



Irving Fisher Committee on  
Central Bank Statistics

BANK FOR INTERNATIONAL SETTLEMENTS

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## Estimation of round tripping transactions: the Ukrainian experience<sup>1</sup>

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<sup>1</sup> This presentation was prepared for the meeting. The views expressed are those of the authors and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

# Estimation of round tripping transactions: the Ukrainian experience

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Dilijan, June 2018



# Core points

## Purpose

The estimation of volumes of *round tripping transactions* (involves funds from an entity in one economy being invested in an entity resident in a second economy, that are then invested in another entity in the first economy) on the basis of available statistical data by:

- identifying whether the UCP is a resident \*;
- redistribution of FDI flows by the countries of the UCP.

Time period: Y2010 – Y2017.

## Results

- During Y2010 – Y2017 volumes of transactions if the USP is resident (*round tripping*) were estimated at \$7.5 billion, representing 21.3% of direct investment inflow (\$35.5 billion). During Y2010 – Y2013 there were the biggest round tripping transactions volumes - on average 32% of the total, while in 2016-2017 they were only 6%; in 2014 - 2015 there was an outflow of funds from Ukraine for such operations.
- In Y2017 round tripping transactions formed 12.3% of FDI to Ukraine.

## Future plan

- To add additional information about complex indirect capital reinvestment schemes based on, for example, detailed balance sheet data of corporations.

! \* An investor (company or individual) is considered to be the ultimate control investor (UCP) if it is at the head of a chain of companies and directly or indirectly controls all the enterprises in the chain without itself being controlled by another investor.



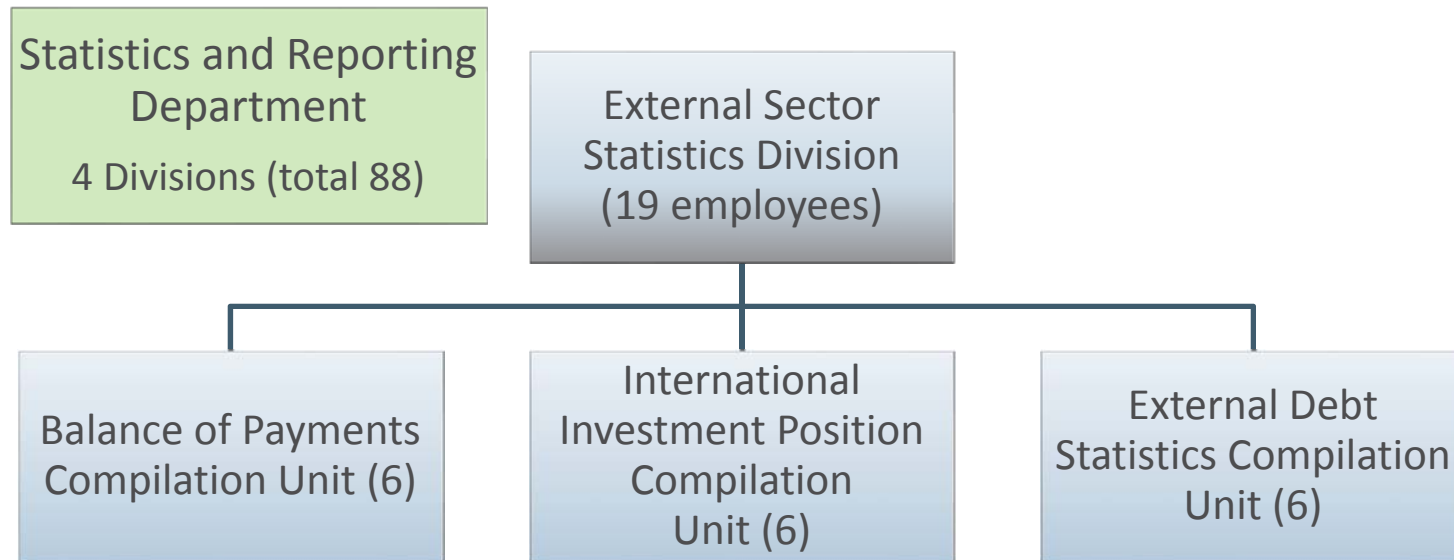
# Outline

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# Organizational Structure



- *BOP Compilation Unit* is responsible for the compilation of the current account and the dissemination of the overall BOP.
- *IIP Compilation Unit* is responsible for the compilation of the financial account in the BOP, and the compilation and dissemination of the IIP; in addition it compiles the Coordinated Portfolio Investment Survey (CPIS).
- *External Debt Statistics Unit* compiles data on external debt and debt service, and is responsible for their dissemination.

