

Note on the complete draft structure of ISIC Rev. 5

For the global consultation

16 December 2022

1. This note provides short background information on the work of the TT-ISIC on ISIC (TT-ISIC) on the finalization of the complete draft structure of ISIC Rev. 5, and the future activities for the finalization of ISIC. A broad overview of the main changes in ISIC Rev. 5 and the revision process are presented in Annex I and II respectively.

I. Background

2. The complete draft structure of ISIC Rev. 5 was prepared by the TT-ISIC of the United Nations Committee of Experts on International Statistical Classifications (UNCEISC). It further elaborates the broad structure of ISIC Rev. 5 at Section, Division and Group level which was endorsed by the United Nations Statistical Commission at its 53rd session in March 2022¹.

3. In revising the class structure of ISIC, the TT-ISIC took into consideration the outcome of previous discussions of the TT-ISIC and also the feedback received during the global consultation conducted during the period from January to February 2022. Some additional requests that were submitted in the first part of 2022 were also considered by the TT-ISIC.

4. During the global consultation, numerous comments were received with regard to proposed changes to the ISIC structure at the Class level. The TT-ISIC carefully discussed all the feedback that was received. Although not all proposals for changes resulted in a separate category in the structure of ISIC, they have been carefully discussed by the TT-ISIC, which made all the effort possible to integrate the proposed changes. In some cases, the TT-ISIC recommended to create a new category in the structure; in other cases, the TT-ISIC recommended to adjust the text in the explanatory notes or alphabetical index to address the specific proposal; and, finally, in other cases, the TT-ISIC considered that more work was needed to fully assess the feasibility and conceptual consistency of certain proposed structural changes.

5. The draft structure of ISIC Rev. 5 was approved by the United Nations Committee of Experts on International Statistical Classifications at its meeting in New York during 25-28 October 2022, and it is submitted to the United Nations Statistical Commission at its 54th session in 2023 for adoption. In the separately attached complete draft structure of ISIC Rev. 5, the changes at the Class level are highlighted in red. The complete draft structure of ISIC Rev. 5 is also available on UNSD website at: <https://unstats.un.org/unsd/Classifications/isic/rev5consultation>

6. The TT-ISIC agreed to develop a **research agenda** for future ISIC revisions based on the discussions that took place during the revision of ISIC. Some of the topics that were identified include, but are not

¹ https://unstats.un.org/UNSDWebsite/statcom/session_53/documents/2022-41-FinalReport-E.pdf

limited to, the following: activities related to climate change and environmental protection and conservation; further review of intermediation service activities; further review of the digital economy (e.g., cryptoassets), circular economy, possible identification of categories in ISIC for factoryless good producers, issues related to tourism, etc. The global consultation that is currently being conducted on the draft structure of ISIC Rev. 5 aims also to collect issues for the research agenda for ISIC.

II. Future activities for the finalization of ISIC

7. The TT-ISIC is working on the **finalization of the explanatory notes** of ISIC Rev. 5. As mentioned above, a number of clarifications were considered necessary for the explanatory notes. In addition, given the strong relation with the Statistical Classification of Economic Activities in the European Communities (NACE), all efforts are being made so that the explanatory notes remain consistent and aligned to the extent possible. Thus, the work of the TT-ISIC is coordinating very closely with the work of the Eurostat Standing Working Group on NACE.

8. The development of an **alphabetical index** is particularly important for a classification. As the explanatory notes are developed, the alphabetical index is also being developed so that it can support the implementation of ISIC Rev.5.

9. During the revision of ISIC, there was the recognition that a **regular revision cycle for ISIC** should be put in place. The UN Committee of Experts on International Statistical Classifications, during its last meeting in October 2022, recognized several advantages for regular revision cycle. For example, it allows the advance planning of activities at national and international levels and a better coordination and consultation with revision processes of classifications at international, regional and national levels. It also allows for changes to take place in a more agile manner so that issues could be discussed and addressed on an ongoing basis. A regular revision cycle is particularly useful also in the planning of its implementation as the changeover in the Statistical Business Registers, business surveys, and in the national accounts can be planned and prepared in advance. The development of a research agenda together with the establishment of a regular revision cycle for ISIC will ensure that the classification can more quickly reflect the economic reality of the time.

