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

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

BACKGROUND PAPER # 7A

Compilation of Direct Investment Statistics for Ireland - Selected topics

Prepared by Central Statistics Office, Ireland

March 2004

OECD Workshop on International Investment Statistics
22 - 24 March 2004, Paris

Compilation of Direct Investment statistics for Ireland - Selected topics

Central Statistics Office, Ireland

[Revised 26 March 2004 to define CSO meaning of the terms ‘affiliate’ and ‘affiliated’]

1. Introduction

This paper focuses on a small selection of the more important issues for the Central Statistics Office (CSO) concerning compilation of foreign direct investment (and related) statistics for Ireland. It briefly describes the CSO’s approach to the collection and compilation of the relevant data, particularly regarding its treatment of:

- *direct investment/other capital* in the context of the application of the *directional principle* for recording transactions/positions between related enterprises;
- enterprises which may be regarded as Special Purpose Entities (SPEs); and,
- transactions of foreign affiliates[i] which are booked through a resident direct investment enterprise.

The aim of the paper is to highlight certain problematic aspects of direct investment statistical compilation and classification and to provide some input into the current international deliberations concerning the revision of the IMF’s Balance of Payments Manual (5th Edition) and the review of the OECD’s *Benchmark Definition of Foreign Direct Investment*. In its preparation, various documents have been examined, the main ones being:

- the IMF manual referred to (and generally known as BPM5) along with its companion documents, the Compilation Guide (CG) and the Textbook (TB);
- the OECD’s Benchmark Definition of Foreign Direct Investment (3rd Edition) i.e. BMD3;
- the draft annotated outline of the Balance of Payments manual update prepared by the IMF for consideration by the IMF Balance of Payments Committee (BOPCOM); and,
- the final report of the joint ECB/Eurostat Task Force on Foreign Direct Investment.

Prior to dealing with the issues listed above, it may be worthwhile to briefly outline the importance of direct investment in Ireland’s economic development and also to describe the CSO’s statistical compilation arrangements.

2. Importance of Direct Investment in Ireland

Inward direct investment (IDI) into Ireland has been extremely important in the development of the Irish economy over the last thirty years or so and has been the major source of the country’s notably high economic growth rate during the 1990s. Within a European context, it is probably fair to say that up to now IDI has been relatively more important for Ireland than for (most of) its other EU colleagues generally. A number of multinational companies (MNCs) have a very significant presence in Ireland.

It is also important to mention that Ireland is not only a recipient of IDI. Over much of the last two decades it has engaged to an increasing extent in outward direct investment (ODI). Table 1 shows Ireland’s direct investment statistics for 2001 and 2002 along with its GDP and GNI figures against which a relative scale of the importance of direct investment to an economy can be measured.

Both IDI and ODI were marked for many years by a focus on manufacturing activity. This still continues but over time the establishment of services enterprises at home and abroad has become increasingly important. The main manufacturing activities engaged in by IDI enterprises cover production of computing and office equipment, chemicals and pharmaceuticals, and drinks concentrates; ODI operations have concentrated mainly on food processing, construction products and packaging products. Within the services sector, IDI concentrates mostly on software supply and on financial services (the latter mostly located in the IFSC[1] in Dublin) while ODI focuses very much on financial and marketing/distribution services.

Table 1. Direct investment in Ireland, 2001 and 2002

	2001	2002
	€ billion	
Direct Investment in Ireland :		
Flows	10.8	25.9
Stocks (end-year)	163.3	176.1
Direct Investment Abroad :		
Flows	-4.5	-3.3
Stocks (end-year)	39.0	33.2
GDP at market prices	**114.7**	**129.3**
GNI at market prices	**96.4**	**103.4**

The need to have reliable and meaningful statistics on direct investment is therefore obvious.

For completeness and to put direct investment activity in context within Ireland, it is probably worthwhile mentioning that inward and outward *portfolio investment* and *other investment* activity are also significant – see Table 2 below but are mostly due to IFSC activity. Collection and compilation of the statistics for these domains gave rise to issues and experiences that are outside the scope of this paper but which are nevertheless important and hopefully can be dealt with elsewhere.

