

This metadata describes the compilation practices, sources and methodology in use in 2003. Please refer to the contact person below for details of any changes that may have been introduced by the country since that time.

## **Canada:**

### **Direct Investment Compilation Practices, Data Sources and Methodology**

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#### **Direct Investment in Canada**

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

#### **Direct Investment Abroad**

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

## DIRECT INVESTMENT IN CANADA

### BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable quarterly data are compiled by the Statistics Canada (StatCan) within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. The data are disseminated with a timeliness of 8 weeks after the end of the reference period in the StatCan publication *Catalogue #67-001-XIE*. The quarterly data are also reported to the IMF for publication, and to the OECD (annual rather than quarterly).

##### Revision Practices

The data are preliminary when first released. The quarterly data for the current year are revised each quarter to take account of revised source data and are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data for the previous four years are revised at the end of the first quarter of the current year and disseminated once a year together with the preliminary data for the first quarter of the current year. At this time the quarterly data are considered to be final, that is, up to 48 months after their first release.

The revised status of the data is clearly identified in the disseminated data. The general public are not informed of the reasons for the revisions, except when methodological changes are involved. The historical data are revised as far back as possible in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected on an aggregate basis and the reporting requirements are compulsory.

##### Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of resident enterprises. Press reports, published sources, and bilateral sources are used as secondary data sources for all components.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment transactions data. The register is maintained by StatCan and is updated on an ongoing basis using information from (i) a register maintained by the tax authorities, (ii) a debt register, (iii) the financial press, (iv) compulsory direct investment surveys, (v) a list of companies obtained from the Investment Review Agency, and (vi) non-resident sources (Standard and Poors: *Who Owns Whom*). The same business register is used to compile the inward direct investment transactions and position data, and the outward direct investment transactions and position data.

### **Geographic Classification**

Quarterly data showing breakdowns by country for the direct investment financial flows data are compiled by StatCan and disseminated quarterly with a timeliness of 8 weeks after the end of the reference period in the StatCan publication *Catalogue #67-001-XIE*. Annual data showing breakdowns by country for the direct investment income data are compiled by StatCan and disseminated once a year with a timeliness of 5 months after the end of the reference period in the StatCan publication *Catalogue #67-001-XIE*. The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD. The data cover 6 countries/regions and bilateral data are used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The four countries/regions with the largest amount of direct investment income from investment in Canada during 2003 (ranked in descending order) were: the United States, the United Kingdom, other European Union countries, and other OECD countries. The four countries/regions with the largest amount of direct investment financial flows into Canada during 2003 (ranked in descending order) were: the United States, the United Kingdom, other European Union countries, and other OECD countries.

In addition to the data showing country breakdowns, quarterly data showing breakdowns of the direct investment financial flows and annual data showing breakdowns of the direct investment income data are compiled by StatCan for the following regions/economic zones: (i) the EU15, and (ii) the OECD. The quarterly data are disseminated quarterly with a timeliness of 8 weeks after the end of the reference period, and the annual data are disseminated once a year with a timeliness of 5 months after the end of the reference period in the StatCan publication *Catalogue #67-001-XIE*. The data are also reported to the OECD. Data for additional regions are available on request, subject to confidentiality constraints.

There are no differences in the data coverage, sources, etc. between the inward transactions data showing geographic breakdowns disseminated in the national publications and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF and OECD for publication.

### **Industrial Classification**

Quarterly data showing breakdowns by industrial activity for direct investment financial flows are compiled by StatCan and are disseminated quarterly with a timeliness of 8 weeks after the end of the reference period in the StatCan publication *Catalogue #67-001-XIE*. Quarterly data showing breakdowns by industrial activity for the direct investment income data are compiled by StatCan but not disseminated, and are not made available on request, due to confidentiality constraints. The data showing breakdowns by industrial activity for both the direct investment financial flows and direct investment income are also reported to the OECD. The data show a breakdown for 6 industrial activities. The classification used broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment financial flows into Canada during 2003 (in descending order) were: (i) finance and insurance, (ii) other, (iii) energy and metallic minerals, (iv) machinery, and (v) services.

