

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD  
WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS**

**DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)**

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**ISSUE PAPER #14**

**PERMANENT DEBT**

**The views expressed in this paper are those of the authors and do not necessary reflect  
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**DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)  
ISSUE PAPER #14: PERMANENT DEBT**

**1. Current international standards for the treatment of the direct investment item**

The statistical definition of permanent debt is not clearly defined in the IMF *Balance of Payments Manual, fifth edition (BPM5)* or the OECD *Benchmark Definition of Foreign Direct Investment, third edition (BD3)*. Current international standards for the treatment of capital transactions associated with permanent debt with financial affiliates under Direct Investment are as follows;

- (a) “Intercompany transactions between affiliated banks and affiliated financial intermediaries recorded under direct investment capital transactions are limited to those transactions associated with permanent debt (loan capital representing a permanent interest) and equity investment or, in the case of branches, fixed assets. Deposits and other claims and liabilities related to usual banking transactions of depository institutions and claims and liabilities of other financial intermediaries are classified, as, appropriate, under portfolio investment or other investment” (*BPM5*, paragraph 372).
  
- (b) The *BD3* says that inter-company flows between affiliated entities involved in these activities be excluded from direct investments (*BD3*, paragraph 40), and that direct investment for banks be restricted to transactions in share capital of its subsidiaries and in permanent debt (defined as representing a permanent interest in the subsidiaries), or in the case of branches, invested in fixed assets (*BD3*, paragraph 61).

**2. Concerns of the current treatment**

The paragraph 372 of the *BPM5* and paragraph 61 of the *BD3* only defines permanent debt as “loan capital representing a permanent interest”, and there are no detailed criteria to be regarded as permanent debt. Thus, the definition and classifications of permanent debt differs across countries. That is, some countries record capital transactions with affiliated banks or affiliated financial intermediaries under Direct Investment, and others classify them under Portfolio Investment or Other Investment. It would result in bilateral asymmetries and international discrepancies where counterpart countries adopt different classifications. Furthermore, under the current treatment of permanent debt, FDI statistics might not adequately reflect the business reality of capital transactions with financial affiliates.

**3. Possible alternative treatments**

As we proceed with our discussions on permanent debt in the balance of payments, it should be noted that;

- (a) most funds (whether from equity capital, retained earnings, or long-/short-term debt capital) that a financial affiliate receives, is used for its banking-business or asset management, except for some of the initial equity capital provided to establish the financial affiliate, and
- (b) the *BPM5* says that “for Direct Investment such a distinction (long- and short-term) is not made because it is essentially determined by arbitrary enterprise decisions and because of the fact that there is no meaningful analytic distinction between the two maturities for intercompany flows” (*BPM5*, paragraph 339).

In line with above features, a possible alternative treatment is;

To drop the description of treatment of permanent debt in the upcoming manual. Thus any debt transactions with financial affiliates would be classified into Portfolio Investment or Other Investment as usual banking business, regardless of the percentage of ownership or the original maturity.

#### **4. Points for discussion**

1. *Do DITEG members consider that it is appropriate to elaborate on the statistical definition of “permanent debt”?*
2. *Do DITEG members consider that it is appropriate to continue to include capital transactions associated with permanent debt with financial affiliates under Direct Investment?*
3. *Do DITEG members consider that it is appropriate to include reverse investment (collection of funds from financial affiliates abroad to direct investors) of permanent debt\* under Direct Investment?*

#### **5. Supplementary information**

According to the “*Foreign Direct Investment Statistics: How Countries Measure FDI 2001*”, of the 33 (outward) and 37 (inward) of 61 countries/regions surveyed record transactions between affiliated banks in their FDI statistics, and of the 32 (outward) and 38 (inward) of 61 countries/regions do transactions between affiliated financial intermediaries under Direct Investment.

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\* As for Japan’s case, there is a significant volume in cross-border capital transactions associated with permanent debt (permanent loans or perpetual bonds) to enhance a bank’s BIS ratio. Such transactions include “collection of funds from financial affiliates abroad to direct investors (reverse investment)” as well as “capital injections to financial affiliates abroad from direct investors”.

**6. Annex of the most relevant documents**

OECD [2003], *Clarification of Foreign Direct Investment (FDI) Concepts: “Permanent Debt”*, DAFFE/MC/STAT(2003)18

Bank of Japan [2003], *Capital Transactions Associated with Permanent Debt with Financial Affiliates Under Direct Investment*, BOPCOM-03/46A