[1] I.e. the International Financial Services Centre established in 1987
[2] Including financial derivative contracts

Table 2. Ireland's stock of foreign investment, 2001 and 2002

	2001	2002
	€ billion	
Investment into Ireland - TOTAL	**860.3**	**904.9**
Direct Investment	163.3	176.1
Portfolio Investment	400.8	411.8
Other Investment [2]	296.2	317.0
Ireland's investment abroad - TOTAL	**839.7**	**875.3**
Direct Investment	39.0	33.2
Portfolio Investment	493.7	539.2
Other Investment [2]	300.6	297.7
Reserve assets	6.4	5.2

3. CSO's Direct Investment compilation system

The CSO operates an integrated quarterly survey compilation system which is designed to collect all BOP and IIP relevant data from survey respondents. Data collection is statutory and each respondent provides detailed information on all BOP transactions (along with details of stocks of foreign assets and liabilities) with non-residents. Internal CSO data are used (foreign trade statistics; travel statistics) and administrative data are also obtained. The system is designed to ensure (in so far as possible) that the BOP/IIP statistics in general are collected and compiled to facilitate compliance with the fundamental international (i.e. BPM5) standards. The next section describes, however, the treatment adopted by the CSO for recording direct investment/other capital transactions (and stocks) between related enterprises in a way that differs from that recommended by the BPM5 and the BMD3. The CSO treatment does, however, closely follow an 'alternative approach' described by the OECD (in BMD3).

4. Treatment of Direct Investment – Other Capital and the Directional Principle for recording flows/positions between related direct investment enterprises

The central issue here concerns the treatment of flows/positions between those related enterprises covered by a *direct investment relationship* but where reverse equity investment by a direct investment enterprise in its direct investor is *less than 10%.* Questions arise on (a) the clarity and rationale of some of the classification rules defined in the relevant documentation (IMF's BPM5, TB and CG; OECD's BMD3), and (b) the meaningfulness of the resulting statistics based on these rules (or recommendations). The treatment recommended for recording reverse transactions/positions (equity or other capital) between a direct investment enterprise and its direct investor appears clear, whether the reverse equity investment is less than 10% or otherwise.

In collecting and compiling direct investment flows and positions, the CSO (believes that it) applies the BPM5 rules described in paragraphs 359 – 375, noting in particular that Paragraphs 371 and 372 refer respectively to the treatment of reverse investment and to the treatment of transactions between affiliated[i] monetary and other financial intermediaries (including SPEs having the sole purpose of serving as financial intermediaries). The CSO also applies (to the extent that is practically possible) the *fully consolidated system* (FCS) described in the OECD's BMD3 (Paragraphs 15 and 16). These specific paragraph references seem to focus primarily on the treatment of flows/positions in both directions between the direct investor and the direct investment enterprise.

The treatment of flows/positions between those related companies coming within the overall ambit of the *direct investment relationship* criteria does not appear to be specifically mentioned in BPM5. However, both the IMF's TB (in Paragraphs 529 and 531 - 533) and the OECD's BMD3 (in

Paragraphs 36 and 37 and in Annex 4) provide additional material on this aspect. To illustrate, the diagram below (Figure 1) shows the case of a loan transaction between “sister” enterprises (**B** located in Ireland and **C** located in France, both enterprises having the same US parent, **A**, but having no ownership links between them). The Irish enterprise advances a loan of €250m to the French enterprise.

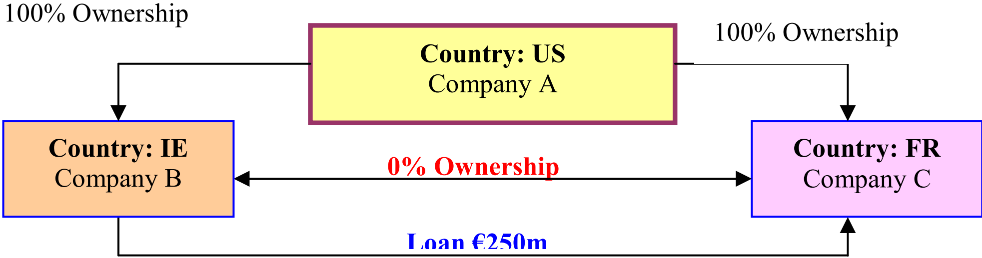

Figure 1

The recommended IMF and OECD treatments is to record this transaction in Ireland’s BOP under *direct investment abroad* as follows (Figure 2):

BOP for Ireland

Direct investment abroad

(IMF)	Other capital	- €250 m
(OECD)	Other capital Fellow subsidiaries	- €250 m

Figure 2

The CSO wishes to draw attention to the following points:

