

From: Lipsey, Robert [mailto:RLipsey@gc.cuny.edu]
Sent: Monday, April 23, 2007 1:44 PM
To: Galler, David
Subject: Bank survey forms

Dear Mr. Galler,

I have not worked much with bank FDI data or thought much about its problems, so you should probably not give a lot of weight to my reactions.

From the little I know about this sector, my impression of the problems is that the most important ones, stemming from the intangible nature of the production and trade, are those of identifying the location of production and the direction of trade. For that reason, I am uncomfortable with the apparent identification of "country of location" of the activities with the location of physical assets (Item 4). That basis for location makes much more sense for nonbank affiliates in manufacturing and mining, where inputs from physical capital are of great importance than for industries, such as banking, where physical capital inputs are of very minor importance. The same issue arises for many service industries, where skilled labor, rather than physical capital, defines the actual location of activity. My preference would be to have a location question based on employment or payroll, which I think identify the location of a service affiliate's activity in a more justifiable way.

I see that there is no analogue in the bank form to the Part III of the nonbank form. I can't think of a good analogue, especially since the nonbank form is emphatic in its reliance on goods shipped across US borders. It is not clear to me how data collected in these surveys, where location is defined in terms of physical plant, will relate to BEA's survey data on service trade.

Sincerely,

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From: Vladimir Gololobov [mailto:gololobov@uscisi.org]
Sent: Friday, April 27, 2007 5:57 PM
To: Galler, David
Cc: John Goyer
Subject: Comments on BEA's Forms

Dear David,

Thank you for the opportunity to comment on the draft forms for bank US parents and affiliates, and bank affiliates on non-bank parents. I have one general observation: BEA might consider collecting more detailed information on sales by parents and affiliates, for example by providing sales by country. The same goes for the proposed employment and investment surveys: it would be helpful if these surveys break data by country where possible. These data will be especially helpful to us to advocate FTAs.

For your information, I'm forwarding you the attached CSI statement for this week's Appropriations hearing on the FY08 budget. We asked for sufficient funds for the Census and BEA, so I hope those projects will be fully funded.

Thank you,

Vladimir



UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

May 4, 2007

Mr. David Galler
Chief, Direct Investment Division
U.S. Department of Commerce
Bureau of Economic Analysis, BE-50 (OC)
Shipping and Receiving Section M-100
1441 L St., NW
Washington, DC 20005

Dear Mr. Galler:

We are very pleased to learn that the BEA is seeking to revise its U.S. direct investment reporting to include broader coverage of U.S. and foreign banking on an annual basis. More frequent reporting of foreign investment activity for the banking sector will facilitate a more timely and comprehensive understanding of domestic and international financial trends important to our work in the International Trade Administration.

Thank you for requesting our input on your related reporting methodology. While our office is not directly involved with the collection of data for the banking sector, we have reviewed your proposed changes and could not find any glaring omissions or inclusions that could affect the ultimate quality and usability of the sector data.

Again, thank you for requesting our input, and if you have any questions, please do not hesitate to contact us.

Sincerely,

Ana M. Guevara
Deputy Assistant Secretary for Services



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KENNETH LAMAR
VICE PRESIDENT

May 10, 2007

Mr. David Galler
Chief
U.S. Department of Commerce
Bureau of Economic Analysis
BE-50 (OC)
Shipping and Receiving Section M-100
1441 L. Street, NW, Washington DC 20005

Dear Mr. Galler:

We appreciate the opportunity to comment on the proposed changes to the "Annual Survey of District Investment Abroad". We share your goal of collecting high quality data while keeping reporting burden to a minimum. As such, our comments focus primarily on areas where data currently may be available that might meet the BEA's data collection needs, thereby avoiding duplicate reporting. Also, we have provided some insights that we have gained from collecting balance sheet and income statements from foreign subsidiaries of bank holding companies.

