STATEC

Annual Survey on
Foreign Direct Investment

INSTRUCTIONS GUIDE

April 2025

This instructions guide was conceived in a practical spirit to serve as a reference manual that is complementary to the survey questionnaire. Hence, it is not absolutely necessary to scrutinize it from the first to the last page, but we recommend using it rather as a dictionary to look up specific issues or passages of interest as you get along with the survey questionnaire. You will recognize that it is easy to use and this despite its size and the inevitable level of complexity of this survey.

You will find the survey questionnaire and related practical information (FAQ's, downloads, contact details, etc.) on the Statistical Portal website of the Grand-Duchy of Luxembourg (www.statistiques.public.lu) by following the SURVEYS link through the content area destined for enterprises.

Table of contents

1. General information

1.1 Legal obligation

This compulsory survey is part of the statistical obligations of the Grand-Duchy of Luxembourg as a member of international institutions, including the European Commission (Eurostat), the European Central Bank (ECB), the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD). The legal bases of the survey include:

- the law of 10 July 2011 on the organisation of the National Institute for Statistics and Economic Studies
- the law of 28 June 2000 modifying the amended grand-ducal order of 10 November 1944 on exchange controls
- regulation (EC) N°184/2005 of the European Parliament and of the Council of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment
- Commission regulation (EU) N°555/2012 of 22 June 2012 of amending Regulation (EC) N°184/2005 as regards the update of data requirements and definitions
- regulation (EU) N°2016/1013 of the European Parliament and of the Council of 8 June 2016 amending Regulation (EC) N°184/2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment
- regulation (EU) 2019/2152 of the European Parliament and of the Council of 27 November 2019 on European business statistics, repealing 10 legal acts in the field of business statistics

1.2 Purpose of the survey

The purpose of this survey is the annual collection of primary data on foreign direct investment stocks held:

- by non-residents in the Grand-Duchy of Luxembourg (inward direct investment).
- abroad by residents of the Grand-Duchy of Luxembourg (outward direct investment).

The data will contribute to establish a discrete set of statistics on Foreign Direct Investments (FDI) as well as on foreign affiliates (FATS). It will further form a basis for establishing the International Investment Position of Luxembourg and it will complement the balance of payments and the national accounts. Moreover, it will serve to feed the European Groups Register (EGR) and it will add to the broader economic analysis of the Luxembourg economy.

1.3 Who is liable to this survey?

Is liable to this survey any company or other body selected by Statec on account of certain accounting criteria (shareholder funds, financial assets, balance sheet total, employment, sales revenue) and to be potentially in a direct investment relationship with a non-resident, either as a foreign direct investor or as a foreign direct investment enterprise.

STATEC

The survey covers the entire banking and insurance sectors while it includes only medium-sized and large companies in the remaining sectors. Special purpose entities (SPEs, holding companies, "société de participation financière") that are not part of a group with operational activities on the national territory are excluded from this survey.

1.4 Responsibility

! This survey is complex and the questionnaires should be completed by the financial director, the chief accountant or any similarly qualified person.

Respondents may mandate a third party (e.g. fiduciary) to complete their survey forms. However, the respondent remains liable for the accuracy, the integrity and the timeliness of the response.

1.5 Requested information

The respondent must provide a group chart depicting the entire shareholder structure and visualising all affiliated companies. The questionnaires further request you to provide identification parameters and accounting data of the responding company, its shareholders, affiliates and fellow companies abroad.

! The preparation of the answer to this survey may require a certain research effort on behalf of the person in charge. This person should look for data on direct investments in your group chart, in the accounting books of your company as well as in the books of your foreign affiliates.

1.6 Confidentiality and statistical non-disclosure

The information provided is confidential and may only be used for statistical purposes within the framework of the national and European statistical system and that is exclusively for the establishment of statistics or the elaboration of statistical, economic and social studies and analyses. The data may not be used for any administrative, legal or fiscal purpose or for controlling respondents.

Moreover, the data used for the production of statistics is classified when it allows the identification - either directly or indirectly - of an individual person or a company or if it holds a risk of disclosure of individual information. Statec guarantees the non-disclosure of individual or confidential information when disseminating its statistical results (art.16-17 of the law of 10 July 2011).

1.7 Periodicity and deadline

This annual survey is sent out in April/May of the year following the accounting period of the reference year. The duly completed questionnaires shall be returned to Statec by 30th June of the survey year. If your company encounters any delays, we invite you to keep us informed in time so to prevent a legal non-response procedure. Any refusal to cooperate will be punished by a fine that does not waive the provision of the requested information (art.14-15 of the law of 10 July 2011).