- this recommended treatment appears to ignore the direction of the original investment into the enterprise advancing the loan and, as a result, appears to tend more towards the *assets/liabilities* approach. This appears to be a fundamental departure from the basic philosophy underpinning the directional principle
- the rationale for doing so is not obvious. In any event, in the context of the philosophy underlying the measurement of direct investment, it would seem inappropriate to allocate the transaction illustrated to *direct investment abroad* given that there is no basic equity ownership (or permanent debt, in the case of financial intermediaries and qualifying SPEs) linkage between the two enterprises in the first place. Even if a direct equity ownership linkage did exist, it would only seem appropriate to apply the recommended treatment if this equity ownership amounted to at least 10% of the share capital of enterprise C (if less than 10%, netting would take place as ‘normal’);
- the treatment inflates the gross investment flows (and positions) at the level of the headline aggregates: *direct investment in the reporting economy* and *direct investment abroad.* The wisdom of this outcome needs to be assessed in the context of how statistical users and economic commentators might be expected to interpret the resulting data;
- classification of the transaction at the most detailed BOP component level is not mentioned under the IMF approach. Within the BPM5 standard components, the only ‘available’ heading is *other capital/claims on affiliated enterprises*. The OECD posting is under the heading o*ther capital/fellow subsidiaries*. Thus, both approaches do not use the standard detailed

classification heading. This apparently trivial point may be simply that i.e. an immaterial comment. But could it be that the term 'affiliated enterprise' is not regarded as covering these (or similarly related) companies under the BPM5 or BMD3 concept of the directional approach?

In making these observations, the CSO is strongly of the view that a more rigid adherence to the directional principle is required, particularly where reverse flows/positions occur between enterprises engaged in a direct investment relationship. In Ireland, users of the statistics view inward direct investment as totally distinct from outward direct investment. The former is (naturally) seen as originating abroad but it is recognised that a number of related direct investment enterprises may be located in Ireland and that there may be two-way flows between these within Ireland and also with their related non-resident enterprises. On the other hand, outward direct investment is seen as originated by 'indigenous' Irish enterprises and similar two-way flows can occur. Thus, the key interest is in 'bottom line' data on direct investment into the country and on direct investment abroad. There would appear to be a justifiable case for clearly maintaining the purest directional distinction possible in compiling these key aggregates and avoiding the potential misinterpretation of the results emerging from a recording basis which transposes some of these transactions/positions across the directional 'divide'.

Accordingly, bearing both practical and theoretical considerations in mind, the CSO has extended the principle of *netting*, at the level of the headline aggregates *DI abroad* and *DI in the reporting economy*, those flows/positions occurring between enterprises covered by a direct investment relationship. This allows users to immediately assess what is the key statistical outcome, in a directional sense, in measuring Ireland's direct investment. Within the specified BPM5 standard sub-components, of course, the CSO records the relevant transactions/positions on a *gross* basis. Thus, for detailed analytical purposes, it is possible to produce the results according to the detailed BPM5 standard components (and sub-components).

The CSO, unhappy with the recommended treatment referred to above, was very much relieved to see a 'chink of light' in the possibilities offered by the OECD's thinking. The BMD3 in Annex 4 goes considerably further than the TB in that (while recommending the TB treatment) the BMD3 provides for an alternative (see Paragraphs 137 and 139 – 143) approach. It may be noted that this alternative approach does not have the status of a 'recommended' treatment. Nevertheless and in the context of its own circumstances and viewpoint, the CSO has opted for the 'alternative' approach for the reasons described earlier i.e. it considers the resulting data to be statistically (and possibly economically) more meaningful than those resulting from the recommended approach.

The following example and diagram illustrate the treatment adopted by the CSO for transactions that occur between directly or indirectly related enterprises. A US direct investor, **A**, acquires 100% ownership of an Irish subsidiary, **B**, through a €400m equity investment. **B** acquires a reverse €50m equity (less than 10%) investment in **A** and also advances a loan of €250m to a French subsidiary, **C**, of **A**. There is no ownership linkage between **B** and **C**.

