Worldwide Activities of U.S. Multinational Enterprises: Revised Results From the 2014 Benchmark Survey

Preface

This publication presents the final results of the 2014 Benchmark Survey of U.S. Direct Investment Abroad (USDIA) that was conducted by the U.S. Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce. Benchmark surveys are BEA's most comprehensive surveys, in terms of both the number of companies covered and the amount of information gathered. The 2014 survey covered the universe of U.S. direct investment abroad, which consists of all foreign business enterprises owned 10 percent or more, directly or indirectly, by a U.S. investor. The last U.S. direct investment abroad benchmark survey covered 2009.

The purpose of the benchmark surveys is to collect detailed information on the activities, both domestic and foreign, of U.S. multinational enterprises (MNEs) in order to understand and evaluate the impact of the actions of U.S. MNEs on the economies of the United States and foreign host countries. The statistics derived from the data collected on the benchmark surveys are used to answer important questions about the global impact of U.S. MNEs.

The 2014 benchmark survey collected detailed data on the activities of U.S. parent companies and their foreign affiliates in 2014. Data items include balance sheet and income statement details; sales or gross operating revenues disaggregated into goods, services, and investment income; taxes; employment and compensation of employees; property, plant, and equipment; U.S. trade in goods; research and development expenditures; and data used to calculate value added. The survey also collected data on the transactions and positions between U.S. parents and their foreign affiliates that, in conjunction with the sample data collected in BEA's quarterly surveys of U.S. direct investment abroad, are the source data of the official estimates of direct investment that enter the U.S. national income and product accounts (NIPAs), the U.S. international investment position (IIP) accounts, and the U.S. international transactions (or balance of payments) accounts (ITAs). The data for U.S. parent companies are disaggregated by industry of parent. The data for foreign affiliates are disaggregated by country and industry of affiliate and by industry of U.S. parent.

The data from the benchmark survey will be used as the primary basis for expanding to universe levels the data for nonbenchmark years that are collected in BEA's quarterly and annual cutoff sample surveys, which cover a sample of U.S. parents and their foreign affiliates above a size-exemption level. The quarterly surveys collect sample data on direct investment positions and transactions between U.S. parents and their foreign affiliates, and the annual surveys collect sample data on the activities of U.S. parents and their foreign affiliates. For quarterly data, estimates for nonsample affiliates usually are derived by extrapolating forward their data from the benchmark survey on the basis of quarter-to-quarter movements in the data reported by affiliates in the sample. Similarly, for annual data, estimates for nonsample parents and affiliates usually are derived by extrapolating forward their data from the benchmark survey on the basis of year-to-year movements in the data reported by parents and affiliates in the sample.

Many of the items for which data were collected in the 2014 benchmark survey are also collected annually, but other items are collected only in benchmark survey years. These items include: research and development expenditures broken down by source of funding, the total number of research and development employees, sales by affiliates by country of destination, U.S. exports of goods shipped to affiliates by the intended use, U.S. exports of goods shipped to other foreigners by region, U.S. imports of goods shipped by other foreigners by region, and royalty and license receipts and payments by affiliated and nonaffiliated parties.

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Methodology

This publication presents the final statistics on the worldwide activities of U.S. multinational enterprises (MNEs) from the 2014 Benchmark Survey of U.S. Direct Investment Abroad (USDIA), conducted by the U.S. Bureau of Economic Analysis (BEA). The 2014 benchmark survey was conducted to obtain complete data on U.S. direct investment abroad in 2014. Reporting on the survey was mandatory under the International Investment and Trade in Services Survey Act.[1] Benchmark surveys, which are conducted every 5 years, are BEA's most comprehensive surveys of U.S. direct investment abroad, in terms of both the number of companies covered and the amount of information gathered; the previous benchmark survey covered the year 2009.[2]

This publication presents final statistics from the 2014 benchmark survey in 147 tables. Three related types of statistics are presented: (1) statistics on the activities—that is, on the finances and operations—of foreign affiliates, (2) statistics on activities of U.S. parents, and (3) statistics on direct investment positions and transactions.

The activities statistics provide a variety of indicators of the overall operations of U.S. parent companies and their foreign affiliates, including balance sheets and income statements; value added; goods and services supplied; taxes; property, plant, and equipment; employment and compensation of employees; U.S. trade in goods; and research and development activities.

The direct investment positions and transactions statistics cover positions and transactions between foreign affiliates and their U.S. parents. These statistics focus on the U.S. parent's share, or interest, in the foreign affiliate rather than on the foreign affiliate's overall size or level of operations. Direct investment transactions statistics include statistics on financial transactions between U.S. parents and their foreign affiliates and receipts of income accruing to U.S. parents from their foreign affiliates. In conjunction with the sample data collected in BEA's quarterly surveys of U.S. direct investment abroad, the direct investment positions and transactions data collected in the benchmark survey are the source of the direct- investment-related measures that are included in the U.S. national income and product accounts (NIPAs), the U.S. international transactions accounts

1. Public Law 472, 94th Congress, 90 Statue 2059, 22 U.S. Code 3101–3108, passed by Congress in 1976 and amended in 1984 and 1990.
2. See U.S. Bureau of Economic Analysis, *U.S. Direct Investment Abroad: Revised 2009 Benchmark Data* (Washington, DC: U.S. Department of Commerce, April 2013).

(ITAs), and the U.S. international investment position (IIP) accounts. The direct investment financial transactions, income, and position data collected in the benchmark survey are presented in this publication on a historical-cost basis. In the ITAs, the IIP accounts, and the NIPAs, featured measures of transactions, income, and positions are adjusted at the global level to reflect current-period prices.[3]

The amount and type of data collected for foreign affiliates in the survey differed, depending on whether the foreign affiliates were majority owned or nonmajority owned. In this publication, statistics for foreign affiliates and for their U.S. parents are presented separately for two groups of affiliates: (1) all foreign affiliates and U.S. parents (Group I) and (2) majority-owned foreign affiliates (Group II). Most of the tables cover majority-owned foreign affiliates of U.S. parents (Group II). A variety of table formats are used: some tables present statistics for several related data items, each of which is disaggregated by country or by industry; other tables present statistics for a single data item disaggregated by country or by industry and cross-classified by industry or by country.

Each table is identified by an alphanumeric code consisting of (1) a Roman numeral (I or II) to indicate the group covered, (2) a capital letter to indicate the general subject matter, and (3) an Arabic numeral to indicate the specific subject matter of the table.[4] For example, table I.B.5 covers all foreign affiliates (I, indicates the group covered), is part of the set of tables that covers affiliates' balance sheets (B, indicates the general subject matter), and provides statistics specifically on total assets disaggregated by country and cross-classified by major industry of affiliate (5, indicates the specific subject matter of the table). If a given table is published for more than one affiliate group, it will have the same letter and Arabic numeral designation to indicate that the general and specific subject matters of the tables are the same, but it will have different Roman numerals to indicate that a different group of affiliates is being covered. The **"Tables List"** provides lists of tables for each of the two groups.

The activities statistics, also referred to as the activities of U.S. multinational enterprises (AMNEs) statistics, from the benchmark survey extend the series that began with 1982 and that are derived from both annual and benchmark surveys.[5] The benchmark survey data will be used as the primary basis for extrapolating the data for nonbenchmark years to universe levels. Data for nonbenchmark years are collected in BEA's annual cutoff sample surveys, which cover a sample of U.S. parents and their foreign affiliates above a size-exemption level.

The activities, or AMNEs, data collected and tabulated from the 2014 benchmark survey provide more detailed information on the activities of majority-owned foreign affiliates (affiliates that are owned more than 50 percent by their

3. Detailed tables in the ITAs and IIP accounts also present the direct investment financial transactions, income, and position data on a historical-cost basis.
4. The letters A to J indicate that the table contains activities statistics for foreign affiliates; K to T, activities statistics for U.S. parents; and U to W, statistics on direct investment positions and transactions data.
5. Estimates for nonbenchmark survey years from BEA's annual surveys provide information similar to estimates for benchmark survey years from the benchmark surveys, but they are less detailed.

U.S. parent) than on the activities of all (majority-owned and nonmajority-owned) foreign affiliates. The focus on majority-owned foreign affiliates allows the statistics on foreign affiliates to be placed on the same basis as the statistics on U.S. parents, which are defined to include all majority-owned domestic operations of the parent. More broadly, the focus on majority-owned foreign affiliates facilitates efforts to evaluate the consequences to the economies of the United States and foreign host countries of the actions of U.S. MNEs. An understanding of the actions of these companies is aided by a conceptual framework in which an economic actor *controls* the global activities of an MNE and majority-ownership guarantees that the control exists. Most affiliates are in fact majority-owned and account for most of the data on affiliate activities; they accounted for 85.7 percent of employment by all foreign affiliates in 2014.

Coverage

Reporting on the 2014 benchmark survey was required of every U.S. person that had a foreign affiliate in 2014.[6] A foreign affiliate is a foreign business enterprise in which a U.S. person (in the broad legal sense, including a company) owns or controls, directly or indirectly, at least 10 percent of the voting securities of an enterprise that is incorporated or an equivalent interest of an enterprise that is unincorporated.

For both the data on activities of MNEs and the direct investment positions and transactions data, the statistics on foreign affiliates presented in this publication cover every foreign business enterprise that was a foreign affiliate of a U.S. parent at any time during the U.S. parent's 2014 fiscal year. The coverage of the direct investment positions and transactions data in this publication is consistent with that of the activities data. The coverage of these data in the U.S. ITAs includes transactions for a foreign business enterprise that was a foreign affiliate at any time during the calendar year.

Each 2014 benchmark survey consisted of a form that requested data for the U.S. parent company (Form BE–10A) and various forms that requested data on their foreign affiliates. The respondent (that is, the U.S. person with a foreign affiliate) was required to complete Form BE–10B, Form BE–10C, or Form BE–10D for its foreign affiliates, depending on the size of the affiliate and the percentage of U.S. parent ownership. To reduce the burden on respondents, the most detailed benchmark survey form, Form BE–10B, was required only for majority-owned foreign affiliates with assets, sales, or net income (or loss) greater than $80 million, and only a partial Form BE–10B was required for these affiliates with assets, sales, or net income (or loss) less than, or equal to, $300 million. The less detailed Form BE–10C was required for majority-owned foreign affiliates with assets, sales, and net income (or loss) less than, or equal to, $80 million but with at least one of those measures greater than $25 million. The Form BE–10C was also

6. The only exception is that some reporters of investments in private funds that meet the definition of direct investment (see the "Direct investment" section for the definition) but that display characteristics of portfolio investment are instructed to report on the U.S. Treasury Department's surveys of portfolio investment rather than on BEA's benchmark, annual, and quarterly surveys of U.S. direct investment abroad; as a result, the statistics on the activities of U.S. MNEs and the direct investment positions and transactions exclude these private funds.

required for nonmajority-owned foreign affiliates with assets, sales, or net income (or loss) greater than $25 million. The highly abbreviated survey Form BE–10D collected identification information and information on total assets, total liabilities, sales, net income, number of employees, debt and other intercompany balances for each affiliate that was not reported on either Form BE–10B or Form BE–10C.

The amount of data collected on the Form BE–10A depended on the size of the parent company. A complete Form BE–10A was required only for U.S. parents with assets, sales, or net income (or losses) greater than $300 million. Smaller U.S. parents were required to report only certain items on Form BE–10A.

For the 2014 benchmark survey, Form BE–10B and Form BE–10C were filed for 37,339 foreign affiliates; 51,556 foreign affiliates were reported on Form BE–10D (table 1). In terms of value, the data for affiliates reported on the Form BE–10D were very small relative to the data totals of the direct investment universe, accounting for 0.7 percent of the total assets and 1.8 percent of the sales of all affiliates. Complete BE–10A forms were filed for 4,541 U.S. parents, and partial BE–10A forms were filed for 14,757 U.S. parents.

The 2014 benchmark survey included reports for a substantial number of U.S. parents and foreign affiliates that should have reported on BEA's AMNE surveys but that did not. (See "Improvements in Coverage for the 2014 Benchmark Survey" on BEA's Web site.)

Consistent with the benchmark survey statistics for 2009, the statistics presented in this publication cover affiliates and parents reported on complete, partial, and less detailed forms.[7]

7. Except for table 1 in this methodology, the numbers of affiliates shown in the tables of this publication exclude the number of affiliates that were filed on a Form BE–10D even though data for those affiliates are included in the data for other items. Similarly, the number of U.S. parents shown in the tables of this publication excludes the number of those parents whose affiliates were all reported on Form BE–10D even though data for such parents are included in the data for other items.

Table 1. Universe of Foreign Affiliates and Breakdown by Type of Form

	Number of affiliates	Millions of dollars			
		Total assets	Sales	Net income	U.S. direct investment position abroad on a historical-cost basis
Universe of foreign affiliates	88,895	27,598,483	7,590,076	1,280,839	5,109,611
Foreign affiliates reported on Form BE–10B or Form BE–10C	37,339	27,418,946	7,452,357	1,275,221	5,061,130
Foreign affiliates reported on Form BE–10D	51,556	179,538	137,719	5,617	48,480
Percent of universe of affiliates reported on Form BE–10B or Form BE–10C	42.0	99.3	98.2	99.6	99.1

Concepts and Definitions

This section discusses the concepts and definitions used in the 2014 benchmark survey.