# Data Collection System for FDI

National  
Bank of  
Ukraine

- **International Transactions Reporting System (ITRS)**
  - Two categories of respondents:**
    - Banks that undertake international transactions both for their own accounts and on behalf of their customers (79)
    - Resident enterprises that have opened foreign accounts outside the domestic banking system (76)
  - Closed system**
  - Simplification Thresholds**
    - (transactions above USD 50,000 or equivalent value are reported as individual with the identification of the resident customer)
  - Transactions are reported in the original currency**
- **Surveys of banks and enterprises on external loans**
  - Monthly loan-by-loan data on stocks, transactions, schedules of repayments
- **Banks' balance sheets**
- **Bank Supervision data**
  - Ownership structure of Ukrainian banks,
  - Data on personal licenses for investing abroad,
  - Information on the approval of acquiring substantial participation in banks

State  
Statistics  
Service of  
Ukraine  
(SSSU)

- **Quarterly Surveys of enterprises on:**
  - FDI (Forms 10,13-ZEZ: assets/liabilities, stocks/flows; breakdowns by: countries, economic activities, regions)
  - Accounts receivables/payables

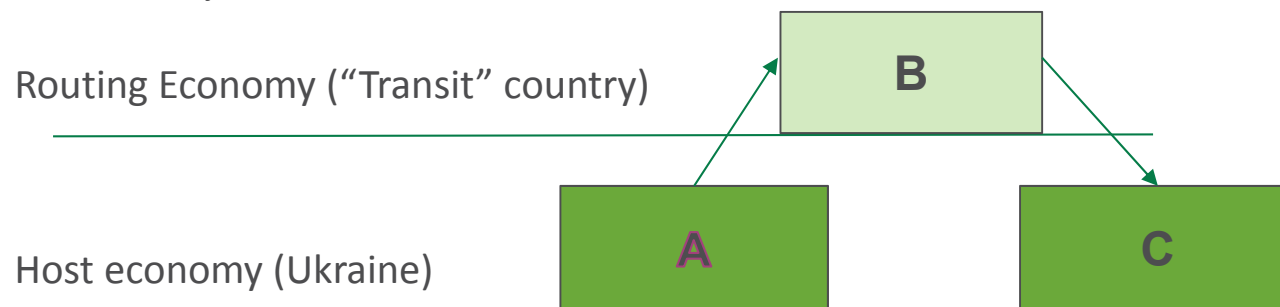
State  
Property  
Fund

- **Information about receipts from privatization.**

# Incentives for *round tripping*

## Definition

- **Round tripping** is a specific case of pass-through funds that involves funds from an entity in one economy, i.e. host economy, being invested in an entity resident in a second economy, i.e. routing economy, then having them reinvested in an entity in the first economy. (6.46, BPM6; 467, OECD benchmark definition of FDI 4-th edition)



*Enterprise A in Ukraine provides direct investment funds to a non-resident related Enterprise B in the "Transit" country for investing back in another Enterprise C in Ukraine.*

## Main incentives

- Property right protection, in some cases, concealing equity ownership;
- Tax and fiscal advantages, lowering tax burden; use of preferential policies to attract FDI;
- Expectations on exchange control and exchange rate: round-tripping for greater flexibility in foreign exchange management;
- Accessing better financial services;
- Reducing production costs;
- Optimizing liquidity management (netting, pooling, zero balances, financing through securitization).

# Data Sources for Round Tripping

## Sources

- 1, 2 PB Forms (files #1P, #2P) «Bank`s/enterprise`s report about financial transactions with nonresident» for determining of FDI inflows in form of cash (appropriate *transactions codes*: 4221- *inflows in FDI` enterprise, share capital, liabilities*; 4271– *other capital in form of DI, liabilities*; 4261– *intercompany lending etc.*);
- Data on FDI loans obtained from nonresidents (Form №503, file #6A);
- Official web-sites of relevant enterprises on ownership structure;
- [www.youcontrol.com.ua](http://www.youcontrol.com.ua) та <https://edr.dominus.kiev.ua/catalog>: Information on relevant enterprises' ultimate controlling parent (UCP) which received FDI;
- [usr.minjust.gov.ua/ua/freesearch](http://usr.minjust.gov.ua/ua/freesearch): the Ministry of Justice of Ukraine web-site: unified state register of legal entities, individual entrepreneurs and community groups;
- Enterprise`s yearly reports;
- [https://bank.gov.ua/control/uk/publish/article?art\\_id=6738234&cat\\_id=51342](https://bank.gov.ua/control/uk/publish/article?art_id=6738234&cat_id=51342) on the ownership structure of Ukrainian banks.

## Methodology

- Balance of payments and international investment position manual. – Washington, D.C.: International Monetary Fund, 2009;
- OECD benchmark definition of foreign direct investment: fourth edition – OECD 2008;
- Balance of payments and international investment position compilation guide. – Washington, D.C. : International Monetary Fund, 2014;
- The coordinated direct investment survey guide. – Washington, D.C. : International Monetary Fund, 2015



# Algorithm of calculation

1. Definition of sample of enterprises/banks.  
The list of FDI enterprises/banks (1022) are derived from the №1,2-PB and №503 forms based on FDI inflows in cash for each of sample year.
2. Analysis of the sample of enterprises/banks for the purpose of determining the UCP and marking the resident/non-resident.

