

SURVEY OF PAKISTAN'S FOREIGN LIABILITIES AND ASSETS

Explanatory Notes on Schedule-II (Enterprises incorporated in Pakistan)

Note: Please use the Item Codes in Schedule-II to understand how various heads are defined /explained.		
	<u>ITEM-CODE</u>	<u>DEFINITION / EXPLANATION</u>
<u>Paid-up Capital</u>	0000 & 0600	The value of the paid-up capital is to be recorded in thousands of Rupees. This would reflect the face value of the number of shares held by the foreign direct investor(s), foreign portfolio investor(s) and resident investor(s). The total of these three categories would give the paid-up capital of the enterprise.
<u>Market value of the Paid-up Capital</u>	0100 & 0700	The market value of the shares to be used should be the listed prices if the shares of the enterprises are quoted on Stock Exchanges. It could be the book value / break-up value in case of non-listed enterprises etc. The enterprises are required to indicate the valuation method used in the footnote provided for the purpose.
<u>Changes during the year in the Capital</u>	0212,0222,0300 & 0500	The changes in the capital during the year will be based on the market value or the transaction value (sale or purchase value). The capital brought in (Code-0212) indicates the increase or the inflow of the capital, capital repatriated (Code-0222) reflects the decrease or the outflow of the capital. Price changes (Code-0300) reflect the changes due to fluctuation in the market price in case of quoted shares and break-up value in case of non-listed enterprises etc. Exchange rate changes (Code-0400) record fluctuation of Pak Rupee vis-a-vis Foreign Currencies. The other changes (Code-0500) cover the reclassification, for example, conversion of a portfolio investment into direct investment and vice versa, write-off of loan etc. This would also include data on issuance of bonus shares, if any.
<u>Direct investment</u>		The direct investment in the balance of payments is recorded on a directional basis. Direct investment in Pakistan is recorded on the liability side and direct investment abroad on the asset side. Direct investment implies a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence by the direct investor on the management of the direct investment enterprise. Capital invested by the direct investment enterprise in its direct investor (reverse investment) is regarded as an offset to capital invested in the direct investment enterprises by a direct investor and its related enterprises. That is, such capital is regarded as disinvestment by the direct investor rather than an asset of the direct investment enterprise. When a direct investment enterprise invests in an enterprise related to its direct investor, this investment is recorded, by the economy providing the investment, as resident direct investment abroad and, by the economy of enterprise receiving the investment, as direct investment-reporting economy.
<u>LIABILITIES TO NON-RESIDENTS</u>		
<u>(A) LIABILITIES</u>		
(a) Equity Shares		Equity capital covers equity in branches, all shares (whether voting or nonvoting) in subsidiaries and associated companies and other capital contributions (for example, the provision of machinery which constitutes part of the capital of the direct investment enterprise - by a direct investor to a direct investment enterprise. Equity capital also covers the acquisition by a direct investment enterprise of shares in its direct investor. The provision of goods (such as machinery or raw material or equipment) and of services (such as management fees, patent fees) cash contributions, or conversion of loans. Construction and purchase of land and real estate that are financed by transfer from the direct investor rather than intercompany debt should be reported as direct investment, Equity Capital.
(i) Claims on direct investors	21110 & 21210	This reflects the investment by the Pakistani direct investment enterprise in the equity of foreign direct investor etc. (Reverse investment)

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(ii) Liabilities to direct investors	11110 & 11210	This includes voting and non-voting shares of the foreign direct investor in Pakistan. The provision of goods (machinery, raw material, equipment) or of services (management fees, patent fees) cash contribution or conversion of loans are also included. Besides purchase of land (construction thereof) and real estate financed by transfer from foreign direct investor other than intercompany debts should also be reported here.
(b) Reinvested earnings	118200000	This covers the retained earnings attributable to non-resident (foreign) direct investors with respect to percentage of equity owned by them at the end of the period.
(c) Other Capital		These intercompany debt transactions cover the borrowing and lending of funds e.g., loans, debt securities and others between foreign direct investors and direct investment enterprises or between two direct investment enterprises having same direct investor.
(i) Claims on direct investors		All liabilities of foreign direct investors to Pakistani direct investment enterprises e.g., loans, debt securities and others are reported here.
1) Loans		
a) Long-term	23410	
b) Short-term	23310	
2) Debt Securities	22410	
3) Other claims		
a) Long-term	27410	
b) Short-term	27310	
(ii) Liabilities to direct investors		All claims of foreign direct investors on Pakistani direct investment enterprises e.g., loans, debt securities and others are reported here.
1) Loans		
a) Long-term	13410	
b) Short-term	13310	
2) Debt Securities	12410	
3) Other Liabilities		These are the residual items, miscellaneous accounts payable (for example, accounts relating to interest payments in arrears, loan payments in arrears, wages and salaries outstanding, taxes outstanding etc.)
a) Long-term	17410	
b) Short-term	17310	
2) Portfolio Investment		
(a) Equity Securities	11120 & 11220	Included under this are transactions in equity participation of less than 10% by foreign investors. Preferred stock or shares that provide for participation in the distribution of the residual earnings or in the residual value upon liquidation are included as equity. However, preference shares are not considered equity when the specified return and fixed value at maturity to which the holder is entitled are both independent of the underlying profitability of the issuing enterprise as such the transactions in these instruments should be classified as bonds and notes.
(b) Debt Securities		