Quarterly data are compiled by StatCan for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are not disseminated but are available on request, subject to confidentiality constraints, with a timeliness of 8 weeks after the end of the reference period. For direct investment financial flows, the five highest ranking partner countries/regions during 2003 (ranked in descending order) for which breakdowns by industrial activity are available on request were: the United States, the United Kingdom, other OECD countries, Japan, and Other.

In addition, quarterly data compiled by StatCan for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone are available on request, subject to confidentiality constraints, with a timeliness of 8 weeks after the end of the reference period.

There are no differences in the data coverage, sources, etc. between the inward transactions data showing industrial activity breakdowns disseminated in the national publications/made available on request, and the

aggregate inward data on direct investment income and direct investment financial flows reported to the IMF and OECD for publication.

## **B. Methodology**

### **Definition of Direct Investment Enterprises in Canada**

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Canada is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management—that is, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. In accordance with the FCS, (i) the direct investment earnings data include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data include all equity and other capital transactions made directly between resident enterprises of a related group and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, the definition of the “related group” used for the Canadian direct investment data includes enterprises that are “associates of associates”, which are excluded from the FCS definition.

Enterprises in Canada are required by law to (i) produce consolidated accounts covering their domestic and foreign subsidiaries and associate companies, and (ii) identify all transactions with the parent company.

### **Measurement of Direct Investment Earnings**

In accordance with the international standards, the “Current Operating Performance Concept” (COPC) is fully used to calculate direct investment earnings. Specifically, (i) deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are excluded, (iii) interest receivable/payable is included, and (iv) debt repayments receivable/payable are excluded.

### **Treatment of Income on Equity (Dividends and Distributed Branch Profits)**

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) dividends and distributed branch profits are recorded gross of any withholding taxes, (ii) dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are declared payable, (iii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks.

### **Treatment of Reinvested Earnings and Undistributed Branch Profits**

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings.

### **Treatment of Income on Debt (Interest)**

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, and (iii) bonds and money market instruments. The data do not include (i) trade credits, and (ii) financial leases. In accordance with the international standards, the data (i) do not include interest on financial derivatives, (ii) do not include interest on deposits, loans, and other claims and liabilities related to usual banking activities between affiliated banks and between affiliated banks and affiliated financial intermediaries, (iii) the data are recorded on an accrual basis, (iv) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (v) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data include interest on claims and liabilities between affiliated financial intermediaries related to usual financial intermediation activities.

### **Treatment of Equity Capital**

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data include non-participating preference shares, which are classified as equity capital, instead of as other capital.

### **Treatment of Other Capital**

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, and (iv) trade credits. The data do not include financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) changes in insurance company technical reserves, and (iii) transactions between affiliated banks involving deposits, loans, and other claims and liabilities related to usual banking activities. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include transactions associated with permanent debt between affiliated financial intermediaries and between affiliated banks. (Permanent debt is defined as long-term debt.) Contrary to the international standards, (i) the data include transactions between affiliated financial intermediaries involving claims and liabilities related to usual financial intermediation activities, (ii) the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital, (iii) the data include loan/debt guarantees provided by direct investors or related direct investment enterprises.

In instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Direct Investment in Canada: Other Capital: Increase in Liabilities to Direct Investors" at the time the guarantee is invoked.

### **Treatment of Reverse Investment**

Transactions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Canada and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are recorded as "Direct Investment Abroad: Equity Capital: Increase in Claims on

Affiliated Enterprises” and loan transactions are recorded as “Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises”.

Assuming that the direct investment enterprise is a resident of Canada and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as “Direct Investment in Canada: Equity Capital: Decrease in Liabilities to Direct Investors”, rather than as “Direct Investment in Canada: Equity Capital: Increase in Claims on Direct Investors”, and loan transactions are recorded as “Direct Investment in Canada: Other Capital: Decrease in Liabilities to Direct Investors”, rather than as “Direct Investment in Canada: Other Capital: Increase in Claims on Direct Investors”.

#### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Canada by nonresidents of (i) construction enterprises and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

#### **Treatment of Offshore Enterprises**

Not applicable. There are no offshore enterprises established in Canada by nonresidents.

#### **Treatment of Special Purpose Entities (SPEs)**

Not applicable. There are no SPEs established in Canada by nonresidents at present.

#### **Treatment of Land and Buildings**

Contrary to the international standards, the equity capital data not include purchases and sales of land and buildings in Canada by nonresident enterprises and nonresident individuals, which are instead classified under the Other Investment category in the balance of payments statistics, rather than under Direct Investment.

#### **Treatment of Natural Resources Exploration**

In accordance with the international standards, (i) expenditure related to natural resources exploration in Canada by nonresidents is included in the equity capital data, (ii) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established in Canada by nonresidents for natural resource exploration, no transactions are shown in the balance of payments statistics.

#### **Exchange Rate Conversion**

All transactions are converted to the unit of account at the average exchange rate for the period.

## DIRECT INVESTMENT IN CANADA

### INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable annual (calendar year) data are compiled by Statistics Canada (StatCan) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 5 months after the end of the reference period in the StatCan publication, *Catalogue # 67-202-XIE*. The data are also reported to the IMF for publication, and to the OECD.

##### Revision Practices

The data are preliminary when first released. The data for the previous four years are revised at the end of the current year and disseminated once a year together with the preliminary data for the latest year. At this time the quarterly data are considered to be final, that is, 48 months after their first release.

The revised status of the data is clearly identified in the disseminated data. The general public are not informed of the reasons for the revisions, except when methodological changes are involved. The historical data are revised as far back as possible in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected on an aggregate basis and the reporting requirements are compulsory.

##### Data Sources

The data for all components are compiled primarily from annual enterprise surveys of resident enterprises. Press reports are used as a secondary data source for all components. The perpetual inventory method (a method for deriving position data from transactions data) is not used to compile the data.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment position data. The register is maintained by StatCan and is updated on an ongoing basis using information from (i) a register maintained by the tax authorities, (ii) a debt register, (iii) the financial press, (iv) compulsory direct investment surveys, (v) a list of companies obtained from the Investment Review Agency, and (vi) non-resident sources (Standard & Poors: *Who Owns Whom*). The same business register is used to compile the inward direct investment transactions and position data, and the outward direct investment transactions and position data.



### **Geographic Classification**

Annual data showing breakdowns by country are compiled by StatCan for the inward direct investment position data. These data cover 49 countries and are disseminated once a year with a timeliness of 5 months after the end of the reference period in the StatCan CANSIM Matrix #376-0051. The data showing country breakdowns are also reported to the OECD. Bilateral data are used in the compilation of the data.

In accordance with the international standards, the data are compiled on an “immediate country” basis. The five countries with the largest amount of direct investment in Canada as at the end of 2003 (ranked in descending order) were: the United States, France, the United Kingdom, the Netherlands, and Japan.

In addition to the data showing country breakdowns, annual data are compiled by StatCan showing breakdowns of the inward direct investment position data for the following regions/economic zones: (i) the EU15, and (ii) the OECD. These data are disseminated once a year with a timeliness of 5 months after the end of the reference period in *Catalogue # 67-202-XIE*, and are also reported to the OECD. Data for additional regions are available on request, subject to confidentiality constraints.

There are no differences in the data coverage, sources, etc. between the inward position data showing geographic breakdowns disseminated in the national publications and the aggregate inward position data reported to the IMF and OECD for publication.

### **Industrial Classification**

Annual data showing breakdowns by industrial activity for the inward direct investment position data are compiled by StatCan and are disseminated once a year with a timeliness of 8 weeks after the end of the reference period in the StatCan publication *Catalogue #67-202-XIE*. The data showing breakdowns by industrial activity for the inward direct investment position data are also reported to the OECD. The data show a breakdown for 6 industrial activities. The classification used broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The inward direct investment position data are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment in Canada as at the end of 2003 (in descending order) were: (i) other, (ii) energy and metallic minerals, (iii) finance and insurance, (iv) machinery, and (v) services.