Direct investment

Direct investment implies that a person resident in one country exercises control or a significant degree of influence over the management of a business enterprise resident in another country. In accordance with international guidelines, ownership or control of 10 percent or more of an enterprise's voting securities, or the equivalent, is considered evidence of at least a significant degree of influence over management, with control being deemed to exist if the investor owns more than 50 percent of the voting securities.[8] Thus, U.S. direct investment abroad is defined as the ownership or control, direct or indirect, by one U.S. person of 10 percent or more of the voting securities of a foreign business enterprise that is incorporated or an equivalent interest of a foreign business enterprise that is unincorporated. Only U.S. investment abroad that meets the definition of direct investment was covered by the 2014 benchmark survey.

Direct investment refers to ownership by a single person, not to the combined ownership of all persons in a country. A "person" is broadly defined to include any individual, branch, partnership, associated group, association, estate, trust, corporation or other organization (whether organized under the laws of any state or not), or any government entity (including a foreign government, the U.S. government, a state or local government, or any corporation, financial institution, or other entity or instrumentality thereof, including a government-sponsored agency).

An associated group is treated in this definition as a single person. An associated group consists of two or more persons who exercise their voting privileges in a concerted manner—by the appearance of their actions, by agreement, or by an understanding—to influence the management of a business enterprise. The following are deemed associated groups: (1) members of the same family, (2) a business enterprise and one or more of its officers or directors, (3) members of a syndicate or joint venture, and (4) a corporation and its domestic subsidiaries. Thus, direct investment is considered to exist when the combined ownership interest of all members of the group is at least 10 percent, even if no one member owns 10 percent or more. The definition assumes, in effect, that the members' influence over management is comparable to that of a single person with the same ownership interest.

Direct investment in a foreign business enterprise can result from direct or indirect ownership by a U.S. person. In direct ownership, the U.S. person holds the ownership interest in the foreign business enterprise. In indirect ownership, one

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8. See International Monetary Fund (IMF), *Balance of Payments and International Investment Position Manual*, *Sixth Edition* (Washington, DC: IMF, 2009); and Organisation for Economic Co-Operation and Development (OECD), *OECD Benchmark Definition of Foreign Direct Investment*, Fourth Edition (Paris: OECD, 2008).

or more tiers of ownership in foreign business enterprises exist between the foreign business enterprise and the U.S. person; for example, a foreign business enterprise may be owned by another foreign business enterprise that is, in turn, owned by the U.S. person.

A U.S. person's percentage of indirect voting ownership in a given foreign business enterprise is equal to the direct-voting-ownership percentage of the U.S. person in the first foreign business enterprise in the ownership chain, multiplied by the first enterprise's direct-voting-ownership percentage in the second foreign business enterprise in the chain, multiplied by the corresponding percentages for all intervening enterprises in the chain, multiplied by the last intervening enterprise's direct-voting-ownership percentage in the given foreign business enterprise. If a foreign affiliate is owned by the U.S. person through more than one ownership chain, the percentages of direct and indirect ownership in all the chains are summed to determine the U.S. person's ownership percentage in the foreign affiliate.

Investment by a U.S. person of less than 10 percent in a foreign business enterprise is not considered direct investment, even if another U.S. person has an interest of a least 10 percent in the enterprise. Thus, if one U.S. person owns 11 percent and another owns 9 percent of the same foreign business enterprise, the 11 percent interest is considered direct investment, but the 9 percent interest is not considered direct investment. However, if two or more U.S. persons each hold an interest of at least 10 percent in the same foreign business enterprise, then each interest is considered direct investment and is included in the direct investment positions and transactions data.[9]

Determination of residency

For purposes of the benchmark survey (and BEA's other direct investment surveys), the "United States" consists of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and all U.S. territories and possessions. U.S. offshore oil and gas sites are also considered to be in the United States.

"Foreign" means that which is situated outside the United States or which belongs to, or is characteristic of, a country other than the United States.

A U.S. person is any person who resides in, or who is subject to the jurisdiction of, the United States, and a foreign person is any person who resides outside the United States or who is subject to the jurisdiction of a country other than the United States. For an individual, the country of residence rather than the country of citizenship is used to determine whether a direct investor is a U.S. investor or a foreign investor.

The U.S. parent

A U.S. parent is a U.S. person that has direct investment—that is, an ownership interest of 10 percent or more—in a foreign business enterprise. Because a U.S. parent is a "person" in the broad sense defined above, it may be a business enterprise; a religious, charitable, or other nonprofit organization; an individual; a

9. In contrast, the activities data for the foreign affiliate would be included only once.

government; an estate or trust; or another organization. A business enterprise is any organization, association, branch, venture, or the ownership of any real estate that exists to make a profit or to otherwise secure economic advantage.[10]

Each U.S. parent that was an incorporated business enterprise was required to report on a fully consolidated domestic (U.S.) basis. The fully consolidated U.S. domestic business enterprise is defined as (1) the U.S. business enterprise whose voting securities are not owned more than 50 percent by another U.S. business enterprise, and (2) proceeding down each ownership chain from that U.S. business enterprise, any U.S. business enterprise whose voting securities are more than 50 percent owned by the U.S. business enterprise above it. This consolidation excludes foreign branches and all other foreign affiliates.

When a U.S. individual or other nonbusiness person (such as a nonprofit organization or a government) owns more than 50 percent of a U.S. business enterprise that owns a foreign business enterprise, the U.S. business enterprise, not the individual or the other nonbusiness person, is considered the parent. This treatment ensures that activities data of the U.S. business enterprise are included in the U.S. parent data and that data on the transactions and positions of the U.S. business enterprise with the foreign business enterprise are included in the foreign affiliate data reported to BEA. Any direct transactions or positions of the individual or other nonbusiness person with the foreign business enterprise must be reported by the U.S. business enterprise and are therefore also included in the direct investment accounts.

In the case of a U.S. estate, the estate, not the beneficiary of the estate, is considered the U.S. parent. However, for a U.S. trust, either the beneficiary of the trust or the creator of the trust may be considered the U.S. parent with respect to any investments of the trust, depending on the circumstances. A U.S. creator is considered the parent if there is a reversionary interest—that is, if the interest in the trust may be returned to the creator after a period of time—or if the creator is a corporation or other organization that designates its own shareholders or members as beneficiaries. In all other cases, the beneficiary is considered the parent.

The foreign affiliate

A foreign affiliate is a foreign business enterprise (as defined in the previous section) in which there is U.S. direct investment. The affiliate is called a foreign affiliate to denote that it is located outside the United States.

A foreign business enterprise, and therefore a foreign affiliate, may be either incorporated or unincorporated. Unincorporated affiliates primarily take the form of branches and partnerships. They may also include directly held commercial property.

In general, the foreign operations or activities of a U.S. person are considered to be a foreign affiliate if they are legally or functionally separable from the domestic operations or activities of the U.S. person. In most cases, it is clear if the

10. Ownership of real estate for profit-making purposes is defined as a business enterprise; therefore, by definition, a business enterprise excludes the ownership of real estate exclusively for personal use.

foreign operations or activities constitute a foreign affiliate. If an operation or activity is incorporated abroad—as most are—it is always considered a foreign affiliate. The situation is not always so clear when the foreign operations or activities are unincorporated. Most are legally or functionally separable from those of the U.S. person and thus are considered foreign affiliates, but some are not clearly separable, and the determination of whether they constitute a foreign affiliate is made on a case-by-case basis, depending on the weight of the evidence.

The following characteristics would indicate that the unincorporated operation or activity is probably a foreign affiliate:

- The unincorporated operation or activity is subject to foreign income taxes.

- It has a substantial physical presence abroad, as evidenced by plant and equipment or by employees that are permanently located abroad.

- It has separate financial records that would allow the preparation of financial statements, including a balance sheet and income statement. (A record of disbursements to, or receipts from, the foreign operation or activity does not constitute a financial statement for this purpose.)

- It takes title to the goods it sells and receives revenues from the sale, or it receives funds from customers for its own account for services it performs.

A foreign affiliate that is a branch consists of operations or activities in a foreign country that a U.S. person conducts in its own name rather than through an entity that is separately incorporated abroad. By definition, a branch is wholly owned. If a company is incorporated in the United States but carries out substantially all of its operations abroad, its foreign operations are treated by BEA as a branch (and therefore as a foreign affiliate) even though the U.S. company may consider the foreign operations to be an integral part of, and would normally consolidate the operations with, the company's operations and accounts.

The following characteristics would indicate that the unincorporated operation or activity is probably not a foreign affiliate:

- The unincorporated operation or activity is not subject to foreign income taxes.

- It has limited physical assets or few employees permanently located abroad.

- It has no separate financial records that allow the preparation of financial statements.

- It conducts business abroad only for the U.S. person's account, not for its own account.

- It engages only in sales promotion or public relations activities on behalf of the U.S. parent.

- Its expenses are paid by the U.S. parent.

Consistent with these guidelines, the foreign stations, ticket offices, and terminals or port facilities of a U.S. airline or ship operator that provide services only to the airline's operations or the ship operator's operations are not considered foreign affiliates, because most of the revenues, such as passenger fares and freight charges, collected by these facilities are generated by the travel and transportation services rendered by the airline or ship operator of which they are a part, not by the activities of these facilities. However, if the facilities provide services to unaffiliated persons, they are considered foreign affiliates.

In general, each foreign affiliate was required to be reported separately. However, consolidation of affiliates in the same country was permitted if the affiliates were in the same four-digit industry or were integral parts of the same business operation.[11] For example, if Mexican affiliate A manufactured automobile engines and a majority of its sales were to Mexican affiliate B, which assembled automobiles, then the reports of affiliate A and affiliate B could have been consolidated. Under no circumstances were affiliates in different countries permitted to be consolidated.

A majority-owned foreign affiliate is a foreign affiliate in which the combined direct and indirect ownership interest of all U.S. parents exceeds 50 percent. Statistics for majority-owned foreign affiliates, rather than for all foreign affiliates, are used to examine the foreign investments over which U.S. parents exert control because majority ownership guarantees control.[12] In addition, the focus on majority-owned foreign affiliates allows the statistics on foreign affiliates to be placed on the same basis as the statistics on U.S. parents, which are defined to include all majority-owned domestic operations of the parent.

Accounting Principles

Use of generally accepted accounting principles

In most cases, data in the 2014 benchmark survey were required to be reported as they would have been for stockholders' reports rather than for tax or other purposes. Thus, unless otherwise indicated by the survey instructions, survey respondents were asked to report using U.S. generally accepted accounting principles (GAAP). The survey instructions departed from GAAP in cases where the departure would result in data that were conceptually or analytically more useful or more appropriate for measuring direct investment. One major departure from GAAP was in the consolidation rules (see the preceding discussions of consolidated reporting in "The U.S. parent" and in "The foreign affiliate" in the section "Concepts and Definitions"). For the purposes of preparing financial statements, MNEs will generally consolidate all majority-owned foreign affiliates regardless of location. For the purposes of BEA's statistics, data for units in different countries were not consolidated.

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11. For a description of the industry codes used, see BEA's *Guide to Industry Classifications for International Surveys, 2012*.

12. The U.S. parent or parents may also be under the control of a foreign parent company. In 2014, U.S. parents that were ultimately controlled by foreign parents accounted for 13 percent of all U.S. parents, and they accounted for 16 percent of the assets and for 14 percent of the sales of all U.S. parents.

Currency translation

Monetary amounts were reported to BEA in thousands of U.S. dollars. The report forms specified that when a foreign affiliate's assets, liabilities, revenues, and expenses were denominated or measured in the affiliate's financial statements in a foreign currency, they must be translated into dollars in accordance with GAAP, specifically the *Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 830:* "Foreign Currency Matters" (formerly known as FAS 52). Under *ASC 830*, assets and liabilities are translated at the exchange rate on the date of the balance sheet. For revenues and expenses, weighted-average exchange rates for the period are used. Selected data for foreign affiliates by functional currency are provided in tables I.A.3 and I.A.4.

Exchange-rate gains and losses are included in affiliates' net income if they result from remeasuring the foreign affiliates' assets and liabilities that are denominated in foreign currencies other than the affiliates' principal, or functional, currency into the functional currency at exchange rates that differ from those used in the prior period. However, exchange-rate gains and losses that result from translating opening balances for foreign affiliates' assets and liabilities from the functional currency into U.S. dollars at exchange rates that differ from those for closing balances are taken directly to a separate component of owners' equity, termed "translation adjustment component," rather than being included in net income. The effects of translating foreign affiliates' revenues and expenses from their functional currency into U.S. dollars at exchange rates that differ from those in the prior period are reflected in net income, but they are not identified, and because they do not represent changes in the values of assets or liabilities, they are not regarded as capital gains or losses.

Valuation

The 2014 benchmark survey data are primarily valued in the prices and exchange rates of 2014. Because 2014 prices and exchange rates may differ from those of other years, changes in U.S.-parent and foreign-affiliate data over time may reflect changes in prices and exchange rates rather than real changes. In addition, comparisons of foreign affiliate data across countries may be affected if the market exchange rates used to translate foreign-affiliate data to U.S. dollars do not reflect the relative purchasing power of different currencies.

In general, accumulated stock items from the benchmark survey—such as property, plant, and equipment, and the direct investment position—are valued at historical cost. For these items, the values shown largely reflect prices at the time the asset was acquired or the investment was made rather than prices in 2014. Because historical cost is the primary basis used for valuation in company accounting records in the United States, it is the basis on which companies can most easily report data on BEA's direct investment surveys.

In recent years, U.S. GAAP has expanded use of fair-value accounting as a result of convergence with International Financial Reporting Standards (IFRS). Fair-value accounting is the valuation of assets and liabilities at current-market prices or fair-market value rather than at purchase prices (historical cost). Since most reporters use U.S. GAAP, it is becoming more common for respondents to report asset and liability data items using fair-value accounting.