Ownership Information

The Federal Reserve System currently collects detailed organization structure information. These data, which are generally publicly available, includes information on voting rights. To avoid any duplicate data collection you may want to consider using this data source instead of collecting it directly on the Direct Investment forms. An additional advantage of using these data is that throughout the year these data are updated as ownerships changes occur. (Enclosed for your information are the forms and instructions for these reports).

A related issue is that of partnership. Our experience is that many of the legal entities organized under a bank holding company take the form of partnerships. It was not clear from our review of the proposal how these would be reported. We suggest you consider adding specific reporting instructions for these types of entities.

Legal Entity

The Federal Reserve System also collects balance sheet and income statements from all material foreign subsidiaries of bank holding companies (both banking and nonbanking). These reports are collected on a legal entity basis and no consolidation is permitted. This approach allows us to understand the business line and financial statement of each legal entity by location. It has been improvement over the previous approach, where consolidation was allowed by country and business line. We suggest you consider the current approach, since it may reduce reporting burden and increase the quality of these data.

These Federal Reserve reports also may have the potential to replace some of the income and equity items that are collected on the direct investment forms. As stated above, these reports contain detailed income and equity sections. Again, these data are generally publicly available. In addition, these reports can be used to insure your panel coverage is complete. (Attach are copies of these applicable forms and instructions).

Again, thank you for the opportunity to review the survey proposal. If you wish to discuss these other data collections, please let me know. Also we, have regular interaction with several trade groups that we often leverage to get feedback on report proposals. If you are interested in meeting with these groups, please let me know and we would be glad to arrange meetings. You can contact me at (212) 720-8590, or via email at ken.lamar@ny.frb.org.

Sincerely,



Kenneth P. Lamar
Vice President
Statistics Function



HARVARD | BUSINESS | SCHOOL

C. FRITZ FOLEY |

ASSISTANT PROFESSOR

May 10, 2007

David H. Galler
Chief
Direct Investment Division
Bureau of Economic Analysis

Dear Mr. Galler,

I am writing to reply to three letters I have received from you recently, each asking for my views concerning the design of BEA surveys. I have broken out my views into three parts below, each part responding to one of your letters.

Proposed Changes to the BE-12 Survey

In your letter dated April 30, 2007, you asked me to provide you with my comments and suggestions concerning the proposed changes to the benchmark survey of foreign direct investment in the U.S. I support most of the proposed changes, but I have one major objection and a few suggestions.

My biggest objection to the proposed changes relates to the proposal to increase the reporting thresholds. The increase in these thresholds that has occurred over the last ten to fifteen years has dramatically decreased the amount of data firms are required to report and therefore threatens the value of the BEA data. Changes in the requirements concerning which firms must report which data items has also contributed to this decline. I therefore would suggest that the reporting requirements not be changed.

In 1992, all U.S. affiliates with sales, assets or net income with an absolute value in excess of \$1 million filled a complete data form. The proposed changes to the survey would raise this threshold to \$40 million. Proposed requirements for reporting data on the long form data are also far too high. I believe that the long form was only introduced within the last fifteen years—prior to that all companies effectively filed all the information captured on the long form. Since its introduction, thresholds have grown in a way that has significantly reduced the sample of firms that report details of their financial and operating activity.

These changes have the potential to destroy the value and accuracy of many aspects of the BEA data. While BEA may be able to claim that, on a value weighted basis, a large fraction of multinational activity is studied in detail, these changes undermine our understanding of activity in many countries, industries, and types of firms. Multinationals in smaller countries and in industries without significant economies of scale will not be covered well by the BEA data. Certain data items in country/industry cells could also be misleading if there are lots of small affiliates that do not report the item.

Under the proposed changes, it is only possible to track a few data items through time for smaller affiliates, thus limiting the value of research using the firm level data. Researchers will not be able to perform detailed

studies of how changes in the international economic environment and policy changes affect firm operating and financial decisions using large samples if reporting thresholds continue to increase.

