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FDI-TWINING-1

## **Foreign Direct Investments (FDI) and FDI's Revenues**

Description of the existing situation, analysis of problems and proposals for improvements

The Twinning Project on Statistics

Bank of Israel  
CBS

<b><u>Contents</u></b>	<b><u>page</u></b>
1. Introduction	3
2. Incoming investments	4
2.1 Equity estimates	
2.1.1 Companies - Listed	
2.1.2 Companies - Reporting to the Bank of Israel	5
2.1.3 Companies – non-reporting	7
2.1.4 Volume weighting	8
2.1.5 CBS Surveys	
2.2 Other FDI components	9
2.2.1 Sources of reporting for the other FDI components	
2.2.2 Shareholder loans	
2.2.3 Current earnings	
2.2.4 Dividends	
2.2.5 Interest on shareholder loans	10
3. Outcoming investments	11
3.1 Equity estimates	
3.1.1 Administrative Data	
3.1.2 Companies - Reporting to the Bank of Israel	12
3.1.3 Companies – Listed	13
3.1.4 Companies – non-reporting	
3.1.5 Volume weighting	14
3.1.6 CBS Surveys	
3.2 Other FDI components	
3.2.1 Sources of Information	
3.2.2 Shareholder loans	
3.2.3 Current earnings	
3.2.4 Dividends	15
3.2.5 Interest on shareholder loans	
4. FDI Database	16
5. Land and Buildings Investments	
5.1 Incoming investments	
5.2 Outcoming investments	17
6. Super-Dividend	18
7. A Start-Up company sale	19
8. General issues	

## **1. Introduction**

This document was prepared in the framework of the EU Twinning Project on Statistics, which is implemented in partnership by Statistics Denmark and CBS.

The Topic of this document is compiling of estimates for FDI of Israel and their revenues—in two directions: investments of Israeli citizens abroad and investments of foreign citizens in Israel.

Keeping in mind the discussion, to take place during the Twinning project, on ways to improve the estimates, the Aim of this document is to describe the existing situation and to present the problems that accompany it.

As any work on this subject, this document was prepared cooperatively by the Bank of Israel and the CBS.

## **2. Incoming investments**

### **2.1 Equity estimates (incl. Undistributed Earnings )**

#### **2.1.1 Companies - Listed**

##### **2.1.1.1 Listed – Tel Aviv**

###### **a. Data Sources**

<b><u>Topic</u></b>	<b><u>Data</u></b>	<b><u>Comments</u></b>
Data sources	Israel Securities Authority (ISA)	
Frequency of reporting	Monthly	
Topic of the reporting	Securities traded and their holders	
Data reported	Shares	Quantity of shares offered (As by the end of a month), Shares' prices (As by the end of a month), type of the securities
	Share holders	Type (individual, company), name, percent holding stock, country of residence
	Bonds	Maturity date
	General	Branch (based on the exchange), trading scene

###### **b. Calculating positions components**

<b><u>Topic</u></b>	<b><u>Calculation</u></b>	<b><u>Comments</u></b>
Positions	Quantity of shares * Share price	Sum of all shares
Transactions	Change in quantity of shares * Average share price	Average price – based on Fisher index
Changes in the value	Price change * Average quantity of shares	Average quantity – based on Fisher index
Exchange rate differences	Separate calculation	Acc. to NIS to USD exchange rate changes
Other adjustments	Companies Entry into-trade and Exit of trade	In case of a new company's entry, it is unknown whether previously it was foreign-owned

##### **2.1.1.2 Listed – abroad**

###### **a. Data Sources**

<b><u>Topic</u></b>	<b><u>Data</u></b>	<b><u>Comments</u></b>
Data sources	Data from the stock exchanges abroad	
Frequency of reporting	Monthly	
Topic of the reporting	Same as for Tel Aviv stock exchange	
Data reported	Same as for Tel Aviv stock exchange	

###### **b. Calculating positions components**

<b><u>Topic</u></b>	<b><u>Data</u></b>	<b><u>Comments</u></b>
All	Same as for Tel Aviv stock exchange	

### 2.1.1.3 Listed – dually

Companies that were initially listed in Israel and at a later period were also listed abroad are considered (technically) as if they are listed in Israel.

Companies that were initially listed abroad – and at a later period were also listed in Israel considered (technically) as if they are listed abroad.

Comment: in any case, care is taken to avoid double-reporting.

## **2.1.2 Companies - Reporting to the Bank of Israel**

### 2.1.2.1 Reporting annually (Form 4)

#### a. Obligation to report

Obligation to report applies to companies with FDI positions of more than USD 40 Mil.