Enterprises (year)	\$ mln	Country of FDI inflow	Immediate investor (country)	UCP (country)	Round tripping	Comments
<b>ITRS</b>	<b>ITRS</b>	<b>ITRS</b>	<b>ITRS</b>	<a href="https://youcontrol.com.ua/en/catalog/company_details">https://youcontrol.com.ua/en/catalog/company_details</a> ; <a href="https://smida.gov.ua">https://smida.gov.ua</a> ; Other		
PUBLIC JOINT STOCK COMPANI “DTEK” DNIPROBLENERGO	65	CYP	DTEK HOLDINGS LIMITED (CYP)	mr. X (UKR) (100%)	yes	Mr. X : ownership of 100% of the voting power of DTEK Holdings ltd
Limited Liability Company “LIFECCELL”	74	NLD	Euroasia Telecommunications Holding BV (NLD)	Turkcell (RUS)	no	Turkcell owns of 100% of Eurasia Telecommunications
....	30	CYP	Uglass Holding Limited (CYP)	mr. Y (UKR)	no	Less 50%

3. Aggregation of results of round tripping flows broken down by years, sectors, instruments.
4. Sampling and analysis of new enterprises/banks is carried out on quarterly basis.



## Difficulties

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### Residency

- Some companies are well known worldwide with managing offices in different locations.
- Ultimate investors-individuals are usually known to have a specified nationality, but not always their residency (in BoP terms) is known.

### Complicated structure

- Some companies have difficulties obtaining the information about the whole group structure. Only immediate links are available.

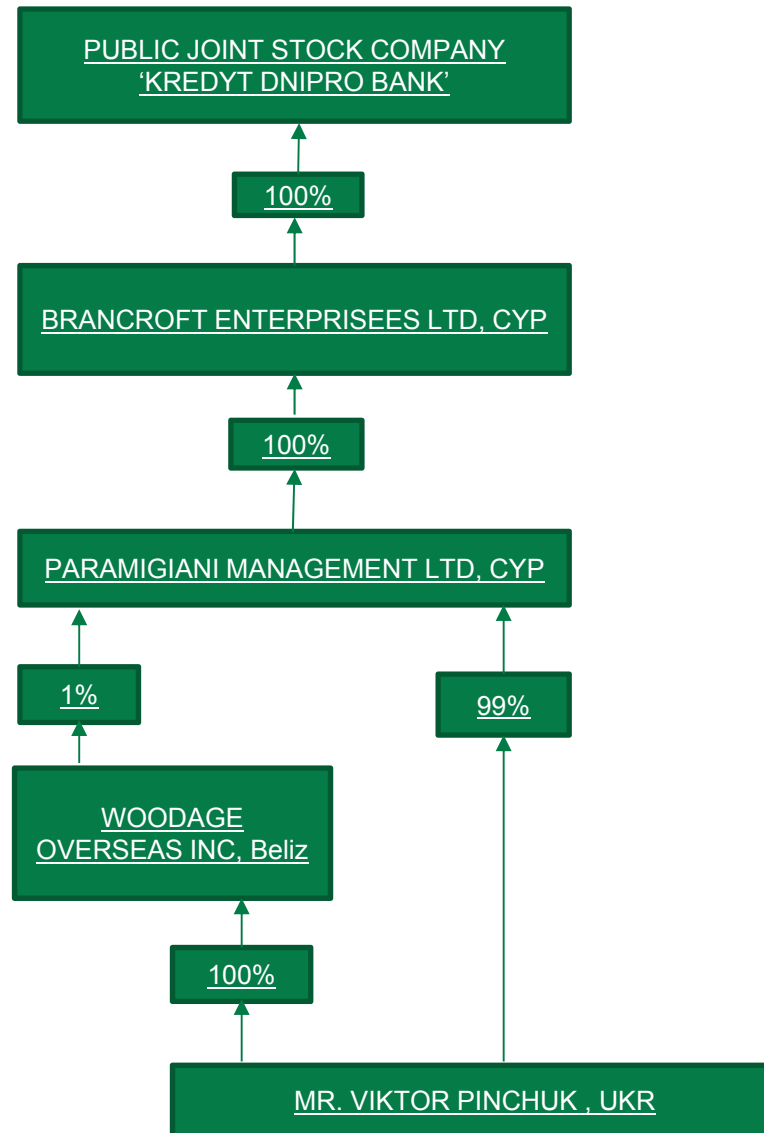
### Researching period

- Long period of research (2010-2017). Significant changes in ownership structure could be happened in each certain year.