Annual data are compiled by StatCan for the inward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are not disseminated but are available on request, subject to confidentiality constraints, with a timeliness of 5 months after the end of the reference period. The five highest ranking partner countries as at the end of 2003 (ranked in descending order) for which breakdowns by industrial activity are available on request were: the United States, France, the United Kingdom, the Netherlands, and Japan.

In addition, annual data compiled by StatCan for the inward direct investment position data showing a breakdown by both industrial activity and region/economic zone are available on request, subject to confidentiality constraints, with a timeliness of 5 months after the end of the reference period.

There are no differences in the data coverage, sources, etc. between the inward position data showing industrial activity breakdowns disseminated in the national publications, and the aggregate inward position data reported to the IMF and OECD for publication.

## **B. Methodology**

### **Definition of Direct Investment Enterprises in Canada**

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Canada is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management—that is, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance

with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

#### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. In accordance with the FCS, the data include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, the definition of the “related group” used for the Canadian direct investment data includes enterprises that are “associates of associates”, which are excluded from the FCS definition.

Enterprises in Canada are required by law to (i) produce consolidated accounts covering their domestic and foreign subsidiaries and associate companies, and (ii) identify all transactions with the parent company.

#### **Treatment of Equity Capital and Reinvested Earnings**

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, non-participating preference shares are classified as equity capital, rather than other capital.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment in Canada.)

#### **Treatment of Other Capital**

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, and (iv) trade credits. The data do not cover financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) changes in insurance company technical reserves, and (iii) positions between affiliated banks involving deposits, loans, and other claims and liabilities related to usual banking activities. In accordance with the international standards, (i) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (ii) the data include positions associated with permanent debt between affiliated financial intermediaries and between affiliated banks. (Permanent debt is defined as long-term debt.) Contrary to the international standards, (i) the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital, (ii) the data include loan/debt guarantees provided by direct investors or related direct investment enterprises, and (iii) the data include positions between affiliated financial intermediaries involving claims and liabilities related to usual financial intermediation activities. In accordance with the international standards, the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

In instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Liabilities: Direct Investment in Canada: Other Capital: Liabilities to Direct Investors" at the time the guarantee is invoked.

#### **Treatment of Reverse Investment**

Positions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Canada and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises" and loan positions are recorded as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Canada and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Liabilities: Direct Investment in Canada: Equity Capital: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Canada: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Canada: Other Capital: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Canada: Other Capital: Claims on Direct Investors".

#### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Canada by nonresidents of (i) construction enterprises and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

#### **Treatment of Offshore Enterprises**

Not applicable. There are no offshore enterprises established in Canada by nonresidents.

#### **Treatment of Special Purpose Entities (SPEs)**

Not applicable. There are no SPEs established in Canada by nonresidents at present.

#### **Treatment of Land and Buildings**

Contrary to the international standards, the equity capital data not include ownership of land and buildings in Canada by nonresident enterprises and nonresident individuals, which is instead classified under the Other Investment category in the international investment position statistics, rather than under Direct Investment.

#### **Treatment of Natural Resources Exploration**

In accordance with the international standards, (i) expenditure related to natural resources exploration in Canada by nonresidents is included in the equity capital data, (ii) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established in Canada by nonresidents for natural resource exploration, an adjustment to reflect that shutdown is made to the liabilities data on direct investment equity capital in the international investment position statistics.

#### **Valuation of Assets and Liabilities**

The data on equity capital for both listed and unlisted enterprises are recorded at book values, which are the historical costs plus reinvested earnings.

The data on other capital are recorded at book values, which are the historical cost.

The book values used are those shown in the accounting records of the resident direct investment enterprises, rather than the nonresident direct investors.

**Exchange Rate Conversion**

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.

