



This appendix provides an overview of the main methodological and data caveats that apply to applications and approvals data in this Annual Report. While a useful source of data on proposed foreign investment in Australia, the Board urges caution in the use of these statistics, particularly when making comparisons with earlier years or alternate data sources on foreign investment.

Methodological and data caveats

- The statistics contained in this Annual Report do not measure total foreign investment made in any year, nor do they measure changes in net foreign ownership levels in Australia. They reflect investor intentions (not actual purchases) to acquire Australian assets. They can be skewed by very large investment proposals and multiple competing proposals for the same target.
- There are substantial differences between these statistics on proposed investments and actual investment flows. The latter are captured by the Australian Bureau of Statistics, which covers investment transactions between residents of Australia and non-residents.
- Data capture, systems and reporting methodologies change over time and from the 2015-16 Annual Report onwards much of the data is an aggregation of separate data captured by Treasury and the ATO.
- Data presented for earlier years may also have been revised since last published.

- Prior to 2017–18, the source country of proposed investment identified in the FIRB data was generally attributed to the investor(s) who was likely in control, or in a position to control, the investor proposing to make the investment. Non-controlling foreign government investors with greater than a five per cent interest in the investor were allocated a notional interest (that is, one per cent). For example, the source country may be attributed to a foreign investor’s only large interest holder, or if the investor’s securities were widely held, the country of domicile, primary listing, establishment or incorporation may be recorded.
 - For consortium approvals, or where there is shared control, the proposed investment may be counted against a number of countries with the investment value apportioned between those countries involved.
- From 2017–18, the source country(s) of proposed investment is generally allocated based on the known or disclosed ultimate underlying ownership of the investor proposing to make the investment. While in some cases, this would be the same outcome as if attributed based on who was likely in a position to control the investor, the data is not comparable to that of 2016–17 and earlier years. Where a portion of the ultimate underlying owners are unknown, the unknown ownership portion is either apportioned amongst the countries of known investors or allocated to or amongst the country of domicile, primary listing, establishment or incorporation. It continues to be the case that if an investor’s securities are widely held, the country of domicile, primary listing, establishment or incorporation may be recorded.

Example 1: When tracing back the ownership of Investor A, it has five beneficial owners all owning equal shares. Two each are from Countries A and B, and one is from Country C.

From 2017–18, the source country for Investor A’s proposed investment based on country of ownership is recorded as 40 per cent each for Countries A and B, with the remaining 20 per cent allocated to Country C.

Prior to 2017-18, the source country for Investor A’s proposed investment based on country of control was recorded as 50 per cent each for Countries A and B, as these investors had an equal number of directors on the board of Investor A and both had to agree on any major decisions. Country C was not allocated an amount as their interest in Investor A was as a passive investor only, with no board seats or veto rights.

Example 2: Investor D, which although incorporated in Country D, is listed and controlled in Country Y, has five passive shareholders each with a 10 per cent interest (Shareholder E, F, G, H and I, who come from Countries E, F, G, H and I) and the remaining 50 per cent is widely held. Shareholder E has two shareholders from Countries J and K holding 25 per cent each and the remainder is widely held.

From 2017–18, the source country for Investor D’s proposed investment based on country of ownership is recorded as 50 per cent for Country Y, 10 per cent each for Countries F, G, H and I, 5 per cent for Country E and 2.5 per cent for Countries J and K. For Investor D and Shareholder E, it is assumed that the widely held portions relate to owners in their country of listing or incorporation. If it was common for the widely held ownership portion of entities listed in Country Y to come from Countries Y and X in roughly equal proportions, the 50 per cent allocated to Country Y could have been split between Countries Y and X on this basis.

Prior to 2017-18, the source country for Investor D’s proposed investment based on country of control was recorded as 100 per cent for Country Y.

- The data does not necessarily reflect a change from domestic to foreign ownership as in some cases both the seller and the purchaser are foreign persons.
- Proposed investment values allocated against source countries assume that investment funds will be sourced from overseas. The extent to which approved proposed investment will actually be funded from outside of Australia and result in foreign capital inflows depends not only upon whether they are implemented, but also upon the proportion that is financed from foreign sources. The proposed funds to be invested may be contributed by Australians, for example, where they are in partnership with foreign interests, or where the investment is financed from existing Australian operations.
- The value ascribed to a proposed investment which has received approval is the amount agreed to in any contract entered into or a reasonable estimate advised by the applicant based on the available information. It represents an estimate of the expected proposed investment in the 12 months from the approval unless the approval is granted for a longer period (and assumes full implementation). In cases where the acquisition has already been completed, it is the amount paid for the interest acquired.
 - Where an approved acquisition is a part of an offshore acquisition, the proposed investment figure is calculated based on the share attributable to the approved acquisition in Australia.
 - Where amounts are in a foreign currency, this is converted to Australian dollars based on the exchange rate at the time of the contract or when the application was made.
 - There are some approvals for which proposed investment is treated as nil. Examples of this include internal corporate reorganisation and financing arrangement approvals.