1.8 Transmission modes

You may hand in your answer to this survey using one of the following transmission modes:

- Electronic mailing of the survey files (unsecured transmission) to:

  ide@statec.etat.lu

- Upload of the survey files on a secured platform of the Statec website with your login provided in the survey cover letter:

http**s**://depot.statec.lu

Choose only one mode and avoid redundant transmissions (upload + emails). Please do not change the formats of the original *Excel* questionnaire.

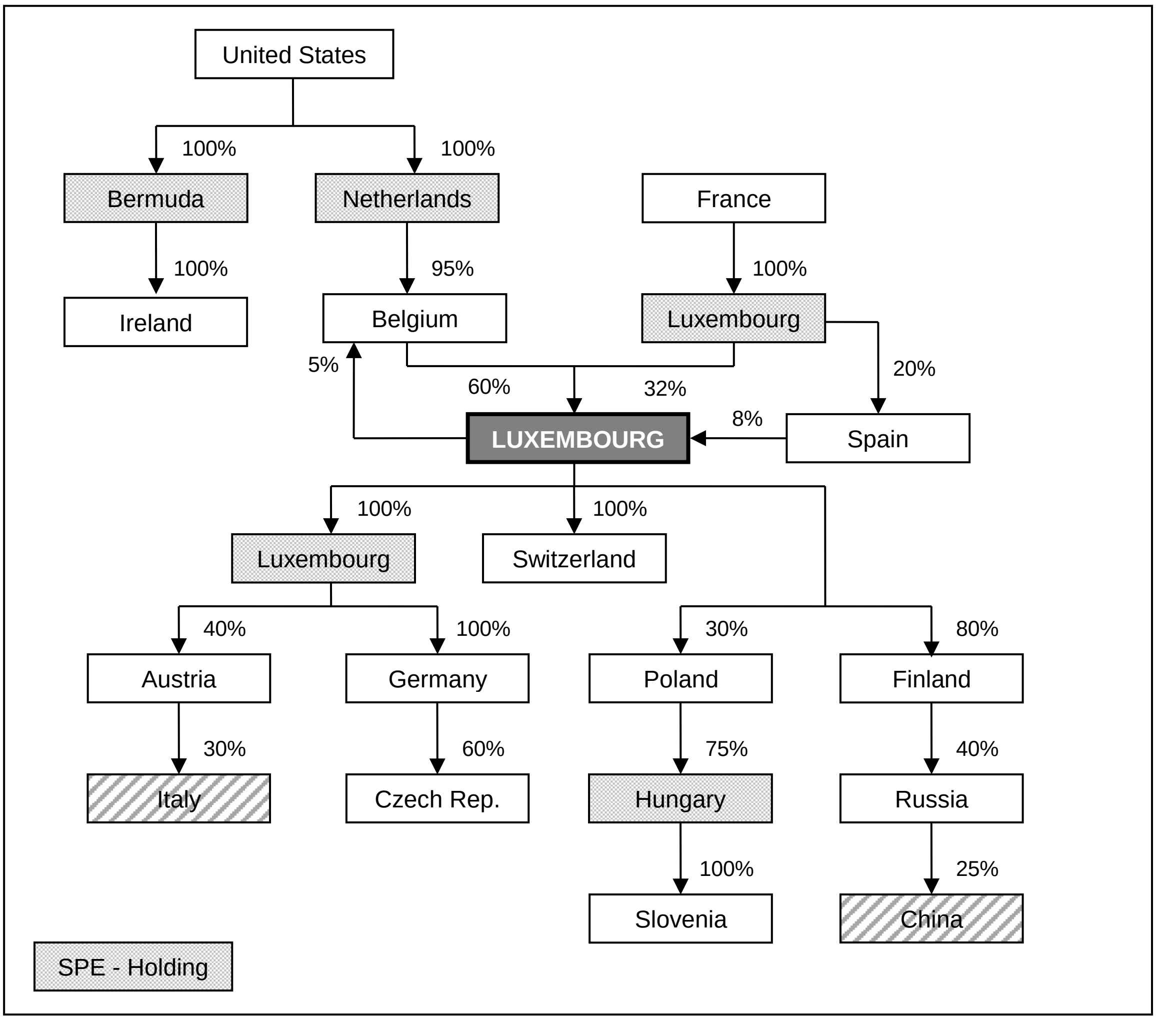
1.9 Reference methodology

Should you be interested in the methodological aspects of this survey or of FDI in general, we recommend the following reference manuals on the websites of the respective international organisations:

- the OECD Benchmark Definition of Foreign Direct Investment, 4th edition, April 2008 (BD4)
- the Balance of Payments and International Investment Position Manual, 6th edition, 2009, IMF (BPM6)
- Foreign Affiliates Statistics (FATS) Recommendations Manual, 2012 edition, Eurostat

2. Framework for FDI relationships

Example :



Tutorial for reading the FDIR :

- Shareholding

- The ultimate shareholders of the Luxembourg reporting company (direct investment enterprise) are located in the United States and France.
- The American shareholder is the group head holding the ultimate control by means of its majority ownership through the subsidiaries in the Netherlands (holding) and in Belgium.
- The Luxembourg reporting company further holds a reverse investment (less than 10%) in its Belgian parent company.
- The French businessman (an individual) is a minority shareholder by way of his holding company in Luxembourg.

- Fellow enterprises

- The Bermudian, Irish and Spanish companies are fellow enterprises of the Luxembourg reporting company. The latter is in a direct investment relationship with each of its fellow enterprises on account of their respective common parent company.
- The Spanish company has in addition a portfolio investment (less than 10%) in its Luxembourg fellow enterprise.

- Participations

- The Luxembourg reporting company (direct investor) holds indirect participations in Austria, Italy, Germany and the Czech Republic through another Luxembourg holding company.
- The Austrian company is an associate entity on account of its minority investment link above 10%.
- The Italian company is out of scope vis-à-vis the Luxembourg direct investor on account of its status as a 2^{nd} degree associate.
- The German and Czech companies are subsidiaries of the Luxembourg direct investor on account of their majority ownership links.
- The Luxembourg reporting company (direct investor) also holds a branch in Switzerland as well as direct and indirect participations in Poland, Hungary, Slovenia, Finland, the Russian Federation and China.
- The associate entity in Poland holds directly a subsidiary (holding company) in Hungary and indirectly a subsidiary in Slovenia, while both the Polish and Slovenian companies are associates vis-à-vis the Luxembourg direct investor on account of the associate status of the Polish company. The Finnish subsidiary holds an associate entity in the Russian Federation, whereas the Chinese associate is out of scope on account of its status as a 2^{nd} degree associate.

3. Information to report

3.1 The questionnaires (Q's)

This survey includes the following four questionnaires :

Q1

This questionnaire is mandatory, even if you believe that your company is out of scope of this survey. You are requested to provide ***general information*** concerning *your* company, the person in charge and also the administrative burden.

Moreover, you have to provide a complete ***ownership chart*** on the shareholder structure and the participations held by your company or group according to the FDIR – Framework for Direct Investment Relationships.

- As for the shareholders, you have to move up the ownership chain to the ultimate shareholder and disclose all intermediary shareholders, both resident and non-resident.
- As for the participations and fellow enterprises, the reporting scope is determined by the FDIR – Framework for Direct Investment Relationships.

! The questionnaire is only valid when it depicts the entire ownership chart of your company or group, including the specification of company names[1], their country of establishment and the respective percentage shares.

Q2

This questionnaire must be completed when your company is owned at 10% or more by one or several foreign ***shareholders***, either directly or indirectly, that is through one or several other resident intermediate companies. Hence, when the direct shareholder is a *resident* company, this does not necessarily imply that your company is out of scope of this survey as it is the country of residence of the *ultimate* shareholder that is decisive.

When the ownership of your company is spread among several companies of your group (including ownerships of less than 10%), then you also have to specify the consolidated share held by the ultimate owner.

When individual shareholders with less than 10% ownership have jointly a degree of influence that exceeds 10% of voting power, because they act together (i.e. family members), this concerted shareholding must also be reported.

[1] The specification of the shareholder name is mandatory, unless this shareholder is an individual and the disclosure of his name may cause him severe prejudice. In this exceptional event, we accept the term « individual » with the compulsory indication of his country of residence and the percentage share held.

Another distinction has to be made in the event of preferential shares, when voting power and economic interests are not identical.

Furthermore, you are requested to provide accounting data on your company, essentially on own funds and revenues gathered from the books of *your* company.

!

When your company prepares consolidated accounts in Luxembourg, you must provide the data on a non-consolidated basis. This also applies to any foreign branches that might be included in the annual accounts of your company. In that event, the positions of foreign branches must be deducted and reported separately in the Q3.