## DIRECT INVESTMENT ABROAD

### BALANCE OF PAYMENTS (“OUTWARD TRANSACTIONS”) DATA

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable quarterly data are compiled by the Statistics Canada (StatCan) within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, and (iii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 8 weeks after the end of the reference period in the StatCan publication *Catalogue #67-001-XIE*. The quarterly data are also reported to the IMF for publication, and to the OECD (annual rather than quarterly).

##### Revision Practices

The data are preliminary when first released. The quarterly data for the current year are revised each quarter to take account of revised source data and are disseminated quarterly together with the preliminary data for the latest quarter. The quarterly data for the previous four years are revised at the end of the first quarter of the current year and disseminated once a year together with the preliminary data for the first quarter of the current year. At this time the quarterly data are considered to be final, that is, up to 48 months after their first release.

The revised status of the data is clearly identified in the disseminated data. The general public are not informed of the reasons for the revisions, except when methodological changes are involved. The historical data are revised as far back as possible in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected on an aggregate basis and the reporting requirements are compulsory.

##### Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of direct investors resident in Canada. Press reports are used as a secondary data source for all components.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment transactions data. The register is maintained by StatCan and is updated on an ongoing basis using information from (i) a register maintained by the tax authorities, (ii) a debt register, (iii) the financial press, (iv) compulsory direct investment surveys, and (v) non-resident sources (Standard & Poors: *Who Owns Whom*). The same business register is used to compile the outward direct investment transactions and position data, and the inward direct investment transactions and position data.

## **Geographic Classification**

Quarterly data showing breakdowns by country for the direct investment financial flows data are compiled by StatCan and disseminated quarterly with a timeliness of 8 weeks after the end of the reference period in the StatCan publication *Catalogue #67-001-XIE*. Annual data showing breakdowns by country for the direct investment income data are compiled by StatCan and disseminated once a year with a timeliness of 5 months after the end of the reference period in the StatCan publication *Catalogue #67-001-XIE*. The data showing country breakdowns for both the direct investment financial flows and direct investment income are also reported to the OECD. The data cover 6 countries/regions and bilateral data are used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The four countries/regions with the largest amount of direct investment income from investment abroad by residents of Canada during 2003 (ranked in descending order) were: the United States, the United Kingdom, other European Union countries, and other OECD countries. The four countries/regions with the largest amount of direct investment financial flows from Canada during 2003 (ranked in descending order) were: the United States, the United Kingdom, other European Union countries, and other OECD countries.

In addition to the data showing country breakdowns, quarterly data showing breakdowns of the direct investment financial flows and annual data showing breakdowns of the direct investment income data are compiled by StatCan for the following regions/economic zones: (i) the EU15, and (ii) the OECD. The quarterly data are disseminated quarterly with a timeliness of 8 weeks after the end of the reference period, and the annual data are disseminated once a year with a timeliness of 5 months after the end of the reference period in the StatCan publication *Catalogue #67-001-XIE*. The data are also reported to the OECD. Data for additional regions are available on request, subject to confidentiality constraints.

There are no differences in the data coverage, sources, etc. between the outward transactions data showing geographic breakdowns disseminated in the national publications and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF and OECD for publication.

## **Industrial Classification**

Quarterly data showing breakdowns by industrial activity for direct investment financial flows are compiled by StatCan and are disseminated quarterly with a timeliness of 8 weeks after the end of the reference period in the StatCan publication *Catalogue #67-001-XIE*. Quarterly data showing breakdowns by industrial activity for the direct investment income data are compiled by StatCan but not disseminated, and are not available on request, due to confidentiality constraints. The data showing breakdowns by industrial activity for both the direct investment financial flows and direct investment income are also reported to the OECD. The data show a breakdown for 6 industrial activities. The classification used broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investor. The five industrial activities with the largest amount of direct investment financial flows from Canada during 2003 (in descending order) were: (i) energy and metallic minerals, (ii) finance and insurance, (iii) machinery, (iv) services, and (v) other.