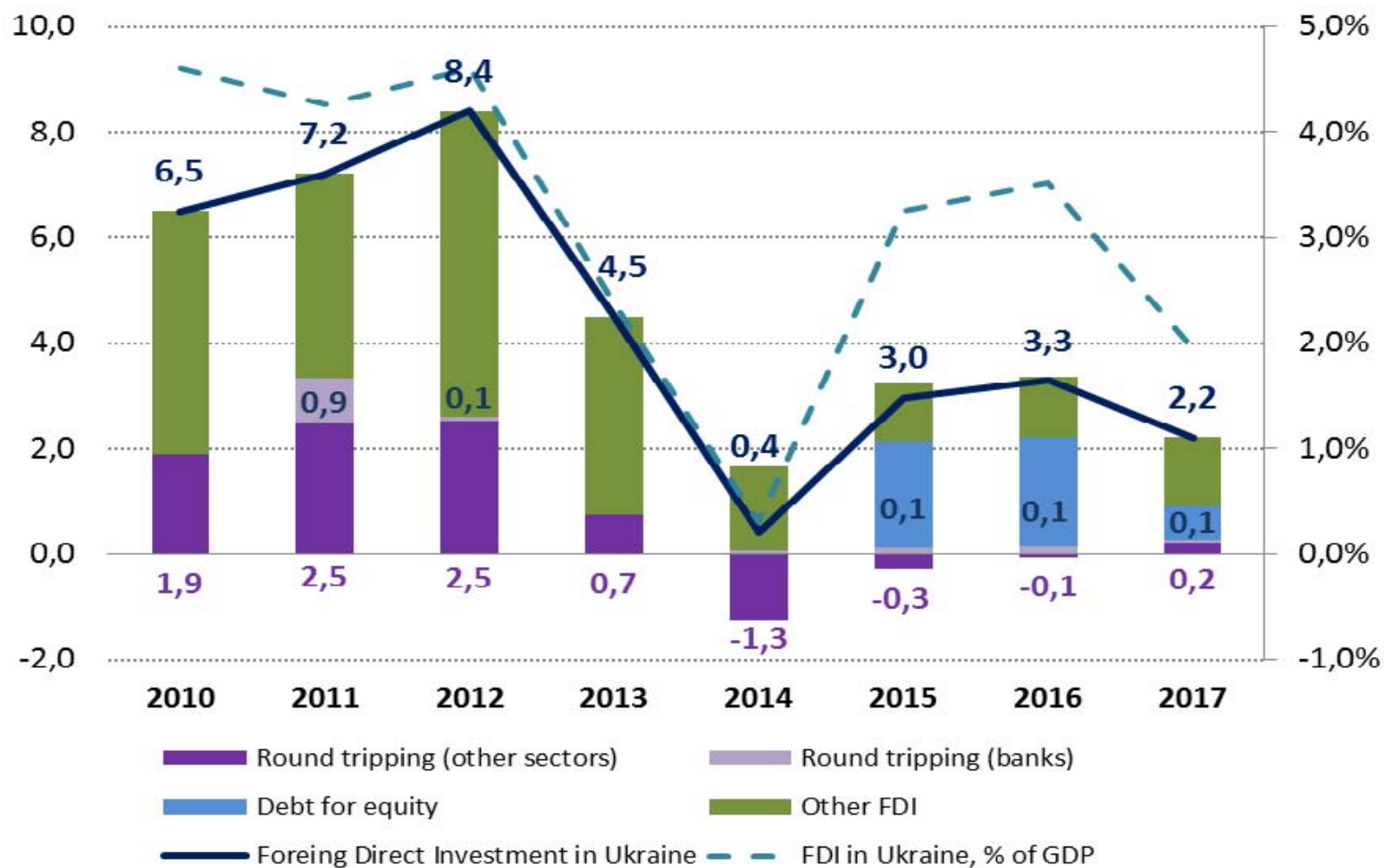
## Graphs, Tables, Examples

## An Example of KREDYT DNIPRO Bank` ownership structure



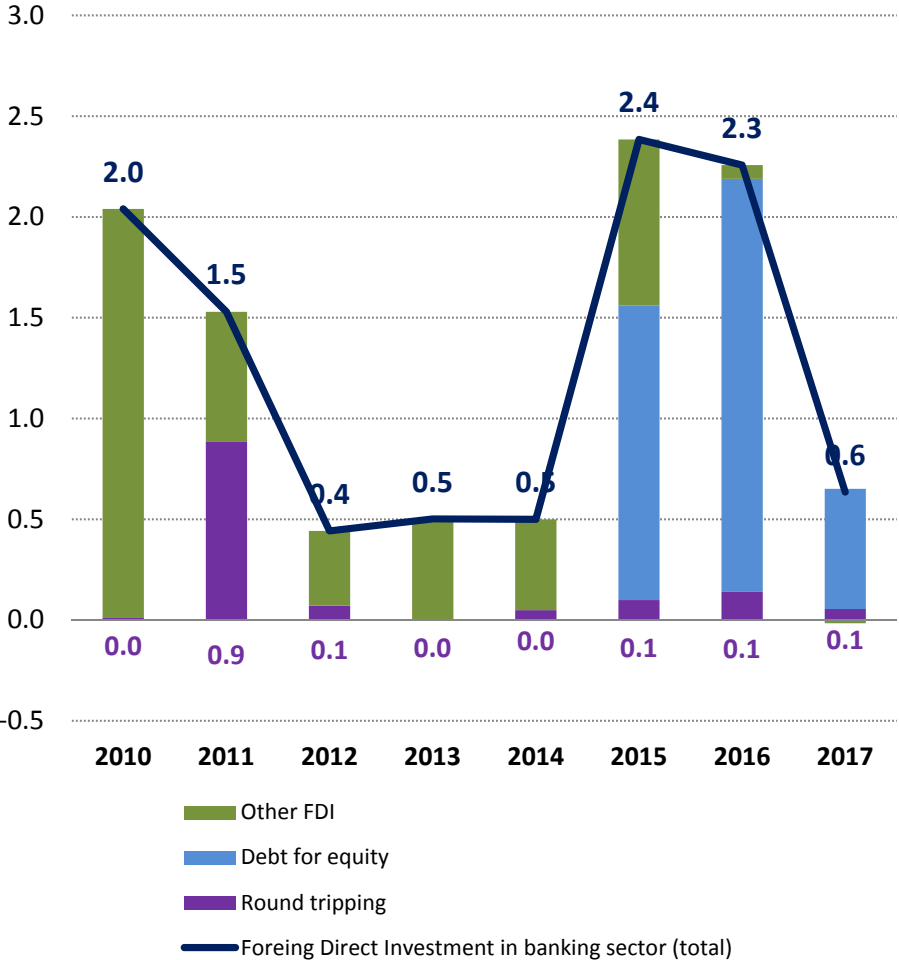
## Round tripping transactions in FDI net inflow for 2010-2017

