Collecting FDI and MNE Data

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Agenda based on Top 5 answers to OIC survey: What is of interest to you? Where are gaps?

- Data collection [problems] (10)
- UCI country (10)
- Debt between fellows (12)
- SPE (9)
- FATS/AMNE (13)

⇒ 1. Collection of Swiss enterprises’ cross-border financial linkages
⇒ 2. Identify Ultimate Investors
⇒ 3. Allocate Debt between fellows
⇒ 4. Identify SPEs
⇒ 5. Compile data on FATS
1. Challenges in the collection of Swiss enterprises’ cross-border financial linkages
Why we are running surveys

- BOP/IIP section of the SNB runs its own surveys on cross-border financial linkages of enterprises in Switzerland: INV (exception: non-FDI linkages of banks)
- Reason: No other sources available for this data
- Use of the data is purely statistical:
  - Balance of payments (BOP) and International investment position (IIP)
  - Foreign direct investment (FDI)
  - Foreign affiliate trade statistics (FATS)
  - Swiss sector accounts
INV-Surveys

- Introduced in 2014
- Motivation:
  - Change to BPM6, bilateral treaties with EU
- Basic principles:
  - «One fits for all survey»
  - Covering most financial assets / liabilities of enterprises and some FATS figures
  - Main focus is on position data
  - Using business terms (not statistical terms)
  - Mostly on aggregated level
    (local enterprise group, aggregated by country)
Challenge: Communicate with reporters

• Challenges:
  − SNB-reporting is not a priority for the enterprises
  − SNB-reporting is often outsourced
  − The domestic reporting entity does not always have all necessary information
  − Finding «their language»

• What we do:
  − Frequent contact with reporting enterprises (email/phone/visit)
  − If necessary, special reporting arrangements
  − Standard workflow in case of non-reporting, ultimate measure is a fine
Challenge: Determine the survey population

• Challenges:
  • Reporting obligation upon invitation to participate (no automatic reporting obligation)
  • CH is an important holding location, i.e. harbouring capital without physical presence.
    ⇒ Population is quite volatile

• What we do:
  • Using additional sources, such as
    – Commercial registers
    – Media
    – Business register
  • Preliminary survey
    – Is the reporting threshold met (10m cross-border capital linkages)?
Challenge: Size and complexity of certain groups (I)

- Challenges:
  - CH is a small open economy with many MNEs (DC and FC).
  - 2020: ~ 60 enterprise groups with A/L > CHF 10 billion.
  - In some cases, highly complex structures
  - Limited resources in our team
  - Those large cases often dominate BOP/IIP/FDI
  - Reporting those cases is especially difficult as well as checking the reported data
Challenge: Size and complexity of certain groups (II)

- What we do:
  - Initial checks of reported data:
    - Focus on large cases
    - Comparison with values previously reported
    - Stock/flow checks (other changes in volume)
    - Comparison with external data (e.g. private databases)
    - Frequent contact with reporting enterprises (email/phone)
  - Deeper checks of reported data:
    - Mirror data analysis of the aggregate
    - Analysis of the whole MNE group (organization chart)
    - In cases of doubt, enterprise visits / calls
    - If necessary, special reporting arrangements
2. Challenge: Identify Ultimate Investors
What we do

- We collect the country of ultimate beneficial owner for each immediate investor in our surveys

<table>
<thead>
<tr>
<th>Investors domiciled abroad</th>
<th>Country of domicile of immediate investor</th>
<th>Country of domicile of ultimate beneficial owner</th>
<th>Participating interest in equity capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of investor</td>
<td>Name</td>
<td>Code</td>
<td>Participating interest in equity capital</td>
</tr>
<tr>
<td>Investor 1</td>
<td>Luxembourg</td>
<td>LU</td>
<td>Japan</td>
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<tr>
<td>Investor 2</td>
<td>Netherlands</td>
<td>NL</td>
<td>Russia</td>
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<td>At end of previous reporting year (=previous year)</td>
<td>At end of current reporting year (=reference date)</td>
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<td>30.00%</td>
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</table>
Use in our FDI publication

- We publish capital stocks by UBO since 2004, investment income by UBO since 2020
- Method: Proportional approach (UBO not UCI)

**DIRECT INVESTMENT IN SWITZERLAND**
Capital stocks by country of origin of immediate investor and of ultimate beneficial owner

CHF billions

<table>
<thead>
<tr>
<th>Year</th>
<th>EU (immediate)</th>
<th>EU (ultimate)</th>
<th>US (immediate)</th>
<th>US (ultimate)</th>
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</thead>
<tbody>
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<td>2010</td>
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<td>2019</td>
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</tbody>
</table>

Source: SNB
3. Challenge: Allocate Debt between fellows in FDI statistics
What we do

- Step 1: We allocate a flag «Ultimate Control (Foreign/Domestic)>> to each reporter in our database
- Step 2: We collect quarterly debt positions in with a breakdown by counterparty

<table>
<thead>
<tr>
<th>Country groups</th>
<th>Country of counterparty</th>
<th>Code</th>
<th>Col. 11</th>
<th>Col. 12</th>
<th>Col. 13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>DE</td>
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<tr>
<td>United Kingdom</td>
<td>GB</td>
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</table>

- Step 3: Our databases combines the data from step 1 and step 2 and calculates FDI debt according to the directional principle.
4. Challenge: Identify SPEs
What we do

• We allocate a flag “SPE yes/no to” each reporter (since 2014) using a decision tree based on OECD Benchmark Definition of FDI:
  • Flag for ultimate control: foreign
  • FATS: number of employees $\leq 5$
  • cross-border assets $\approx$ cross-border liabilities
  • Industry of the reporter
• We are currently implementing the new definition of the IMF
Use in our FDI publication

• We show SPEs as a breakdown of “Foreign controlled finance and holding companies” (FCFH).
• FCFH are our proxy of «capital in transit»
5. Challenge: Compile data on FATS
What we do

• Shared responsibility SNB / National Statistical Office (NSO)
• Inward FATS (NSO):
  • NSO uses data from their business register and combines it with control information from external sources (e.g. private databases, European groups register)
  • SNB cross-checks this based on the control information (UBO) collected in the INV-surveys (linking of databases is crucial)
• Outward FATS and data on parents (SNB):
  • SNB collects data on three variables in the INV-Survey: Number of employees, Number of enterprises, Turnover
  • SNB cross-checks the data with data on FDI collected in INV-surveys
Uses in SNB’s report on FDI (outward FATS)
Links

• Surveys on cross-border capital linkages: https://emi.snb.ch/en/emi/INV

• Data portal on Switzerland’s foreign economic affairs: https://data.snb.ch/en/topics/aube


• Contact us directly in case of questions:
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Thank you for your attention.
6. Annex Some comments on OIC current methodology
Summary of challenges / gaps

- FATS 13
- Debt between fellows 12
- Data quality: Non/Miss-reporting/timeliness 10
- UCI 10
- SPE 9
- Coverage of indirectly owned enterprises 8
- Debt between affiliated financial intermediaries 4
- Income according COPC 4
- Equity at book value, Valuation unlisted 4
- Outward by ultimate host 3
- Survey Population 2
- FDI transactions / positions 2
- Debt instruments at fair value 1
- Adequate number of staff 1