10. The proposal for a regular revision cycle for ISIC is being put forward to the United Nations Statistical Commission at its 54th session in 2023.

Annex I: Main changes in ISIC Rev. 5

11. Since the approval of ISIC Rev. 4 by the UNSC in 2006, globalization and digitalization have changed the way in which many economic activities provide goods and services; new activities have gained importance while others have lost importance in the global economy; and rapid and dynamic changes took place in the information technology environment. In addition, the increased awareness of the impact of the economy on the environment has created specialized activities to protect the environment. The revision of ISIC Rev. 4 aims to address these issues to reflect more closely the reality of current economic activities in the classification.

12. Below is the list of the major changes in the revised ISIC. They are organized by the Sections of ISIC Rev. 4 (sections G, J, K, P and R) followed by cross-sectional issues such as the classification of intermediation services, factoryless goods producers (FGPs), selected activities related to the environment and other issues. The class structure of ISIC has been reviewed and a number of new classes have been introduced. For a complete reference, please see the complete draft structure of ISIC Rev. 5 at <https://unstats.un.org/unsd/Classifications/isc/rev5consultation>

ISIC Rev. 5 Section G – “Wholesale and retail trade”

1. The distinction between in-store and non-store retail trade in ISIC Rev. 5 Division 47 “Retail trade” has been eliminated

13. ISIC Rev. 4 makes a distinction at the Group and Class level between retail trade in stores and retail trade not in stores (with much greater Group and Class detail for in-store activities). This structure no longer satisfies the majority of the stakeholders and poses challenges in the implementation of the classification as a growing number of retailers carry out activities both in-store and online.

14. Eliminating the distinction between in-store and non-store retail in Division 47 is based on the following considerations:

- Most retail activities take place both in-store and online (as well as through other non-store distribution channels) and it is increasingly difficult to differentiate between distribution/sale channels based on the primary sales methods. Retaining the "mode of sale" as a classification criterion would add complexity to determine predominant activity and identifying products sold.
- The share of online and in-store sales of retailers (and the types of products sold via the various channels) can vary over time, affecting the stability of the classification.
- Industries classified by their predominant product sold will result in more accurate measurement of product data and increased consistency between activity and product classifications.

15. Therefore, the main classification criteria for retail trade in ISIC is based on product specialization and not sales channels.

2. Classification of “Wholesale and retail trade and repair of motor vehicles and motorcycles” within Section G

16. ISIC Rev. 4 Division 45 brought together the activities of wholesale, retail trade and repair of motor vehicles and motorcycles. These activities were grouped together in ISIC due to the importance of the auto industry and the need of users to keep relevant activities together at the division level. However, the need was raised for a consistent treatment of wholesale, retail and repair of motor vehicles and motorcycles.

17. Therefore, wholesale of motor vehicles activities are now classified in ISIC Rev 5 Division 46 - “Wholesale trade”, retail trade of motor vehicles activities should be in Division 47 - “Retail trade”, and the activities of maintenance and repair of motor vehicles and motorcycles are classified in Division 95 - “Repair of computers and personal and household-goods”². Appropriate classes were introduced to reflect this decision.

3. Review the scope of Section G to address the classification of digital products

18. In the review of the classification of retail trade in digital products, including downloading and streaming, the TT-ISIC agreed to define the scope of Section G to include only trade in physical goods and therefore exclude distribution of digital products. Goods are defined in the *System of National Accounts 2008* (2008 SNA) para 6.15 as “Goods are physical, produced objects for which a demand exists, over which ownership rights can be established and whose ownership can be transferred from one institutional unit to another by engaging in transactions on markets.”

