basis of the debtor/creditor principle. This principle, recommended by the *Benchmark Definition* as the basis for geographical allocation, differs from the *transactor* principle.

Deposits	Typical forms of deposits include savings deposits, term deposits, transferable and non-transferable deposits in local or foreign currencies.
Direct Investment	(see <i>Foreign Direct Investment</i>).
Direct Investment Enterprise	(see <i>Foreign Direct Investment Enterprise</i>).
Direct Investor	(see <i>Foreign Direct Investor</i>).
Directional Principle	<p>Presentation of the FDI data on a directional basis reflects the direction of influence by the direct investor underlying the direct investment: <i>inward or outward direct investment</i>. FDI according to directional principle relates to the treatment of <i>reverse investment</i> and to the treatment of <i>fellow enterprises</i>.</p> <p>(i) Reverse investment</p> <p>(ii) Investment between fellow enterprises:</p> <ul style="list-style-type: none"> • If the ultimate controlling parent is a resident of the compiling economy, then the transactions and positions between the two fellow enterprises are categorised as <i>outward foreign direct investment</i> • if the ultimate controlling parent is not a resident of the compiling economy, then the transactions and positions between the two fellow enterprises are categorised as <i>inward foreign direct investment</i>.
Distributed earnings	Distributed earnings consist of <i>dividends</i> and <i>distributed branch profits</i> . Distributed earnings can be paid out of current or past earnings and may result in negative reinvested earnings if the distribution of dividends exceeds total earnings in a particular reference period.
Dividends	Dividends are earnings distributed to shareholders from common and participating preferred stock, whether voting or non-voting, according to the contractual relationship between the enterprise and the various types of shareholders, before deduction for withholding taxes. Dividends exclude liquidating dividends and bonus shares (which are dividends in the form of additional shares of stock). These can be recorded on the date they are payable, on the date they are paid, or at some other point in time. The Benchmark Definition recommends recording dividends on the date they are payable.
Economic territory	<p>Economic territory is defined as including all the areas under the effective economic control of a single government. Economic territory has the dimensions of physical location as well as legal jurisdiction. With regard to its composition, an economic territory (or economy) consists of all the institutional units that are resident in that territory. The concepts of <i>economic territory</i> and <i>residence</i> are designed to ensure that each institutional unit is a resident of a single economic territory.</p> <p>The economic territory includes the land area, airspace, territorial waters, including jurisdiction over fishing rights and rights to fuels or minerals. In a maritime territory, the economic territory includes islands that belong to the territory. The economic territory also includes territorial enclaves in the rest of the world. These are clearly demarcated land areas (such as embassies,</p>

consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic immunity, etc.) located in other territories and used by governments that own or rent them for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas are physically located.

Enterprise

An enterprise is an institutional unit engaged in production. An enterprise may be a *corporation*, a *non-profit institution*, or an *unincorporated enterprise*. Corporate enterprises and non-profit institutions are complete institutional units. An unincorporated enterprise, however, refers to an institutional unit – a household or government unit – only in its capacity as a producer of goods and services.

Enterprise group

An enterprise group consists of all the enterprises under the control of the same owner. When a group of owners has control of more than one enterprise, the enterprises may act in a concerted way and the transactions between them may not be driven by the same concerns as “arm’s length” transactions. The Framework for Direct Investment Relationships can be used to determine which enterprises are under control or influence of the same owner.

- A *multinational enterprise group* consists of all the enterprises located in different economies and under the control or influence of the same owner wherever located
- An *economy-specific enterprise group* consists of all the enterprises located in the same economy and under the control or the influence of the same owner also located in the same economy. Ownership links that are external to the economy are not recognised in the formation of *local enterprise* groups.

Equity capital

Equity capital comprises: (i) equity in branches; (ii) all shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and included under direct investment, debt instruments); and (iii) other contributions of an equity nature. Ownership of equity 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 securities by a depositary. This category includes proprietors’ net equity in quasi-corporations, as well as shares and equity in corporations. It also includes preferred stocks or shares that provide for participation in the residual value on dissolution of an incorporated enterprise. Reinvestment of earnings comprises the claim of direct investors (in proportion to equity held) on the retained earnings of direct investment enterprises. Reinvestment of earnings represents financial account transactions that contribute to the equity position of a direct investor in a direct investment enterprise.