#### b. Data reported

c. Ultimate Control Owner, Special Purpose Entities(SPE) features, Investment by reference country/area, profits, dividends, shareholder loans, shareholder loans' interest, positions of receivable and payable etc.

#### d. Frequency

Annual

#### e. Calculating positions components

Positions – reporting.

Transaction – reporting.

Exchange rate differences – reporting.

Other differences – reporting.

#### Issues

Data arrives in an average delay of one year.

Causes data backward revising, which sometimes is very significant.

Which part of the FDI comes from every specific form-type (and what is the relative weight of every issue).

#### Advantages

It includes report about the dividends and the total profits.

### 2.1.2.2 Reporting by transaction (Form 3)

- a. Obligation to report  
Obligation to report applies to companies where an FD investment of more than USD5Mil. takes place, while the company's FDI positions is more than USD40Mil.
- b. Data reported  
Investment in capital, shareholder loans, dividend payments, interest on shareholder loans.
- c. Calculating positions components  
The new positions equal the previous positions with addition of the transactions reported within the period.
- d. Issue  
Locating companies that have reached the reporting verge (the companies are not aware of this on their own).

### 2.1.2.3 Reporting quarterly - old form (Form 11)

- a. The Form  
In the past, Form 11 was used for foreign exchange supervision. I.e., it was directed at large companies and not necessarily at FDI companies.  
(The form relates to both IN-companies and OUT-companies)  
When reporting-forms 1-5 were introduced, this form underwent certain changes too.
- b. Obligation to report  
Obligation to report applies to companies with income cycle of more than USD50Mil. or with assets of more than USD20Mil. abroad.
- c. Data reported  
Equity, profits, dividends, stock, shareholder loans, bonds, deposits, commercial credit, etc.
- d. Frequency  
Quarterly.
- e. Calculating positions components  
Positions – reported.  
Transactions – difference between the positionss.

**Issue:** Lack of initial public offerings (IPO) info and profits and dividends info.

### **2.1.3 Companies – non-reporting**

#### **2.1.3.1 International Transactions Reporting System (ITRS) – specific reporting**

##### **a. Obligation to label type of a transaction and the resulting reporting**

When a money transfer involving a foreign resident takes place, the bank is obliged to conduct a clarification procedure with the owner of the account. The clarification refers to the essence of the money transaction – deposit, FDI, export, etc.) – the result has to be registered in the system.

Reporting on transactions involving foreign residents is sent to the Bank of Israel on a daily basis.

Procedure for transactions marked as "stock-capital investments" is as follows:

Transactions of more than USD 50,000 – specific reporting transfer, incl.  
name and identification number.

Transactions under USD 50,000 – accumulate to a single total (aggregate sum).

##### **b. Calculating positions components**

In general – listed companies and reporting companies are eliminated from the specific reporting-ITRS list.

Transactions – according to the banking system registry.

Positions – acc. to transactions accumulated over the years in the banking system.

##### **c. Issues**

*With registration:*

- Banks lack of interest on the subject and they seek the easier way to perform the registry.
- Data inspection: – manual human-performed check of transactions higher than USD 5Mil.

*With estimate method:*

- No reference to profits/losses.
- No reference to companies becoming inactive, to mergers, or changes of ownership.

##### **d. Updating data with the help of CBS survey of (Income) Tax Authority (*see later*)**

In 2011, a data inspection was performed using Income Tax reports filed by the non-reporting companies' population.

As the result of this inspection, positions of the incoming FDI as of the end of 2009 was reduced by USD 15.4 Bil (from 66.7 to 51.3 Bil.\$).

#### **2.1.3.2 International Transactions Reporting System (ITRS) – aggregate reporting**

##### **a. The source**

Transactions under USD 50,000 that are accumulated in the banking system to a single total (aggregate sum).  
(see the clause above)

##### **b. Calculating positions components**

Transactions – according to the banking system registry over the aggregate sum period.

Positions – acc. to aggregate sums accumulating in the banking system over the years.

##### **c. Issues**

Beyond issues mentioned in the clause above,  
There is no ability for monitoring, analysis and confirmation of the sums and the changes that occur to them over the years.

#### **2.1.4 Volume weighting**

##### Aim

- a. Covering the missing population.

##### b. Content

Non-reporting companies

##### c. Issues

Estimate of the missing population is general.