It does not make sense to me that BEA should reduce coverage of multinational firms at the same time that information on multinationals is of increasing importance to academics, policy makers, and business leaders. If it has been difficult for BEA to obtain the resources needed to maintain the accuracy and completeness of the data, I wonder if BEA data users could help decision makers understand the value of these data. I am happy to discuss this possibility with you.

I have some other suggestions concerning the proposed changes as well. I would not double the threshold for reporting merchandise trade on the BE-12(LF) form. Although these data have not been widely used by researchers, they are unique, and I believe that researchers will use them extensively in the future. I would suggest leaving this threshold at \$500 thousand.

I would suggest collecting information on capital expenditures in Part I of the short form and on the BE-12 Mini form. Offshoring issues relate not just to where employment is located, but also to where capital is invested, so capturing this item for smaller affiliates is crucial.

I would also suggest collecting information on dividends in Part I of the short form and on the BE-12 Mini form. Dividend repatriations are a significant flow of funds out of and into the U.S. and have been the subject of considerable academic and policy interest over the last two decades. For example, the American Job Creation Act of 2004 temporarily reduced the taxes the U.S. charges on earnings repatriated to the U.S. As debates about how multinational firms should be taxed continue, it will be useful to have information on the dividends paid by U.S. affiliates to inform the debate.

Shipped versus Charged Basis for Trade Data

In your letter dated May 3, 2007, you explain that there is a proposal to report trade data on a charged as opposed to a shipped basis. I do not support this proposal, and I would advise you to continue to collect and report trade data on a shipped basis. I do appreciate that tracking and providing data on a shipped basis is costly for firms and BEA. I think this argument is the strongest one for changing reporting. However, I believe that BEA's trade data are of more value to current research efforts in international economics if they are reported on a shipped as opposed to charged basis. Let me explain my view on this.

Studies of transfer pricing that make use of the BEA data tend to focus on how foreign taxes affect levels of reported income (see Hines and Rice (1994) or Desai, Foley and Hines (2004a)), levels of investment and economic activity, and the use of different factors of production (see Desai, Foley and Hines (2004b)). It would be helpful to have trade data on a charged basis if data on a shipped basis were also collected, or if trade data provided details not just on values but on prices and quantities. This kind of data would allow a researcher to see if firms shift profits to low tax locations. I do not believe that simply knowing where traded goods are charged will allow one to make much headway. Asking for additional details for trade data would create additional burden for reporters, so I do not think it is feasible.

Studies concerning how ownership patterns affect trade and how endowments affect trade rely on having trade data that is reported on a shipped basis. For example, consider Antras (2005). Antras (2005) empirically documents and theoretically explains patterns in the share of intrafirm trade by industry. For his study, Antras must be able to compare levels of intrafirm trade with levels of total trade. He uses the BEA data and relies on the fact that these data and the Census data are both reported on a shipped basis. The literature on the impact of factor endowments on trade also relies on knowing where traded goods are going to and coming from as opposed to who is paying for them.

In short, I believe that trade data are more valuable to researchers if they are collected on a shipped as opposed to charged basis. If reporting burdens are a major concern, I wonder if it would be possible to try to coordinate

data collection efforts with the U.S. Census Bureau and the U.S. Customs Bureau. If it were possible to coordinate data collection efforts, reporting burdens for companies might fall and the accuracy of the data might improve.

Covering Banks in the Annual BE-11 Survey

In your letter dated April 12, 2007, you indicated that BEA intends to cover bank U.S. parents and their bank and nonbank affiliates in future Annual Surveys of U.S. Direct Investment Abroad. I think this is a great idea. I have not seen much academic research that studies the BEA data on multinational banks, and this may in part be a consequence of the fact that data are only available for certain years. I do have a few suggestions on the reporting requirements and the data collection form.

For nonbank affiliates, I wonder why BEA would not ask bank parents to file the same BE-11A, BE-11B, and BE-11C forms subject to the same reporting requirements as other multinational parents. It seems to me that an affiliate in a manufacturing industry with a parent in banking should file the same information as any other affiliate in manufacturing.