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	<u>ITEM-CODE</u>	<u>DEFINITION / EXPLANATION</u>
i) Bonds and Notes	12420	These are debt securities usually traded or tradeable in the organised or other financial markets. They include, bonds, debenture, notes and certificate of deposits etc.
3) Other Investment		
(a) Loans		They include long-term and short term loans, and financial leases.
(1) Long-term		
(i) Other Non-Residents	13420	
(2) Short-term		
(i) Bank abroad	13330	
(ii) Other Non-Residents	13320	
b) Currency and Deposits (for banks)		They include notes and coins in circulation. An economy's external liabilities, in respect to notes and coins, consist of notes and coins that are issued by the economy's government and are held by non-residents. Deposits consist of transferable deposits and other deposits; however, negotiable certificate of deposits which are classified as part of portfolio investment because of their tradable nature, are excluded from this item. Transferable deposits (or demand deposits) are exchangeable on demand at par without restriction or penalty and are freely transferable deposits (current accounts, placements). Checking accounts generally satisfy the criteria for transferable deposits. Other deposits include non-transferable saving deposits, time deposits, and deposits in savings and loan associations, credit unions, building societies, etc. These deposits are generally redeemable on demand or on short notice. "Deposits accounts" that cannot be redeemed on demand or on short notice should be classified in the balance of payments as loans.
(i) Foreign Direct Investor	15310	
(ii) Other non-Residents	15320	
(c) Other Long-term Liabilities		They cover other financial liabilities, such as arrears (e.g., amount past due for payments and unpaid. Also covered are scheduled debt service payments that have fallen due but have not been paid to the creditors.)
(i) Other Non-Residents	17440	
(d) Other Short-term Liabilities		They cover other financial liabilities, such as arrears (e.g., amount past due for payments and unpaid. Also covered are scheduled debt service payments that have fallen due but have not been paid to the creditors.)
(i) Other Non-Residents	17320	
<u>CLAIMS ON NON-RESIDENTS</u>		
(B) ASSETS		

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	<u>ITEM-CODE</u>	<u>DEFINITION / EXPLANATION</u>
1) Direct Investment Abroad		Data is reported here in case if your enterprise is a direct investor and it has claims on affiliated enterprise(s) abroad.
(a) Equity Shares		Equity capital covers equity in branches, all shares (whether voting or nonvoting) in subsidiaries and associated companies and other capital contributions (for example, the provision of machinery which constitutes part of the capital of the direct investment enterprise - by a direct investor to a direct investment enterprise. Equity capital also covers the acquisition by a direct investment enterprise of shares in its direct investor. The provision of goods (such as machinery or raw material or equipment) and of services (such as management fees, patent fees) cash contributions, or conversion of loans. Construction and purchase of land and real estate that are financed by transfer from the direct investor rather than intercompany debt should be reported as direct investment, Equity Capital.
(i) Claims on affiliated enterprises	31110 & 31210	This includes voting and non-voting shares of the Pakistani direct investor. The provision of goods (machinery, raw material, equipment) or of services (management fees, patent fees) cash contribution or conversion of loans are also included. Besides purchase of land (construction thereof) and real estate financed by transfer from Pakistani direct investor other than intercompany debts should also be reported here.
(ii) Liabilities to affiliated enterprises	41110 & 41210	This reflects the investment by the foreign direct investment enterprise(s) in the equity of Pakistani direct investor etc. (Reverse investment)
(b) Reinvested earnings	0212 & 0222	This covers the retained earnings attributable to resident (Pakistani) direct investors with respect to percentage of equity owned by them in the direct investment enterprises abroad at the end of the period. The amount against this head would be recorded in the "change during the year" under "increase" or "decrease" of the Capital. For example, in case of increase in the reinvested earnings, this would be reflected as 'increase' (Code - 0212) in the capital otherwise a 'decrease' (Code - 0222) in the capital.
(c) Other Capital		
(i) Claims on affiliated enterprises		These intercompany debt transactions cover the borrowing and lending of funds e.g., loans, debt securities and others between Pakistani direct investors and direct investment enterprises abroad.
1) Loans		
a) Long-term	44410	
b) Short-term	34310	
2) Debt Securities	32410	
3) Other claims		
a) Long-term	37410	
b) Short-term	37310	
(ii) Liabilities to affiliated enterprises		All claims of foreign direct investment enterprises on Pakistani direct investor e.g., loans, debt securities and others are reported here.
1) Loans		
a) Long-term	34410	
b) Short-term	44310	
2) Debt Securities	42410	
3) Other Liabilities		