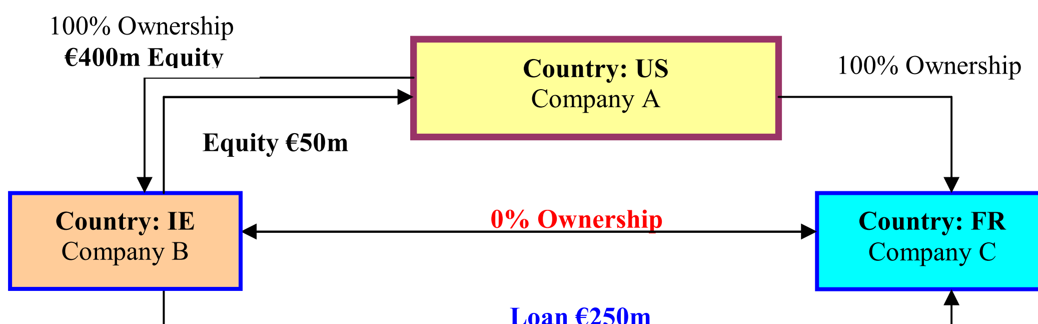

Figure 3

The Ireland BOP direct investment postings made by the CSO are as follows.

BOP for Ireland	
Direct investment in Ireland	***€100 m***
Equity capital	
Claims on direct investors	- €50 m (US)
Liabilities to direct investors	€400 m (US)
Other capital	
Claims on direct investors	- €250 m (FR)

Figure 4

The headline aggregate here reflects the final impact on direct investment into Ireland of the various transactions engaged in by enterprises which are in a direct investment relationship. In the BPM5 recommended approach discussed above, the transactions illustrated would result in *direct investment in Ireland* of €350m and *direct investment abroad* of €250m, *net* overall direct investment *for* Ireland being €100m.

It may be useful to look at the actual direct investment statistics for Ireland under both treatments to see how significant the effects are. Table 3 below shows the results for both stocks and flows for the years 2001 and 2002.

Table 3. Direct investment in Ireland, 2001 and 2002

Comparison of CSO treatment and that recommended in the BPM5[3]

[3] Discrepancies in totals due to rounding

		BPM5/OECD Recommended Approach			CSO Approach		
		Equity & Reinvested Earnings	*Other Capital*	*Total*	*Equity & Reinvested Earnings*	*Other Capital*	*Total*
		€ billion					
Direct Investment in Ireland							
2001	**Flows**	20.4	**-6.8**	**13.6**	20.4	**-9.6**	**10.8**
	Stocks	150.9	**73.7**	**224.6**	150.9	**12.5**	**163.3**
2002	**Flows**	27.5	**13.4**	**40.9**	27.5	**-1.6**	**25.9**
	Stocks	165.8	**77.8**	**243.6**	165.8	**10.4**	**176.1**
Direct Investment Abroad							
2001	**Flows**	-3.8	**-3.5**	**-7.8**	-3.8	**-0.7**	**-4.5**
	Stocks	33.2	**67.0**	**100.2**	33.2	**5.8**	**39.0**
2002	**Flows**	-5.9	**-12.3**	**-18.2**	-5.9	**2.6**	**-3.3**
	Stocks	30.2	**70.4**	**100.6**	30.2	**3.0**	**33.2**
Net Direct Investment – Ireland							
2001	**Flows**	16.6	-10.3	6.3	16.6	-10.4	6.2
	Stocks	-117.7	-6.7	-124.4	-117.7	-6.7	-124.3
2002	**Flows**	21.5	1.1	22.6	21.5	1.1	22.6
	Stocks	-135.6	-7.4	143.0	-135.6	-7.4	142.9

This table clearly shows that, for Ireland at least, there can be quite significant flows/positions recorded under *direct investment/other capital*. If these are recorded on the basis of the BPM5 recommendation, then both the 'other capital' and the 'total' entries for *direct investment in Ireland* and *direct investment abroad* will be inflated. Thus, for end-2002, the inward stock of other capital is €77.8 billion under the BPM5 approach and €10.4 billion under the CSO approach i.e. a difference of over €67 billion. The overall headline inward direct investment aggregate under the two approaches for end-2002 is: €243.6 billion and €176.1 billion respectively. Outward direct investment is correspondingly affected i.e. €70.4 billion (BPM5) compared to €3.0 billion (CSO). The net stock position under both approaches is, of course, the same (apart from minor rounding errors). A similar situation is evident for end-2001 stocks and also for the flow statistics for both years (but the flow figures are less dramatic). A further important point is that these effects are more marked when the results are examined on a geographical basis (i.e. by region or by country).