Q3

This questionnaire must be completed when your company holds at least 10% in one or several foreign companies, either directly or indirectly, that is through one or several other resident intermediate companies. Hence, when your company holds a direct participation in another *resident* company, this does not necessarily imply that your company is out of scope of this survey as it is the country of residence of the *ultimate* affiliate that is decisive.

When there is an indirect holding in a foreign affiliate held through several intermediate affiliates, then you also have to specify the consolidated share held by your company.

Another distinction has to be made in the event of preferential shares, when voting power and economic interests are not identical.

Furthermore, you are requested to provide accounting data on your foreign affiliate, essentially on own funds and revenues gathered from the books of this *foreign* affiliate. When this foreign affiliate prepares a sub-consolidation, you must provide the data on a non-consolidated basis[2].

Q4

This questionnaire must be completed when your company has a debt or credit position vis-à-vis a non-resident company of your group. This may be a shareholder (direct or indirect), a subsidiary, an associate entity, a branch or a fellow enterprise reported on your Q1. You are requested to provide accounting data from the books of *your* company.

[2] We may exceptionally accept consolidated figures when your company is unable to obtain by any reasonable means non-consolidated data for a specific affiliate (to be justified).

3.2 The information

Below, you will find further details and explanations on a number of selected variables to be reported:

- Information not available

When a specific information is not or not yet available (i.e. because the annual report has not been finalised yet), we request you to provide ***provisional data or estimates*** to avoid an unnecessary delay of your response beyond the official deadline. Only if it turns out later that the final data diverges significantly from the provisional data provided, you are requested to send us a revision.

By convention, any ***cell left blank*** notifies either a zero value or the fact that your company is not concerned by a particular characteristic. Blank cells may never stand for existing information that is not available.

- Accounting standards

The preferential accounting standards are the « ***IFRS*** – International Financial Reporting Standards ». Alternatively, you may also provide accounting data according to the commonly used standards. The standard chart of accounts may however not always provide the details requested for certain elements and a further breakdown could solve the problem.

- Accounting period

The reference date of this survey is the state of affairs of your company as of 31st December. When the accounting period of your company does not coincide with the calendar year, you are in principle requested to provide ***positions as of 31/12***. To reduce your response burden, we accept however the state of affairs at the closing of the annual accounts.

- Currency

All amounts must be stated ***in EUR***. When the original accounts were compiled in another currency, you are requested to indicate this currency and convert all amounts into EUR at the exchange rate prevailing at the time of transaction for flows and at the close of business of the reference date for positions. *Ideally*, you should use the exchange rate reflecting the mid-point between the buying and selling rates at the time of transaction (for transactions) and at the close of business on the reference date (for positions). We recommend using the exchange rates published by the European Central Bank on its website (www.ecb.europa.eu).

- Value date

All positions must be reported on an ***accrual basis*** - that is when the event giving rise to them occurs rather than when they are settled. Hence, a dividend that was decided on December 20th (t) and paid on January 8th (t+1) must be declared in the survey for reference year (t).

Sign convention

All amounts must be stated in positive values, except those that may indeed have a negative balance (e.g. result, value adjustments, etc.). Hence, any debt must be reported in the Q4 as a positive value and a negative amount explicitly indicates for example a rather rare write-back or refund.

Main activity of the enterprise

The questionnaire includes a short version of the Statistical Classification of Economic Activities in the European Community (Nace). The classification is based on the ***main economic activity of the company***. Ideally, it depicts the activity that contributes most to the value added of the company. However, when value added data is not available, sales revenue, income or gross wages may be used instead.

Besides the main activity of individual companies, you are also requested to indicate the ***main activity of your group*** on a particular foreign territory. As an example, the activity of an individual company in France may be “64.2- Activities of holding companies”, whereas the main activity of the group in France is “10.5- Manufacture of dairy products”.

Please use the NACE classification to specify the main economic activity as accurate as possible (example: C-23.3 = Manufacture of clay building materials). Descriptions such as “company of our group” or “parent company” are invalid.

Allocation of the result of the year

Statistics on foreign direct investment include reinvested earnings - that is that part of the result of the financial year that is not distributed as dividends. Therefore, you must provide any positions related to own funds (equity capital, reserves, profit brought forward, etc.) at their balance ***after the allocation*** of the result.

