Attachment 1

PROPOSED CHANGES FOR THE 2007 BE-12 BENCHMARK SURVEY OF FOREIGN DIRECT INVESTMENT IN THE UNITED STATES
(as sent to data users)

The proposed changes to the benchmark survey are of three types – (1) changes in reporting criteria, (2) changes that were recently introduced in other BEA surveys that are now being carried over to or deleted from the surveys of foreign direct investment in the United States, and (3) other changes. These are discussed separately below.

I. Changes in reporting criteria.

1. Revise Form BE-12(X), Claim for Exemption. For the 2007 benchmark survey this form will be required for all U.S. entities that are not U.S. affiliates for purposes of filing the 2007 benchmark survey, or if the data for the U.S. entity are consolidated or merged into a BE-12 report filed by another U.S. entity (i.e., another U.S. affiliate). On the 2002 benchmark survey, this form served a dual purpose. It was required to be filed by all U.S. entities that were not U.S. affiliates for purposes of filing on the 2002 survey, and by all U.S. affiliates with total assets, sales or gross operating revenues, or net income (loss) of $10 million or less. For the 2007 benchmark survey, BEA proposes that these small U.S. affiliates report on a Form BE-12 Mini, which is discussed in item 2 below.

2. Create Form BE-12 Mini to be completed by small U.S. affiliates formerly required to complete page 1 of the 2002 Form BE-12(X) or page 2 of the 2002 Form BE-12 (SF) Short Form.

A two-tied approach for filing Form BE-12 Mini is described below:

a. Tier 1 would replace page 1 of the 2002 Form BE-12(X) and be completed by U.S. affiliates with assets, sales or gross operating revenues, and net income (loss) of $15 million or less. The reporting threshold for page 1 of the 2002 BE-12(X) was $10 million.

b. Tier 2 would replace page 2 of the 2002 Form BE-12(SF) and be completed by U.S. affiliates with assets, sales or gross operating revenues, or net income (loss) greater than $15 million but where no one of the items was greater than $40 million. The upper filing limit for page 2 of the 2002 BE-12(SF) was $30 million.

3. Increase the exemption level for reporting on the BE-12(LF) long form from $125 million to $175 million. On the 2002 benchmark survey, majority-owned nonbank U.S. affiliates were required to report on a BE-12(LF) long form if they had total assets, sales or gross operating revenues, or net income (loss) of over $125 million. For the 2007 benchmark survey, BEA proposes that the threshold for reporting on this form be raised to $175 million. Nonbank majority-owned U.S. affiliates with total assets, sales or gross

operating revenues, and net income (loss) between $125 million and $175 million would report on the less detailed BE 12(SF) short form.

II. Changes resulting from the 2004 benchmark survey of U.S. direct investment abroad, BEA's surveys of cross-border transactions in services and intangible assets, and the 2006 annual survey of foreign direct investment in the United States

<u>BE-12 (LF) Long Form, BE-12 (SF) Short Form, and BE-12 BANK</u>

1. Add items to collect detail on employment and employee compensation by Standard Occupation Classification. This information will assist BEA with its analysis of the effects of off-shoring on the U.S. economy.

2. Drop from the BE-12(LF), BE-12(SF), and BE-12 BANK the questions on services transactions between U.S. affiliates and their foreign parents and foreign affiliates of the foreign parents (i.e., the affiliated foreign group) that have been shifted to BEA's surveys of cross-border transactions in services and intangible assets (the BE-120, BE-125, and BE-185).

<u>Forms BE-12 (LF) Long Form, BE-12 (SF) Short Form, BE-12 BANK, and BE-12 Mini</u>

3. Add an item to identify the financial reporting standards used to compile and report the survey.

III. Other

<u>BE-12 (LF) Long Form, BE-12 (SF) Short Form, and BE-12 BANK</u>

1. Add an item to identify companies that engage in cross-border services transactions. This information will enable BEA to determine whether or not the U.S. affiliate should be added to the mailing lists for BEA's surveys of cross-border transactions in services and intangible assets (see item II.2. above).

2. Collect dividends and distributed earnings on Part III of the BE-12(LF) and BE-12(SF) and dividends or remitted earnings on Part III of the BE-12 BANK gross of withholding taxes. On the 2002 benchmark survey these items were collected net of withholding taxes. BEA will continue to collect the withholding taxes as a separate item.

3. Collect interest on Part III of the BE-12(LF), BE-12(SF), BE-12 BANK, and Part IV of the BE-12(LF) gross of withholding taxes. BEA will continue to collect the withholding taxes as a separate item.

<u>BE-12 Long Form</u>

4. Raise from $500 thousand to $1 million the level for reporting merchandise trade with all foreign persons by country, in Part II of the BE-12 (LF) long form. BEA proposes to raise the level for reporting country detail on merchandise trade with all foreign persons in lines 161 through 169 (Part II of the BE-12 (LF) long form) from $500 thousand to $1 million. Merchandise trade of less than $1 million would be reported in an "unallocated" line. The increase will help to reduce respondent burden for many U.S. affiliates that file the long form.