The CSO view (as mentioned earlier) is that the inflated figures resulting from the BPM5 recommendation (can) distort the picture and potentially lead to misinterpretation of the impact of direct investment. Hence, it has adopted a treatment based on the alternative approach described by the OECD in BMD3.

In conclusion, the points which underpin the CSO's thinking and the reason for its approach are reiterated in the box below. As stated above, they are put forward as an input into the deliberations on updating the *Benchmark Definition* and the BPM5. The CSO thinks that this issue is particularly important in the light of the current proposals to treat reverse direct investment more on an assets/liabilities basis in the revised (i.e. BPM6) manual i.e. a definite departure from the basic philosophy of the directional approach. In addition, the CSO is concerned that there are also suggestions to re-classify certain reverse transactions involving financial securities (other than equity), as well as loans, from direct investment to portfolio investment and to other investment, depending on the nature of the transaction. The CSO view is that all financial transactions between affiliates[i] within the direct investment relationship should be retained within the category *direct investment* and that the directional principle should strictly apply.

Summary basis for CSO treatment of Direct Investment/other capital

- Given that the *directional principle* rather than the *assets/liabilities* approach is recommended for recording direct investment, the headline aggregates *direct investment in the reporting economy* and *direct investment abroad* should be good indicators of the fundamental statistical outcome for an economy of both inward and outward investment, particularly where transactions involving related enterprises in a wider enterprise group occur. This view essentially extends the basic BPM5 idea of *netting* any reverse flows/positions in DI between the direct investment enterprise and its direct investor (where reverse equity is less than 10%), to all enterprises in a direct investment relationship. Thus, while the collection and compilation system could produce information on the detailed gross flows between these enterprises, the main (i.e. original) DI abroad/reporting economy aggregates would show the *net* impact on an economy for each side of the directional divide.
- Where flows/positions occur between “sister” companies (i.e. where there are no equity ownership links between them) in different economies, it appears statistically meaningless to follow the IMF and OECD recommendation and to allocate these flows/stocks to the ‘reporting economy’ or to ‘abroad’ without reference to the direction of the original investment establishing the existence of direct investment. Thus, the recommended treatment seems to contradict the basic philosophy of measuring direct investment on a directional basis; in fact, it appears to advocate the use of an *assets/liabilities* approach instead for recording flows/stocks between certain related enterprises. Furthermore, the interpretation and ‘understandability’ of the resulting headline and sub-component statistics is made more difficult.
- Under the BPM5/BMD3 recommendations, the flows/positions recorded between “sister” companies do not lend themselves to classification and posting within the BPM5 “standard components” framework.
- Distortion caused by inflating gross headline aggregates under the BPM5/BMD3 approach. This will be more marked when the figures are examined on a geographical basis (i.e. by region, by country etc.)
- No equity basis for categorising inter-company flows as abroad / in the reporting economy.

5. Treatment of Special Purpose Entities

There are various types of so-called 'special purpose companies' operating in Ireland (mostly in the IFSC). These entities are non-physical operations (no premises, no employees) and tend to provide services to related entities within the group structure. They are generally loosely referred to as SPCs (Special Purpose Companies), SPEs (Special Purpose Entities), SPVs (Special Purpose Vehicles) or SPICs (Special Purpose Investment Companies). Collective investment institutions may also be regarded as SPEs by some interests. The terms referred to above may be used differently and may be interpreted differently by compilers and users and it is difficult to establish standard definitions. From its viewpoint, the CSO is not greatly concerned with these labels but rather with whether the entities concerned have genuine economic activity and whether they should be regarded as statistical units operating in the Irish economy. A further obvious concern is the classification of their capital transactions and stocks with non-residents by type of functional investment (direct, portfolio or other investment) as well as any income or services flows occurring.

In Ireland, SPEs or SPCs generally refer to captive insurance or reinsurance companies, agency reinsurance companies, captive finance companies and agency treasury companies. SPVs are usually involved in the securitisation of assets of a company or a number of companies as a means of raising finance. SPICs are used for investment in portfolio securities. However, it should be understood that these terms are used quite loosely and are interchangeable to some extent.

A brief description of these companies is given in the box below.

SPEs in Ireland

Special purpose investment companies (SPICs)

SPICs are inward Direct Investment enterprises engaged in outward portfolio investment.

Captive insurance/re-insurance companies

These companies are engaged in the provision of insurance and re-insurance services. The captive structure allows for self-insurance by large companies. However, the structures also allow for the provision of standard re-insurance services within the company group. In general, these companies are inward Direct Investment enterprises.