#### **2.1.5 CBS Surveys**

##### a. General

CBS surveys with concern of FDI are as follows:

<u>Survey</u>	<u>Directed at</u>	<u>Years and Frequency</u>	<u>Comments</u>
Multi-national companies Survey	Multi-national companies activity (incl. their investments)	Bi-annual, conducted since 2002	Stock-capital holdings of over 50%
Interested parties Survey	Completing info on non-reporting FDI companies	First survey conducted for years 2010-2011	Stock-capital holdings of 10% to 50%.
[Income] Tax Authority Survey	Checking positions accumulated in the banking system by auxiliary of reports to the Income Tax Authority	A one-time survey (conducted with 2009 data)	

##### b. Issues

The surveys are conducted backwards and the survey-data is collected with a 2-3 year delay. As a result, it is hard to draw conclusions regarding current quarterly FDI information based on those surveys. Nevertheless, it is possible to use these surveys for filling the holes in data, updates and changing the data retrospectively.

Factors behind delays with those surveys:

- Multi-national companies' activity Survey – waiting for the financial reports' results.
- Income Tax Authority Survey – waiting for submission of the financial reports' to the Tax Authority.

##### Suggestions

Interested parties Survey – should become an annual survey, while its dependence upon completion of the financial reports by the companies should be reduced.

## **2.2 Other FDI components**

### **2.2.1 Sources of reporting for the other FDI components**

<b><u>Topic</u></b>	<b><u>Type</u></b>	<b><u>Companies - Listed</u></b>	<b><u>Companies – reporting to BoI</u></b>	<b><u>ITRS – specific reporting</u></b>	
Equity	Positions	1	1	1	
	Transactions		1	1	
Retained Earnings	Positions		1		
Shareholders Loans	Positions		1	1	
	Transactions		1	1	
Current Earnings	Current	1	1		
Dividends	Current	?	1		
Shareholders Loans' Interest	Current		1		

### **2.2.2 Shareholder loans**

a. Sources of the information

Companies reporting to BoI (Form 3 & Form 11), and the specific ITRS reporting.

b. Estimation method

Adding and adjusting the data.

The positions include also an accrued interest.

### **2.2.3 Current earnings**

a. Sources of the information

Israel Securities Authority (ISA) for listed companies. Reports to BoI.

b. Estimation method.

No estimate made.

### **2.2.4 Dividends**

a. Sources of the information

Reports to BoI (Form 4 – annually).  
ITRS reporting.

b. Estimation method.

ITRS based.

c. **Issues**

No use is made neither of direct reporting to BoI, nor of any other sources (reporting to CBS).

The separation between FDI dividends and the dividends on securities' portfolio is technical only.

**2.2.5 Interest on shareholder loans**

a. **Sources of the information**

Reports to BoI (Form 4 – annual).

ITRS reporting.

Basing on loans' positions and estimate of the interest rate.

b. **Estimation method.**

Basing on loans' positions and estimate of the interest rate.

Comment: Periodic interest is calculated based on the actual interest paid and the change of the accumulated interest.

### **3. Outcoming investments**

#### **3.1 Equity estimates**

##### **3.1.1 Administrative Data**

###### **3.1.1.1 Institutional investors**

###### **a. General**

The Institutional Investors - insurance companies, mutual funds, pension funds – report to the Ministry of Finance.

A copy of their reports is shared with BoI.

Frequency of reporting – quarterly.

The report includes out-going FDI (positions).

Mutual funds and Pension funds – only small FDI amounts ( they avoid being interest party in business companies).

Insurance companies – have quite some FDI.

###### **b. Calculating positions components**

Exchange rate differences – acc.to NIS vs. FOREX performance.

Transactions – positions changes less exchange rate differences.

Retained Earnings – **no distinction** of retained earnings is made.

###### **3.1.1.2 Banks**

###### **a. General**

Israeli banks report the investments they make in their extensions (subsidiaries) abroad.

Comment: The reporting does not refer to branches (which are only representative offices), but rather to banks' extensions – which are companies with independent activity.

Frequency of reporting – quarterly.

The report includes – positions, in NIS.

###### **b. Calculating positions components**

Exchange rate differences – acc.to NIS vs. FOREX performance.

Transactions – positions changes less exchange rate differences.

Retained Earnings – **no distinction** of retained earning is made.

### **3.1.2 Companies - Reporting to the Bank of Israel**

#### **3.1.2.1 Reporting annually (Form 5)**

a. Obligation to report

Obligation to report applies to companies with FDI positions abroad of more than USD20Mil.

b. Data reported

*Reporting company data:* company's interested parties, Ultimate control owner, investments by countries, shareholder loans' positions.