Equity capital

Subscribed capital, as it appears in the shareholder funds on the liability side of the balance sheet. Own shares held by the company must be deducted. You are also requested to identify any non-participating preference shares separately.

Reserves

The sum of reserves as they appear in the shareholder funds on the liability side of the balance sheet. These include the legal reserve as well as all other reserves (in a broad sense). Retained earnings brought forward must be excluded and reported under the corresponding heading.

Insurance companies are advised to exclude their technical reserves. Only nonlife direct insurance and reinsurance companies that qualify as “captives” are requested to include their technical reserves.

Technical reserves (“captives”)

Only nonlife direct insurance and reinsurance companies that qualify as “captives” are requested to report their technical reserves.

Captive insurance companies are businesses that are established or acquired so to obtain insurance coverage for unusual types of risk, or for lower premiums than may be available on the commercial insurance market. In that case, the policyholder is affiliated with the insurance enterprise and this captive insurance company writes insurance policies largely or entirely with its owners and other affiliates. Respondents are requested to assess which insurance companies qualify as “captives”.

Generally, nonlife insurance ***technical reserves*** consist of reserves for unearned insurance premiums, reserves for unexpired risks, equalization reserves and reserves against outstanding insurance claims.

For this survey, technical reserves encompass 3 specific types of insured losses:

1. those arising from events that are expected (from an actuarial perspective) to occur sometime in the future.
2. those incurred but not reported, from insured events (e.g. natural disasters) that have already occurred, but the size of the losses is not known because claims have not yet been reported to the insurer.
3. those incurred and reported to the insurer.

When appropriate, you should find the right balance between reporting precision and burden. In principle, the sum of provisions for unearned premiums, for claims outstanding and for equalisation meets the standards.

Retained earnings brought forward

Balance of retained profits or accumulated losses brought forward by the company ***after the allocation*** of the result of the financial year.

Extraordinary profit / loss

Investment earnings are calculated according to the so-called “COPC- Current Operating Performance Concept”. This is why you are requested to compile the ***extraordinary bookings*** (+/-) listed below from your profit & loss account and report their sum (net) under the item labelled “Extraordinary profit/loss” in the Q2 and Q3 :

(a) any gains or losses from valuation changes, such as inventory write-offs, write-downs or write-ups;

(b) gains or losses on plant and equipment from the closure of part or all of a business;

(c) writing-off of intangible assets, including goodwill, due to unusual events;

(d) writing-off of research and development expenditures capitalised in a prior period;

(e) provisions for losses on long-term contacts;

(f) exchange rate gains and losses incurred by the direct investment enterprises both from its trading activities and from the holdings of foreign currency assets and liabilities;

(g) unrealised gains or losses from the revaluation of fixed assets, investments and liabilities;

(h) realised gains or losses made by the enterprise from the disposal of assets or liabilities.

The exclusion of realised and unrealised holding gains and losses is applicable to all direct investment enterprises, including those such as banks and securities dealers for whom the making of such gains is an important or even main part of their business.

Dividends

Dividends must be reported before deduction of withholding taxes under the accounting period during which the decision was taken (date of entitlement) and not under the accounting period during which the dividend was settled.

You are requested to specify liquidation dividends or bonus shares (which are dividends in the form of additional shares of stock).

Value adjustments

This is *not* about the total amount of value adjustments booked, but it concerns exclusively value adjustments (+/-) ***on financial assets*** and value adjustments (+/-) ***on securities in the current assets***. The standard chart of accounts may not provide the necessary details for this particular element and a further breakdown could solve the problem.

Branches

! The focus is here on both resident branches legally dependent on a foreign parent (Q2) and non-resident branches legally dependent on a resident parent (Q3). Own funds of branches should be assessed by their ***net asset value***, a value that must not be confused with total assets. The net asset value must be computed as follows :

Total assets of the branch (after amortisation)

- Callable liabilities (i.e. debts and provisions)

= Net asset value

Should you reckon that this method is inadequate in the case of your company to evaluate the capital that the parent company has invested in the branch, please provide a value that best reflects the own funds of the branch and explain the underlying rationale (ex. : endowment account, cost+, pro-rata to parent company).

A branch must always report for its own account - that is segregated from the books of its legal parent company.

Other forms of FDI

When your company owns land, structures or other immovable objects abroad, this foreign property is assimilated to a foreign direct investment that you have to value.