Quarterly data are compiled by StatCan for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are not disseminated but are available on request, subject to confidentiality constraints, with a timeliness of 8 weeks after the end of the reference period. For direct investment financial flows, the three highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are available on request were: the United States, the United Kingdom, and Japan.

In addition, quarterly data compiled by StatCan for both the direct investment income data and the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone are available on request, subject to confidentiality constraints, with a timeliness of 8 weeks after the end of the reference period.

There are no differences in the data coverage, sources, etc. between the outward transactions data showing industrial activity breakdowns disseminated in the national publications/made available on request, and the

aggregate outward data on direct investment income and direct investment financial flows reported to the IMF and OECD for publication.

## **B. Methodology**

### **Definition of Direct Investors**

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. In accordance with the FCS, (i) the direct investment earnings data include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data include all equity and other capital transactions made directly between resident enterprises of a related group and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, the definition of the “related group” used for the Canadian direct investment data includes enterprises that are “associates of associates”, which are excluded from the FCS definition.

Enterprises in Canada are required by law to (i) produce consolidated accounts covering their domestic and foreign subsidiaries and associate companies, and (ii) identify all transactions with the parent company.

### **Measurement of Direct Investment Earnings**

In accordance with the international standards, the “Current Operating Performance Concept” (COPC) is fully used to calculate direct investment earnings. Specifically, (i) deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are excluded, (iii) interest receivable/payable is included, and (iv) debt repayments receivable/payable are excluded.

### **Treatment of Income on Equity (Dividends and Distributed Branch Profits)**

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) dividends and distributed branch profits are recorded gross of any withholding taxes, (ii) dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are declared payable, (iii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks.

### **Treatment of Reinvested Earnings and Undistributed Branch Profits**

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings.



### **Treatment of Income on Debt (Interest)**

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises and include interest on (i) long-term loans, (ii) short-term loans, and (iii) bonds and money market instruments. The data do not include (i) trade credits, and (ii) financial leases. In accordance with the international standards, the data (i) do not include interest on financial derivatives, (ii) the data do not include interest on deposits, loans, and other claims and liabilities related to usual banking activities between affiliated banks and between affiliated banks and affiliated financial intermediaries, (iii) the data are recorded on an accrual basis, (iv) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (v) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data include interest on claims and liabilities between affiliated financial intermediaries related to usual financial intermediation activities.

### **Treatment of Equity Capital**

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, the data include non-participating preference shares, which are classified as equity capital, instead of as other capital.

### **Treatment of Other Capital**

The other capital transactions data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits. The data do not cover financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) (iii) changes in insurance company technical reserves. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) changes in insurance company technical reserves, and (iii) transactions between affiliated banks involving deposits, loans, and other claims and liabilities related to usual banking activities. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include transactions associated with permanent debt between affiliated financial intermediaries and between affiliated banks. (Permanent debt is defined as long-term debt.) Contrary to the international standards, (i) the data include transactions between affiliated financial intermediaries involving claims and liabilities related to usual financial intermediation activities, (ii) the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital, and (iii) the data include loan/debt guarantees provided by direct investors.

In instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises" at the time the guarantee is invoked.

### **Treatment of Reverse Investment**

Transactions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Canada and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international

standards, equity transactions are recorded as “Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises” and loan transactions are recorded as “Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises”.

Assuming that the direct investment enterprise is a resident of Canada and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as “Direct Investment in Canada: Equity Capital: Decrease in Liabilities to Direct Investors”, rather than as “Direct Investment in Canada: Equity Capital: Increase in Claims on Direct Investors”, and loan transactions are recorded as “Direct Investment in Canada: Other Capital: Decrease in Liabilities to Direct Investors”, rather than as “Direct Investment in Canada: Other Capital: Increase in Claims on Direct Investors”.

#### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of Canada of (i) construction enterprises and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

#### **Treatment of Offshore Enterprises**

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Canada are included in the direct investment data.