If nonbank affiliates filed these forms, this would provide more flexibility to design a BE-11B(BNB) annual survey form specifically for bank affiliates. In the proposed BE-11(BNB) form, I am not sure how a bank would fill out item number 40 which captures information on sales by location since deposit taking entities do not really have sales. For nonbank affiliates, the \$500 million reporting threshold also seems so high that very few of these affiliates will report any data.

Thinking about banking data raises another issue for me. My understanding is that private equity firms are increasingly making international investments that would trigger their being classified as multinational parents. I do not think they would be classified in industry 5221, so I do not think these kinds of firms are affected by the proposed changes concerning bank parents. However, I hope that BEA is capturing their international activity on an annual basis.

Finally, in order to address reporting burdens and to improve the accuracy of the data, I would encourage BEA to try to coordinate their data collection efforts with the efforts of the Federal Reserve Board. I do not know the details of what the Federal Reserve Board does in the sphere of international banking, but I do know that they report data on the foreign activities of U.S. banks, and I wonder if there would be gains from working more closely with officials based there.

In conclusion, thank you for asking my views on these issues. I have a deep respect for all of the hard work that you and others at BEA do to collect and analyze data about our economy. I appreciate the support that BEA has given me in my research, and I hope that you find my suggestions and comments to be helpful.

Sincerely,

C. Fritz Foley

References

P. Antras, "Firms, Contracts, and Trade Structure," *Quarterly Journal of Economics* (2003) 1375-1418.

M.A. Desai, C. F. Foley and J. R. Hines Jr., "The Costs of Shared Ownership: Evidence From International Joint Ventures," *Journal of Financial Economics* (2004a) 323-374.

M.A. Desai, C. F. Foley and J. R. Hines Jr., "Foreign Direct Investment in a World of Multiple Taxes," *Journal of Public Economics* (2004b) 2727-2744.

J. R. Hines Jr., and E. M. Rice, "Fiscal paradise: Foreign tax havens and American business," *Quarterly Journal of Economics* (1994) 109:149-182.

From: J. Bradford Jensen [mailto:jbjensen@petersoninstitute.org]
Sent: Friday, May 11, 2007 11:57 AM
To: Galler, David
Subject: RE: Trade Data for U.S. Multinational Companies/BE-11 Survey/BE-12 Survey

Mr. Galler

I write in response to your letters of April 12 and April 30 and your e-mail of May 3. Thank you for the opportunity to comment on the survey changes being considered by the Bureau of Economic Analysis (BEA).

My interests in the data collected by BEA are primarily in the area of trade, and trade in services in particular, so my remarks will focus on those aspects of the surveys you asked me to comment on.

May 3 e-mail regarding change from "shipped" to "charged" basis:

I disagree with the proposed change. I think BEA should continue to collect data on a "shipped" basis rather than a charged basis. In my opinion, the strength of the statistical system is in collecting real (as opposed to financial) information. I think the statistical system should emphasize the collection of real side information. To this end, maintaining comparability with the Census Bureau's data on imports and exports seems important. I am also sympathetic to the argument that the "shipped" basis information is more useful to researchers interested in the impact of trade.

To reiterate, I disagree with the proposed change.

April 12 letter regarding proposed changes to BE-11 survey:

Extending coverage of the BE-11 survey to include bank parents and bank affiliates of nonbank parents seems like an important extension. Collecting data for the U.S. Reporter on the same BE-11A form as filed for nonbank U.S. Reporters seems like the right approach. The specialized form for bank affiliates also seems appropriate.

I would suggest one addition to the BE-11B(BNB) form. On the BE-11B (LF and SF) Part III questions 98 and 99 ask about goods exports to and goods imports from the U.S.

I would suggest adding a question to the BE-11B(BNB) form (and the BE-11Bs too) that would be of the same format as question 98/99 on the BE-11B but would ask about imports and exports of services.

