I. DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)
II. OUTCOME PAPER (DITEG) # 23

April 8, 2005

1. Topic: Inter-company transactions and amounts outstanding with fellow subsidiaries

2. Issues: See DITEG Issue Paper # 23 by Italy (Ufficio Italiano dei Cambi – November 2004)

The aim of the issue paper # 23 was to highlight some critical issues concerning definitions and rules for recording flows/positions between fellow companies. Fellow companies are those with a common direct investor but which do not have any direct equity investment one in the other.

3. Recommendations:

(i) DITEG considered mainly three possibilities: (a) excluding all transactions between fellow companies from FDI statistics; (b) including all transactions; (c) restricting the transactions to fellow subsidiaries. DITEG concluded that all transactions between fellow companies should be included in FDI.

(ii) DITEG did not see any grounds for changing the current standard when there is a FDI relationship: all transactions between fellow companies in that relationship should be recorded on an asset/liability basis and directed between two parties (and not channelled through the immediate parent).

(iii) Some DITEG members were concerned about practical difficulties for identifying transactions between fellow companies, especially, in case where fellow companies are not aware of the existing FDI relationship. However, it was believed that when there are large transactions, compilers will be informed of them.

4. Rejected Alternatives:

(i) The alternative method, namely the directional principle, for recording transactions between fellow companies was rejected (see also outcome papers # 7 and 8).

(ii) DITEG rejected the alternative for restricting transactions and amounts outstanding to fellow subsidiaries, since there is a risk of loosing information.

5. Questions for the IMF Committee on Balance of Payments (the Committee) and the OECD Workshop in International Investment Statistics (WIIS)

(i) Do the Committee and WIIS agree that transactions between fellow companies should be included in FDI statistics?

(ii) If the answer to question (i) is "Yes", do the Committee and WIIS consider that the asset/liability principle is the most appropriate treatment for the transactions between fellow companies?