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	<u>ITEM-CODE</u>	<u>DEFINITION / EXPLANATION</u>
a) Long-term	47410	
b) Short-term	47310	
2) Portfolio Investment		
(a) Equity Securities	31120 & 31220	All transactions in equity participation of less than 10% by Pakistani investors in the foreign enterprises are recorded here. Preferred stock or shares that provide for participation in the distribution of the residual earnings or in the residual value upon liquidation are included as equity. However, preference shares are not considered equity when the specified return and fixed value at maturity to which the holder is entitled are both independent of the underlying profitability of the issuing enterprise as such the transactions in these instruments should be classified as bonds and notes.
(b) Debt Securities		
i) Bonds and Notes	32420	These are debt securities usually traded or tradeable in the organised or other financial markets. They include, bonds, debenture, notes and certificate of deposits etc.
3) Other Investment		
(a) Loans		
(1) Long-term		
(i) Other Non-Residents	34420	
(2) Short-term		
(i) Other Non-Residents	34320	
(b) Currency and Deposits	34330	
(c) Other Long-term Claims		Other claims are the residual items that include all external assets not recorded elsewhere in the financial account. Included under this are accounts receivable e.g., interest receivable, wages and salaries receivable, prepayment of insurance premiums, prepaid taxes, etc.
(i) Other Non-Residents	37420	
(d) Other Short-term Claims		Other claims are the residual items that include all external assets not recorded elsewhere in the financial account. Included under this are accounts receivable e.g., interest receivable, wages and salaries receivable, prepayment of insurance premiums, prepaid taxes, etc.
(i) Other Non-Residents	37320	
<u>ITEMS OF INVESTMENT INCOME FOR THE YEAR</u>		Here transactions involving residents and non-residents and relating to incomes (received and receivable both) and expenses (paid and payable both) with which the P&L account is charged are recorded.

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Items	<u>ITEM-CODE</u>	<u>DEFINITION / EXPLANATION</u>
1. Interest paid or payable on foreign liabilities to:		Please include interest paid and payable both with which the P & L is charged.
(a) Foreign direct investors	176100000	It includes the interest paid or payable to foreign direct investor.
(b) Foreign banks	176300000	It includes the interest paid or payable to foreign banks.
(c) Other non-residents	176200000	It includes the interest paid or payable to other non-residents.
2. Interest received or receivable on foreign claims: -		Please include interest received and receivable both with which the P & L is charged.
(a) Direct investment abroad	276100000	It includes the interest received or receivable from enterprise(s) in which you have foreign direct investment.
(b) Other investment abroad	276200000	It includes the interest received or receivable on foreign investment.
3. Dividends received or receivable from abroad on : -		Please include dividend received and receivable with which the P & L is charged.
(a) Direct Investment abroad	277100000	It includes the dividend received or receivable on equity from enterprise(s) in which you have foreign direct investment.
(b) Portfolio Investment abroad	277200000	It includes the dividend received or receivable on foreign portfolio investment in equity.

E. Reinvested Earnings:-

Reinvested earnings is to be calculated if your enterprise has foreign direct investment in it.

(a) Operating Profit	119000000	
(b) Other Income	118000000	
(c) Operating Profit + Other Income	118400000	
(d) Taxes Payable	115400000	
(e) Profit after taxation	110000000	
(f) Dividend paid or profit remitted	117100000	For this Schedule, please note that the dividend declared is thought to have been distributed. Here all dividend paid (including amount remitted as a dividend) will be reported.