Foreign Direct investments in Ukraine, billion USD

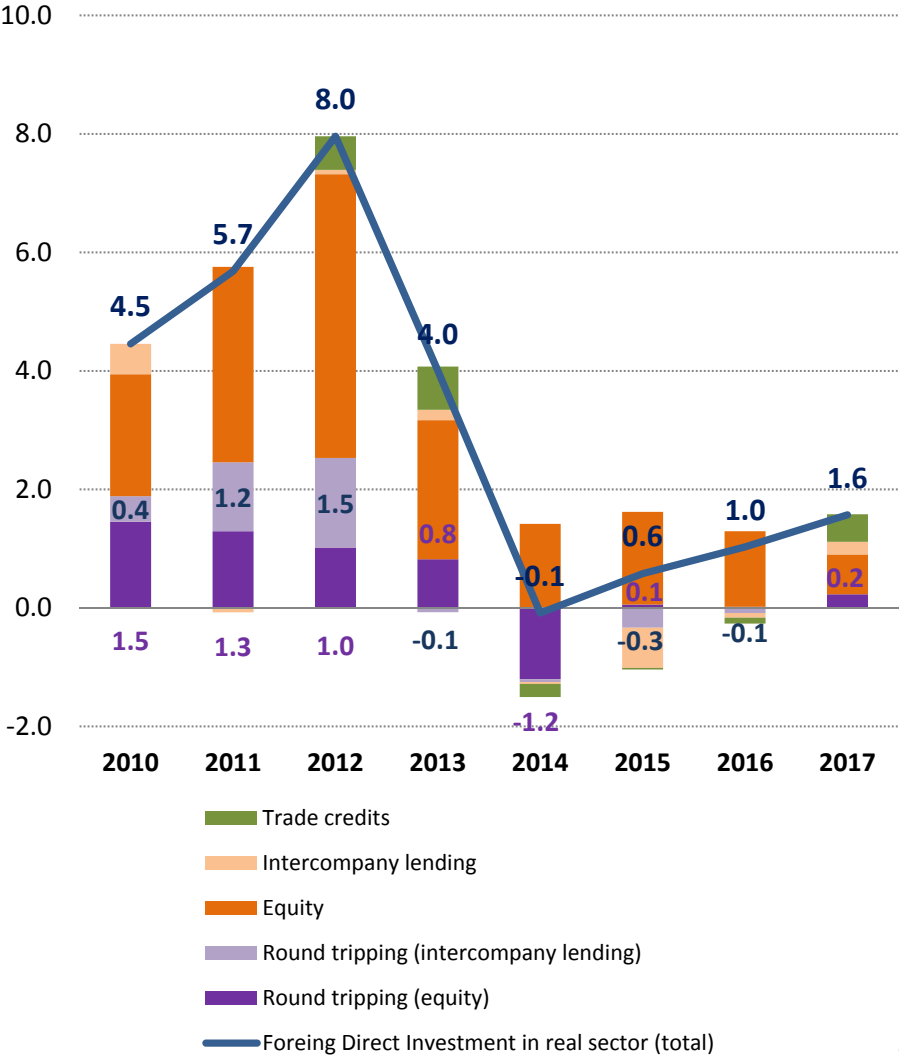


# The largest volume of *Round tripping* transactions were observed in 2010-2013 in real sector ( in average 38% of total FDI inflow)