Establishment

An establishment is an enterprise, or part of an enterprise, that is situated in a single location and in which only a single (non-ancillary) productive activity is carried out or in which the principal productive activity accounts for most of the value added.

Exchange rate changes

Exchange rate changes reflect the impact that changes in exchange rates have on instruments that are denominated in a currency other than that in which the accounts are compiled. Exchange rate changes may be referred to by enterprises as realised or unrealised exchange rate or foreign

exchange gains or losses. They should not be included in the earnings of an enterprise when calculating income flows.

Fellow enterprises

An enterprise in one economy may be related through the *Framework of Direct Investment Relationships* – FDIR to another enterprise in the same economy, or in a different economy, without either being a direct investor in the other, but through both being directly or indirectly influenced by the same enterprise in the ownership hierarchy. This 'common parent' must be a direct investor in at least one of enterprises in question. Such enterprises can be considered to be related through a 'horizontal' linkage within the FDIR – not involving FDI voting power of 10% or more – and are called fellow enterprises. It should be noted, however, that for FDI statistics, only cross-border transactions and positions between FDI-related enterprises should be recorded.

Financial derivatives

Financial derivatives are financial instruments that are linked to another specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative is based on the price of an underlying item, such as an asset or index. Unlike debt instruments, financial derivatives do not require the advance of principal amounts that are required to be repaid and do not generate investment income. Financial derivatives are used for a number of purposes including risk management, hedging, arbitrage between markets, and speculation. Financial derivatives are excluded from direct investment.

Financial intermediary

Financial intermediaries consist of (i) central bank; (ii) deposit-taking corporations other than central bank (e.g. banks); (iii) money market funds; (iv) investment funds other than money market funds; (v) other financial intermediaries, except insurance companies and pension funds; (vi) insurance corporations and (vii) pension funds. However, for the purposes of excluding debt between related financial intermediaries, insurance corporations and pension funds are not considered "financial intermediaries".

Financial Lease

A financial lease is a method of financing the purchase of a good by the lessee (as opposed to taking out a loan for the purchase). A financial lease arrangement is to be taken as presumptive evidence that a change of ownership is intended. A change of ownership is imputed because the lessee assumes all rights, risks, rewards, and responsibilities of ownership in practice and, from an economic point of view, can be regarded as the *de facto* owner. During the life of the financial lease, the lessor expects to recover most or all of the cost of the goods and carrying charges.

Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (*direct investor*) in an enterprise (*direct investment enterprise*) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. Some compilers may argue that in some cases an ownership of as little as 10% of the voting power may not lead to the exercise of any significant influence while on the other hand, an investor may own less

than 10% but have an effective voice in the management. Nevertheless, the recommended methodology does not allow any qualification of the 10% threshold and recommends its strict application to ensure statistical consistency across countries.

Foreign Direct Investment Enterprise

A foreign direct investment enterprise is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly, 10% or more of its voting power if it is incorporated or the equivalent for an unincorporated enterprise.

The numerical threshold of ownership of 10% of the voting power determines the existence of a direct investment relationship between the direct investor and the direct investment enterprise. An ownership of at least 10% of the voting power of the enterprise is regarded as the necessary evidence that the investor has sufficient influence to have an effective voice in its management.

Foreign Direct Investor

A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, at least 10% of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. A direct investor could be classified to any sector of the economy and could be any of the following:

- (i) an individual;
- (ii) a group of related individuals;
- (iii) an incorporated or unincorporated enterprise;
- (iv) a public or private enterprise;
- (v) a group of related enterprises;
- (vi) a government body;
- (vii) an estate, trust or other societal organisation; or
- (viii) any combination of the above.

In the case where two enterprises each own 10% or more of each other's voting power, each is a direct investor in the other.

A direct investor has a direct investment enterprise operating in a country other than the economy of residence of the foreign direct investor

Framework for Direct Investment Relationships (FDIR)

The Framework for Direct Investment Relationships (FDIR) is a generalised methodology for identifying and determining the extent and type of direct investment relationships. The FDIR allows compilers to determine the population of direct investors and direct investment enterprises to be included in FDI statistics.