Fiscal Year Reporting

The 2014 benchmark survey data for U.S. parents and foreign affiliates were required to be reported on a fiscal year basis. The 2014 fiscal year was defined to be the parent's or the affiliate's financial-reporting year that ended in calendar year 2014. Unlike the direct investment positions and transactions data, activities data in all BEA surveys are consistently collected and published on a fiscal year basis. Because the U.S. ITAs and IIP accounts are prepared on a calendar year basis, data from the benchmark survey must be adjusted to a calendar year basis before they are entered into these accounts.

The comparability between the benchmark survey statistics presented here and the direct investment statistics presented in the U.S. ITAs and IIP accounts depends on the number and size and volatility of the data for foreign affiliates whose fiscal years do not correspond to the calendar year. Selected statistics for foreign affiliates and U.S. parents classified by fiscal year ending date are shown in table 2. As shown in the last column of the table, the fiscal year ending date was December 31 for most affiliates and parents.

Table 2. Selected Data for Foreign Affiliates and U.S. Parents by Fiscal Year Ending Date

[Millions of dollars, unless otherwise noted]

	Total	Fiscal year ending date				*Of which:* December 31
		January 1 to March 31	April 1 to June 30	July 1 to September 30	October 1 to December 31	
Foreign affiliates						
Number of foreign affiliates [1]	37,339	1,599	2,417	2,452	30,871	27,726
Total assets	27,598,483	1,210,618	1,564,562	860,499	23,962,803	20,913,053
Sales	7,590,076	300,743	582,378	568,597	6,138,357	5,423,228
Net income	1,280,839	41,568	109,441	80,678	1,049,151	879,839
Compensation of employees	714,412	35,824	49,092	47,865	581,631	512,017
Thousands of employees	16,401.2	1,065.4	936.9	1,070.9	13,327.9	11,808.4
U.S. exports of goods shipped to affiliates	312,237	15,771	12,378	29,656	254,430	222,740
U.S. imports of goods shipped by affiliates	403,003	20,924	27,151	24,833	330,096	287,856
Position on a historical-cost basis	5,109,611	164,184	352,439	293,960	4,299,028	3,781,832
Direct investment income	441,413	12,473	39,015	36,031	353,895	315,797
U.S. parents						
Number of U.S. parents [2]	4,541	266	214	237	3,824	3,150
Total assets	39,011,574	1,035,922	975,027	1,216,054	35,784,570	34,759,521
Sales	13,000,381	823,868	772,892	938,092	10,465,528	9,861,852
Net income	1,251,664	25,786	94,318	120,186	1,011,374	932,733
Compensation of employees	2,116,998	101,362	131,157	158,904	1,725,576	1,600,305
Thousands of employees	27,587.2	1,665.4	1,720.2	2,204.0	21,997.7	20,077.3
U.S. exports of goods shipped by U.S. parents	834,318	62,370	41,454	71,227	659,268	609,613
U.S. imports of goods shipped to U.S. parents	962,399	132,986	44,017	50,257	735,139	697,439

1. Excludes the number of affiliates that filed BE–10D survey forms.
2. Excludes the number of U.S. parents whose affiliates filed only BE–10D survey forms.

Confidentiality

Under the International Investment and Trade in Services Survey Act, the direct investment data collected by BEA from individual respondents are confidential and cannot be published in such a manner "that the person to whom the information relates can be specifically identified."[13] For this publication, each cell in a table was tested to determine whether the data it contained should be suppressed (not be shown) for confidentiality reasons. If a data cell was suppressed to avoid the disclosure of information of an individual company, a "(D)" was shown in that data cell. Because subtracting the sum of unsuppressed cells from a published category total yields the sum of suppressed cells in that category, these suppressed cells were protected with "complementary" suppressions (cells suppressed only to protect other suppressed cells, not to protect the confidentiality of individual company information in the cell itself). For employment data, a letter representing a size range was entered in lieu of a "(D)."

The Act further specifies that the data must be used for statistical and analytical purposes only; the use of an individual company's data for tax, investigative, or regulatory purposes is prohibited. Access to the data is limited to officials and employees (including consultants and contractors and their employees) of government agencies designated by the President to perform functions under the Act. In addition, as amended by the Foreign Direct Investment and International Financial Data Improvements Act of 1990, the Act grants access to certain other government agencies for limited statistical purposes. A separate act, the Confidential Information Protection and Statistical Efficiency Act of 2002 (Title V of Public Law 107–347), also authorizes the sharing of business confidential data (including BEA's direct investment data) between BEA, the U.S. Census Bureau, and the U.S. Bureau of Labor Statistics under specified conditions for statistical purposes.

Private individuals may obtain access to the data only in the capacity of experts, consultants, or contractors whose services are procured by BEA, usually on a temporary or intermittent basis, for purposes of carrying out projects under the Survey Act—for example, to perform research on direct investment. These individuals are subject to the same confidentiality requirements as regular employees of BEA or other government agencies performing functions under the Act.

Classification of Data

Both the activities data and the direct investment positions and transactions data from the benchmark survey can be classified by country of foreign affiliate, by industry of foreign affiliate, and by industry of U.S. parent.

Country classification

Each foreign affiliate is classified by its country of location—that is, the country in which the affiliate's physical assets are located or in which its primary activity is carried out. In most cases, the country of location of a business enterprise is the

13. Public Law 472, 94th Congress, 90 Statute 2059, 22 U.S. Code 3101–3108, passed by Congress in 1976 and amended in 1984 and 1990.

same as its country of organization or incorporation. However, in some cases, a business enterprise is incorporated in one country, but part or all of its physical assets are located, or its activities are carried out, in a second country. If all its physical assets or operations are located in a single foreign country outside its country of incorporation, the enterprise is treated as an incorporated foreign affiliate in the country where its physical assets and operations are located. However, if an enterprise has some physical assets or operations in each country, it is considered two affiliates—an incorporated affiliate located in the country of incorporation and an unincorporated affiliate located in the other country.

These general rules have three exceptions. First, if a business enterprise that is incorporated in one foreign country has physical assets or operations in more than one other foreign country, an incorporated foreign affiliate is deemed to exist in the country of incorporation, even though the enterprise may have no physical assets or operations in that country. Unincorporated foreign affiliates are deemed to exist in the other foreign countries. In effect, the affiliate in the country of incorporation is considered a holding company whose assets are the equity it holds in the unincorporated affiliates in the other countries. Second, if a business enterprise that is incorporated abroad by (and owned by) a U.S. person conducts its operations from, and has all of its physical assets in, the United States, it is treated as an incorporated foreign affiliate in the country of incorporation, even though it has no operations or physical assets there.[14] This treatment ensures that the foreign entity is reported to BEA. Third, affiliates that have operations spanning more than one country and that are engaged in petroleum shipping, other water transportation, or offshore oil and gas drilling are classified in the country of incorporation.

Direct investment transactions between parents and affiliates are classified in the country of the affiliate with which the U.S. parent had a direct transaction, even if the transaction may reflect indirect claims on, liabilities to, or income from indirectly held affiliates in third countries. For example, if a U.S. parent company acquires all of the equity in a German manufacturer for $100 million and channels the purchase through its holding-company affiliate in the Netherlands, then both the direct investment financial transaction and the direct investment position would be classified in the Netherlands because that is the country of the affiliate with which the U.S. parent had a direct transaction. (By contrast, the activities data—such as employment and sales data—of the newly acquired affiliate would be classified in Germany because that is where the operations are located.)

Transactions with third-country transactors involving a given affiliate are classified in the affiliate's country of location. For example, if a U.S. parent purchases a Japanese affiliate's capital stock from a French resident then the resulting direct investment financial transaction would be classified in Japan because such transactions change the U.S. direct investment position in that country. (However, the associated settlement transactions, which would be included in other financial accounts of the U.S. ITAs, would likely be classified in France.)

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14. The U.S. operations are considered a U.S. affiliate of foreign parent and included in BEA's statistics on foreign direct investment in the United States.

The designation “by country” in a table title in this publication indicates that the statistics in the table are disaggregated by country of foreign affiliate. If a different method of country disaggregation is used, it is specified in the table title; for example, sales statistics could be disaggregated either by country of affiliate or by country of destination.

In table I.A1, selected statistics for all foreign affiliates of U.S. parents are classified by country of affiliate; each country in which U.S. direct investment in 2014 was reported is shown and is grouped by geographic area. Table II.A1 presents similar information for majority-owned foreign affiliates. Primarily because of confidentiality requirements, many countries in tables I.A1 and II.A1 could not be shown in the other tables in this publication. However, the countries included only as part of a country group in the other tables may be determined, and their relative sizes assessed, by referring to table I.A1 or table II.A1.

Industry classification

In the 2014 benchmark survey, each U.S. parent or foreign affiliate was classified by industry using the International Survey Industry (ISI) classification system, which was updated for the benchmark survey to reflect the 2012 revision to the North American Industry Classification System (NAICS). For most industries, the classifications under this system are identical to those in the NAICS-based ISI classification system used in the benchmark and annual surveys for 2009–2013, which was based on the 2007 version of NAICS. The only changes are the reclassification of a few activities among detailed industries within the manufacturing, wholesale trade, and retail trade sectors.

Both the 2012 NAICS-based ISI classification system and the 2007 NAICS-based ISI classification system include 201 industries. For many industries, the ISI classifications are equivalent to NAICS four-digit industries. At its most detailed level, NAICS classifies industries at a six-digit level. The ISI classification system is less detailed than NAICS because it is designed for classifying enterprises rather than establishments (or plants). Because many direct investment enterprises are active in several industries, it is not meaningful to classify all their data in a single industry if that industry is defined too narrowly. A list and descriptions of the NAICS-based ISI codes (and their relationship to NAICS) are presented in the *Guide to Industry Classifications for International Surveys, 2012*.[15]

Each U.S. parent or foreign affiliate was classified by industry on the basis of its sales (or, for holding companies, on the basis of its total income) in a three-step process. First, a given U.S. parent or foreign affiliate was classified in the NAICS sector that accounted for the largest percentage of its sales.[16] Second, within the sector, the U.S. parent or foreign affiliate was classified in the three-digit subsector in which its sales were largest; a three-digit subsector consists of all four-digit

15. The Guide is available on **BEA’s Web site.**

16. The sectors used were agriculture, forestry, fishing, and hunting; mining; utilities; construction; manufacturing; wholesale trade; retail trade; transportation and warehousing; information; finance and insurance; real estate and rental and leasing; professional, scientific, and technical services; management of companies and enterprises; administrative and support and waste management and remediation services; educational services; health care and social assistance; arts, entertainment, and recreation; accommodation and food services; and other services.

industries that have the same first three digits in their four-digit ISI code. Third, within its three-digit subsector, the U.S. parent or foreign affiliate was classified in the four-digit industry in which its sales were largest. This procedure ensured that the U.S. parent or foreign affiliate was not assigned to a four-digit industry outside either its sector or its three-digit subsector.[17]

Tables I.A2 and II.A2 present selected activities statistics for foreign affiliates and U.S. parents classified by industry. Each four-digit industry is shown separately and is grouped by the sector and subsector to which it belongs. Table I.A2 presents detailed industry statistics for all affiliates, and table II.A2 presents detailed industry statistics for majority-owned foreign affiliates. Primarily because of confidentiality requirements, only selected four-digit industries are shown in the other tables in this publication. However, each industry that is included, but not identified, in an industry group shown in the other tables may be determined, and their relative sizes assessed, by referring to tables I.A2 and II.A2.

The designation "by industry" in the title of a table indicates that the statistics in the table are disaggregated by primary industry of the U.S. parent or foreign affiliate. Table titles specify whether the industry refers to the primary industry of the U.S. parent or the primary industry of the foreign affiliate.

U.S. parents that are individuals, estates, trusts, or nonprofit organizations were classified in the industry "nonbusiness entities, except government," which in this publication is treated as part of the ISI major industry 81, "other services." This industry is included in tables that disaggregate affiliate statistics by industry of U.S. parent.[18] However, it is not included in tables containing U.S.-parent statistics because U.S. parents that were individuals, estates, trusts, or nonprofit organizations were not required to report data on their domestic activities.

Each U.S. parent and each foreign affiliate was classified in a single industry—in the primary industry of the parent or of the affiliate. As a result, any parent or affiliate activities that take place in secondary industries are classified as

17. The following example illustrates the three-stage classification process. Suppose an affiliate's sales were distributed as follows:

Industry code	Percentage of total sales		
3341	5		
3342	10	45	60
3344	30		
3353	15		
4236	40		

Where industry codes 3341, 3342, 3344, and 3353 are in the manufacturing sector, and code 4236 is in the wholesale trade sector. Because 60 percent of the affiliate's sales were in manufacturing and only 40 percent were in wholesale trade, the affiliate's sector is manufacturing. Because the largest share of its sales within manufacturing was in the three-digit subsector 334 (computers and electronic products, which includes industry codes 3341, 3342, and 3344), the affiliate's three-digit subsector is 334. Finally, because its sales within subsector 334 were largest in the industry 3344, the affiliate's four-digit industry is 3344 (semiconductors and other electronic components). Thus, the affiliate is assigned to industry 3344.

18. Tables I.A2 and II.A2 show selected statistics for affiliates whose parents are classified in "nonbusiness entities, except government."

activities in the primary industry. Because the benchmark survey data were collected on an enterprise basis, the reports for many parents and affiliates reflect substantial activities in secondary industries. Information on the distribution of activities within each firm was obtained in the benchmark survey for two items—sales and employment—for U.S. parents and for one item—sales—for foreign affiliates. Specifically, each U.S. parent was required to distribute its sales and employment among the 10 four-digit industries in which its sales were largest and to distribute the sales of foreign affiliates among four-digit industries in which the affiliate's sales were largest.[19]

In table 3, U.S. parents' sales and employment disaggregated by industry of sales are compared with their sales and employment disaggregated by industry of parent, and foreign affiliates' sales disaggregated by industry of sales are compared with their sales disaggregated by industry of affiliate. Unspecified sales and employment are shown in the "not specified by industry" row or column in the tables that display statistics by industry of sales. Because a parent or affiliate that has an establishment in an industry usually also has sales in that industry, the distribution by industry of sales roughly approximates the distribution that would result if the sales data were reported and classified by industry of establishment.