- Proposed investment recorded for exemption certificates is the maximum investment that may be made by foreign persons covered by the certificate over the duration of the certificate. Actual foreign investment under new dwelling exemption certificates is likely to take place over multiple years during the sale phase of the covered development. Also, as of December 2015, exemption certificates for foreign persons (formerly known as annual programs), are no longer limited to a maximum 12 month period and so investments under these certificates may take place over a longer period.
 - For new dwelling exemption certificates which allow developers to receive pre-approval on behalf of foreign persons to enable foreign persons to purchase up to 50 per cent of new dwellings within a development up to a cumulative value of \$3 million per investor in a single development, the approved investment figure may overstate the extent of actual foreign purchases.
 - Near new dwelling exemption certificates will generally be given a nil value as the maximum value of proposed investment for the development will have been attributed to any associated new dwelling exemption certificate in the year that the certificate was granted.
- The statistics may include some transactions that do not actually proceed. They include:
 - approvals in a given year but which are not actually implemented in that year or at all;
 - approvals for multiple competing potential acquirers of the same target (including for potential consortium participants that are yet to determine their final maximum percentage interest);
 - approvals for shares, units or other interests, where only a portion of those intended may be acquired; and
 - proposed investment programs covered by an exemption certificate, where the program is not fully implemented.
- Proposed acquisitions of diversified company groups are classified into a single industry sector according to the major activity of the group, such as in a diversified mining company with interests in various minerals.¹⁹
- Proposed acquisitions of land, including land entities and mining, production or exploration entities,²⁰ are classified as follows:
 - commercial land and residential land are reported in the real estate sector;

19 Data from 2014–15 is compiled by reference to the Australian and New Zealand Standard Industrial Classification (ANZSIC, 2006) and the FIRB is no longer reporting on resource processing.

20 The following classifications only apply where notification is required because a threshold for the acquisition of such an interest in land is met.

- agricultural land is included in the agriculture, forestry and fishing sector and within this industry, is allocated based on actual use, or if not currently being used for a primary production business, based on its likely use as agricultural land; and
- tenements are included in the mineral exploration and development sector and within this industry are allocated based on the mineral, oil or gas that can be recovered. If a tenement allows for different types of minerals to be recovered then this is allocated based on the primary target mineral or mineral thought to be dominant.

Policy scope and changes

The breadth of the data on proposed investment in this annual report reflects the requirements under the foreign investment framework during the applicable reporting period. The requirements have changed over time, and in some instances, during a reporting period.

The data does not cover foreign investments considered or made below the various screening thresholds that apply under the Act. For example, in 2017-18 a \$250 million takeover of an Australian business only required foreign investment approval in limited situations, such as if the acquirer was a foreign government investor, or the Australian business was an agribusiness or in the media sector. If the foreign investor was an agreement country investor they could take over an Australia business in a non-sensitive sector for \$1 billion, or acquire any commercial property under this amount without requiring foreign investment approval.

Nor does the data cover follow-on investments to expand the capital stock of existing foreign-owned businesses (both in existing areas and into related areas) such as pro-rata capital injections. For example, additional investment by a foreign owned miner expanding their mining operations by reinvesting their Australian profits in their operations is not reflected in the data.

Furthermore, policy and legislative change can have a considerable impact on the continuity of data. For instance, changes in Australia's Foreign Investment Policy since the mid-1980s have affected the number of some types of proposals, limiting comparability over time. These changes include:

- changes to the thresholds above which an acquisition requires foreign investment approval, both through trade agreements and general policy changes (for example, the lowering of the general rural land screening threshold from \$252 million to \$15 million (cumulative) from 1 March 2015);
- the revised definition of foreign government investor introduced in March 2013;
- the introduction of changes in 2009 and 2010 to the screening arrangements for temporary residents purchasing residential real estate, as well as changes in immigration policies that control the number of temporary resident visa holders;
- the significant 1 December 2015 reforms which included:

- the introduction of fees for foreign investment applications;
 - the introduction of a \$55 million threshold for direct investments in agribusiness;
 - the shift of many requirements from policy into legislation;
 - modernisation of the foreign investment legislation including changes to exemptions and the substantial interest threshold, with the latter reducing the number of Australian based entities that were foreign persons due to interests held in them by overseas investors;
 - changes to exemption certificates; and
 - the increase in the monetary threshold for commercial developed land that is not sensitive from \$55 million to \$252 million; and
- changes announced in the 2017-18 Budget that came into effect in 2017-18 (see Chapter Two: The Foreign Investment Framework).

Administrative practices

Changes in administrative practice (for example, data collection and record keeping) and foreign investment application requirements have also impacted on year-to-year data comparability. Examples of this include the following:

- The most recent Australian and New Zealand Standard Industrial Classification (ANZSIC, 2006) was adopted for data recording and reporting purposes as part of the 1 July 2014 case management system. Year-to-year comparability of pre 2014–15 data may be limited.
- The transfer of screening of residential real estate cases to the ATO from 1 December 2015 and of non-sensitive commercial real estate and corporate reorganisation cases from 1 April 2017. Data for cases screened by the ATO are captured in this annual report using data from the ATO systems.