The same provision applies to any unincorporated economic activity established abroad (ex.: construction projects, operating platforms, building sites and mobile equipment). This kind of activity must have a certain scale and satisfy several of the criteria below so to distinguish it from a simple export of services :

- have a substantial physical presence
- have a durability of at least 1 year
- maintain a complete and separate set of accounts
- be subject to the fiscal legislation of the host country
- settle funds for its own account regarding this particular activity

This kind of activity is assimilated to a branch and must be reported under the corresponding heading (c.f. explanations for “branches”).

Credit, debt and related interest

Any loans (receivable / payable) and relating interest between your company and any non-resident company of your group as they appear on the asset / liability side of your balance sheet. The counterpart may be a direct or indirect shareholder, a subsidiary, an associate entity, a branch or a fellow company. The standard chart of accounts may not provide the necessary details for this item and a further breakdown could solve the problem.

The loan categories listed below are mutually exclusive and that means that you must count the amount *only once* throughout the various categories so to preclude any double counts in the total value to report. These ***loans (receivable / payable)*** include :

- *deposits:* Typical forms of deposits include savings deposits, term deposits, transferable and non-transferable deposits in local or foreign currencies (please specify).
- *debt securities:* Include non-participating preference shares, bonds, commercial paper, debentures, promissory notes and other non-equity securities.
- *loans:* Loans are financial assets that are created when a creditor lends funds directly to a debtor through an instrument that is not intended to be traded. This category includes all loans and advances (except accounts receivable/payable which are treated as a separate category of financial assets). It also covers the treatment of financial leases and repurchase agreements.
- *trade credits (receivables and payables):* between FDI related enterprises. It represents short-term credit in the ordinary course of business by suppliers/buyers of goods and services. These credits are registered from the time the goods or services are provided until payment is received (or *vice versa*).
- *other accounts receivable / payable*: includes advances and deferred payments in respect of exchange of non-produced assets.

Positions and transactions in financial derivatives between entities in a direct investment relationship must be excluded from direct investment.

The basic principle is that the market value of debt should be used (please specify). However, apart from debt securities, we recommend the use of nominal values as a proxy for market value for all other debt positions. Loans issued in a foreign currency must be converted using the rate of exchange (mid-point of the buy and sell rates) at the close of business on the reference date.

For interest, you must only report those ***interest payables and receivables*** that concern the loans reported above. The interest component of direct investment income reflects accruals of interest on debt in the current period (i.e. interest accrued), whether paid or not. Interest payables (on liabilities) and interest receivables (on assets) must be compiled separately.

Interest also includes the interest component of transactions under financial leases between enterprises in a direct investment relationship, assuming the outstanding capitalized value of such leases is included in the debt component of the direct investment position at discounted value.

Listed equity

When valuing direct investment equity, a distinction is made between ***valuation of listed equity*** and unlisted equity. Listed (or quoted) shares are equity securities that are listed on an organised stock exchange. For any listed company of your group, you are requested to provide the ISIN share code, the number of shares and the share price at the close of business of the stock markets on the reference date.

- Administrative burden

In order to be able to assess the administrative burden deriving from the participation of your company to this survey, we ask you to indicate the approximate time needed to prepare your response to the survey questionnaires.

4. Keyword glossary *(in alphabetical order)*

Associate entity	An associate (or affiliate) is a direct investment enterprise in which an investor owns ***between 10% and 50%*** of the voting power. When an investor and its subsidiaries combined own between 10% and 50% of an enterprise, the latter is regarded as an associate of the direct investor. The ***scope*** (i.e. the perimeter) of direct investment relationships linking associate entities is determined by moving down an ownership chain as long as there are no two consecutive associates. Hence, a company which is an associate of another company that is in turn an associate of an investor is not under the influence of this investor in a FDI sense, in other words you should not report it as an associate entity within the FDIR framework. However, an associate of a subsidiary or group of subsidiaries (which may or not include the investor) must be reported as an associate entity of the investor. Likewise, when an associate, either isolated or combined with its subsidiaries, holds more than 50% of the voting power of a company, the latter must be reported as an associate entity of the investor, who is himself located at a higher level of the ownership chain.
Branch	A branch is an unincorporated company under the law of its host country. A branch may be a permanent establishment or a site office, a partnership or a joint-venture.
Degree of influence	A significant degree of influence means that an investor has the right to intervene in the ***management and decision process*** of the direct investment enterprise. In this survey, we consider that a significant degree of influence is verified with an ownership share of at least 10%.
Direct link	There is a direct link when a direct investor holds ***directly*** a participation in a direct investment enterprise
Enterprise group	Range of ***companies related to one another*** through direct investment links. When an enterprise group is solely composed of resident companies, it has a national scope. There is an international scope when one or several related companies are located abroad. The group structure is generally illustrated by an ownership chart. The definition of an enterprise group also includes individuals as foreign investors.
Fellow enterprises	An enterprise in one economy may be related through the FDIR to another enterprise in the same economy, or in a different economy, without either being a direct investor in the other, but through both being directly or indirectly influenced by the same enterprise in the ownership hierarchy. This ***common parent*** must be a direct investor in at least one of the enterprises in question. Such enterprises can be considered to be related

through a "***horizontal***" ***linkage*** within the FDIR, not involving voting power of 10% or more.