5. Add a break to the Composition of External Finances of U.S. Affiliate in Part II Section F, column 3, items 87 and 88, Current liabilities and long-term debt and Current and noncurrent receivables. Currently, column 3 of items 87 and 88 does not provide a clean breakout of the data on affiliated vs. unaffiliated transactions. Therefore, BEA proposes a further breakout of this information into its component parts. The revised column 3 would collect information on transactions with foreign affiliates owned by the U.S. affiliate; column 4 would collect information on transactions with all other foreign persons; column 5 (which was column 4 on the 2002 survey) will collect information on transactions with U.S. persons.

6. Drop the requirement for items 95 and 96 to identify expenditures for property, plant, and equipment as either new or used. BEA no longer requires this detail.

7. Add two items to the research and development (R&D) data in Part II Section I, Technology, for R&D performed BY the U.S. affiliate. BEA proposes to add items to collect R&D expenditures performed by the affiliated foreign group and foreign affiliates owned by the U.S. affiliate. This additional information will assist BEA with the linking of its data on R&D expenditures with data collected on the R&D surveys conducted by the National Science Foundation.

8. Discontinue collecting merchandise trade by product from Part II Section J, Exports and Imports of U.S. Affiliate. These data (items 116 - 125 and 127 – 136) have not been widely used by researchers and others, have proven burdensome for companies to report, and are often left blank.

9. Add a break for the import and export data collected by intended use and destination/origin in Part II Section J, Exports and Imports of U.S. Affiliate. On the 2002 benchmark survey the export and import data by transactor for items 137 through 169 did not fully disaggregate data on affiliated trade. BEA proposes breaking out the affiliated trade data to separately cover trade with the affiliated foreign group, and trade with foreign affiliates of the U.S. affiliate.

<u>BE-12 Short Form</u>

10. Add items to collect information on sales of goods, investment income, and sales of services for majority-owned U.S. affiliates. Add a further breakout of sales of services to

collect sales of services to U.S. persons and sales of services to foreign persons. These items are needed to improve coverage (particularly at the industry and investing country levels) of the data used in BEA's annual estimates of sales of services to U.S. persons by foreign multinational companies through their majority-owned U.S. affiliates.

11. Drop the requirement for minority-owned U.S. affiliates to report acres of land owned.

12. Drop the requirement for minority-owned U.S. affiliates to provide manufacturing employment and commercial property on the state schedule. This reduction in reporting burden is consistent with the recent shift in emphasis to data on the operations of majority-owned affiliates.

13. Reduce from a maximum of ten to a maximum of five the number of states for which data are collected on the state schedule for minority-owned U.S. affiliates with assets, sales, and net income (loss) of $175 million or less.

14. Increase from a maximum of ten to a maximum of fifteen the number of states for which data are collected on the state schedule for minority-owned U.S. affiliates with assets, sales, or net income (loss) of more than $175 million.

BE-12 Bank Form

15. Add the following items in order to get a more accurate measure of output (i.e., value added):

> Cash;
> Income from equity investment;
> Income taxes;
> Investment income included in gross operating revenues;
> Depreciation; and
> Taxes, excluding income and payroll taxes, and non-tax payments, such as production royalties and import and export duties.

16. Add an item to collect expenditures for property, plant, and equipment.

17. Add an item asking if the U.S. affiliate owns foreign affiliates.

18. Add a Supplement B (list of affiliates not fully consolidated into the bank form). This will enable BEA to identify minority-owned affiliates of bank parents.

19. Request a description of the major activities of the affiliate. Banking is not always the primary activity of a bank holding company or financial holding company that owns nonbank subsidiaries.

20. Add two items to collect sales of goods and investment income.

21. Add three items to collect sales of services to the foreign parent(s) and foreign affiliates of the foreign parent(s), to foreign affiliates owned by the U.S. affiliate, and to other foreign persons.

BE-12 Mini (Mini form)

Note: For 2007 BEA proposes to create Form BE-12 Mini to replace items 1a through 1h on page 1 of the 2002 Form BE-12(X) and items 6 through 20 on page 2 of the 2002 Form BE-12(SF).

22. Add an item to collect number of employees to assist BEA with its analysis of offshoring. This information was collected on the 2002 Form BE-12(SF).

23. Add an item asking if the affiliate is majority- or minority-owned by foreign persons. BEA's emphasis is on the operations of majority-owned affiliates.

24. Collect additional ownership detail for U.S. affiliates with assets, sales or gross operating revenues, or net income (loss) greater than $15 million but where no one of those items is greater than $40 million. The additional detail is listed below. For an indirectly owned U.S. affiliate this information will enable BEA to determine the identity of the U.S. affiliate that is directly owned by the foreign parent. It will also enable BEA to determine the primary foreign parent and ultimate beneficial owner (UBO) when there is more than one foreign parent.

Percent of ownership held directly by each foreign parent;
Percent of ownership held indirectly by each foreign parent through a higher tier U.S. affiliate in the ownership chain;
Percent of ownership held directly by all other persons;
Is the foreign parent also the UBO; and
Name of the UBO (if the UBO is not also the foreign parent).