19. The TT-ISIC recognized that the production functions for trade in goods and distribution of digital products are different. For digital products, businesses do not need inventories or transport. In addition, providing downloading services to end users as predominant activity is rare because digital products are usually provided through publishers’ subscription services, streaming services, or in combination with predominant retail trade of goods.

20. The TT-ISIC agreed that distribution digital products, including downloading and streaming services, are included in Section J. Although this recommendation does not lead to a structural change in Section G, the class definitions and explanatory notes will be reviewed to ensure the classification is clear.

ISIC Rev. 5 Sections J “Publishing, broadcasting, and content production and distribution activities” and K– “Telecommunications, computer programming, consultancy, computing infrastructure, and other information service activities”

21. The rapid development of information and communication technologies prompted a major review and update of the structure of ISIC Rev. 4 Section J - “Information and communication” to better reflect: (a) clear definitions of concepts such as publishing, programming, data processing, content distribution, facilities management, consultancy, communication, transmission, display, media, etc.; (b) updated terminology; (c) new audio and video distribution activities; and (d) improved alignment with other industry classifications such as NACE and NAICS.

² Note the title of Division 95 is updated in the revised ISIC to reflect the change in scope of the Division.

22. ISIC Rev. 4 Section J - “Information and communication” was split into two separate Sections, namely Sections J “Publishing, broadcasting, and content production and distribution activities” and K- “Telecommunications, computer programming, consultancy, computing infrastructure, and other information service activities”. New classes were added in ISIC rev. 5 Sections J and K.

ISIC Rev. 5 Section L - “Financial and insurance activities”

23. Since the release of ISIC Rev. 4, there have been various innovations in the provision of financial services. Some examples of these innovations include increase in the use of digital technologies to facilitate the provision of or access to financial services; the expansion in many financial markets of non-bank financial intermediation as alternative to traditional banking; and a greater number of financial activities provided by the financial sectors. The changes to Section K include: a restructure of Division 64 to better reflect the range of activities in the financial markets and adjustments at the Group levels to reflect the digitalization of the financial sector. New classes were introduced for ISIC 5 Division 64 to reflect the growing importance of certain financial activities.

24. Discussion took place on the classification of financial technology companies (Fintechs) that are using digital technologies to provide, improve or increase access to financial services and agreed not to create additional groups as these activities can be covered within the existing structure of ISIC since in majority of the cases these are not actually new activities, just being provided via a new modality. Fintech companies are classified based on their principal economic activity. Thus, a fintech unit principally active in financial intermediation will be classified in Section L, whereas a unit whose principal activity is to provide digital technology that supports the provision of a financial service will be classified in Section J. Although no new classes were proposed, the explanatory notes will be updated to make clear reference to financial activities facilitated through the use of digital means.

ISIC Rev. 5 Section Q – “Education”

25. The structure of ISIC Rev. 5 Section Q was changed to better align with ISCED. New classes were therefore introduced in the Section Q.

ISIC Rev. 5 Section S – “Arts, Sports and recreation”

26. The structure of ISIC Rev. 5 Division 90 - “Arts creation and performing arts activities” and Division 91 - “Library, archives, museum and other cultural activities” was further elaborated in ISIC Rev.5. A number of new classes were introduced in these Divisions.

Intermediation service activities

27. The TT-ISIC reviewed the classification of intermediaries in general, including digital intermediaries. Intermediation service activities through digital platforms have increased substantially due to technological advances and the identification of these activities is of great importance from the policy perspective. After the adoption of ISIC Rev. 4, the classification of intermediaries was facilitated by an intermediate ruling³ from the Expert Group on International Statistical Classifications on the treatment

³ See document ESA/STAT/AC.340/10 at <https://unstats.un.org/unsd/classifications/expertgroup/egm2017/ac340-10.PDF>, together with the decision of the Expert Group on International Statistical Classification in para 79 of the meeting report at <https://unstats.un.org/unsd/classifications/expertgroup/egm2017/ac340-4.pdf>

of intermediation activities, but enterprises are generally coded in Statistical Business Registers (SBRs) based on national rules or interpretations.

