Integrated IIP: Direct Investment and Portfolio Investment

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IMF Statistics Department – UNESCAP
SNA / BPM Joint Virtual Outreach Seminar
Themes of this presentation will be mainly covered in the following chapters of BPM7

- Chapter 5. Classifications of Financial Assets and Liabilities
- Chapter 6. Functional Categories
- Chapter 7. International Investment Position
- Chapter 8. Financial Account
- Chapter 9. Other Changes in Financial Assets and Liabilities Account
...and these Annexes

Annex 6. Selected Issues on Direct Investment

Annex 7. Selected Financial Issues
**Integrated Framework**

- **The Integrated IIP framework** is an important **new standard presentation** integrating the IIP with the balance of payments.
- The integrated IIP shows how the IIP positions at the start of the period plus balance of payments transactions plus revaluations and other changes sum to the closing positions in the period.

### Integrated International Investment Position Statement

<table>
<thead>
<tr>
<th>Beginning of period IIP</th>
<th>Accumulation accounts</th>
<th>Other changes in volume</th>
<th>End of period IIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactions from BOP financial account</td>
<td>Revaluations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Due to exchange rate changes</td>
<td>Due to other price changes</td>
<td>Total</td>
</tr>
</tbody>
</table>

*All standard components (except the two “of which” classifications under other changes in volume)*
Integrated IIP: Direct Investment
Direct Investment: Main Changes

- Breakdown of direct investment data by sector as new standard components
  - Breakdowns by direct investment relationship (e.g., reverse investment) and reinvestment of earnings as memorandum items (in ‘standard items’)

- Dividends and withdrawal of equity
  - The concept of superdividends will no longer apply to direct investment.
  - Any distributions of accumulated reserves from ordinary earnings should be treated as dividends. It may still be useful to separately identify payments from accumulated reserves, if feasible, for comparability with domestic superdividends, and thus, this will be added as a supplementary item.
  - However, exceptional distributions related to the sales of assets should be recorded as withdrawals of equity.
Direct Investment: Main Changes (2)

- Valuation of unlisted equity
  - Three preferred methods *(with a decision tree for implementation guidance)*
    - Own funds at book value
    - Recent transaction price
    - Market capitalization
  - Equity in quasi-corporations—three preferred methods approach.
  - Treatment of negative equity—to be elaborated.
    - Discussions at BOPCOM and AEG:
      - Allow negative equity as the default option
      - Zero out only in exceptional cases (“strictly limited liability”)

Chapter 7. International Investment Position
Decision tree for the valuation of unlisted equity
Direct Investment: Clarifications

- **Investments in investment funds shares**
  - Always portfolio investment irrespective of the equity held.
  - However, investments by the investment fund are still to be treated as direct investment, should they fulfil the criterion regarding *significant influence/control*.

- **Equity in international organizations**
  - Excluded from DI → *Other Equity and Equity in International Organizations* in *other investment*.

- **Differences between transaction prices and the values recorded in positions** should be treated as *other price changes* (e.g., unlisted equity).
Direct Investment: Updated Annex on Direct Investment (Annex 6)

- Supplementary framework by ultimate investing economy (UIE) and the ultimate host economy (UHE), and identification of pass-through funds.

- Mergers and Acquisitions, Corporate inversions, Greenfield investment and Extensions of capacity — definition and guidance on supplementary data collection.

- Also, discussion on borrowing for fiscal purposes

- Public-private partnerships, Cash pooling — concepts, scope, and statistical treatments.
Direct Investment: New Supplementary Data

- Data on **greenfield investment and extension of capacity**
- Data on **corporate inversions**
- Direct investment statistics by **ultimate investing economy**
- Direct investment statistics that **look through SPEs to the first operating unit** as a first step in presenting data by ultimate host economy
- Direct investment statistics identifying **pass-through funds**
- Data on **superdividends** may be reported on a supplementary basis
- Direct investment **inter-company lending** (as supplement to the reconciliation table)
Integrated IIP: Portfolio Investment
Portfolio Investment: New Data and Concepts

- A new subsection on superdividends introduced in Portfolio Investment
  - Large and irregular payments made by corporations to their shareholders or owners that are funded from accumulated reserves or sales of assets.
  - The difference between the payment and the distributable income of the relevant accounting period is recorded as a superdividend under withdrawal of equity.

- Reinvestment of earnings
  - Added as a supplementary item in BPM7.
Portfolio Investment: New Supplementary Data

- **Debt securities at nominal values** as a supplement to market valuation.
  - Report debt securities at nominal value as a supplement to market valuation.
  - Introduce table to reconcile nominal and market valuation of debt securities liabilities.

- **Reinvestment of earnings**
Portfolio Investment: Clarifications

- **Short positions** — brief clarification on their recording
- **Positions in unlisted portfolio investment equity securities** without an observable market price — may be valued using the methods for direct investment unlisted equity.
- **Remaining maturity** — clarifications and additional guidance
  - Treatment of debt instruments repaid in installments.
  - Concept of remaining maturity and its proxy for recording.
  - Currency composition information encouraged.
THANK YOU FOR YOUR ATTENTION!