*Held company data:*

- General data: corporation details, ownership percentage, main sector/branch of economy abroad, country.
- SPE features: solo revenue, solo fixed assets, investments in held corporations/companies, financing activities.
- Merchantability capital issued, capital held by the reporting company, price of a share.
- Changes in equity positions and their components – capital investment, profits, dividends.
- Changes in shareholders' loans positions and their components – positions, transactions, accumulated interest, paid interest, Positions receivable and payable of the owners.

c. Frequency

Annual

d. Calculating positions components

Positions – reported.

Transactions – reported.

Exchange rate differences – reported.

Other differences – reported.

For held companies abroad, that are listed companies, – the calculation is based on their foreign stock markets' share price.

Issues

As for in-going FDI (Form4).

Comment

The positions calculation is based on the last annual report (Form 5), with addition of quarterly reports' transactions (Forms 2 and 11).

### 3.1.2.2 Reporting by transaction (Form 2)

#### a. Obligation to report

Obligation to report applies to any company conducting an [out-going] FDI transaction abroad totaling more than USD5Mil., while its FDI positions abroad surmounts USD20Mil.

#### b. Data reported/ Investment transaction

Investment in capital, shareholder loans, dividend revenues, and shareholder loans' interests.

#### c. Calculating positions components

The new positions equals the previous positions with addition of the transactions reported over the period.

#### d. Issue

Locating companies that have reached the reporting verge (the companies are not aware of this on their own).

### 3.1.2.3 Reporting through the old form (Form 11)

Same as for IN-going FDI companies (the Form is common for both types of companies)

## **3.1.3 Companies – Listed**

### 3.1.3.1 Foreign companies - Listed in Israel

#### a. General

There is a number of foreign companies that are listed on the Israeli stock exchanges.

Israeli residents' investments in those companies are included in OUT-going FDI.

#### b. Data reported and Calculating positions components

Same as for Israeli companies listed in Israel for IN-going FDI.

## **3.1.4 Companies – non-reporting**

### 3.1.4.1 International Transactions Reporting System (ITRS) – specific reporting

#### a. Obligation to label type of a transaction and the resulting reporting

Same as for IN-coming reporting.

#### b. Calculating positions components

Same as for IN-coming reporting.

### 3.1.4.2 International Transactions Reporting System (ITRS) – aggregate reporting

Same as for IN-coming reporting.

### 3.1.5 Volume Weighting

Weighing is not conducted due to high coverage rate.

### 3.1.6 CBS Surveys

"Multi-National Companies Survey" and "Interested Parties Survey" (look at Incoming Investments)

## 3.2 Other FDI components

### 3.2.1 Sources of Information

<u>Topic</u>	<u>Type</u>	<u>Companies – reporting to BoI</u>	<u>Administrative Data</u>	<u>ITRS – specific reporting</u>	
Equity	Positions	1	1	1	
	Transactions	1		1	
Retained Earnings	Positions	1			
Shareholders Loans	Positions	1		1	
	Transactions	1		1	
Current Earnings	Current	1			
Dividends	Current	1			
Shareholders Loans' Interest	Current	1			

### 3.2.2 Shareholder loans

#### a. Sources of information:

Companies reporting to BoI (Forms 2, 5, and 11) and the specific reporting ITRS.

#### b. Estimation method

Adding and adjusting the data.

The positions includes also the accrued/accumulated interest.

### **3.2.3 Current earnings**

a. **Sources of information:**

Reports to BoI.

b. **Estimation method**

No estimate is made.

### **3.2.4 Dividends**

a. **Sources of information:**

Reports to BoI (Forms 5 – annual, and Form 2 – by transaction), and ITRS.

b. **Estimation method**

ITRS based.

c. **Issues**

No use is made of direct reporting to BoI, neither of other sources (reporting to CBS).

The separation between FDI dividends and the dividends on securities' portfolio is technical only.

### **3.2.5 Interest on shareholder loans**

a. **Sources of information:**

Reports to BoI (Form 5 – annual, and Form 2 – by transaction), ITRS, basing on loans' positions and the estimate for interest rate.

b. **Estimation method**

Based on loans' positions and the estimate for interest rate.

Comment: Periodic interest is calculated based on the actual interest paid and the change of the accumulated interest.

#### **4. FDI Database**

##### **a. General**

To improve handling of the FDI issues, a topic-specific database, that includes the demanded information, was established at the CBS in 2012.

The database was utilized to compile data of the distribution of FDI by industries and by countries, in order to produce the first Press Release on the topic and for dissemination to international organizations.