FDI in banking sector, billion USD

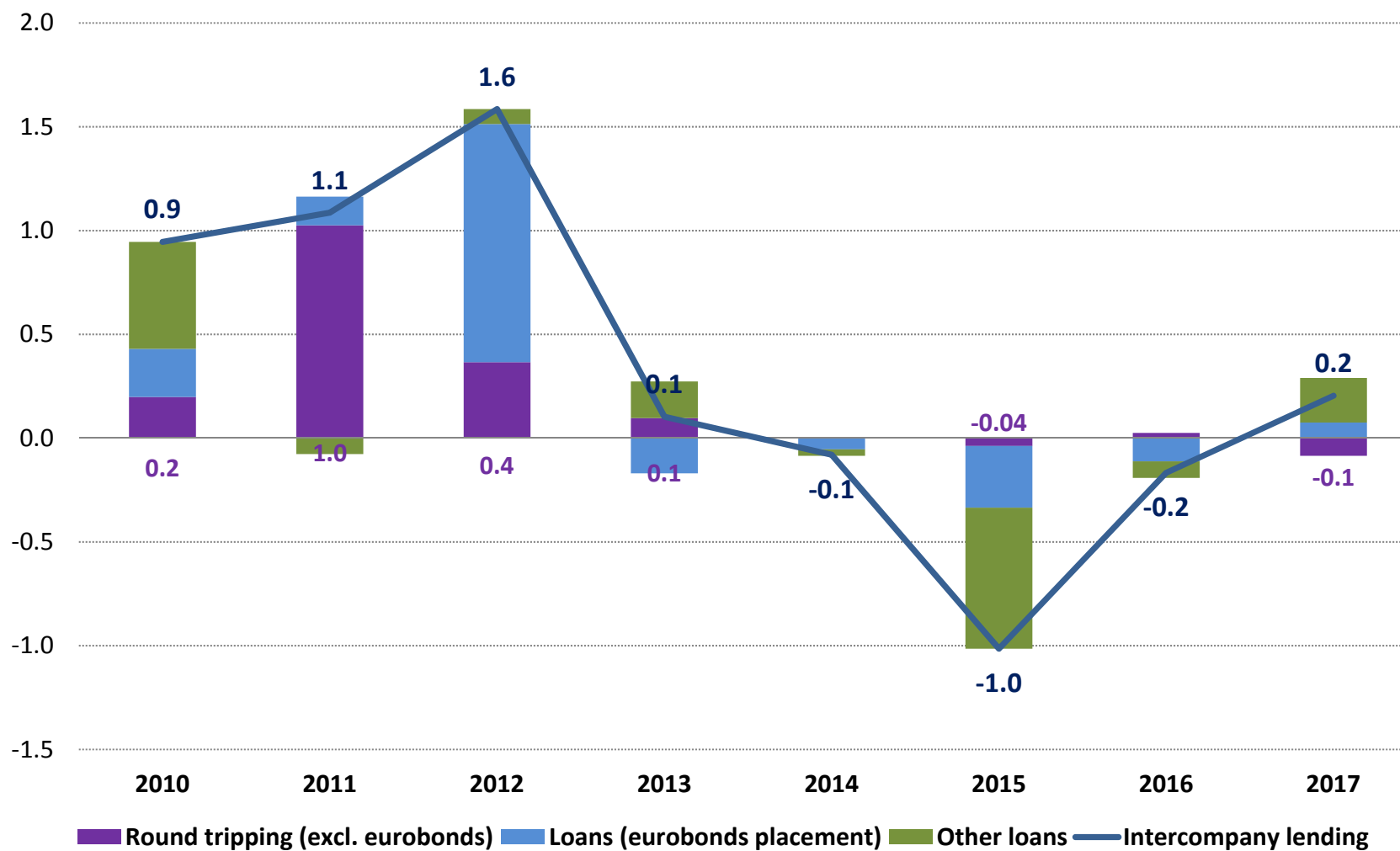


FDI in real sector, billion USD



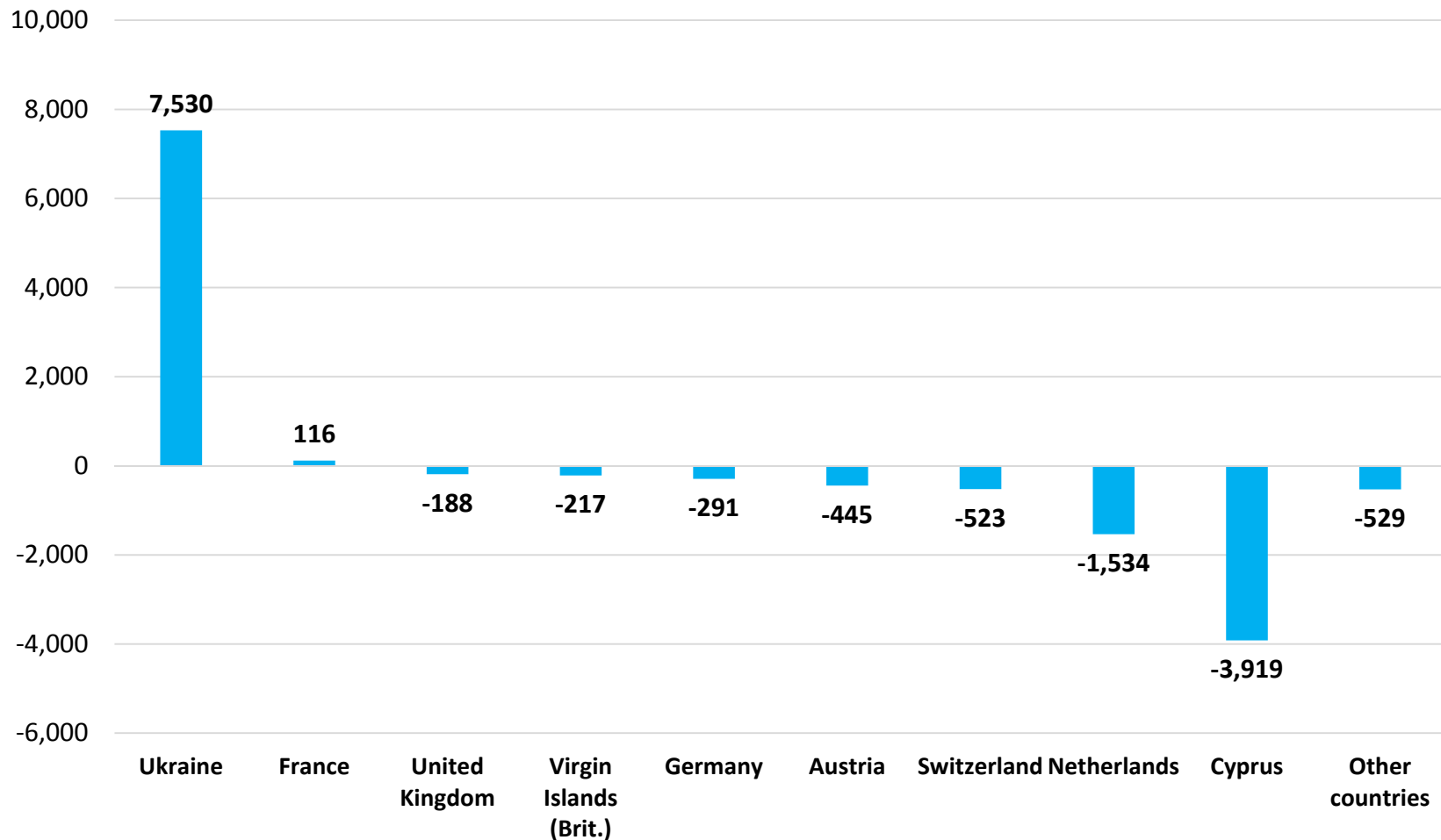
In 2010-2012 net inflow on loans from direct investors was mainly due to *round tripping* transactions