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(g) Retained earnings or Reinvested earnings for the year	118100000	This gives the reinvested earnings of the enterprise for the year.
(h) Percentage of equity owned by non-resident direct investor	118700000	This reflects the percentage of equity (paid-up capital only) held by foreign direct investor. For example, 20% or 50% of the paid-up capital etc.
(i) Reinvested earnings attributable to non-resident direct	118200000	The reinvested earnings multiplied by the percentage of equity (paid-up capital) held by the foreign direct investor gives the reinvested earnings attributable to foreign direct investor.

MEMORANDUM ITEM

The memorandum item is to be filled in if the enterprise has a foreign direct investment in it.

Change during the year in the amount of shares issued to foreign direct investors due to:		
a) Cash brought into Pakistan (+)/repatriated (-)	111110210 / 111110220	The transactions relating to foreign direct investor(s) only should be reported here.
b) Equipment brought in (+) / taken out (-)	111120210 / 111120220	The direct investment in Pakistan in the form of capital equipment, if any, should be reported here.
c) Bonus shares	118500000	The amount of bonus shares issued to foreign direct investor(s) only should be reported here.

General Notes

Concepts of residence:

Economic connection of a unit to an economic territory

– Not based on nationality or legal criteria

– Not based on currency used

Expressed as a economic unit's Center of economic interest

Center of economic interest

Dwelling, place of production, or other premises, within the economic territory of the country on, or from, which the unit engages, or intends to engage, in economic activities and transactions on a significant scale, for an indefinite or long period

- An enterprise has a center of economic interest and is a resident unit of a territory when the unit is engaged in a significant amount of production and plans to do so over an indefinite or long period of time.
- One-year stay in a country is used as a guideline by Balance of Payments Manual, Fifth Edition of the IMF(BPM5)

Residents and Nonresidents

A nonresident is any individual, enterprise, or other organization ordinarily domiciled in a country other than Pakistan.

Pakistani branches and subsidiaries of nonresidents are residents of Pakistan. Similarly, foreign branches and subsidiaries of Pakistan companies are nonresidents.

Nonresident direct Investor:

A nonresident entity (or a group of related nonresidents) that owns equity of 10 percent or more in an enterprise incorporated in Pakistan. Nonresident enterprises related to nonresidents direct investor are also considered as nonresident direct investors. Examples of direct investors are, foreign head offices (for branches) and foreign parent company (for subsidiaries). An enterprise may have more than one director and these direct investors may reside in different countries. An investor need not have the largest shareholding to be considered as a direct investor.

Foreign Direct Investment Enterprises are:

- Nonresident branches and subsidiaries of your enterprise and its subsidiaries
- Nonresident enterprises in which your enterprise or its subsidiaries have equity of 10 percent or more
- Nonresident subsidiaries of nonresident associates of your enterprise or its subsidiaries

Portfolio investment abroad

When a Pakistani entity holds less than 10 per cent of equity (voting and non-voting shares) interest in an enterprise incorporated abroad. The investment would be recognized as portfolio investment abroad.

Other nonresidents are:

those who are not direct investors or direct investment enterprises.

Position, Transactions, Other Changes, and Income

Opening position refers to the value of the claims / liabilities of your enterprise and its subsidiaries at the beginning of the year. The opening position you report should agree with the closing position you reported for the previous year.

Closing position refers to the value of the claims / liabilities of your enterprise and its subsidiaries at the end of the year.

Financial Transactions are transactions relating to the acquisition or disposal of your enterprise’s financial claims on and liabilities to nonresidents. Purchases of stock made by your enterprise (and its subsidiaries) in nonresidents companies, purchases of your enterprise’s shares by nonresidents, issuance and purchases of bonds, increased deposits in bank accounts, and drawings of loans are examples of transactions that increase assets or liabilities. Sales of stock by your enterprise (and its subsidiaries) in nonresidents companies, sales of your enterprise’s shares by nonresidents, redemption and sales of bonds, withdrawals from bank accounts, and repayments of loans are examples of transactions that decrease assets or liabilities.

Income refers to:

- Income receivable by your enterprise from the ownership of claims on nonresidents
- Income payable by your enterprise as a result of its liabilities to nonresidents. The most common forms of income are dividends, remittances of profit and interest.

Dividends and remittances of profits refer to income earned from ownership of stock (shares) or equivalent equity interest in enterprises. These amounts should be recorded on the basis of dividend (or remittances) payments dates. Interest relates to income earned from the ownership of financial assets other than equity assets. Income includes discounts. A discount is the difference between the value of a financial instrument when it is issued and its final redemption value. Interest should be recorded on accrual basis. The difference between income accrued and income payable should be recorded as a financial transaction in the instrument to which the interest relates.