For sales, differences between the distribution by industry of enterprise and the distribution by industry of sales were much larger for U.S. parents than for foreign affiliates, primarily because U.S. parents are more diversified and generally reflected the consolidation of more units than their affiliates, which cannot be consolidated across countries or industries on the benchmark survey.

19. For affiliates reported on Form BE–10B, sales were required to be distributed among the seven four-digit industries in which sales were largest. For affiliates reporting on Form BE–10C, sales were required to be distributed among the three four-digit industries in which sales were largest. Affiliates reported on Form BE–10D were required to provide total sales only.

Table 3. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continues

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales
All industries	**7,590,076**	**7,590,076**	**13,000,381**	**13,000,381**	**27,587.2**	**27,587.2**
Mining	**377,063**	**378,066**	**222,477**	**219,871**	**296.6**	**288.4**
Oil and gas extraction	255,698	258,532	116,916	104,926	61.2	42.4
Other	121,365	119,534	105,561	114,945	235.5	246.0
Coal mining	(D)	6,269	10,104	10,123	20.8	17.1
Nonmetallic mineral mining and quarrying	(D)	3,978	12,094	13,384	24.2	27.5
Metal ore mining	42,415	40,176	23,643	18,364	33.5	31.1
Iron ores	2,362	2,738	(D)	(D)	H	5.8
Gold and silver ores	7,755	7,950	4,701	5,163	10.3	10.5
Copper, nickel, lead, and zinc ores	(D)	23,742	(D)	9,632	J	14.2
Other metal ores	(D)	5,746	(D)	(D)	0.6	0.7
Support activities for mining	68,755	69,109	59,719	73,074	157.0	170.2
Support activities for oil and gas extraction	67,280	67,664	(D)	70,839	M	160.1
Support activities for mining, except for oil and gas extraction	1,474	1,445	(D)	2,235	I	10.1

See the footnote and note at the end of the table.

Table 3. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continues

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales
Manufacturing	**3,351,331**	**3,288,265**	**4,945,821**	**4,562,137**	**7,473.6**	**6,536.1**
Food	308,737	302,894	548,279	472,110	877.2	780.3
Animal foods	11,899	12,650	5,123	19,128	15.2	27.8
Grain and oilseed milling	(D)	130,146	186,188	116,614	124.5	98.1
Sugar and confectionery products	36,200	34,103	25,663	28,701	61.6	67.5
Fruit and vegetable preserving and specialty foods	(D)	12,965	69,143	40,698	109.6	58.4
Dairy products	(D)	7,622	32,757	44,984	51.2	74.3
Animal slaughtering and processing	23,055	26,809	115,885	134,397	276.4	268.5
Seafood product preparation and packaging	(D)	766	4,032	3,802	11.9	9.6
Bakeries and tortillas	10,385	11,736	6,819	17,980	16.3	37.3
Other food products	(D)	66,098	102,669	65,806	210.4	139.1
Beverages and tobacco products	191,870	195,534	114,481	123,239	150.4	181.9
Beverages	167,267	170,266	84,713	94,222	129.9	163.5
Tobacco products	24,603	25,269	29,768	29,017	20.6	18.5
Textiles, apparel, and leather products	19,727	19,310	39,612	45,298	160.1	166.7
Textile mills	(D)	3,292	6,665	6,985	24.2	23.4
Textile product mills	3,678	3,212	8,274	10,232	33.1	36.9
Apparel	12,058	11,941	22,056	22,264	97.6	89.2
Leather and allied products	(D)	865	2,616	5,817	5.2	17.2
Wood products	(D)	8,345	10,005	17,894	29.9	50.6
Paper	44,548	59,834	100,752	91,954	200.4	191.5
Pulp, paper, and paperboard mills	(D)	32,928	50,602	54,612	89.6	94.8
Converted paper products	(D)	26,907	50,150	37,342	110.8	96.7
Printing and related support activities	12,433	11,059	23,878	26,376	105.5	106.8
Petroleum and coal products	(D)	389,202	1,048,411	842,568	280.5	121.6
Integrated petroleum refining and extraction	(D)	(D)	605,603	479,707	M	73.2
Petroleum refining excluding oil and gas extraction	(D)	238,397	(D)	356,915	155.7	39.5
Asphalt and other petroleum and coal products	(D)	(D)	(D)	5,947	I	8.9
Chemicals	622,555	598,056	691,854	693,486	890.3	782.4
Basic chemicals	116,554	108,584	125,873	175,561	106.6	126.6
Resins and synthetic rubber, fibers, and filaments	63,630	65,183	61,642	44,570	77.7	56.1
Pharmaceuticals and medicines	228,904	232,694	369,642	309,394	435.8	330.1
Soap, cleaning compounds, and toilet preparations	(D)	91,651	63,043	63,604	135.7	101.3
Other	(D)	99,943	71,653	100,356	134.5	168.2
Pesticides, fertilizers, and other agricultural chemicals	24,416	25,349	27,167	33,784	25.9	33.8
Paints, coatings, and adhesives	31,403	27,741	30,846	38,378	77.5	88.6
Other chemical products and preparations	(D)	46,853	13,640	28,194	31.1	45.8
Plastics and rubber products	65,800	69,403	106,808	96,608	323.3	247.7
Plastics products	39,327	42,833	66,490	67,553	198.4	179.2
Rubber products	26,473	26,569	40,318	29,055	124.9	68.5
Nonmetallic mineral products	33,033	32,890	35,086	34,917	88.1	88.5
Clay products and refractories	4,005	3,913	2,643	5,312	6.1	18.2
Glass and glass products	20,830	19,755	10,974	9,720	30.0	28.0
Cement and concrete products	(D)	3,436	7,205	6,163	18.5	12.1
Lime and gypsum products	(D)	(D)	(D)	(D)	I	I
Other nonmetallic mineral products	3,393	(D)	(D)	(D)	J	J
Primary and fabricated metals	104,984	110,182	218,272	212,375	462.9	441.2
Primary metals	58,968	58,710	159,290	144,405	279.9	237.8
Iron and steel mills and ferroalloys	10,595	10,582	90,735	76,289	123.0	85.7
Steel products from purchased steel	13,200	12,941	29,714	27,694	75.3	72.8
Alumina and aluminum production and processing	22,485	22,124	21,321	20,727	43.9	38.5
Nonferrous metal (except aluminum) production and processing	11,346	11,691	11,632	14,293	18.5	24.3
Foundries	1,342	1,371	5,888	5,402	19.3	16.5

See the footnote and note at the end of the table.

Table 3. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continues

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales
Fabricated metal products	46,016	51,472	58,982	67,970	183.0	203.4
Forging and stamping	7,181	7,573	7,766	9,487	19.9	25.5
Cutlery and handtools	4,072	9,844	8,832	4,696	25.8	11.3
Architectural and structural metals	(D)	2,612	2,501	5,400	8.2	16.3
Boilers, tanks, and shipping containers	(D)	8,656	9,258	8,499	22.1	19.4
Hardware	(D)	1,045	1,190	3,424	4.5	10.6
Spring and wire products	1,039	1,069	1,893	2,181	5.2	7.9
Machine shops, turned products, and screws, nuts, and bolts	1,044	1,077	2,186	3,467	5.8	15.5
Coating, engraving, heat treating, and allied activities	476	454	613	1,912	2.6	5.1
Other fabricated metal products	19,865	19,143	24,743	28,905	88.8	91.8
Machinery	219,911	220,526	243,289	269,891	532.4	574.3
Agriculture, construction, and mining machinery	63,851	60,513	107,012	91,718	182.0	145.6
Industrial machinery	27,086	28,082	52,929	44,470	138.5	126.2
Other	128,974	131,931	83,348	133,702	211.9	302.5
Commercial and service industry machinery	(D)	21,615	13,417	17,665	28.9	41.8
Ventilation, heating, air-conditioning, and commercial refrigeration equipment	(D)	30,103	14,628	28,144	41.7	68.4
Metalworking machinery	(D)	5,822	3,937	4,325	11.8	11.5
Engines, turbines, and power transmission equipment	45,740	50,219	27,732	54,931	56.3	93.6
Other general purpose machinery	26,215	24,173	23,635	28,636	73.3	87.1
Computers and electronic products	585,422	582,854	551,189	499,350	955.1	780.4
Computers and peripheral equipment	(D)	319,841	174,887	155,536	218.7	162.6
Communications equipment	27,288	27,622	60,934	64,667	97.0	105.1
Audio and video equipment	(D)	6,622	10,566	12,666	26.5	26.4
Semiconductors and other electronic components	167,369	167,199	151,693	156,694	224.7	223.3
Navigational, measuring, and other instruments	(D)	56,218	152,307	107,244	384.7	255.3
Magnetic and optical media	(D)	5,352	801	2,543	3.6	7.6
Electrical equipment, appliances, and components	63,829	63,863	113,117	116,078	278.9	284.5
Electric lighting equipment	3,182	2,977	4,083	6,555	10.8	17.6
Household appliances	(D)	20,009	18,327	24,640	41.3	60.4
Electrical equipment	19,042	18,091	51,372	33,328	133.5	86.8
Other electrical equipment and components	(D)	22,787	39,335	51,555	93.3	119.7
Transportation equipment	488,404	467,171	927,605	796,717	1,632.1	1,220.1
Motor vehicles, bodies and trailers, and parts	451,424	430,333	515,695	522,276	678.5	592.4
Motor vehicles	(D)	267,950	381,589	383,788	340.3	291.8
Motor vehicle bodies and trailers	(D)	681	3,986	10,763	12.5	28.4
Motor vehicle parts	(D)	161,702	130,119	127,725	325.7	272.2
Other	36,980	36,838	411,910	274,441	953.6	627.7
Aerospace products and parts	30,014	29,414	366,417	218,575	829.8	477.1
Railroad rolling stock	(D)	2,993	9,925	12,924	24.9	31.0
Ship and boat building	(D)	719	(D)	17,115	L	65.9
Other transportation equipment	3,448	3,711	(D)	25,828	K	53.6
Furniture and related products	4,974	5,020	25,767	22,499	94.6	78.1
Miscellaneous manufacturing	(D)	152,121	147,417	200,777	411.9	439.4
Medical equipment and supplies	100,631	98,101	83,958	140,471	243.6	287.1
Other miscellaneous manufacturing	(D)	54,020	63,459	60,306	168.3	152.3

See the footnote and note at the end of the table.

Table 3. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continues

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales
Wholesale trade	**1,608,010**	**1,638,124**	**1,719,546**	**1,710,046**	**1,815.9**	**1,524.7**
Professional and commercial equipment and supplies	238,714	233,470	106,434	109,726	143.3	121.0
Petroleum and petroleum products	327,842	363,884	139,742	255,759	27.7	22.5
Drugs and druggists' sundries	214,680	198,817	432,151	416,346	366.3	337.0
Other	826,774	841,953	1,041,219	928,214	1,278.6	1,044.2
Motor vehicles and motor vehicle parts and supplies	(D)	150,805	206,877	158,984	210.3	189.3
Furniture and home furnishings	1,914	(D)	(D)	(D)	I	H
Lumber and other construction materials	2,312	2,285	12,340	16,721	20.6	21.2
Metals and minerals (except petroleum)	(D)	17,071	45,727	46,682	39.2	32.6
Electrical goods	132,229	130,882	157,134	155,726	105.2	108.6
Hardware, and plumbing and heating equipment and supplies	6,114	6,238	12,912	12,773	24.6	22.0
Machinery, equipment, and supplies	79,410	79,368	44,613	50,456	82.6	82.9
Miscellaneous durable goods	30,556	35,405	36,813	41,249	73.1	71.3
Paper and paper products	10,734	10,296	22,118	26,580	21.9	33.6
Apparel, piece goods, and notions	39,691	38,630	47,489	44,382	153.3	129.3
Grocery and related products	44,086	46,776	290,604	164,547	398.9	228.5
Farm product raw materials	103,829	103,666	80,825	86,416	22.6	10.1
Chemical and allied products	76,335	71,469	22,250	30,802	24.4	18.2
Beer, wine, and distilled alcoholic beverages	6,854	6,582	5,706	9,801	9.7	12.7
Miscellaneous nondurable goods	94,998	91,644	51,248	75,331	50.6	50.7
Wholesale electronic markets and agents and brokers	(D)	(D)	(D)	(D)	K	K
Retail trade	**404,717**	**409,983**	**1,466,820**	**1,494,587**	**5,467.3**	**5,447.7**
General merchandise stores	(D)	187,848	550,413	555,683	2,236.6	2,222.2
Clothing and clothing accessories stores	33,227	32,814	123,814	117,038	919.8	883.7
Other	(D)	189,321	792,593	821,865	2,311.0	2,341.8
Motor vehicle and parts dealers	14,185	13,580	65,908	58,426	137.7	121.8
Furniture and home furnishings stores	2,007	(D)	(D)	(D)	J	K
Electronics and appliance stores	(D)	16,430	(D)	51,681	M	154.3
Building material and garden equipment and supplies dealers	(D)	(D)	(D)	132,752	M	M
Food and beverage stores	7,625	8,201	109,253	93,004	418.8	400.0
Health and personal care stores	5,281	5,366	(D)	(D)	M	298.0
Gasoline stations	(D)	61,092	114,909	128,487	114.8	137.2
Sporting goods, hobby, book, and music stores	(D)	11,055	38,328	37,498	249.3	241.8
Miscellaneous store retailers	11,071	11,712	51,598	42,771	196.7	179.7
Nonstore retailers	46,518	47,353	91,668	120,401	173.2	202.3
Information	**325,096**	**324,397**	**1,041,298**	**1,011,579**	**1,998.9**	**1,757.2**
Publishing industries	125,355	122,372	175,499	181,561	433.7	397.4
Newspaper, periodical, book, and database publishers	12,211	11,212	48,675	45,779	191.6	161.0
Software publishers	113,145	111,159	126,824	135,782	242.0	236.4
Motion picture and sound recording industries	16,867	17,029	26,398	47,261	93.8	102.3
Motion picture and video industries	14,442	14,432	22,017	41,798	L	96.2
Sound recording industries	2,425	2,597	4,380	5,463	I	6.1
Broadcasting (except Internet) and telecommunications	85,351	85,544	587,128	536,395	1,044.6	816.4
Broadcasting (except Internet)	24,385	24,845	191,990	149,174	398.7	221.9
Radio and television broadcasting	5,338	4,841	21,469	34,349	37.6	56.6
Cable and other subscription programming	19,047	20,004	170,521	114,825	361.1	165.2
Telecommunications	60,966	60,699	395,138	387,221	645.9	594.5
Wired telecommunications carriers	29,024	27,199	216,399	225,780	343.4	321.6
Wireless telecommunications carriers (except satellite)	8,584	9,786	(D)	137,155	M	211.8
Satellite telecommunications	(D)	(D)	10,314	8,591	I	5.9
Other telecommunications	(D)	(D)	(D)	15,695	J	55.2
Data processing, hosting, and related services	19,304	19,547	137,092	136,127	157.1	199.3
Other information services	78,218	79,906	115,181	110,235	269.8	241.9

See the footnote and note at the end of the table.