Intercompany lending, other sectors, billion USD



## Round tripping transactions were routed mainly through Cyprus, Netherlands, Switzerland and Austria

Redistribution of FDI inflow for 2010-2017 by ultimate investing countries (vs immediate investment countries), million USD





## Estimates of *round tripping* transactions for 2010-2017

	2010	2011	2012	2013	2014	2015	2016	2017
<b>FOREIGN DIRECT INVESTMENT in UKRAINE (1.+2.) \$ mln</b>	<b>6 495</b>	<b>7 207</b>	<b>8 401</b>	<b>4 499</b>	<b>410</b>	<b>2 961</b>	<b>3 284</b>	<b>2 202</b>
banking sector	2 039	1 529	442	501	499	2 384	2 257	635
other sectors	4 456	5 678	7 959	3 998	-89	577	1 027	1 567
<b>Round tripping, \$ mln</b>	<b>1 896</b>	<b>3 339</b>	<b>2 600</b>	<b>746</b>	<b>-1 203</b>	<b>-181</b>	<b>69</b>	<b>270</b>
banking sector	13	883	71	0	49	99	139	54
other sectors	1 883	2 456	2 529	746	-1 252	-280	-70	216
<b><i>Round tripping, % of total value</i></b>	<b>29,2</b>	<b>46,3</b>	<b>30,9</b>	<b>16,6</b>	<b>–</b>	<b>–</b>	<b>2,1</b>	<b>12,3</b>
<i>banking sector</i>	0,6	57,8	16,1	0,0	9,8	4,2	6,2	8,5
<i>other sectors</i>	42,3	43,3	31,8	18,7	–	–	–	13,8

## Estimates of *round tripping* transactions for 2010-2017 by instruments

	2010	2011	2012	2013	2014	2015	2016	2017
<b>1. Equity and investment fund shares</b>	<b>5 550</b>	<b>6 121</b>	<b>6 248</b>	<b>3 668</b>	<b>712</b>	<b>4 003</b>	<b>3 550</b>	<b>1 535</b>
banking sector	2 039	1 529	442	501	499	2 384	2 257	635
other sectors	3 511	4 592	5 806	3 167	213	1 619	1 293	900
<b>Round tripping, \$ mln</b>	<b>1 466</b>	<b>2 176</b>	<b>1 087</b>	<b>819</b>	<b>-1 154</b>	<b>154</b>	<b>156</b>	<b>281</b>
banking sector	13	883	71	0	49	99	139	54
other sectors	1 453	1 293	1 016	819	-1 203	55	17	227
<b><i>Round tripping, % of total value</i></b>	<b>26,4</b>	<b>35,5</b>	<b>17,4</b>	<b>22,3</b>	<b>–</b>	<b>3,8</b>	<b>4,4</b>	<b>18,3</b>
<i>banking sector</i>	<i>0,6</i>	<i>57,8</i>	<i>16,1</i>	<i>0,0</i>	<i>9,8</i>	<i>4,1</i>	<i>6,2</i>	<i>8,5</i>
<i>other sectors</i>	<i>41,4</i>	<i>28,2</i>	<i>17,5</i>	<i>25,9</i>	<i>–</i>	<i>3,4</i>	<i>1,3</i>	<i>25,2</i>
<b>2. Debt instruments</b>	<b>945</b>	<b>1 086</b>	<b>2 153</b>	<b>831</b>	<b>-302</b>	<b>-1 042</b>	<b>-266</b>	<b>667</b>
<i>of which</i> Intercompany lending	945	1 086	1 585	103	-80	-1 015	-167	204
<b>Round tripping, \$ mln</b>	<b>430</b>	<b>1 163</b>	<b>1 513</b>	<b>-73</b>	<b>-49</b>	<b>-335</b>	<b>-87</b>	<b>-11</b>
<b><i>Round tripping, % of total value</i></b>	<b>45,5</b>	<b>107,1</b>	<b>95,5</b>	<b>–</b>	<b>61,3</b>	<b>33,0</b>	<b>52,1</b>	<b>–</b>