The database includes a list of around 17,000 FDI connections between Israeli companies and foreign residents, and it is sorted by a variety of criteria:

- Direction of the investment (IN, OUT).
- Type of the investment: equity, undivided earnings shareholder loans.
- Type of variable: positions, transactions, other changes of value.
- Details of the investment: economic industry, country of the investment.
- Additional data: Stock exchange listing (yes/no), source of data, etc.
- Years: 2009-2011.

##### **b. Issues to handle:**

The database should be developed in a number of directions:

Adding topics – profits, dividends, interest.

Transfer to a platform stronger than Excel (such as: central server, etc.)

#### **5. Land and Buildings Investments**

##### **5.1 Incoming investments**

##### **a. General**

Land and building investments refer to direct purchase of land and buildings by foreign residents.

Comment: Land and building investments via companies are included in regular FDI, and are specified under the construction sector.

##### **b. Current estimate**

Source of the information in regular/current use is solely the ITRS.

Transactions:

The regular/current transactions are registered according to the ITRS reporting. This report includes identified transactions of more than USD 50,000, as well as, the aggregate sum of the transactions lower than USD 50,000.

Positions:

Land and Buildings positions are not registered in IIP.

The reason for this is the inability to examine what happens/ed to investment transactions over time. Also, it is hard to locate foreign residents that purchase land and buildings in Israel, and then make Aliya (i.e. become citizens/residents of Israel).

Comments:

- 1) This is in addition to the insufficient quality of the ITRS data.
- 2) The technical treatment is performed through cancelling the past transactions by other adjustments.
- 3) Providing a comment at IIP for "not-including land and buildings" should be considered.

c. Estimates' development

Another source of information that is currently found at CBS and has to be examined is the "Tax Authority land and buildings transactions file".\

This file includes the following data: a list of land and buildings transactions in Israel, since 1990; type of the property purchased/sold (Apartment, Land), ID number of the buyer or the seller, etc.

ID number might, apparently, be useful to differentiate between Israeli and foreign citizens.

Other potential sources of information are: Israel Land Authority, the Land Rights Registration system (the "*Tabo*" – *historical note*: centuries-old common name for land-rights registration in the Ottoman Empire; widely applied also in contemporary Israel.)

**5.2 Outcoming investments**a. General

The outcoming investments are treated in parallel to the in-going investments.

Land and building investments refer to direct purchase of land and buildings abroad by residents of Israel.

Comment: Land and building investments via companies are included in regular FDI, and are specified under the construction sector.

b. Sources of Information

Source of the information in regular/current use is solely the ITRS.

Other potential sources of information are: Income Tax Authority??

Up until now, the attempts to extract suitable information from those sources were unsuccessful.

c. Data processing  
Transactions:

The regular/current transactions are registered according to the ITRS reporting. This report includes identified transactions of more than USD 50,000, as well as, the aggregate sum of the transactions lower than USD 50,000.

Positions:

Land and Buildings positions are not registered in IIP.

The reason for this is the inability to examine what happens/ed to investment transactions over time.

Comments:

- 1) This is in addition to the insufficient quality of the ITRS data.
- 2) The technical treatment is performed through cancelling the past transactions by other adjustments.

## **6. Super-Dividend**

### **6.1 Definition**

Super-dividend is an extraordinary and strikingly-large payment of dividend by a daughter company to its mother company.

The essence – such an extraordinary dividend is perceived not as payment of profits on investment to the owners, but rather as realization of part of the direct investment that was made into the company.

### **6.2 Identification of super-dividends**

The dividend paid is exceptional versus:

- a. The profits during the year.
- b. Accumulated past profits.
- c. Dividends distributed in the past.

### **6.3 Balance of payments treatment**

a. Determining the exceptional component

The dividend paid should be divided into two parts:

- (1) Current dividend – the part of the dividend which answers the three aforementioned criteria.
- (2) Exceptional dividend – the remnant.

The decision with regard to the super-dividend and its size is discretionary (left to one's judgment).

b. Registration

Revenue account:

Dividends – only the current dividend is registered.

Undistributed revenues – The periodical revenues less the current dividend only.

Financial account:

Investment in capital – the exceptional dividend shall be registered with a negative value (partial realization of the invested capital).

Undistributed revenues – as for the revenue account.

## **7. A Start-Up company sale**

To be discussed in the general framework for treatment of the start-up companies within the BoP.

## **8. General issues**

There is a number of general issues:

- Making the estimates by two different bodies – demands maximal co-ordination and co-operation.
- Limitation on sharing specific data due to the limitations of Statistics Ordinance.
- A great variety of sources that demands complex coordination.
- Lack of overall view of the various components as one whole picture.