#### **Treatment of Special Purpose Entities (SPEs)**

Contrary to the international standards, activities of SPEs established abroad by residents of Canada are not included in the direct investment data.

#### **Treatment of Land and Buildings**

Contrary to the international standards, the equity capital data not include purchases and sales of land and buildings abroad by enterprises and individuals resident in Canada, which are instead classified under the Other Investment category in the balance of payments statistics, rather than under Direct Investment.

#### **Treatment of Natural Resources Exploration**

In accordance with the international standards, (i) expenditure related to natural resources exploration abroad by residents of Canada is included in the equity capital data, (ii) expenditure on bonus payments made by residents of Canada to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established abroad by residents of Canada for natural resource exploration, no transactions are shown in the balance of payments statistics.

#### **Exchange Rate Conversion**

All transactions are converted to the unit of account at the average exchange rate for the period.

## DIRECT INVESTMENT ABROAD

### INTERNATIONAL INVESTMENT POSITION ASSETS (“OUTWARD POSITION DATA”)

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable annual (calendar year) data are compiled by Statistics Canada (StatCan) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 5 months after the end of the reference period in the StatCan publication, *Catalogue # 67-202-XIE*. The data are also reported to the IMF for publication, and to the OECD.

##### Revision Practices

The data are preliminary when first released. The data for the previous four years are revised at the end of the current year and disseminated once a year together with the preliminary data for the latest year. At this time the quarterly data are considered to be final, that is, 48 months after their first release.

The revised status of the data is clearly identified in the disseminated data. The general public are not informed of the reasons for the revisions, except when methodological changes are involved. The historical data are revised as far back as possible in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected on an aggregate basis and the reporting requirements are compulsory.

##### Data Sources

The data for all components are compiled primarily from annual enterprise surveys of direct investors resident in Canada. Press reports are used as a secondary data source for all components. The perpetual inventory method (a method for deriving position data from transactions data) is not used to compile the data.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment position data. The register is maintained by StatCan and is updated on an ongoing basis using information from (i) a register maintained by the tax authorities, (ii) a debt register, (iii) the financial press, (iv) compulsory direct investment surveys, and (v) non-resident sources. (Standard & Poors: *Who Owns Whom*.) The same business register is used to compile the outward direct investment transactions and position data, and the inward direct investment transactions and position data.

##### Geographic Classification

Annual data showing breakdowns by country are compiled by StatCan for the inward direct investment position data. These data cover 72 countries and are disseminated once a year with a timeliness of 5 months after the

end of the reference period in the StatCan *CANSIM Matrix #376-0051*. The data showing country breakdowns are also reported to the OECD. Bilateral data are used in the compilation of the data.

In accordance with the international standards, the data are compiled on an “immediate country” basis. The five countries with the largest amount of direct investment from Canada as at the end of 2003 (ranked in descending order) were: the United States, the United Kingdom, Barbados, Ireland, and France.

In addition to the data showing country breakdowns, annual data are compiled by StatCan showing breakdowns of the outward direct investment position data for the following regions/economic zones: (i) the EU15, and (ii) the OECD. These data are disseminated once a year with a timeliness of 5 months after the end of the reference period in StatCan *Catalogue #67-202-XIE*, and are also reported to the OECD. Data for additional regions are available on request, subject to confidentiality constraints.

There are no differences in the data coverage, sources, etc. between the outward position data showing geographic breakdowns disseminated in the national publications and the aggregate outward position data reported to the IMF and OECD for publication.

### **Industrial Classification**

Annual data showing breakdowns by industrial activity for the outward direct investment position data are compiled by StatCan and are disseminated once a year with a timeliness of 5 months after the end of the reference period in the StatCan publication *Catalogue #67-202-XIE*. The data showing breakdowns by industrial activity for the outward direct investment position data are also reported to the OECD. The data show a breakdown for 6 industrial activities. The classification used broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The outward direct investment position data are classified on the basis of the industrial activity of the nonresident direct investment enterprise. The five industrial activities with the largest amount of direct investment from Canada as at the end of 2003 (in descending order) were: (i) finance and insurance, (ii) energy and metallic minerals, (iii) other, (iv) services, and (v) machinery.