A possible investment link of less than 10% between two fellow enterprises constitutes a ***portfolio investment*** that must be reported in this survey. An investment link of 10% or more between two fellow enterprises would in turn establish a distinct direct investment relationship.

FDIR – Framework for Direct Investment Relationships

This framework determines the ***scope*** (i.e. the perimeter) of all companies that are in a FDI relationship by means of an ***ownership chart*** (c.f. chapter 2). Within the FDIR, the structure of subsidiaries and associate entities along a so-called "vertical" ownership chain is in general relatively straightforward. At the highest level, the FDIR begins with the ultimate shareholder and progressively moves down the chain of participations, covering all ***subsidiaries***, ***associate entities and branches*** of more than 10% held by the enterprise group.

A chain of subsidiaries may continue as long as there is majority control at each link of the ownership chain and may in theory continue indefinitely.

A subsidiary may extend the FDI relationship to an associate entity when it holds between 10% and 50% of the voting power in that entity.

An associate entity may only extend the FDI relationship to another associate entity of a direct investor located at a higher level of the chain if it holds more than 50% of the voting power. Such a chain composed of associate entities may continue as long as it verifies majority ownership at each level of the chain.

In summary, a FDI relationship ends with the last subsidiary in the chain or when there are two consecutive associate entities.

Fellow enterprises are related by a « horizontal » link in the FDIR without a participation of 10% or more. Fellow enterprises are either directly or indirectly influenced by the same parent company in the ownership chain. This parent company must be a direct investor in at least one of the fellows.

Foreign direct investment (FDI)

A foreign direct investment comprises all the resources that a direct investor makes available to those companies connected through a direct investment relationship. These resources include contributions to share capital, funds allocated to branches, loans, treasury transfers, trade credits or reinvested earnings.

FDI is a category of investment that reflects the objective of establishing a ***lasting interest*** by a resident enterprise in one economy ("direct investor") in an enterprise ("direct investment enterprise") that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a ***significant degree of influence*** on the management of the enterprise. The direct or indirect ownership of ***10% or more*** of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship.

Direct investments not only include the initial transaction, which establishes the relationship between the investor and the enterprise, but also all subsequent capital transactions between them and among affiliated enterprises, whether these are incorporated or not.

FDI comprises all inward and outward positions between incorporated and unincorporated companies that are held either directly or indirectly. The scope (i.e. the perimeter) of direct investment relationships is determined according to the Framework for Direct Investment Relationships (FDIR).

Foreign direct investment enterprise

A foreign direct investment enterprise is an enterprise resident in one economy, in which an investor resident in another economy owns, either directly or indirectly, ***10% or more*** of its voting power if it is incorporated or the equivalent for an unincorporated enterprise. The direct investors may hold direct investment enterprises in one or several economies.

Foreign direct investment enterprises may be ***subsidiaries*** in which the direct investor holds more than 50% of the voting power, or they may be ***associate entities***, in which the direct investor holds between 10% and 50% of the voting power, or they may be quasi-corporations such as ***branches*** (which are effectively held at 100% by their respective parent companies).

Foreign direct investment enterprises are also commonly called “foreign affiliates” (subsidiaries, associate entities, unincorporated enterprises) held directly or indirectly by the direct investor or its non-resident branches.

Foreign direct investment relationship

Any relationship between a resident and a company established on a foreign territory or between a non-resident and a company established on the national territory, that enables the resident entity or the non-resident entity (direct investor) to have ***a significant degree of influence*** on the management of the concerned company (direct investment enterprise) and that verifies ***a lasting interest*** of the direct investor in the latter company. There is a presumption of a direct investment relationship as soon as a direct investor holds at least 10% of the ordinary share of voting power.

A foreign direct investment relationship is also verified between a resident company and a non-resident company that are fellow enterprises with a common parent company.