Asset finance companies – lending, leasing and other corporate finance

Asset finance refers to the financing of operations secured on particular assets. Aviation and shipping finance are examples, but other types of assets are included e.g. computer hardware, railway stock etc. These are Direct Investment entities with non-resident owners. Most if not all of these companies are financial intermediaries or MFIs therefore only transactions in permanent debt and equity are considered as *direct investment* transactions.

Captive and agency treasury companies

These companies are used to manage both risk and liquidity in the financial activities of companies. They are also involved in international cash management/netting arrangements. In general, these companies are inward Direct Investment enterprises.

Special purpose vehicles (SPVs)

These are companies established for specific purposes, a common example is receivables securitisation, where investors purchase securities in a company whose assets are the trade receivables of a separate company which have been bought by the SPV. In general the securitisation process creates securities that depend on financial assets which would not otherwise be tradable. These companies are direct investment enterprises. The investors into the securitised vehicles do not hold ordinary shares and tend to hold either non-participating preference shares or other notes. The structures are used as an off-balance sheet means of raising finance.

For the purposes of this paper, collective investment institutions (which are both inward and outward portfolio investment enterprises) are not regarded as SPEs by the CSO. Otherwise, based on the CSO BOP Statistical Register system, there are approximately 600 entities (i.e. around 11% of all BOP statistical reporters) which may be labelled as SPEs and which are covered by the CSO's BOP/IIP survey collection system. They are roughly distributed as follows:

- Captive insurance/reinsurance 181
- Special purpose investment companies (SPICs) 4
- Other SPEs (treasury, asset financing, leasing, securitisation) 415

Where they meet the criteria specified below, the CSO views these 'SPE' entities as *statistical units* operating within the economic territory of Ireland and having a centre of economic interest there. The relevant (internationally accepted) criteria require that statistical units:

- are capable of owning assets, of incurring liabilities and of engaging in economic activities (primarily if not exclusively financial services activities) and transactions with other units in their own right (even though their operation may require the services of 'auxiliary' companies such as management companies, administrators, investment advisers, etc.);
- are incorporated in Ireland generally as Public Limited Companies (PLCs);
- prepare and file company accounts;
- pay corporation taxes to the revenue authorities in Ireland.

The determination of whether an entity qualifies as a statistical unit is somewhat subjective but, nevertheless, requires that, in addition to the first, at least two of the other criteria are fulfilled.

Those entities that are direct investment enterprises are covered by Ireland's direct investment statistics. However and while some analyses could be produced, there are no data currently available to quantify the contribution of SPEs in monetary terms to these statistics. From a familiarity with the collection system, it is known that the impact of SPEs is quite significant.

In conclusion, the CSO view is that these entities, where they qualify as statistical units, should be included in their own right in the statistical systems of the country of their location.

6. Transactions of foreign affiliates[i] which are booked through a resident direct investment enterprise

This section of this paper is not directly concerned with the collection and compilation of direct investment statistics. It *is* concerned with certain trading and accounting practices engaged in by companies related within a group structure in regard to transactions involving non-related third parties. The approach to recording these transactions is the issue in question.

As already mentioned, foreign-owned multinational companies (MNCs) have a significant presence in Ireland. Monitoring their structure, activities, trading and accounting practices as well as their BOP reporting arrangements require ongoing attention by the CSO, particularly as the relevant characteristics can frequently change. The focus is on the approach adopted by the CSO in recording the receipts and expenditure of the entity located in Ireland where the goods and services supplied need not be *produced* by the Irish entity but are delivered to a foreign third party customer by non-resident affiliates[i] of the Irish operation. There is a need to stress that the particular type of trading practice outlined is simply one of a number of scenarios that are encountered. MNC group structures facilitate the types of arrangements encountered but membership of a group structure is not a strict requirement for their existence.

The CSO approach is fundamentally based on the recommendations of the BPM5 but certain modifications are made where thought necessary in the interest of the clarity and understandability of the results.

Consider the following situations (which are simplified versions of more complicated activities and practices). A direct investment enterprise located in Ireland (B) and owned by (say) a Dutch investor (A), records in its accounts all payments and receipts arising in respect of the supply, installation, maintenance, etc. of equipment to an unrelated Luxembourg company (C). The goods and services supplied are sourced from and delivered by an affiliate[i] (D) of the Irish entity located in France. B records in its accounts €2 billion receipts from C and €1.8 billion payments to D for supplying the equipment, installing it and providing operation training and maintenance services etc. to C on behalf of B.