For a compiling economy, the FDIR identifies all enterprises related to a particular enterprise whether it is a direct investor or a direct investment enterprise or both. For example, within a group, it is possible that a direct investment enterprise itself owns 10% or more of the voting power of another non-resident enterprise, in which case the direct investment enterprise is itself a direct investor in a further direct investment enterprise. The question is therefore whether there is a direct investment relationship between the further enterprise and the original enterprise.

The residence of units is not a feature of the definition of subsidiaries and associates for FDI purposes. The FDIR may include within the relationship enterprises that are resident in the same economy. However, foreign direct investment is only recorded when there is a financial transaction or position

between entities in different economies that are in a direct investment relationship (including fellow enterprises).

Holding Companies

A *holding company* is a company established to hold participation interests in other enterprises on behalf of its owner. Some *holding* companies may have a substantial physical presence as evidenced by, for example, office buildings, equipment, and employees. Others may have little or no physical presence and may exist only as shell companies.

Immediate host/investing country

Immediate host/investing country is the basis for geographical allocation with respect of the first counterparty.

Income, Direct Investment

Direct investment income is part of the return on the direct investment position; that is, the return on equity and debt investment. Direct investment income consists of *earnings on equity investment* (for example, a resident direct investor's share in the net income or earnings of its direct investment enterprises) plus *income on debt* between direct investors and direct investment enterprises and between fellow enterprises. Direct investment income payables are calculated in a similar way. Direct investment income is recorded as it accrues. However, as debt instruments involving FDI-related financial intermediaries are excluded from direct investment, so is the debt income between them.

Income on Debt

Income on debt is interest receivables comprising interest accruing to residents (direct investors, direct investment enterprises and fellow enterprises) on their debt receivables, and interest payables comprising interest accruing to non-residents (direct investment enterprises, direct investors and fellow enterprises) on debt payables. No direct investment interest receivables or payables are recorded when both parties are related financial intermediaries (such as commercial banks, savings institutions, credit unions, mutual funds or finance companies).

Income on Equity

Income on equity relates to the return of the direct investor on the equity component of the direct investment position. The amounts are based on the direct investor's percentage share (based on their equity share) in the current earnings of the given direct investment enterprise and consist of *distributed earnings* and "*reinvested earnings*".

Indirectly Owned Direct Investment Enterprises

As a matter of principle, foreign direct investment statistics cover all enterprises in which direct investors have, directly or indirectly, a direct investment interest. This group of enterprises is specified according to the Framework for Direct Investment Relationships (FDIR)

Institutional Unit

An institutional unit *is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.* (Ref: SNA)

Inward Direct Investment

Inward direct investment is investment by a non-resident direct investor in a direct investment enterprise resident in the host economy; the direction of the influence by the direct investor is "*inward*" for the reporting economy. Also referred to as direct investment in the reporting economy.

International Standard Industry Classification – ISIC

The international standard industry classification (ISIC) is the industry classification recommended by the *Benchmark Definition* (see also NACE).

International Transactions Reporting System (ITRS)

An international transactions reporting system (ITRS) measures individual balance of payments cash transactions passing through the domestic banks and may also measure (i) individual cash transactions passing through foreign bank accounts of enterprises; (2) non-cash transactions; and (3) stock positions. Statistics are compiled from forms submitted by domestic banks to the compilers and may also be compiled from forms submitted by enterprises to the compiler.

Joint venture

A joint venture is a contractual agreement between two or more parties for the purpose of executing a business undertaking in which the parties agree to share in the profits and losses of the enterprise as well as the capital formation and contribution of operating inputs or costs. It is similar to a *partnership*, but typically differs in that there is generally no intention of a continuing relationship beyond the original purpose. A joint venture may not involve the creation of a new legal entity. Whether a quasi-corporation is identified for the joint venture depends on the arrangements of the parties and legal requirements. The joint venture is a quasi-corporation if it meets the requirements for an institutional unit, particularly by having its own records. Otherwise, if each of the operations is effectively undertaken by the partners individually, then the joint venture is not an institutional unit and the operations would be seen as being undertaken by the individual partners to the joint venture. Because of the ambiguous status of joint ventures, there is a risk that they could be omitted or double-counted, so particular attention needs to be paid to them.