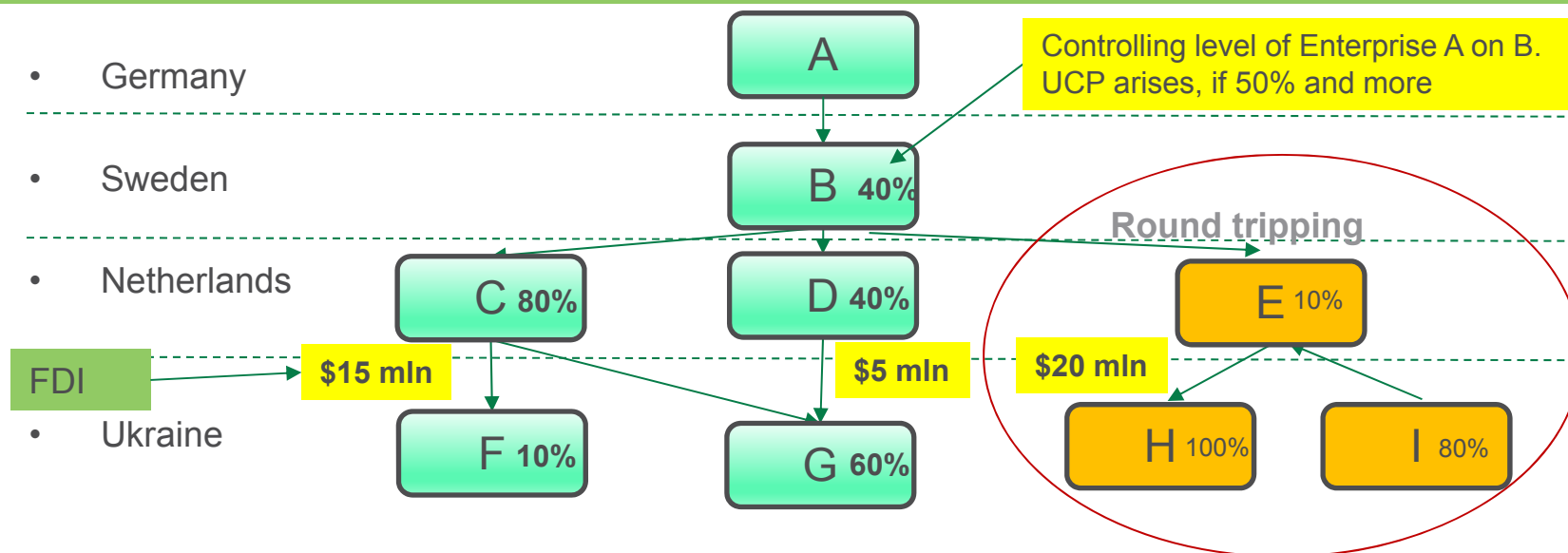
***Thank you for your attention***

***Everybody welcome to invest into Ukrainian Economy!***



## **Additional information**

## An illustration of the reallocation process to the ultimate investing country \*



According to the standard presentation by country (on an immediate investor basis Ukraine would show \$40 mln (15+5+20) of inward FDI positions from Netherlands. According to the supplemental presentation of inward positions by UIC (Ultimate investing country) :

**\$15 mln** investment from C into F would be relocated to Sweden, as enterprise B is the ultimate investor in enterprise F (as the UCP of enterprise C);

**\$5 mln** investment from D into G would remain allocated to Netherlands as enterprise D is the ultimate investor in enterprise G (no enterprise exerts control over enterprise D, so enterprise D is its own UCP);

**\$20 mln** investment from E into H would be reallocated to Ukraine as enterprise I is the ultimate investor in enterprise H (as the UCP of enterprise E). It is **Round tripping**.

**! Redistribution of investments by country UCP does not lead to a change in the total amount of FDI.**

! \* OECD benchmark definition of foreign direct investment: fourth edition – OECD 2008, Annex 10

## Periodicity and Timeliness of External Sector Statistics

**ESS are compiled in accordance with BPM6 (“Balance of Payments and International Investment position Manual”, sixth edition, 2009)**

	Periodicity	Timeliness	Type of data
Balance of Payments	Quarterly,  Monthly (preliminary estimation)	75 – 80th day  30th day	<ul style="list-style-type: none"> <li>▪ Standard presentation</li> <li>▪ Analytical presentation</li> <li>▪ By sectors</li> </ul>
International Investment Position	Quarterly	90th day	
<b>Foreign Direct Investment</b>	<b>Quarterly</b>	<b>90th day</b>	<ul style="list-style-type: none"> <li>▪ <b>Directional principle presentation (stocks/flows)</b></li> <li>▪ <b>Assets/Liabilities principle presentation (stocks/flows)</b></li> </ul>
External Debt	Quarterly	75 – 80th day	<ul style="list-style-type: none"> <li>▪ Gross External Debt</li> <li>▪ Currency breakdown</li> <li>▪ Short-term debt on remaining maturity</li> </ul>