Foreign direct investor

A foreign direct investor is an entity (an institutional unit) resident in one economy that has acquired, either directly or indirectly, ***at least 10%*** of the voting power of a corporation (enterprise), or equivalent for an unincorporated enterprise, resident in another economy. A direct investor may be attributed to any economic sector and could be any of the following:

- an individual ;
- a group of related individuals ;
- an incorporated or unincorporated enterprise ;
- a public or private enterprise ;
- a group of related enterprises ;
- a government body ;
- an estate, trust or other societal organisation ;
- any combination of the above.

In the event of two companies holding at least 10% of voting power in one another (mutual investment), then each of them is considered to be a direct investor in the other one.

Indirect link

There is an indirect link when a direct investor holds a participation in a direct investment enterprise ***via one or several other*** direct investment companies (e.g. Special Purpose Entities).

Non-resident

Any entity that ***does not qualify as a resident*** and whose centre of economic interest is outside the national territory. Hence, foreign parent companies or foreign branches of resident enterprises are considered as non-residents. The term “non-resident” is however not synonymous to “foreigner” in the usual sense. In fact, the ***citizenship*** is irrelevant when determining residency. More particularly, a non-resident is :

- any individual or company that does not qualify as a resident;
- any individual with a foreign citizenship being on a mission in a consulate or a diplomatic representation of his country of origin, established on the national territory ;
- any international organisations established on the national territory under European or international law ;
- any consulates or diplomatic representations established on the national territory.

Resident

- any ***company*** under national private law, for the activities of its registered office, subsidiaries, associates or branches, established on the national territory ;
- any ***company*** under national public law and all its departments on the national territory as well as national consulates and diplomatic representations established abroad ;
- any ***company*** under foreign law, for the activities of its branches established on the national territory;
- any ***individual*** who has his main residence on the national territory, including civil servants of international organisations established on the national territory under European or international law. Any person listed on the population registry of his borough is considered to have its main residence in that borough ;
- any ***individual*** with a Luxembourg citizenship being on a mission in a consulate or a diplomatic representation of his country of origin, established abroad ;
- any ***individual*** who has his main residence abroad or is not listed on the population registry of a national borough, but who operates a business on the national territory, and this for the activities of this business.

The ***citizenship*** is irrelevant when determining residency.

Reverse investment

A reverse investment depicts a financing in the ***opposite direction*** of influence and control; that is when the direct investment enterprise holds in turn a participation in its direct investor. Such a reverse investment is only verified when the percentage share of voting power of the direct investment enterprise in its direct investor is ***less than 10%***. A reverse investment of 10% or more would establish a distinct direct investment relationship.

Special purpose entity (SPE)

An enterprise is usually considered as an SPE if it meets the following criteria:

- The enterprise is a legal entity formally registered with a national authority and subject to fiscal and other legal obligations of the economy in which it is resident.
- The enterprise is ultimately controlled by a non-resident parent, directly or indirectly.
- The enterprise has no or few employees, little or no production in the host economy and little or no physical presence.

- Almost all the assets and liabilities of the enterprise represent investments in or from other countries.
- The core business of the enterprise consists of group financing or holding activities, that is – viewed from the perspective of the compiler in a given country – the channelling of funds from non-residents to other non-residents. However, in its daily activities, managing and directing plays only a minor role.

SPEs may include conduits, financial holding companies ("soparfi") or holding companies that provide financial or management services to affiliated companies such as subsidiaries, registered offices, administrative headquarters, or to other companies or local and regional offices.

Subsidiary

A subsidiary is an enterprise in which the direct investor holds ***more than 50%*** of the voting power, hence a company under control of the direct investor. If a direct investor and its subsidiaries hold jointly more than 50% of the voting power of another company, the latter is also considered, in the context of FDI, as a subsidiary of the direct investor.

When determining the ***scope*** (i.e. the perimeter) of the direct investment relationships, the degree of influence that may be exerted via control chains (that is those above 50% of voting power) is not diluted by possible multiple links in that ownership chain. A company under the control of a subsidiary or a group of subsidiaries of the direct investor (group which may also include the direct investor) is itself considered to be a subsidiary in the context of FDI.

Ultimate shareholder

The ultimate shareholder may be ***an individual or a company***. It is that entity that is not controlled by any other shareholder when moving up the entire ownership chain of a company. Basically, the "group headquarters" or the "ultimate beneficial owner" constitute the ultimate shareholder.

Thank you for your cooperation