COORDINATED DIRECT INVESTMENT SURVEY (CDIS)

PROJECT ON BILATERAL ASYMMETRIES[1]

The quality of direct investment data has been improving since the CDIS was launched in 2010, with collection of end-2009 position data. This is mainly a result of countries' enhancements in the coverage, accuracy, and level of detail of direct investment data for balance of payments and IIP statistics. The IMF's CDIS initiative was an important undertaking that stimulated worldwide improvements in direct investment data. The CDIS team has been working closely with CDIS participants to address data and metadata issues.

To further enhance CDIS data quality, the Balance of Payments Division in the IMF's Statistics Department (STA) initiated a project—which was jointly implemented with STA's Statistical Information Management Division — to raise awareness of, and to address to extent feasible, large bilateral asymmetries. A total of 28 CDIS participating countries were contacted in October 2013 to bring information to their attention on large bilateral asymmetries between CDIS data reported by them and mirror CDIS data reported by their main counterpart countries for end-2011. More than half of these countries provided feedback on the specific reasons for asymmetries, or indicated that efforts were under way to confirm their data. Furthermore, some countries identified specific actions to address the asymmetries. The project confirmed that methodological differences and insufficient data coverage are main reasons for bilateral asymmetries. It also helped countries to detect errors and to identify actions to further improve the quality of their direct investment data.

STA will consider conducting a similar exercise periodically.

I. INTRODUCTION

1. The Coordinated Direct Investment Survey (CDIS) is a worldwide statistical data collection effort led by the IMF designed to improve the availability and quality of data on direct investment, both overall and by immediate counterpart economy. The survey has been conducted annually since 2009, with revised data released semiannually in June and December. The concepts, coverage, valuation, and classification of data collected in the CDIS are consistent with the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*) and the fourth edition of the *OECD Benchmark Definition of Foreign Direct Investment.* Currently, CDIS data for about one hundred countries are available (http://cdis.imf.org).

[1] Prepared by the CDIS team. The main contributor was Alicia Hierro, with the review and oversight by Eduardo Valdivia-Velarde. The CDIS Team also comprises Mohamed Al Saleemi, Emma Angulo, James Chan, Thierry Daan, Tadek Galeza, and Rita Mesias.

2. The CDIS database presents detailed data on inward direct investment positions (i.e., direct investment into the reporting economy) cross-classified by economy of immediate investor, and data on outward direct investment positions (i.e., direct investment abroad by the reporting economy) cross-classified by economy of immediate investment. All CDIS participants provide data on inward direct investment and most participants also provide outward direct investment data.

3. The CDIS database contains breakdowns of direct investment position data, including, in most instances, separate data on net equity and net debt positions. The database includes tables that present "mirror" data (i.e., tables in which data from the reporting economy are shown side-by-side with data obtained from counterpart reporting countries).

4. The CDIS data quality has been improving over time as a result of countries' enhancements in the coverage (e.g., including data on special purpose enterprises (SPEs)), accuracy (e.g., correcting misclassifications in counterpart country allocation), and level of detail of the compiled direct investment data (e.g., identifying data corresponding to fellows enterprises).To the extent feasible, the CDIS team has provided support to countries to help address any data and metadata issues. In particular, in October 2013, the CDIS team commenced an exercise aimed at identifying large bilateral asymmetries and bringing them to the attention of reporting countries. The remainder of this note focuses on this exercise.

II. THE BILATERAL ASYMMETRIES EXERCISE

5. Before STA commenced the bilateral asymmetries exercise, all CDIS reporting countries were informed of the exercise through the regular emails used to inform CDIS participants of deadlines associated with the next CDIS data collection cycle. The initiative was also announced in advance by the IMF at the meeting of the OECD Working Group on International Investment Statistics (WGIIS) held in March 2013, and at the Twenty-Sixth Meeting of the IMF Committee on Balance of Payments Statistics, held in Oman in October 2013.

6. The main objectives of the project included: (i) bringing to the attention of CDIS participating countries large bilateral asymmetries between their CDIS data and data reported by their main counterpart countries for end-2011; and (ii) urging the countries involved to work with one another to identify possible reasons for bilateral inconsistencies and, where appropriate, to revise their estimates. The CDIS team offered to provide methodological assistance in identifying and/or resolving data inconsistencies. However, it was recognized that the CDIS participating countries (and not STA) had responsibility for resolving the asymmetries to the extent that they considered appropriate.

7. A total of 28 countries were contacted by email in October 2013. Each was provided an excel file that highlighted their largest bilateral asymmetries. The selected countries were those with bilateral asymmetries that exceeded USD25 billion and represented at least

25 percent of the total reported direct investment position with the counterpart economy, both for inward and outward direct investment, as applicable.