Table 3. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Continues

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales
Finance and insurance	**605,713**	**605,774**	**1,899,838**	**1,987,257**	**2,849.1**	**2,633.2**
Depository credit intermediation (banking)	81,624	81,585	408,956	342,450	1,079.3	757.0
Banks	79,943	79,905	408,956	(D)	1,079.3	M
Branches and agencies	1,681	1,681	0	(D)	0.0	H
Finance, except depository institutions	314,586	318,578	467,364	600,319	684.9	954.4
Securities, commodity contracts, and other intermediation and related activities	166,137	169,375	281,202	375,623	400.3	572.2
Securities and commodity contracts intermediation and brokerage	(D)	51,410	119,551	149,367	202.7	259.4
Other financial investment activities and exchanges	(D)	117,964	161,651	226,256	197.6	312.8
Nondepository credit intermediation and related services	107,526	108,284	166,524	201,124	270.0	364.2
Nondepository credit intermediation	(D)	67,609	128,849	152,098	203.6	278.3
Activities related to credit intermediation	(D)	40,675	37,675	49,026	66.4	85.9
Funds, trusts, and other financial vehicles	40,922	40,919	19,638	23,572	14.5	17.9
Insurance carriers and related activities	209,503	205,610	1,023,517	1,044,488	1,084.9	921.9
Insurance carriers, except life insurance carriers	100,146	93,872	702,257	691,338	803.1	570.9
Life insurance carriers	90,835	93,955	293,485	296,053	172.2	156.5
Agencies, brokerages, and other insurance related activities	18,522	17,784	27,775	57,097	109.6	194.5
Professional, scientific, and technical services	**292,171**	**299,804**	**424,321**	**516,311**	**1,650.4**	**1,821.0**
Architectural, engineering, and related services	38,198	38,007	47,590	71,505	194.7	233.5
Computer systems design and related services	131,684	128,699	150,186	153,457	480.5	465.8
Management, scientific, and technical consulting	30,896	31,520	33,751	72,601	189.6	343.4
Advertising and related services	17,012	17,239	32,457	38,255	120.3	146.8
Other	74,382	84,338	160,337	180,494	665.3	631.6
Legal services	8,109	8,109	53,124	53,273	121.0	105.2
Accounting, tax preparation, bookkeeping, and payroll services	14,182	14,394	51,813	37,906	240.8	173.6
Specialized design services	(D)	3,128	3,822	4,190	10.6	12.3
Scientific research and development services	19,168	19,506	15,938	25,882	53.4	71.5
Other professional, scientific, and technical services	(D)	39,202	35,640	59,243	239.4	269.0
Other industries	**625,975**	**638,044**	**1,280,261**	**1,454,778**	**6,035.3**	**6,313.5**
Agriculture, forestry, fishing, and hunting	17,699	18,755	13,643	19,426	36.1	44.7
Crop production	9,898	10,461	10,028	10,291	19.7	20.1
Animal production	4,718	4,932	2,957	7,524	14.7	21.0
Forestry and logging	1,077	1,042	197	953	0.3	0.7
Fishing, hunting, and trapping	22	22	(D)	(D)	1.1	0.9
Support activities for agriculture and forestry	1,984	2,299	(D)	(D)	0.3	1.9
Construction	41,136	41,081	125,042	131,984	319.0	339.3
Construction of buildings	3,578	3,618	44,216	44,915	54.1	48.0
Heavy and civil engineering construction	34,944	34,994	55,221	51,977	131.5	129.4
Special trade contractors	2,613	2,468	25,605	35,092	133.5	162.0
Utilities	88,652	85,872	235,197	259,239	205.5	196.1
Electric power generation, transmission, and distribution	(D)	37,977	152,913	155,514	153.7	139.1
Natural gas distribution	(D)	46,528	77,598	99,438	40.5	47.9
Water, sewage, and other systems	(D)	1,367	4,687	4,287	11.3	9.0
Transportation and warehousing	137,210	143,341	381,837	440,629	1,340.8	1,361.0
Air transportation	(D)	11,389	129,689	137,611	284.9	277.0
Rail transportation	16,515	15,966	56,754	80,157	129.7	170.9
Water transportation	31,284	35,120	9,402	11,958	21.9	23.4
Petroleum tanker operations	(D)	5,028	(D)	3,826	I	5.5
Other water transportation	(D)	30,092	(D)	8,132	J	17.9
Truck transportation	12,109	12,235	46,374	48,414	194.3	202.0
Transit and ground passenger transportation	981	989	6,992	7,064	117.1	116.2
Pipeline transportation	(D)	10,240	31,765	49,621	18.9	28.8
Pipeline transportation of crude oil, refined petroleum products, and natural gas	(D)	(D)	(D)	(D)	18.8	27.7
Other pipeline transportation	(D)	(D)	(D)	(D)	0.1	1.1

See the footnote and note at the end of the table.

Table 3. Sales by All Foreign Affiliates and Sales by, and Employment of, All U.S. Parents, by Industry of Enterprise and by Industry of Sales—Table Ends

	Affiliates		U.S. parents			
	Sales (millions of dollars)		Sales (millions of dollars)		Number of employees (thousands)	
	By industry of affiliate	By industry of sales	By industry of U.S. parent	By industry of sales	By industry of U.S. parent	By industry of sales
Scenic and sightseeing transportation	(D)	(D)	(D)	(D)	0.6	0.8
Support activities for transportation	22,710	(D)	(D)	(D)	L	M
Management of nonbank companies and enterprises	2,301	2,378	1,590	785	9.6	10.0
Couriers and messengers	24,861	24,791	(D)	(D)	M	M
Warehousing and storage facilities	8,868	8,690	5,725	9,961	31.5	44.8
Petroleum storage for hire	(D)	746	(D)	2,319	0.3	2.2
Other warehousing and storage	(D)	7,944	(D)	7,642	31.2	42.6
Real estate and rental and leasing	108,563	111,244	106,483	142,965	297.7	356.7
Real estate	35,701	36,206	42,790	44,546	95.3	93.5
Rental and leasing (except real estate)	72,862	75,037	63,692	98,419	202.4	263.2
Automotive equipment rental and leasing	8,808	8,881	32,846	35,344	121.3	109.5
Other rental and leasing services	18,161	20,471	16,030	36,962	53.5	92.2
Lessors of nonfinancial intangible assets (except copyrighted works)	45,892	45,685	14,817	26,114	27.6	61.5
Holding companies, except bank holding companies	0	0	676	0	7.9	7.8
Corporate, subsidiary, and regional management offices	2,301	2,378	914	785	1.7	2.2
Administration, support, and waste management	90,319	88,584	149,735	140,718	1,189.6	1,091.0
Administrative and support services	(D)	77,098	120,768	111,544	1,088.9	995.4
Office administrative services	(D)	2,854	18,171	10,291	135.0	73.1
Facilities support services	2,029	2,098	2,254	3,923	37.6	39.3
Employment services	23,599	23,625	28,065	27,924	404.6	392.9
Business support services	24,224	21,794	29,890	17,509	206.3	142.2
Travel arrangement and reservation services	(D)	16,145	15,515	18,379	22.2	27.1
Investigation and security services	2,092	1,974	15,556	16,205	217.7	228.0
Services to buildings and dwellings	1,180	1,724	6,177	6,879	52.1	53.6
Other support services	6,741	6,884	5,140	10,435	13.4	39.3
Health care and social assistance	9,354	9,696	90,770	95,090	638.7	650.7
Ambulatory health care services	2,311	2,178	20,816	22,818	133.4	142.1
Hospitals	3,444	3,919	57,865	58,926	380.1	379.6
Nursing and residential care facilities	(D)	(D)	11,710	12,588	119.2	121.6
Social assistance	(D)	(D)	379	758	6.1	7.3
Accommodation and food services	67,865	68,058	112,058	117,057	1,468.6	1,533.8
Accommodation	20,777	20,418	38,402	45,014	326.6	378.4
Food services and drinking places	47,088	47,641	73,656	72,043	1,142.0	1,155.4
Miscellaneous services	62,876	69,035	63,906	106,885	529.7	730.2
Educational services	8,039	8,082	9,381	10,123	69.9	75.6
Arts, entertainment, and recreation	39,319	38,037	36,664	47,498	298.0	365.9
Performing arts, spectator sports, and related industries	5,839	5,318	(D)	(D)	13.1	20.4
Museums, historical sites, and similar institutions	120	96	(D)	(D)	0.1	0.1
Amusement, gambling, and recreation industries	33,360	32,623	28,756	38,647	284.7	345.4
Other services (except public administration and private households)	15,519	22,916	17,861	49,264	161.9	288.7
Repair and maintenance	(D)	19,950	5,403	38,170	27.5	168.9
Personal and laundry services	(D)	2,966	12,458	11,093	134.3	119.9
Nonbusiness entities, except government	0	0	0	1	0.0	(*)
Auxiliaries [1]	**0**	**0**	**0**	**0**	**0.0**	**1,186.5**
Unspecified	**0**	**7,620**	**0**	**43,814**	**0.0**	**78.7**

D Data are suppressed to avoid the disclosure of data of individual companies

1. Employees on the payrolls of administrative offices and other auxiliary units. Excludes administrative or auxiliary employees that are located at an operating unit and serve only that operating unit; these employees are classified in the industry of sales of the operating unit that they serve.

Note. Size ranges are given in employment cells that are suppressed. The size ranges are: A—1 to 499; F—500 to 999; G—1,000 to 2,499; H—2,500 to 4,999; I—5,000 to 9,999; J—10,000 to 24,999; K—25,000 to 49,999; L—50,000 to 99,999; M—100,000 or more.

Estimation and General Validity of the Data

To present direct investment statistics in the same detail for all majority-owned foreign affiliates and to reduce respondent burden, BEA imputed the items that appeared only on Form BE–10B for the affiliates that were reported on Form BE–10C or Form BE–10D. Most of these Form BE–10B items were imputed on the basis of relationships among data items for a panel of Form BE–10B affiliates with similar host country and industry characteristics. As a result of this process, for every data item in the tables for majority-owned foreign affiliates, the statistics presented cover the universe of majority-owned foreign affiliates of U.S. parents.

Estimates were also prepared for some parents and affiliates that failed to report in the benchmark survey, but for which BEA had a basis for imputation, usually from data reported on BEA quarterly and annual surveys.

Direct investment positions and transactions data were collected for all affiliates that filed Forms BE–10B and BE–10C. For those affiliates that filed Form BE–10D, direct investment positions and transactions were estimated from the information reported on affiliate operations.[20] For every item in the tables for direct investment positions and transactions, the statistics cover the universe of all affiliates.

The data reported for U.S. parents and foreign affiliates were required to pass a substantial number of edit checks. The data for a parent or an affiliate were reviewed for their consistency with related data for the parent or affiliate from other parts of the survey form and with data provided in related survey forms. When possible, the data were also compared to comparable data reported by other parents or affiliates and to comparable data from outside sources. As a result of this edit and review process, a number of changes to the reported data were made, usually after consultation with survey respondents. In some cases, usually those of smaller parents and affiliates, estimates based on industry averages or on other information were substituted for missing or erroneously reported data.

For some items—such as those pertaining to trade by country of origin or destination and employment by industry of sales—parents and affiliates had difficulty in supplying the required information because the data were not easily accessible or were unavailable from their standard accounting records. In these cases, reporters often provided estimates, the quality of which is difficult to assess.

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20. The direct investment position was estimated in two parts. The equity position was estimated by multiplying the U.S. parent's percentage of direct ownership in the affiliate by the affiliate's total owner's equity (assets less liabilities). The debt position was estimated by subtracting debt owed to the affiliate by its U.S. parent from debt owed to the parent by the affiliate. Direct investment income was estimated by multiplying the U.S. parent's percentage of direct ownership in the affiliate by the affiliate's net income (or loss) after foreign income tax.