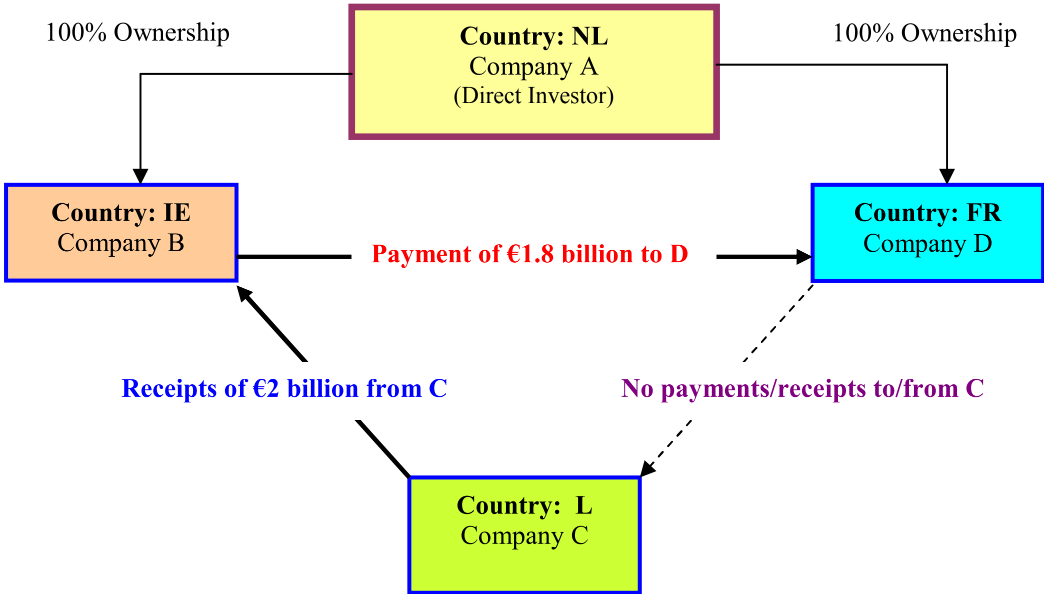

Figure 5

As both the goods and services obtained by the Luxembourg company (C) have been sourced from and delivered by a non-resident (French) foreign affiliate[i] (D) of the Irish entity (B), the CSO treats the transactions described above on a net basis (i.e. €0.2 billion credit) under the *merchanting* heading in the 'Services' part of the BOP Current Account. This is an important extension by the CSO of the BPM5 definition of *merchanting* (as it applies to goods supplied which do not enter or leave the compiling economy) to include services sourced and delivered abroad by a non-resident entity. The main reason for adopting this approach is to reduce the potential for statistical distortion arising from these very large transactions in both goods and services sourced abroad.

While a gross treatment may be implicit in BPM5, there appears to be no explicit discussion of such delivery of services in the Manual documentation or any explicit reference as to how the relevant transactions should be treated. The Manual on Statistics of International Trade in Services, however, does refer to the requirement for gross recording of services purchased by the merchant connected to the delivery of the merchanted goods (e.g. transport, insurance, etc.). While this is probably reasonable, it may be difficult on economic statistical grounds to extend the gross treatment to other services such as installation, maintenance, etc. where these are not provided directly by the lead party in the transaction. The CSO position is that gross recording in the type of situation described can lead to very large service credits and debits which can be misinterpreted by users and commentators,

particularly when such large aggregate flows in the statistics presented are referenced against employment levels in a particular industry. In saying this, it is acknowledged that net recording by one compiler can lead to distortions or asymmetries where counterpart compilers may have no option but to record the transactions on a gross basis in their BOP statements.

Consequently, the CSO is anxious that this issue be examined further in the context of compiling statistics on inter-affiliate services transactions and on BOP compilation generally. It may also be useful to consider the possibility of supplying gross data for international users and net data for national users although many of the latter also use the statistics published by the international organisations.

---

[i] In this paper the terms 'affiliate' and 'affiliated' are taken to refer to companies or unincorporated entities which are related to one another either through direct or indirect ownership links or through non-ownership linkages. These relationships cover entities related within an ownership chain or across chains within the same company group.