Land and buildings

Land is the ground, including the soil covering and any associated surface waters, over which ownership rights are enforced; included are major improvements that cannot be physically separated from the land itself but it excludes any buildings or other structures situated on it or running through it; cultivated crops, trees and animals; subsoil assets; non-cultivated biological resources and water resources below the ground.

Ownership of land and buildings by a non-resident is treated as an equity investment by the non-resident in a resident notional enterprise, which in turn is treated as the owner of the land and buildings. Any rent earned through leasing the land and buildings is recorded as a dividend (income on equity) paid by the notional unit to the direct investor.

Liabilities, Direct Investment

Direct investment liabilities can be ascribed to the following three categories:

- (i) investment of non-resident direct investor in resident direct investment enterprises
- (ii) reverse investment of non-resident direct investment enterprises in resident direct investors
- (iii) investment of non-resident fellow enterprises in resident fellow enterprises.

Listed shares

Listed 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) by the most recent bid/ask prices or at the price at which the shares were last traded. In this manner, a market price value of the holdings of the shares held by the direct investor(s) – and thus the value of the share liability of the direct investment

enterprise to its direct investor(s) – can be determined.

Usually, the equity securities of only a relatively small portion of direct investment enterprises are publicly traded on organized stock exchanges because most direct investment enterprises are either 100% owned by the direct investor or are held by a small group of investors. (Listed shares are also referred to as *quoted shares*).

Loans

Loans are financial assets that are created when a creditor lends funds directly to a debtor through an instrument that is not intended to be traded. This category includes all loans and advances (except accounts receivable/payable which are treated as a separate category of financial assets). It also covers the treatment of financial leases and repurchase agreements.

Market Value

Market value is the conceptually ideal basis for valuing direct investment transactions and positions. Market valuation places all assets at current prices rather than when last purchased or re-valued, and promotes consistency in the value of assets of different vintages. It also promotes consistency when comparing stocks, transactions and other flows of different enterprises, industries, and countries.

Merger

A merger occurs when two (or more) companies agree to merge into a new single company rather than remain separated for creating business synergies.

Multi-territory enterprise

A multi-territory enterprise is an enterprise operating as a seamless operation over more than one economic territory. Such an enterprise, even though it has substantial activity in more than one economic territory, cannot be separated into a parent and branch(es) because it is run as a seamless operation and cannot supply separate accounts for each territory. Multi-territory enterprises are typically involved in cross-border activities and include shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables. Some non-profit institutions serving households (NPISH) may also operate in this way.

Nomenclature générale des activités économiques dans les Communautés européennes (NACE)

The *Nomenclature générale des activités économiques dans les Communautés européennes* (NACE) is the industry classification of the European Communities (see also ISIC).

Nominee

A nominee is a legal device for holding assets for confidentiality or convenience reasons. Assets held by a nominee are treated as being owned by the beneficial owner, rather than by the nominee or by a quasi-corporation. However, for issuers of securities, it may be difficult to identify whether nominees hold claims in their own right or as nominees, and if the latter, it may be difficult to identify the beneficial owner.

Non-profit institution (NPIs)

Non-profit institutions (NPIs) are legal or social entities, created for the purpose of producing goods and services, whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control, or finance them. The motives leading other institutional units (persons, corporations, or governments) to create NPIs are different to those for creating an institution with a profit motive. By convention they produce only individual services but not collective services.

The majority of NPIs are non-market producers even though they can be market producers (they are then classified as corporations)

NPIs engaged in non-market production are of two types: (i) NPIs controlled by governments; and (ii) NPIs serving households (i.e. those providing non-market goods and services to households financed mainly by transfers from non-government sources, namely households, corporations or non-residents).

Notional unit

A notional unit is a kind of a quasi-corporation. It is identified for statistical purposes for direct non-resident ownership of immobile non-financial assets such as land and buildings. Land and buildings can only be used for production in the territory in which they are located. Therefore, the land and buildings and other structures owned by a non-resident are always treated as being owned by a resident notional institutional unit that is in turn owned by non-resident unit(s) holding the legal title.