8. The selected countries included: Australia, Austria, Barbados, Belgium , Brazil, Canada, China P.R. Hong Kong, China P.R. Mainland, Cyprus, France, Germany, Hungary, India, Ireland, Italy, Japan, Luxembourg, Mauritius, Mexico, Netherlands, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, United Kingdom, and the United States.

9. Countries were encouraged to consider the asymmetries and review their estimation techniques, or contact their counterpart countries, as a way to explain or address the asymmetries and to assure that their estimates were robust. To this end, countries were reminded that the CDIS metadata questionnaires (http://cdis.imf.org/) provide detailed information on collection and compilation practices adopted by CDIS reporting countries, and include information on contact persons.

III. Main Results and Lessons Learned

10. Out of the 28 countries approached in this exercise, 18 provided feedback on reasons for differences in estimates and/or indicating that efforts were underway to confirm their data. Some countries also proposed specific actions they would take to address or further explain the asymmetries.

11. Of the 18 economies that provided feedback, most indicated that **methodological differences,** as well as differences in **coverage,** were main reasons for asymmetries. In particular:

- Counterpart countries sometimes use different methods in estimating the value of listed and unlisted equity.

- The application of the directional principle may result in asymmetries in mirror estimates. More specifically, one country's outward direct investment might be shown in the counterpart economy's data either as inward direct investment or as negative outward direct investment.

- Different data collection methods from enterprises versus local enterprise groups.

- Different geographic allocation by counterpart economy based on ultimate counterpart rather than immediate counterpart.

- Differences in definitions of country or geographic territory.

- Use of different vintages of methodological standards. For example, some countries might include permanent debt between selected financial intermediaries in direct investment (consistent with *BPM5* methodology), and others exclude such debt (consistent with *BPM6* methodology).

- Some countries indicated that data for special purpose enterprises ((SPEs), i.e., flexible corporate structures with little or no physical presence) are reported without country allocation (unallocated), partly due to confidentiality reasons.

- Lack of data coverage, or partial coverage, of data for fellow companies and/or SPEs was mentioned as a factor contributing to asymmetries by some countries.

12. Countries reacted positively to the exercise and many identified relevant **actions to overcome** large bilateral discrepancies. Among them:

- **India** submitted revised 2011 data that reduced asymmetries with major partner countries, especially Mauritius, and indicated that it was in the process of contacting relevant companies to ensure complete coverage and confirm their data.

- **Mauritius** indicated that it will continue holding meetings with selected data providers.

- **Belgium** indicated that it reviewed asymmetries and is considering next steps, such as contacting a counterpart country to examine asymmetries in more detail.

- **Hong Kong** said that it would continue monitoring CDIS bilateral data with main counterparts.

- **Switzerland** indicated that it would redesign its direct investment surveys to implement *BPM6* and, in particular, switch from ultimate counterpart to immediate counterpart in providing geographic detail.

- The **United States** identified specific actions to further improve data quality (such as, investigating covering minority-owned fellow enterprises, and separating data for Channel Islands from data for the United Kingdom).

- **Canada** will continue to engage in annual bilateral meetings with its main counterpart and envisages communicating with countries for which asymmetries are the largest.

13. One of the largest direct investment countries requested additional information on **CDIS metadata** to obtain better insights into methodological differences with its counterpart

countries that could help explain the asymmetries. The CDIS team prepared a file that included a detailed matrix containing responses to the metadata questionnaire provided by this country and counterpart countries with large bilateral asymmetries.

14. **Different modalities to exchange information**. Several European countries indicated that they are actively participating in the European FDI Network created in 2009 under the auspices of Eurostat and the ECB. Within this network, European countries compare bilateral microdata at individual enterprise level to reconcile their respective direct investment transactions and positions.[2] Other countries indicated that they conduct regular formal bilateral exchanges with their main counterpart to understand their respective direct investment compilation systems. (However, some countries indicated that their laws do not allow cross-border exchange of enterprise level data.)

IV. CONCLUSIONS

15. The bilateral asymmetry project was effective in identifying the reasons for bilateral asymmetries. Some data were or soon will be revised/corrected, and more than half of the countries approached provided feedback on specific reasons for asymmetries and/or indicated that further efforts were underway to confirm their data. This exercise led to greater insights into specific reasons for asymmetries and confirmed that methodological differences are a main reason for asymmetries, as well as differences in coverage. The exercise helped countries to detect errors and to consider taking actions to further improve the quality of their direct investment data.

V. FUTURE STEPS

16. The CDIS team will consider conducting a similar exercise periodically, some time after European countries and other large countries adopt *BPM6*.

17. STA will liaise with Eurostat and/or the ECB, to obtain information periodically on the outcomes of the networking exercise conducted at European level.

[2] The FDI Network facilitates a secure exchange of information on large direct investments between EU Member States. Initially, the exchange of information was related only to transactions, but from Spring 2012 onwards the exchange also includes positions. This is a very restricted process due to confidentiality rules applied in different Member States.