28. Some intermediation services activities are already identified in ISIC reflecting the intermediation activities prevalent at the time of writing ISIC Rev. 4. Intermediation activities have since spread across many more industries due to technological development, i.e. digitalization, and should therefore, be reflected in the new ISIC structure.

29. Although most intermediation services activities are facilitated by digital technologies, it was agreed not to use digitalization as a classification criterion in ISIC (see for example the distinction between of online and in-store retail trade presented above). Other classifications, alternative aggregations, or targeted inquiries could be used to separately identify-intermediaries that operate through digital means (i.e., digital platforms). The so-called “digital intermediation platforms” that provide intermediation services via online platforms will, therefore, not be treated differently in ISIC from those that provide similar intermediation services via other means (face-to-face, telephone, mail, email, etc.).

30. The TT-ISIC agreed to define intermediation service-activities, other than financial intermediation services, as follows:

“Non-financial intermediation service activities are activities that facilitate transactions between buyers and sellers for the ordering and/or delivering of goods and services for a fee or commission, without supplying and taking ownership of the goods and services that are intermediated. These activities can be carried out on digital platforms or through non-digital channels. The fee or commission can be received directly from either the buyers or sellers, or revenues for intermediation activities can include other sources of income, such as third-party revenues from advertising.”

31. A number of classes have been introduced to reflect intermediation service activities in ISIC Rev. 5. It was recognized that an alternative treatment of non-financial intermediation service activities could be to classify all of them in a (single) separate division, but it was agreed to not create such a division. This option may, however, be reconsidered in the future as more data become available on intermediation service activities. It should be noted that the new structure would allow for alternative aggregations to be defined if needed by the producers of statistical data, as the activities are classified in dedicated categories in the revised ISIC.

Treatment of Factoryless Goods Producers (FGPs)

32. The criteria for the definition of FGPs are extended to include the ownership of the intellectual property products (IPP) and not be solely based on the ownership of the input materials in a manufacturing activity as reflected in ISIC Rev 4. In addition, the control criteria for defining FGPs should cover some aspects of the control of the transformation process, including quality control and oversight of the production process. The distinction between affiliates and non-affiliates is not a relevant criterion in the definition and classification of FGPs.

33. Although it was ISIC recognized the analytical importance to separately identifying FGPs, based on current practices and feedback from experts, it was decided that it was not feasible at this stage to separately classify FGPs in ISIC. Therefore, it was agreed to classify FGPs in Section C in the same class

where they would be classified if they carried out the manufacturing process themselves. This issue can be reconsidered in the next revision of ISIC.

4. Activities related to the environment

34. In its review to better reflect activities related to the environment the TT-ISIC considered several issues and proposals such as activities related to climate change mitigation and conservation, management and restoration of ecosystems and biodiversity; activities related to electric cars (including manufacture, charging stations, etc.); and the classification of biofuels.

35. Some new classes have been introduced to explicitly identify some activities related to the environment (such as for example the new class 8413 “Regulation of the activities of providing environmental services”). When relevant, the explanatory notes will be updated to make explicitly reference to relevant environmental activities. In general, however, more discussion was considered necessary in order to better reflect in ISIC activities relevant to climate change mitigation, and conservation, management and restoration of ecosystems and biodiversity.

Annex II: Overview of the revision process

36. Based on the Report of the Technical Subgroup on ISIC to the Expert Group on International Statistical Classifications⁴ and the subsequent recommendations of the Expert Group on International Statistical Classifications (EGISC)⁵, the United Nations Statistical Commission (UNSC) during its 52nd session in 2021 endorsed the revision of the ISIC Rev. 4, and approved the terms of reference of the United Nations Committee of Experts on International Statistical Classifications (UNCEISC), which replaced the EGISC, and approved the terms of reference of the TT-ISIC on ISIC (TT-ISIC) responsible for developing recommendations for the revision of ISIC Rev. 4.