Other Accounts Receivable/Payable

Includes advances and deferred payments in respect of exchange of non-produced assets.

Outward Direct Investment

Outward direct investment is investment by a resident direct investor in a non-resident direct investment enterprise; the direction of the influence by the direct investor is '*outward*' for the reporting economy. Also referred to as direct investment abroad.

Partnership

Household unincorporated market enterprises also include unincorporated partnerships that are engaged in producing goods or services for sale or barter on the market. The partners may belong to different households. When the liability of the partners for the debts of the businesses is unlimited, the partnerships must be treated as unincorporated enterprises and remain within the household sector since all the assets of the household, including the dwelling itself, are at risk if the enterprise goes bankrupt. However, unincorporated partnerships with many partners, such as some large legal, accounting or architectural firms, are likely to behave like corporations and should be treated as quasi-corporations assuming complete sets of accounts are available for the partnerships. Partnerships whose partners enjoy limited liability are effectively separate legal entities and, as already noted, are treated as corporations.

Positions

FDI positions data indicate the levels of investment at a given point in time. Also referred to as '*FDI stocks*'.

Quasi-corporation

A quasi-corporation is an unincorporated business that operates as if it was an entity separate from its owners. Examples are *branches, land ownership, partnerships (both of limited and unlimited liability), trusts*, and resident portions of *multi-territory enterprises*. These quasi-corporations are treated as if they were corporations, i.e. as separate institutional units from the units to which they legally belong. For example, quasi-corporations owned by households or government units are grouped with corporations in the non-financial or financial corporate sectors. The purpose of this treatment is to separate from their owners those unincorporated enterprises which are sufficiently self-contained and independent that they behave in the same way as corporations.

Quoted Shares

See *listed shares*.

Reinvestment of earnings/Reinvested earnings

Reinvestment of earnings/reinvested earnings refer to earnings on equity accruing to direct investors less distributed earnings, proportionate to the percentage ownership of the equity owned by the direct investor(s). Reinvested earnings are included in direct investment income because the earnings of the direct investment enterprise are deemed to be the income of the direct investor (proportionate to the direct investor's holding of equity in the direct investment enterprise), whether they are reinvested in the enterprise or remitted to the direct investor. Because reinvested earnings are not actually distributed to the direct investor but rather increase the direct investor's investment in its affiliate, an entry that is equal to that made in the direct investment income account but of opposite sign is entered in the direct investment transactions account. In the direct investment income account, this transaction is referred to as "reinvested earnings", while in the direct investment transactions account, this transaction is referred to as "reinvestment of earnings".

Residence

The residence of an economic entity (or an institutional unit) is determined on the basis of the *economic territory* with which it has the strongest connection determined by its *predominant centre of economic interest*. While some units may have connections with more than one territory, for statistical consistency, there is a need to attribute a single economic territory based on objective and comprehensive criteria.

An institutional unit is resident in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. (BPM)

Reverse Investment

A direct investment enterprise may acquire financial claims in its direct investor. When such claims are not sufficient to establish a second, separate direct investment (i.e. do not qualify for the 10% ownership of voting power), the transactions/positions are referred to as *reverse investment* which are recorded as follows:

- for the economy in which the direct investment enterprise is resident: claims on direct investor
- for the economy in which the direct investor is resident: liabilities to affiliated enterprises

Within *reverse investment*, direct investment enterprises may raise loans which they on-lend to their direct investor, or may make loans to their direct investor from their own resources, which is also reverse investment. Such loans should be treated as direct investment debt and be included in the direct investment statistics.

Round-tripping

Round-tripping refers to the channelling abroad by direct investors of local funds and the subsequent return of these funds to the local economy in the form of direct investment.

Shell Company

A shell company is a company that is formally registered, incorporated, or otherwise legally organised in an economy but which does not conduct any operations in that economy other than in a pass-through capacity. Shells tend to be *conduits* or *holding companies* and are generally included in the description of Special Purpose Entities.