It is not clear from the BE-120 form available on the BEA website who the intended respondents are for the BE-120. It seems that it will only be sent to parents or foreign owned affiliates in the U.S. I think

collecting information at the foreign affiliate level on imports and exports of services to the U.S. is important. Will the BE-120 form be sent to foreign affiliates of US MNCs?

Adding a question on service imports and exports to the affiliate survey would provide a useful check on the information provided on the BE-120 form.

April 30 letter regarding proposed changes to BE-12 survey:

Regarding Item II.2 in attachment A (drop from the BE-12 the questions on services transactions and replace with BE-120, 125, 180), this seems to make sense to me. Having both affiliated and unaffiliated trade reported on a consistent basis is a welcome change to the cross-border services transactions program.

It is not clear from the write-up what type of question will be added to identify companies that engage in cross-border services transactions (Item III.1). I would recommend something along the lines of what I recommended above for the BE-11 forms. Add a question similar to Part II question 141 on the BE-12(LF) form that asks about services imports to and services exports from the U.S.

I hope these comments are helpful. If I can provide additional information, please let me know.

Thank you again for the opportunity to comment.

Brad

J. Bradford Jensen
Deputy Director
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Washington, DC 20036

From: Ronald Fecso [mailto:FecsoR@gao.gov]
Sent: Friday, May 11, 2007 5:20 PM
To: Galler, David
Subject: BE-11 revision

Thank you for providing GAO with an opportunity to comment on your proposed revisions to the reporting requirements for the BE-11.

I've called attention to the proposals to various persons and groups within GAO. As you know, GAO is often a user of data of this type and thus our consideration focused on any current or anticipated engagements for which the changes might materially impact our work.

In this perspective, we have no objections to the proposed changes.

Thanks again for soliciting our input.
Best wishes for the remaining activities in carrying out the proposed changes.

Regards,

Ron Fecso
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From: Laura.Bloodgood@usitc.gov
Sent: Tuesday, May 15, 2007 10:22 AM
To: Galler, David
Cc: Karen.Laney-Cummings@usitc.gov
Subject: Comments on new FDIUS Survey forms

Dear Dave,

Karen Laney-Cummings has passed your requests for comments on to me, as the person in our office who deals most directly with the BEA investment data. It's a pleasure to hear from you after all this time, and I hope you're doing well.

The following comments apply to both your letter of April 12, 2007, seeking comments on the inclusion of bank parents and their affiliates in the annual surveys, and your letter of April 30, 2007, seeking comments on the 2002 benchmark survey.

Regarding the revisions to the BE-11 Annual Survey form, I am particularly pleased to see that you will be including banks and their affiliates in your annual surveys. I agree that the lack of data on bank parents and their affiliates has been a significant gap in existing BEA annual data. However, I would question the high exemption level of \$500 million for bank affiliates, compared to what appears to be an exemption level of \$150 million for non-bank affiliates on the BE-11 instructions enclosed with your letter. I'm concerned that we would be missing important information for smaller institutions. Is it your understanding that the higher exemption level for banks will lead to the same share of overall affiliates reporting? Do you have plans to include bank and their affiliates in the FDIUS annual surveys as well?

Regarding the benchmark survey, I'm quite pleased to see that you will be adding additional information on services transactions and R&D to the surveys. We make extensive use of this information, and we're looking forward to the additional detail. I am particularly pleased to see the additional detail you will be requesting on the activities of banks and bank holding companies, which seem likely to yield significantly greater insight into the these firms' activities.

I am concerned that by raising the exemption criteria, we will be losing valuable information about smaller affiliates. While I understand that there is an issue of the reporting burden on small companies, these companies can be quite an important and dynamic segment of the U.S. economy, and by exempting these affiliates, it is not possible to tell what is missing from the data.

I don't have any serious objections to the other items that will be dropped from the forms.

We appreciate the opportunity to comment on the changes to your survey forms. I look forward to continuing to work with BEA in the future.

Best regards,

Laura

Laura S. Bloodgood, Ph.D.

Sr. International Trade Analyst for Investment

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