37. In 2021, the TT-ISIC worked through a proposed list of issues for review based on the 2019 global consultation with countries and international and regional organizations. During 2021, the TT-ISIC also made an effort to collect additional issues from relevant groups of experts such as the Advisory Expert Group on National Accounts (AEG), the Committee of Experts on Environmental-Economic Accounts (UNCEEA), the Intersecretariat Working Group on Environment Statistics, the Committee of Experts on Business and Trade Statistics (UNCEBTS), the Intersecretariat Working Group on Price Statistics (ISWGPS), the Committee on Balance of Payments Statistics (BOPCOM), the Intersecretariat Working Group on Energy Statistics (InterEnerStat), the Expert Group on time use, and the Voorburg Group on Service Statistics. Further consultations with these groups and committees will continue in 2022 following the feedback from the global consultation on the proposed revised structure of the ISIC and the progress with the revisions of other statistical standards on economic statistics.

38. To reflect more comprehensively on the substantive thematic areas in the revision of ISIC, the TT-ISIC membership was extended to experts on national accounts, balance of payments, financial statistics, and environmental economic accounts. The list of members of the TT-ISIC is presented at the end of this report.

39. The discussion was organized through online meetings of the TT-ISIC, supported by an online discussion wiki. In addition, several thematic meetings were organized to discuss specific issues with relevant members to advance the discussion.

40. Given the large number of issues and the time available to develop the revised structure of ISIC, the TT-ISIC, with the support of the Bureau of the United Nations Committee of Experts on International Statistical Classifications (UNCEISC), agreed to focus initially on the broad structure of ISIC up to the group level (three-digit codes). It was agreed to undertake a systematic review of ISIC at the classes level (four-digit codes) once the broad structure of ISIC was approved by the UNSC in 2022.

41. The Statistical Classification of Economic Activities Revision 2 in the European Communities (NACE Rev 2), which is currently also being revised, is a derived classification from ISIC. Therefore, for international comparison purposes, the strong relationship between categories at all levels of NACE have been maintained in this revision. NACE and ISIC remain identical at the two-digit level (divisions) of the classification. At lower levels, NACE has more detailed categories suitable for European users of the

⁴ <https://unstats.un.org/unsd/statcom/52nd-session/documents/BG-3k-TSG-ISIC-report-to-EGISC-E.pdf>

⁵ <https://unstats.un.org/unsd/statcom/52nd-session/documents/2021-15-Classifications-E.pdf>

classification. In the revision of NACE and ISIC, efforts have been made to further improve the alignment of the two classifications at three-digit level of the classifications.

42. Similarly, for related classifications such as the North American Industry Classification System (NAICS), the Australian and New Zealand Standard Industrial Classification (ANZSIC) and other regional/national classifications, efforts have been made to ensure maximum consistency to the issues under consideration for the update of ISIC Rev. 4. Furthermore, the consistency with other international classifications, such as the International Standard Classification of Education (ISCED), was taken into account during the revision process.

43. During the period from January to February 2022, a global consultation was conducted on the broad structure of ISIC, namely at the Section level (one-digit codes), Division level (two-digit codes) and Group level (three-digit codes). Overall, there was great support for the revised structure, and several suggestions were put forward for issues to be considered by the TT-ISIC.

44. The United Nations Statistical Commission endorsed the broad structure of ISIC during its 53rd session. Since then, the TT-ISIC focused on the finalization of the structure at the Class level (four-digit codes).

45. The draft structure of ISIC rev. 5 is the outcome of the discussion of the TT-ISIC during several meetings of the TT-ISIC. The draft structure of ISIC Rev. 5 was discussed at the meeting of the United Nations Committee of Experts on International Statistical Classifications, 25-28 October 2022, which endorsed it for submission to the United Nations Statistical Commission.

46. The complete draft structure of ISIC Rev. 5 contains all the levels of the classification and will be submitted to the United Nations Statistical Commission at its 54th session in 2023 for adoption.