Number of U.S. Parents and Foreign Affiliates

Table I.A1 shows by country the number of foreign affiliates with total assets, sales, or net income (loss) greater than $25 million. Table I.A2 shows the number of U.S. parents and foreign affiliates by industry.

The numbers of parents and affiliates are not strictly comparable with the numbers shown in previous benchmark and annual survey publications because of differences in the criteria for reporting on the different forms. The numbers in this publication cover affiliates that met the 2014 benchmark survey's $25 million reporting criterion for filing Form BE–10B or Form BE–10C and cover parents that reported at least one affiliate on those forms. The numbers in benchmark survey publications earlier than 2009 are based on the size criteria in those surveys, which differed from those in 2014 and 2009. For example, the size threshold was $10 million in the 2004 benchmark survey.

The numbers of parents and affiliates should be used cautiously because, except for those shown in table 1, they exclude numerous very small affiliates, which are affiliates with total assets, sales, and net income (loss) of $25 million or less, and parents whose affiliates all had total assets, sales, and net income (loss) of $25 million or less. In addition, comparisons of the number of parents and affiliates over time should be performed cautiously because BEA makes efforts to identify and eliminate gaps in coverage through benchmark surveys. This process often results in new reporting of U.S. parents not previously known to BEA to be part of the direct investment universe. The increase in the number of parents and affiliates in 2014 partly reflected new reporting by many U.S. parents. Although the new parents and affiliates were large in number, their operations were smaller than average for most measures of activity. While it is common for new parents to be identified in benchmark surveys, the influx of newly identified parents in the 2014 survey was somewhat larger than in past benchmark surveys.[21]

Another reason to use caution when using the numbers of parents and affiliates is because survey forms were not filed for some parents and affiliates that met the reporting criteria. Because of limited resources, BEA's efforts to ensure compliance with reporting requirements focused mainly on large parents and affiliates. As a result, some of the parents of small affiliates that were not aware of the reporting requirements and that were not on BEA's mailing list may not have filed reports. The omission of these parents and affiliates from the benchmark survey results probably has not significantly affected the aggregate value of the various data items collected. Given the larger than normal influx of newly identified parents in the 2014 survey, it is likely that any omissions are smaller than in previous benchmark surveys.

Even an exact count of parents or affiliates would be difficult to interpret because each report covers a consolidated business enterprise. The number of consolidated business enterprises varies according to the degree of consolidation by enterprise and differences in the organizational structure of the enterprises.

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21. For more information on the effects of this new reporting on the statistics, see ***Improvements in Coverage for the 2014 Benchmark Survey.***

Statistics on Activities of Foreign Affiliates and U.S. Parents

Activities statistics cover the overall operations of U.S. parents and their foreign affiliates, which allows for analysis of a broad range of topics related to direct investment. Among the items covered by these statistics are the following: balance sheets and income statements; value added; goods and services supplied; taxes; property, plant, and equipment; employment and compensation of employees; U.S. trade in goods; and research and development activities.

The activities statistics for foreign affiliates are not adjusted for the ownership share of the U.S. parents. Thus, for example, the employment statistics include all the employees of each affiliate, including affiliates in which the U.S. parent's ownership share is less than 100 percent.

Most of the concepts and definitions used in reporting the activities data can be found in the instructions on the survey forms. The following discussion focuses on the concepts, definitions, and statistical issues that require further explanation or that are not covered in the forms or the instructions.

Balance sheets and income statements

U.S. parents' and their foreign affiliates' balance sheets and income statements are required to be reported as they would have been for stockholders' reports, preferably according to U.S. GAAP. Some exceptions, such as consolidation, are explained in the survey instructions.

For most parents and foreign affiliates, the income statement includes all types of income, both ordinary and extraordinary. However, for some parents and affiliates, such as those in insurance, GAAP requires certain unrealized gains and losses to be carried directly to owners' equity in the balance sheet rather than to be recorded on the income statement. This GAAP requirement also applies to BEA reporting.

Under GAAP, depreciation and depletion charges are used to distribute the cost of an asset over that asset's estimated useful life. For example, parents and affiliates engaged in extracting natural resources report net income after the deduction of book depletion—that is, those expenses representing the periodic chargeoff of the actual cost of natural resources. Tax or percentage depletion is not deducted. This GAAP requirement also applies to BEA reporting.

Value added

Value added is an economic accounting measure of the production of goods and services. A foreign affiliate's value added measures the value of its production net of any intermediate inputs produced by others. It measures the affiliate's contribution to the gross domestic product (GDP) of the foreign host country. Likewise, a U.S. parent's value added measures the parent's contribution to U.S. GDP.

A firm's value added can be measured as gross output (revenue) less its intermediate inputs (purchased goods and services used in production). Alternatively, it can be measured as the sum of the costs incurred (except for intermediate inputs) and the "profit-type returns" earned in production.[22] The costs fall into four major categories: compensation of employees, net interest paid, taxes on production and imports, and the capital consumption allowance.[23] The estimates presented in this publication were calculated as the sum of costs incurred and profit-type returns earned in production.

Value added is generally preferred to sales or other measures to assess the economic impact of parents or affiliates on the overall economy and on individual industries. Value added permits a more focused analysis of the impact of U.S. MNEs because it measures only the enterprises' contributions to economic output, whereas sales do not distinguish between parents' or affiliates' contributions and the value of output embodied in inputs purchased from other companies. In addition, value added is a better measure of parents' or affiliates' contributions to the economy during a specific period than is sales, which may represent production from earlier periods.

Goods and services supplied

For U.S. parents and majority-owned foreign affiliates, the 2014 benchmark survey collected data on sales or gross operating revenues disaggregated into goods, services, and investment income. Sales were further disaggregated according to whether the customer was affiliated or unaffiliated with the seller and whether the customer was a resident of the United States, or, if the foreign affiliate was the seller, whether the customer was a resident of the country of the foreign affiliate or another foreign country. For purposes of distributing sales or gross revenues into goods, services, and investment income on the benchmark survey, goods are generally defined to be economic outputs that are tangible, and services are generally defined to be economic outputs that are intangible. In finance and insurance, companies include investment income in sales because it is generated by a primary activity of the firm. In other industries, most companies consider investment income an incidental source of income and include it in the income statement in an "other income" category rather than in sales.

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22. Profit-type return is an economic accounting measure of profits from current production. Unlike net income, it is gross of income taxes, excludes capital gains and losses and income from equity investments, and reflects certain other adjustments needed to convert profits from a financial-accounting basis to an economic-accounting basis.

23. In the NIPAs, two measures of depreciation, or capital consumption, are used—the *capital consumption allowance* and the *consumption of fixed capital*. The capital consumption allowance (CCA) consists of depreciation charges, which are based mainly on tax returns, and allowances for accidental damage to fixed capital. Consumption of fixed capital consists of CCA plus an adjustment to place depreciation on an economic basis that uses economic service lives, geometric pattern for depreciation, and replacement-cost valuation.

For U.S. parents and foreign affiliates, the only measure of capital consumption available from BEA's survey data is the book value of depreciation, reported on a basis consistent with GAAP. Because this measure does not provide for replacement-cost valuation, it is termed the "capital consumption allowance" in this publication.

The basis used to measure depreciation has no effect on the measurement of total value added; any differences between the measures of depreciation, which is a cost of production, have equal and offsetting effects on the profit-type return component.

In the activities statistics, total sales are distributed by type of sale into categories that roughly correspond to goods and services sales and investment income but more closely approximate measures of output, namely goods supplied, services supplied, and other sales.[24] For sales in industries other than banking, insurance, and wholesale and retail trade, goods and services supplied are equal to the reported values of sales of goods and services, and other sales, which is calculated as the residual of total sales less goods and services supplied and is equal to investment income. For banking and insurance, adjustments are made to the reported value of sales of services and for wholesale and retail trade, adjustments are made to the reported values of sales of goods and sales of services. For sales in banking, services supplied include not only the explicit fees and commissions reported as sales, but also BEA's estimate of the value of implicit services provided by banks, often referred to as financial intermediation services indirectly measured (FISIM).[25] Other sales are thereby equal to reported investment income less FISIM. For sales in insurance, services supplied consists of BEA's estimate of premiums remaining after provision for expected or "normal" losses and a measure of premium supplements, which represent income earned on funds insurers hold on policyholders' behalf. For sales in wholesale and retail trade, services supplied includes an estimate of the distributive services provided by selling goods or arranging for their sale. This estimate of distributive services is subtracted from the reported value of sales of goods to produce a measure of goods supplied that includes only the value of the goods resold. The adjustments to reported sales in banking, insurance, and wholesale and retail trade affect the distribution of sales or operating revenues between goods and services supplied and other sales but do not affect the value of total sales or operating revenues.

Employment and compensation of employees

Respondents to the 2014 benchmark survey were asked to report employment as the number of full-time and part-time employees on the payroll at the end of fiscal year 2014. However, a count taken during the year was accepted if it was a reasonable proxy for the end-of-year number. In addition, if employment at the end of the year was unusually high or low because of temporary factors, such as seasonal variations or a strike, a number reflecting normal operations was requested.

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24. Statistics on services supplied though majority-owned foreign affiliates of U.S. companies are presented together with data on cross-border trade in services in annual articles in the Survey of Current Business and in the international services section of **BEA's interactive tables.** For the most recent presentation, see Alexis N. Grimm and Shari A. Allen, "U.S. International Services: Trade in Services in 2016 and Services Supplied Through Affiliates in 2015," SURVEY 97 (October 2017). In most of the statistics available in the interactive tables, the series on services supplied through majority-owned foreign affiliates of U.S. companies begins with the year 2004, the first year for which supplemental data are available to calculate the adjustments necessary to convert sales of services to services supplied.

25. Banks are compensated for some services by a portion of the interest that they charge on loans or by a reduction in the interest rates that they pay to depositors rather than by charging explicit fees. For example, banks may provide some services—such as processing checks, disbursing or transferring funds when and where needed, protecting deposited funds, and investment services—without charging explicit fees. To account for such services, the measure of the value added by U.S. MNEs includes an imputation of the value of these services because they are omitted by the standard measure of value added that is used for most industries.

Employment by U.S. parents is classified both by industry of parent and by industry of sales. The classification by industry of sales is based on information supplied by each U.S. parent on employment in the individual four-digit industries in which it had sales.

Employment by foreign affiliates is classified both by industry of affiliate and by industry of U.S. parent. It is not classified by industry of sales because the necessary data were not collected.

Data on both employment and compensation of employees were collected in the benchmark survey covering parents' and affiliates' total operations. These data could be used to compute rates of compensation per employee, but the rates may not accurately reflect the compensation rates normally paid by U.S. MNEs and, thus, are not shown in this publication. The computed rates may be distorted by the inclusion of part-time employees, because part-time employees are counted the same as full-time employees, or by data that cover only part of the year. For example, compensation may be reported for a parent or an affiliate that was newly established during the year.

U.S. trade in goods

The concepts and definitions underlying the data collected in the benchmark survey on trade in goods are nearly identical to those used for the data on total U.S. trade in goods compiled by the Census Bureau. Although the trade data are particularly difficult for U.S. MNEs to report, BEA's review of the reported data indicates that most of the data conform well to Census Bureau concepts and definitions. However, because of certain reporting issues described below, there are some measurement differences between the U.S. MNE trade data and the Census Bureau trade data.

In the benchmark survey, data on U.S. trade in goods were requested on a "shipped" basis—that is, on the basis of when, where, and to (or by) whom the goods were shipped—in order for them to be comparable with Census Bureau trade data. However, most survey respondents keep their accounting records on a "charged" basis—that is, on the basis of when, where, and to (or by) whom the goods were charged. The two bases are often the same, but they can differ substantially. For example, if a U.S. parent buys goods from country A and sells them to country B and if the goods are shipped directly from country A to country B, the parent's books would show a purchase from country A and a sale to country B. Because the goods never entered or left the United States, on a shipped basis, they would not be recorded as either U.S. imports or U.S. exports. However, if the parent's trade data were reported on a charged basis, the purchase would appear as a U.S. import and the sale would appear as a U.S. export.

On the basis of its review, BEA believes that most data were reported on a shipped basis rather than on a charged basis. However, some survey respondents had difficulty obtaining data on a shipped basis, which usually requires using shipping department invoices rather than accounting records. If BEA determined that the data were reported on a charged basis and that these data were likely to differ materially from the data reported on a shipped basis, it required the survey respondents to file revised reports. However, it is possible that some cases of erroneous reporting were not identified.

In addition, the data on trade by U.S. MNEs are collected and reported by BEA on a fiscal year basis, whereas the data on total U.S. trade in goods that are collected by the Census Bureau are on a calendar year basis. In the 2014 benchmark survey, U.S. MNEs whose fiscal year exactly corresponded to the calendar year 2014 accounted for 73 percent of the total exports and for 72 percent of the total imports of goods reported for all U.S. parents (table 2, page 11).

Additional differences between the BEA trade data collected on the benchmark survey and the Census Bureau trade data may have resulted simply because the data come from different sources: the BEA data are based on company records, whereas the Census Bureau data are compiled from export and import documents filed by shippers with the U.S. Bureau of Customs and Border Protection on individual transactions. The timing, valuation, origin or destination, shipper, and product involved in a given transaction may be recorded differently on company records than on the export and import documents.

In the 2014 benchmark survey, as in previous benchmark surveys, U.S. exports of goods shipped to majority-owned foreign affiliates were also disaggregated by intended use into three categories: goods for further manufacture, goods for resale without further manufacture, and a residual category that includes capital goods.