Special Purpose Entities

Multinational enterprises (MNEs) often diversify their investments

(SPE)

geographically through various organisational structures. These may include certain types of Special Purpose Entities. Examples are *financing subsidiaries, conduits, holding companies, shell companies, shelf companies and brass-plate companies*. Although there is no universal definition of SPEs, they do share a number of features. They are all legal entities that have little or no employment, or operations, or physical presence in the jurisdiction in which they are created by their parent enterprises which are typically located in other jurisdictions (economies). They are often used as devices to raise capital or to hold assets and liabilities and usually do not undertake significant production.

An enterprise is usually considered as an SPE if it meets the following criteria:

- (i) The enterprise is a legal entity,
 - a. Formally registered with a national authority; and
 - b. subject to fiscal and other legal obligations of the economy in which it is resident.
- (ii) The enterprise is ultimately controlled by a non-resident parent, directly or indirectly.
- (iii) The enterprise has no or few employees, little or no production in the host economy and little or no physical presence.
- (iv) Almost all the assets and liabilities of the enterprise represent investments in or from other countries.
- (v) The core business of the enterprise consists of group financing or holding activities, that is – viewed from the perspective of the compiler in a given country - the channelling of funds from non-residents to other non-residents. However, in its daily activities, managing and directing plays only a minor role.

Standard Data Reporting

Standard data reporting is obligatory; also referred to as “core data”.

Subsidiary, Direct Investment Enterprise

A subsidiary is a direct investment enterprise:

- (i) in which an investor owns more than 50% of its voting power i.e. it is controlled by the investor;
- (ii) Where an investor and its subsidiaries combined own more than 50% of the voting power of another enterprise, this enterprise is also regarded as a subsidiary of the investor for FDI purposes.

Supplemental Data Reporting

Supplemental data reporting is not obligatory but strongly encouraged.

Time of Recording

Time of recording is the date relevant to a particular data item

Trade Credit (receivables and payables)

Trade credit represents (generally) short-term credit between FDI-related enterprises in the ordinary course of business by suppliers/buyers of goods and services. These credits are registered from the time the goods or services are provided until payment is received (or vice versa).

Transactions (Direct Investment)

Direct investment transactions are *financial flows* and *income flows* between direct investors, direct investment enterprises, and/or other fellow enterprises. Transactions (flows) provide information for FDI activity within

a given time period of time

Transactor Principle

According to the transactor principle, transactions resulting from changes in claims and liabilities are allocated to the country of residence of the non-resident party to the transaction (the transactor) even if this is not the country of residence of the direct investment enterprise or direct investor. This principle differs from the *debtor/creditor* principle that is recommended by the *Benchmark Definition* as the basis for geographical allocation.

Transfer Pricing

The transaction value for a good or service between related enterprises may not always reflect market values. *Transfer pricing* refers to this distortion between transaction values and market values. It can be motivated by income distribution or equity injections or withdrawals. Where the distortion is significant and data is available to do so, it is recommended that adjustments be made to remove the impact of transfer pricing.

Ultimate Investing Country

The ultimate investing country is a geographical allocation determining the location of the ultimate source of control of the stocks of inward FDI for a reporting economy. It is recommended to compile, on a supplemental basis, inward FDI positions according to the UIC.

Unlisted Shares

Unlisted shares are a form of equity that is not listed on an organised or public stock exchange. By their nature, a market valuation estimate is not regularly available for unlisted equity and an approximation to the market value is required to measure direct investment. Several methods for approximating market value are acceptable:

- Recent transaction price
- Own funds at book value
- Net asset value
 - Including goodwill and intangibles
 - Excluding goodwill and intangibles
- Market capitalization method
- Present value of expected earnings
- Apportioning market value of global enterprise group to local operation.

Unquoted Shares

See *unlisted shares*.

Valuation Changes

Valuation changes reflect changes in the market value of a position due to exchange rate changes or other price changes.

Volume Changes

The volume of financial assets and liabilities for an economy can change due to either transactions or other changes in volume. The causes of other changes in volume include debt cancellation and write-offs, liquidations, uncompensated seizure, and reclassifications.

Voting Power

Generally, ordinary shares provide voting power. While voting power is generally obtained through the purchase of equity, it is possible to have voting power that is not in the same proportion as the equity ownership (for example, 'golden shares' have greater voting power than other shares). It is also possible to obtain voting power without purchasing equity (for example, through swaps and repurchase agreements).