Annual data are compiled by StatCan for the outward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are not disseminated but are available on request, subject to confidentiality constraints, with a timeliness of 5 months after the end of the reference period. The five highest ranking partner countries as at the end of 2003 (ranked in descending order) for which breakdowns by industrial activity are available on request were: the United States, the United Kingdom, Barbados, Ireland, and France.

In addition, annual data compiled by StatCan for the outward direct investment position data showing a breakdown by both industrial activity and region/economic zone are available on request, subject to confidentiality constraints, with a timeliness of 5 months after the end of the reference period.

There are no differences in the data coverage, sources, etc. between the outward position data showing industrial activity breakdowns disseminated in the national publications, and the aggregate outward position data reported to the IMF and OECD for publication.

## **B. Methodology**

### **Definition of Direct Investors**

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value

threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. In accordance with the FCS, the data include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, the definition of the “related group” used for the Canadian direct investment data includes enterprises that are “associates of associates”, which are excluded from the FCS definition.

Enterprises in Canada are required by law to (i) produce consolidated accounts covering their domestic and foreign subsidiaries and associate companies, and (ii) identify all transactions with the parent company.

### **Treatment of Equity Capital and Reinvested Earnings**

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. Contrary to the international standards, non-participating preference shares are classified as equity capital, rather than other capital.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment Abroad.)

### **Treatment of Other Capital**

The other capital position data cover: (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, and (iv) trade credits. The data do not cover financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) changes in insurance company technical reserves, and (iii) positions between affiliated banks involving deposits, loans, and other claims and liabilities related to usual banking activities. In accordance with the international standards, (i) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (ii) the data include positions associated with permanent debt between affiliated financial intermediaries and between affiliated banks. (Permanent debt is defined as long-term debt.) Contrary to the international standards, (i) the data do not include non-participating preference [preferred] shares, which are instead classified under equity capital, (ii) the data include loan/debt guarantees provided by direct investors, (iii) the data include positions between affiliated financial intermediaries involving claims and liabilities related to usual financial intermediation activities, and (iv) the data do not include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises.

In instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise, the entire amount of the loan/debt guarantee outstanding is treated as direct investment lending by the guarantor and recorded under “Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises” at the time the guarantee is invoked.

### **Treatment of Reverse Investment**

Positions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Canada and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises" and loan positions are recorded as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Canada and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as "Liabilities: Direct Investment in Canada: Equity Capital: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Canada: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Canada: Other Capital: Liabilities to Direct Investors", rather than as "Liabilities: Direct Investment in Canada: Other Capital: Claims on Direct Investors".

### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of Canada of (i) construction enterprises and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

### **Treatment of Offshore Enterprises**

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Canada are included in the direct investment data.

### **Treatment of Special Purpose Entities (SPEs)**

Contrary to the international standards, activities of SPEs established abroad by residents of Canada are not included in the direct investment data.

### **Treatment of Land and Buildings**

Contrary to the international standards, the equity capital data not include ownership of land and buildings abroad by enterprises and individuals resident in Canada, which is instead classified under the Other Investment category in the international investment position statistics, rather than under Direct Investment.

### **Treatment of Natural Resources Exploration**

In accordance with the international standards, (i) expenditure related to natural resources exploration abroad by residents of Canada is included in the equity capital data, (ii) expenditure on bonus payments made by residents of Canada to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established abroad by residents of Canada for natural resource exploration, an adjustment to reflect that shutdown is made to the assets data on direct investment equity capital in the international investment position statistics.

### **Valuation of Assets and Liabilities**

The data on equity capital for both listed and unlisted enterprises are recorded at book values, which are the historical costs plus reinvested earnings.

The data on other capital are recorded at book values, which are the historical cost.

The book values used are those shown in the accounting records of the nonresident direct investment enterprises, rather than the resident direct investors.

**Exchange Rate Conversion**

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.