Total trade of a given U.S. parent with all of its foreign affiliates combined was reported on the parent survey form (BE–10A). Trade of a foreign affiliate with its U.S. parent was reported on the two larger affiliate survey forms (BE–10B and BE–10C). However, the total trade of a U.S. parent with all of its affiliates combined may not equal the sum of the trade with the U.S. parent that was reported for the affiliates because (1) timing and valuation in reporting may differ and (2) the parent's survey form may include data for affiliates that reported on the Form BE–10D.

U.S. imports of goods shipped to U.S. parents were also disaggregated by intended use into three categories: goods for further manufacture, goods for resale without further manufacture, and a residual category that includes capital goods. The 2014 benchmark survey added new questions to collect these data disaggregated on the basis of whether the goods were shipped by a foreign affiliate or by other foreigners. These data are provided in table I.R.3. In addition, the 2014 benchmark survey added questions to collect total U.S. exports and total U.S. imports by destination for major regions. These data are provided in table I.R.4.

Research and development

The 2014 benchmark survey collected data on two items related to research and development by U.S. MNEs: research and development (R&D) expenditures and the number of employees engaged in R&D-related activities.

As in previous benchmark surveys, the 2014 benchmark survey data on R&D expenditures were collected for both R&D *funded* by the parent or the affiliate (whether the R&D was performed internally or by others) and R&D *performed* by the parent or the affiliate (whether the R&D was for its own use or for use by others). R&D funded by the parent or the affiliate is viewed from the perspective of the costs of production and can be used as a rough indicator of U.S. MNEs' use of technology. This basis is consistent with the guidelines of the Financial Accounting Standards Board for accounting for the costs of R&D. R&D performed can be used to gauge the technological capabilities of U.S. MNEs. Only the data on R&D performed are collected on the annual surveys of U.S. direct investment abroad.

City of affiliate

The 2014 benchmark survey added a new question to collect information on the city of location of each foreign affiliate as a result of interest in more detailed information on the location of activities of foreign affiliates. These data for the most important countries in terms of affiliate employment are provided in table I.G.7. The table includes countries with affiliate employment of 500,000 or more and cities in these countries with a population of at least 500,000 and with at least 20 affiliates. The city of location was not reported on the survey for all affiliates; these affiliates are included in the "city not identified" categories in the table.

Direct Investment Positions and Transactions Statistics

Direct investment positions and transactions statistics measure the value of U.S. parents' investment positions in, and transactions with, their foreign affiliates. In contrast, the activities statistics of U.S. MNEs provide measures of the overall operations of those companies, including their transactions and positions with persons outside of the company. For example, the U.S. direct investment position in a foreign affiliate is equal to its U.S. parents' equity in, and net outstanding loans to, the affiliate. In contrast, a foreign affiliate's balance sheet will include total liabilities, including, but not limited to, liabilities owed to the U.S. parent.

For U.S. direct investment abroad, two major items appear in the international transactions accounts (ITAs): direct investment financial transactions and direct investment income. Direct investment financial transactions, which are recorded in the financial account of the ITAs, arise from transactions that change financial claims (assets) and liabilities between U.S. parents and their foreign affiliates. Direct investment income, which is recorded in the primary income section of the current account of the ITAs, is the return on the U.S. direct investment position abroad; that is, it is the U.S. parents' return on their equity and debt investment in their foreign affiliates.

Two adjustments are made to the direct investment financial transactions and income data collected on the benchmark survey to prepare the measures for the ITAs or the NIPAs: a cost-basis adjustment and a timing adjustment. First, these items are adjusted to reflect current-period prices for earnings (and reinvestment of earnings, which constitutes one type of direct investment financial transaction) under the cost-basis adjustment. The adjustment to current-period prices is accomplished in two steps. First, a capital consumption adjustment converts depreciation charges from a historical-cost basis to a current-cost (or replacement-cost) basis. Second, earnings are raised by the amount of charges for the depletion of natural resources, because these charges are not treated as production costs in the NIPAs.[26] These adjustments are made only at the global level since the data required to make them for countries and industries are not available.

Under the timing adjustment, the data from the benchmark survey are adjusted from a fiscal year basis to a calendar year basis. As discussed in the section on fiscal year reporting, the direct investment positions and transactions data collected in the 2014 benchmark survey are on a fiscal year basis. Thus, before the data are incorporated into the quarterly ITAs or the NIPAs, which are on a calendar year basis, they are adjusted from a fiscal year basis to a calendar year basis. The adjusted calendar year data for 2014 are extrapolated forward to derive universe estimates for calendar years after 2014 on the basis of sample data collected in BEA's quarterly surveys for the subsequent years.

One additional difference between the statistics presented in this publication and those featured in the ITAs, the international investment position (IIP) accounts, and the NIPAs is that the statistics in this publication are presented are on a directional basis, whereas those featured in the broader economic accounts are presented on an asset/liability basis. On a directional basis, outward direct investment comprises U.S. parents' investment in their foreign affiliates (U.S. parent claims) net of foreign affiliates' investment in their U.S. parents (U.S parent liabilities), and inward investment comprises foreign parents' investment in their U.S. affiliates (U.S. affiliate liabilities) net of U.S. affiliates' investment in their foreign parents (U.S. affiliate claims). In contrast, on an asset/liability basis, U.S. assets include U.S. parent and U.S. affiliate claims, and U.S. liabilities include U.S. parent and U.S. affiliate liabilities. This treatment primarily affects the recording of intercompany debt between parents and affiliates.[27] Under the asset/liability basis, U.S. parents' debt claims are not netted against their debt liabilities to their foreign affiliates, and U.S. affiliates' debt claims are not netted against their debt liabilities to their foreign parent groups.

The focus under the directional basis is on the direction of the direct investment relationship; the focus under the asset/liability basis is on the nature of the financial claim. The directional basis is well suited for analyzing direct investment by country or by industry; the asset/liability basis conforms to international standards for balance of payments, international investment position, and national accounts.[28]

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26. The cost-adjusted statistics are featured in the ITAs and NIPAs, and unadjusted (that is, historical-cost) statistics are also presented in the ITAs.
27. Although BEA's direct investment surveys capture reverse debt investment, they are not designed to fully capture reverse equity investment. Consequently, although international standards call for presentation of both equity and debt on an asset/liability basis, the statistics featured in the ITAs and IIP accounts present only debt on this basis.
28. For a further comparison of the directional basis and the asset/liability basis in the presentation of direct investment statistics, see the ***U.S. International Economic Accounts: Concepts and Methods.***

U.S. direct investment position abroad

The U.S. direct investment position abroad is equal to the value of U.S. parents' equity in, and net outstanding loans to, their foreign affiliates at historical cost. The position may be viewed as financing provided in the form of equity or debt by U.S. parents to their foreign affiliates.

Historical costs are used for the direct investment position statistics and largely reflect prices at the time of the investment rather than prices of the current period. Because historical cost is the primary basis used for valuation in company accounting records in the United States, it is the basis on which companies can most easily report data in BEA's direct investment surveys.[29] It is also the only basis on which detailed estimates of the position are available by country, by industry, and by account. However, BEA does provide aggregate estimates of the position valued in current-period prices.[30]

U.S. parents' equity in foreign affiliates can be disaggregated into (1) U.S. parents' holdings of capital stock in their affiliates, (2) U.S. parents' equity in the retained earnings of their affiliates, and (3) other equity. Capital stock consists of common and preferred stock of affiliates owned by U.S. parents plus U.S. parents' equity in additional paid-in capital less U.S. parents' equity in treasury stock held by their foreign affiliates. It also includes U.S. parents' total equity in the unincorporated affiliates less translation adjustments. U.S. parents' equity in additional paid-in capital consists of the invested and contributed equity that is not included in capital stock (such as cash contributions), the amount paid for stock in excess of its par (or stated) value, and the capitalization of intercompany accounts (conversions of debt to equity) that do not result in the issuance of capital stock.

U.S. parents' equity in retained earnings of their affiliates is the U.S. parents' shares of the cumulative undistributed earnings of their incorporated foreign affiliates. Other equity consists of the U.S. parents' share in the cumulative amount of capital gains and losses associated with currency-translation adjustments—that is, gains and losses that arise because of changes in the exchange rates that are applied in translating affiliates' assets and liabilities from their functional currencies into U.S. dollars from the end of one accounting period to the next—treasury stock and involuntarily (or legally) restricted earnings, and other comprehensive income and losses.

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29. However, in recent years, U.S. GAAP has expanded the use of fair value accounting, which is the valuation of assets and liabilities at current-market prices or fair-market value rather than at historical cost. Since most reporters use U.S. GAAP, it is becoming more common for respondents to report asset and liability data items using fair-value accounting.

30. Position estimates measured at market value are BEA's featured measure in the asset/liability-basis presentation of the direct investment position in the IIP accounts. Position estimates at market value, at current cost, and at historical cost for U.S. direct investment abroad and for foreign direct investment in the United States (directional basis measures) are published each quarter in IIP "Table 2.1. U.S. Direct Investment Positions at the End of the Period." For a discussion of the concepts and estimating procedures, see (1) see the *U.S. International Economic Accounts: Concepts and Methods,* (2) J. Steven Landefeld and Ann M. Lawson, "Valuation of the U.S. Net International Investment Position," Survey of Current Business *71* (May 1991): 40–49, and (3) Elena L. Nguyen and Douglas B. Weinberg, "U.S. Net International Investment Position: First Quarter of 2017, Year 2016, and Annual Update," Survey *97* (July 2017).

Although many unincorporated affiliates could not disaggregate owners' equity by type, the data on U.S. parents' equity in foreign affiliates by type cover both incorporated and unincorporated affiliates. For unincorporated affiliates, the parents' total equity less translation adjustment was included in capital stock.

U.S. parents' net outstanding loans to their foreign affiliates, also referred to as "foreign affiliates' net debt instruments," consists of trade accounts and trade notes payable, other current liabilities, and long-term debt owed by the affiliates to their U.S. parents net of similar items owed to the affiliates by their U.S. parents.

Debt instruments include the value of capital leases and of operating leases of more than 1 year between U.S. parents and their foreign affiliates. The value of property leased by a U.S. parent to its foreign affiliate is included in U.S. parents' receivables, and the value of property leased to a U.S. parent by its foreign affiliate is included in U.S. parents' payables. Under a capital lease, it is assumed that the title to the leased property will be transferred to the lessee at the termination of the lease, similar to an installment sale. The term of operating leases is significantly shorter than the expected useful life of the tangible property being leased, and the leased property is usually returned to the lessor at the termination of the lease. For capital leases, the value of the leased property is calculated according to GAAP, whereby the lessee records either the present value of the future lease payments or the fair market value, whichever is lower, and the lessor records the present value of future lease receipts. For operating leases of more than 1 year, which are carried only on the balance sheet of the lessor, the value recorded is the original cost of the leased property less the accumulated depreciation.

For foreign affiliates primarily engaged in financial intermediation (that is, affiliates that are in finance industries including banks and excluding insurance and that have U.S. parents that are also in finance), the direct investment position excludes all debt instruments, both permanent debt and short-term debt. The debt instruments of U.S. parents and foreign affiliates in finance are included in the "other investment" account in the IIP accounts. Similarly, the direct investment transactions that enter the U.S. ITAs for these foreign affiliates exclude all debt investment and associated interest. This treatment follows the sixth edition of the *Balance of Payments and International Investment Position Manual* of the International Monetary Fund.

A U.S. parent and its foreign affiliate may have a two-way financial relationship: each may have debt and equity investment in the other. Thus, a U.S. parent may have investment in a foreign affiliate that, in turn, has investment in the U.S. parent as a result of the affiliate's lending funds to, or acquiring voting securities or other equity interest in, the U.S. parent. In the debt instruments portion of the position, U.S. parents' payables to their foreign affiliates (reverse debt investment) are netted against parents' receivables from their affiliates.[31] In contrast,

31. In the extremely rare case in which a U.S. parent and its foreign affiliate own 10 percent or more of each other, a U.S. parents' debt investment in the foreign affiliate is not netted against the foreign affiliate's debt investment in its U.S. parent. To avoid double-counting, the foreign affiliate's debt investment in the parent is included in the foreign direct investment position in the United States, and the parent's debt investment in the foreign affiliate is included in the U.S. direct investment position abroad. At yearend 2014, the cumulative value of foreign affiliate's direct equity investment in their U.S. parents was $1,528 million.

equity investment by foreign affiliates in their U.S. parents is not netted against U.S. parents' equity in foreign affiliates; it is included in the foreign direct investment position in the United States (inward direct investment) if the affiliate's ownership is 10 percent or more and is included in the portfolio investment component of foreign-owned assets in the United States of the U.S. international investment position if the affiliate's ownership is less than 10 percent.

The direct investment position at the end of the year is equal to the position at the end of the previous year plus the change in the position during the year (table 4). The change during the year is the sum of direct investment financial transactions (defined in the next section) and other changes in position. Other changes in position are broadly defined to include all changes in the position other than financial transactions. They primarily reflect differences between transactions values, which are used to record direct investment financial transactions, and the book values on foreign affiliates' books, which are used to record the position and therefore, the changes in the position. For example, other changes in position include the differences between the sales values and the book values of foreign affiliates that are sold by U.S. parents and the differences between purchase prices and the book values of foreign affiliates that are acquired by U.S. parents. They also include (1) currency-translation adjustments—that is, the gains and losses that arise because of changes in the exchange rates used in translating affiliates' foreign-currency-denominated assets and liabilities into U.S. dollars and (2) other capital gains and losses, such as revaluations of assets that result from mergers and acquisitions.

Table 4. Change in the U.S. Direct Investment Position Abroad on a Historical-Cost Basis by Component

[Millions of dollars]

Position at yearend 2013	**4,786,934**
Total change in position during period	322,677
Financial transactions without current-cost adjustment	508,546
Equity	420,504
Reinvestment of earnings without current-cost adjustment	266,219
Equity other than reinvestment of earnings	154,285
Increases	238,090
Decreases	83,805
Debt instruments	88,042
U.S. parents' receivables	165,690
U.S. parents' payables	77,648
Other changes in position	–185,869
Position at yearend 2014	**5,109,611**

Direct investment financial transactions

Direct investment financial transactions, which are recorded in the financial account of the U.S. ITAs, arise from transactions that change financial claims (assets) and liabilities between U.S. parents and their foreign affiliates. Direct investment financial transactions consist of (1) equity transactions other than reinvestment of earnings, (2) reinvestment of earnings, and (3) transactions in debt instruments. This section first defines these components and then discusses the coverage, measurement, and presentation of direct investment financial transactions.

Equity other than reinvestment of earnings. Equity other than reinvestment of earnings is the difference between increases and decreases in U.S. parents' equity in their foreign affiliates. Equity increases arise from (1) U.S. parents' establishment of new foreign affiliates, (2) payments by U.S. parents to unaffiliated parties for the purchase of capital stock or other equity interests when they acquire an existing foreign business enterprise, (3) payments made to acquire additional ownership interests in existing foreign affiliates, and (4) equity contributions to their foreign affiliates. Equity increases exclude changes in equity that result from reinvestment of earnings, which are recorded as a separate component of direct investment financial transactions.

Equity decreases are the funds that U.S. parents receive when they reduce their equity interest in their foreign affiliates. Equity decreases result from (1) liquidations of foreign affiliates as a result of partial or total sales of ownership interests in foreign affiliates, (2) the return of equity contributions, and (3) liquidating dividends, which are a return of equity to U.S. parents.

Equity increases and decreases are recorded at transaction values. In most cases, transaction values are obtained from the books of the U.S. parents rather than the books of the foreign affiliates, partly because some transactions (such as when a U.S. parent purchases or sells stock in an affiliate with an unaffiliated third party) are not recorded on the books of the foreign affiliate. In addition, transactions values on the parents' books reflect the actual cost of ownership interests in affiliates that are acquired or sold by U.S. parents, including any premium or discount; such values may differ from the book values recorded on the affiliates' books.

Reinvestment of earnings. Reinvestment of earnings of foreign affiliates is income on equity less dividends and withdrawals.[32] Income on equity is the U.S. parents' share in the earnings of their foreign affiliates before the provision for foreign income taxes; it is obtained from the books of the foreign affiliate.[33] A U.S. parent's share of income on equity is based on its directly held equity interest in the foreign affiliate.

For incorporated foreign affiliates, dividends and withdrawals are dividends on common and preferred stock of the affiliates held by their U.S. parents. Distributions can be paid out of current or past income on equity. Dividends exclude stock and liquidating dividends. Stock dividends are excluded because they are a capitalization of reinvestment of earnings—a substitution of one type of equity

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32. "Reinvestment of earnings" and "reinvested earnings" are used to describe the same data published in two separate tables in the U.S. ITAs, which follows guidance in the *Balance of Payments and International Investment Position Manual*, *Sixth Edition* (Washington, DC: International Monetary Fund, 2009): 135, 188–191. Reinvestment of earnings is used to describe the composition of financial transactions as published in "Table 6.1 U.S. International Financial Transactions for Direct Investment," whereas reinvested earnings is used to describe the disposition of primary income as shown in "Table 4.2 U.S. International Transactions in Primary Income on Direct Investment." Tables 4 and 5 in this publication reflect this difference in terminology.

33. As discussed in the next section, "Direct investment income," income on equity excludes capital gains and losses even if they are included in the affiliate's net income for income statement purposes.

(capital stock) for another (reinvestment of earnings). They reduce the amount of reinvestment of earnings available for distribution but leave total owners' equity unchanged. Thus, stock dividends do not give rise to entries in the U.S. ITAs.[34] Liquidating dividends are excluded because they are a return of equity rather than a remittance of income on equity. They are included as decreases in equity in the direct investment financial transactions. For unincorporated affiliates, dividends and withdrawals are income on equity distributed to U.S. parents out of current or past income on equity.

Dividends and withdrawals are obtained from the books of U.S. parents. Because they are on an accrual basis, they are reported as of the date that they are either received from foreign affiliates or entered into intercompany accounts with foreign affiliates. Dividends and withdrawals are included whether they are paid in cash, through debt creation, or in-kind.

Debt instruments. Debt instrument transactions result from changes during the year in net outstanding loans between U.S. parents and their foreign affiliates. The change for a given period is derived by subtracting the net outstanding debt instrument balance (that is, U.S. parents' receivables less U.S. parents' payables) at the end of the previous period from the net outstanding balance at the end of the current period.

When a U.S. parent lends funds to its foreign affiliate, the balance of the U.S. parents' receivables (amounts due) from the affiliate increases. Subsequently, when the affiliate repays the principal owed to its U.S. parent, the balance of the U.S. parent's receivables from the affiliate is reduced. Similarly, when a U.S. parent borrows funds from its foreign affiliate, the balance of the U.S. parent's payables (amounts owed) to the affiliate increases. Subsequently, when the U.S. parent repays the principal owed to its affiliate, the balance of the U.S. parent's payables to the affiliate is reduced.[35]

Increases in U.S. parents' receivables from, or reductions in U.S. parents' payables to, their foreign affiliates give rise to net U.S. parent investment in debt instruments (financial transactions outflows). Increases in U.S. parents' payables to, or reductions in U.S. parents' receivables from, their affiliates give rise to net U.S. parent disinvestment in debt instruments (financial transactions inflows).

Not all debt instruments transactions reflect actual flows of funds. For example, when dividends and withdrawals or interest from a foreign affiliate accrue to its U.S. parent, the full amount is included as an income receipt (an inflow) on U.S. direct investment abroad. If all or part of that amount is not actually transferred to the U.S. parent, the amount that is not transferred is entered into intercompany accounts as an increase in the U.S. parent's receivables from its affiliate (an outflow).

34. "Stock dividends" refers to essentially the same concept that is discussed in the *Balance of Payments and International Investment Position Manual*, *Sixth Edition* under the heading of "bonus shares." BEA has retained its terminology because it conforms to what U.S. firms understand by the term "stock dividends."

35. Following the recommendations in the sixth edition of the *Balance of Payments and International Investment Position Manual*, all debt transactions between affiliated bank or finance companies, excluding insurance companies, are excluded from debt instruments transactions.

The net change in debt instruments includes changes in the value of capital leases and operating leases of more than one year between U.S. parents and their foreign affiliates. When property is leased by a foreign affiliate from its U.S. parent, the value of the leased property is recorded as net U.S. parent debt-instrument investment (a financial transaction outflow) because it increases the parent's receivables. The affiliate's subsequent payment of principal on a capital lease or the component of rent under an operating lease that reflects depreciation is a return of capital and is recorded as net parent debt-instrument disinvestment (a financial transaction inflow) because it reduces the parent's receivables. Similarly, when property is leased by a U.S. parent from its foreign affiliate, the value of the leased property is recorded as net U.S. parent debt-instrument disinvestment (a financial transaction inflow) because it increases the parent's payables. The U.S. parent's subsequent payment of principal on a capital lease or the component of rent on an operating lease that reflects depreciation is a return of capital and is recorded as parent debt-instrument investment (a financial transaction outflow) because it reduces the parent's payables.

Coverage, measurement, and presentation. Equity transactions other than reinvestment of earnings and debt instruments investment mainly result from transactions between U.S. parents and their foreign affiliates. However, some investment may result from transactions between U.S. parents and unaffiliated foreign persons. For example, direct investment equity investment results from a transaction between a U.S. parent and an unaffiliated foreign person when the parent purchases an affiliate's capital stock from the unaffiliated foreign person.

In general, direct investment financial transactions exclude transactions between two U.S. persons because U.S.-to-U.S. transactions are not international transactions of the United States. Thus, if one U.S. person purchases a direct investment interest in a foreign affiliate from another U.S. person, then the purchaser's ownership interest in the foreign affiliate will increase, but no equity investment is recorded, because the transaction occurs between two U.S. persons. In addition, there is no net increase in U.S. claims on foreign countries; instead, one U.S. person's claims have merely been substituted for those of another.[36]

However, if the U.S. person's original interest represented a less-than–10-percent investment interest and if the combined interests qualify as a direct investment as a result of the purchase of additional interest, a direct investment financial transaction equal to the value of the additional interest is recorded. In addition, an adjustment in "other changes in position" is made to the direct investment position to bring the original interest into the position. If a U.S. parent's interest in an affiliate falls below 10 percent, a direct investment financial transaction is recorded and an adjustment in "other changes in position" is made to extinguish the remaining direct investment interest. In both cases, offsetting adjustments would be made to the "portfolio investment" component of net U.S. acquisition of financial assets in the ITAs, so that the reclassification would not affect the net U.S. international investment position.

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36. Any revaluation of the investment by the new U.S. parent is treated as "other changes in position" to the U.S. direct investment position abroad.

Transactions in equity other than reinvestment of earnings and in debt instruments can be disaggregated into several subaccounts. Equity investment other than reinvestment of earnings, which is recorded as a net amount, can be disaggregated to show increases and decreases in equity. Transactions in debt instruments are disaggregated to show both the flows resulting from changes in U.S. parents' receivables and the flows resulting from changes in U.S. parents' payables. Certain transactions may affect two or more of these subaccounts simultaneously and by offsetting amounts. Such transactions are "grossed up" in the subaccounts; that is, the outflows and the offsetting inflows are recorded in the affected subaccounts rather than being netted to zero and not recorded in any subaccount. However, because such gross flows are offsetting, they have no effect on net financial transactions. For example, the capitalization of debt instruments, which brings about U.S. parent debt-instrument disinvestment (an inflow) and offsetting investment in equity other than reinvestment of earnings (an outflow), results in gross, but not net, financial transactions.

Direct investment income

Direct investment income is the return on the U.S. direct investment position abroad—that is, it is the U.S. parents' return on their cumulative equity and debt investment in foreign affiliates. Direct investment income consists of income on equity-that is, U.S. parents' shares in the earnings of their foreign affiliates plus interest on debt instruments between U.S. parents and foreign affiliates. Interest is defined as interest received by U.S. parents from their foreign affiliates net of interest paid by U.S. parents to their foreign affiliates. Income on equity is the U.S. parents' return on their equity investment, and interest is the U.S. parents' return on their debt investment in their foreign affiliates. Table 5 shows direct investment income and its components for all foreign affiliates from the 2014 benchmark survey. Unlike the measure of direct investment income featured in the ITAs, the measure of direct investment income in Table 5 does not include a current-cost adjustment to income on equity.

Direct investment income is recorded as accrued. Direct investment income on equity excludes currency-translation adjustments and other capital gains and losses, whether or not such gains and losses are included in the foreign affiliate's net income for income statement purposes. This treatment is intended to make income on equity correspond more closely to the current operating performance of foreign affiliates as recommended by international guidelines for the compilation of direct investment transactions accounts.

Table 5. Direct Investment Income Without Current-Cost Adjustment and Its Components

[Millions of dollars]

Direct investment income	441,413
Income on equity without current-cost adjustment	433,692
Dividends and withdrawals	167,473
Reinvested earnings without current-cost adjustment	266,219
Interest	7,721
U.S. parents' receipts	13,073
U.S. parents' payments	5,352

Direct investment income is measured before the deduction of withholding taxes, that is, gross of all U.S. and foreign withholding taxes.[37] This treatment views taxes as being levied on the recipient of the dividends and withdrawals or interest and thus as being paid across borders, even though, as an administrative convenience, the taxes actually may be paid by the firm whose disbursements gave rise to them. Thus, foreign withholding taxes on dividends and withdrawals and on interest received by the U.S. parent are recorded as if they were paid by the parent, not by the foreign affiliate. Similarly, U.S. withholding taxes on interest payments by the U.S. parent are recorded as if they were paid by the foreign affiliate, not by the U.S. parent. Counter-entries for the taxed portion of direct investment income—that is, entries for the taxes—are made in the U.S. ITAs under "secondary income (current transfers)."

Interest is recorded on a net basis as interest paid or credited to U.S. parents on debt owed to them by their foreign affiliates less interest received from, or credited by, U.S. parents on debt owed by them to their foreign affiliates.[38] U.S. parent interest receipts are netted against interest payments because in the debt instruments component of the direct investment position, debt owed to U.S. parents by foreign affiliates is netted against debt owed to foreign affiliates by U.S. parents. Like other components of direct investment income, interest is reported as accrued and includes interest paid through debt creation or in-kind as well as interest paid in cash.

Interest includes net interest payments on capital leases between U.S. parents and foreign affiliates because the outstanding capitalized value of such leases is included in the debt instruments component of the direct investment position.[39]

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37. Withholding taxes are taxes withheld at the source on income or other funds that are distributed or remitted.

38. For foreign affiliates engaged in financial intermediation (that is, affiliates that are in finance and banking industries, excluding insurance, and that have U.S. parents that are also in finance), all interest on debt instruments is excluded from direct investment income payments. The treatment of interest for this type of affiliate parallels the treatment of their debt transactions with their U.S. parents as described in the section "U.S. direct investment position abroad."

39. Although the value of operating leases of more than 1 year is also included in the debt instruments position, payments of net rent-which covers interest, administrative expenses, and profits-on such leases are recorded as operating leasing services in the "technical, trade-related, and other business services" accounts of the ITAs rather than as interest.