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**Classification of Holding Companies and Head Offices according to NACE Rev.2**

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## 1. Introduction

The issue of the classification of Holding companies (HC) and Head offices (HO) has been addressed on several forums.

The problem of a correct identification of Holdings companies and Head offices is not only a problem for the European Union (EU) activity classification (NACE), but also for the worldwide activity classification ISIC Rev. 4, because the explanatory notes are the same. It is also a problem for the implementation of the ESA 2010 and SNA 2008.

From the side of the National Accounts it was decided to establish a Task Force under the umbrella of the Inter Secretariat Working Group on National Accounts (ISWGNA). The primary goal of the Task Force was to agree on more comprehensive guidance on, and consequently to arrive at an improved internationally comparable recording of HCs and HOs. The secondary goal was the further development of an internationally comparable typology and classification of SPEs (Special Purpose Entities), taking into account the work already done in the relevant area.

The Task Force, initiated and prepared by the European Central Bank (ECB), Eurostat and the OECD, met on 26-28 February 2013, at the ECB-headquarters premises in Frankfurt am Main and produced a report containing the main outcomes of their deliberations. This report was submitted latter to the Advisory Expert Group on National Accounts (AEG) at their meeting of 29-31 May 2013 in Luxembourg and amended with the input of the expert group.

Main conclusions of the Task Force can be found in Annex 1. Annex 2 contains an article published on SNA news on “The delineation of Head Offices and Holding Companies in the National Accounts”.

From the side of the EU Classifications Working Group, this issue was first raised in 2012 and there it was decided to collect information on how the NACE Rev. 2 explanatory notes for these two classes have been implemented in the Member States and to try to draw some guidelines for a more accurate classification of these entities.

Information on this issue was collected in December 2012 and results were presented to the Classification Working Group in 2013.

A certain number of indicators and sources for information were mentioned by several Member States as helpful auxiliary information for the classification. However, the thresholds used were often quite different.

It was then decided in the 2013 meeting of the Classification Working Group to launch a Task Force which would mainly work on the question how to classify these entities according to NACE Rev.2, identifying auxiliary information to help this classification.

10 countries have volunteered to participate in this Task Force (Austria, Croatia, Finland, The Netherlands, Switzerland, Germany, Denmark, France, Italy and United Kingdom).

This report is presented to the Expert Group on International Statistical Classifications with the purpose of sharing a methodology that can also be applied in the framework of the classification of Holding Companies and Head Offices according to ISIC Rev. 4.

## **2. Mandate of the Task force and modus operandi**

### ***2.1 Mandate of the Task force***

There is a general agreement that there should be a consistent treatment in business registers and macro-economic statistics such as national accounts and balance of payments, therefore the work of this Task force shall be consistent with the work conducted by the National accounts Task force previously mentioned.

For the classification of Holdings and Head Offices according to NACE we would need therefore a methodology with the following characteristics:

1. A simple flowchart with relatively simple criteria
2. Based on data available in most of the Member States
3. As much as possible consistent with the method proposed by the ECB, Eurostat and the OECD Task force
4. Cost and benefits balanced:
  - a. Should be possible to apply using mostly automatic procedures with limited manual intervention but
  - b. Doesn't need to work in 100% of the cases. It is impossible to provide guidance for all possible cases. The idea is eliminating as much as possible the cases where a manual checking is needed.

The statistical identification of HOs and HCs is usually based on either a self-classification by the unit, or an assessment and/or guided registration by national authorities. The methodology defined by this Task force should be used both in the attribution of a NACE code for the first time and for the correction of the existing classification in the Business register.

Using the input provided by the Classification Working Group, it was initially agreed that the Task force should conduct the following tasks:

1. Analyse the existing documentation on the subject.
2. Identify indicators and thresholds to help the correct classification of Holdings and Head Offices according to NACE; report on limitations of these indicators. Identify sources for this auxiliary information.

3. Identify issues related to the link between the NACE classification of these entities and the SNA sector classification.

4. Draft a set of rules to help classifying Holdings and Head Offices and report to the Classifications Working Group the main conclusions.

## **2.2 Way of working**

As the issue of the classification of Holdings and Head Offices according to NACE Rev.2 was already discussed internally in most of the countries, the members of the Task Force could provide a wide range of documentation on this.

The documentation referred mainly to national practices in this area, but also some information was received on double counting and correspondence tables between NACE Rev.2 and SNA for the classification of these special purpose entities.

The documentation was analysed and the Task Force on Holdings and Head Offices met on the 20th May 2014 in Luxembourg.

The meeting took the form of a brainstorming session. The Task Force agreed that the main focus of this brainstorming exercise would be on the following topics:

1. Define some basic rules for the classification of holdings and head offices in NACE Rev. 2 (e.g. thresholds)
2. Identify borderline cases with other NACE categories
3. Construct flowcharts synthesizing the process of classifying holdings and head offices

The issue is often presented as a problem of distinction between Holding Companies and Head Offices. Nevertheless, the Task Force considered that this is just a part of the difficulties one may find when trying to classify these entities. In fact, both types of units can be misclassified in several other NACE classes.

The Task Force started by the identification of borderline cases between holdings and head offices on the one hand and other NACE categories on the other hand. This work was the base for the preparation of the flowcharts in order to prepare the discriminative questions which will allow making the distinction.

A second activity of the Task force was to discuss what activities could be considered as part of the activities of Head Offices. The explanatory notes of class 70.10 (ISIC 7010) "Activities of head offices" define the core activities carried out by these entities. The Task Force considered that some other activities of support for the management of the group could also be acceptable for Head Offices.

After identifying the pertinent questions which may lead to a first identification of Holding Companies and Head Offices, flowcharts for each of the activities were elaborated.

The first conclusions of this Task Force were presented in the Classification Working Group and their comments are included in this report.

### **3. Holding Companies**

The activities of Holding companies are defined according to the NACE Rev.2 explanatory notes (NACE 64.20, ISIC 6420) as:

"This class includes the activities of holding companies, i.e. units that hold the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group. The holding companies in this class do not provide any other service to the businesses in which the equity is held, i.e. they do not administer or manage other units.

This class excludes the active management of companies and enterprises, strategic planning and decision making of the company, see 70.10 (Activities of head offices)".

#### ***3.1 Boundary problems***

Holding companies were considered to have borderline issues with the following other NACE classes:

- Head Offices (70.10)
- Trust, funds and similar financial entities (64.30)
- Other financial service activities, except insurance and pension funding n.e.c. (64.99)
- Activities auxiliary to financial services and insurance activities (66)

#### ***3.2 Indicators***

The indicators proposed for the identification of Holding Companies are the following

- Share of equity vis-à-vis subsidiaries

The main activity of a Holding company is to hold the assets of subsidiaries.

Therefore, using information on the structure of the balance sheets, one may identify holding companies as follows:

- An entity having more than 50 per cent of its assets consisting of equity vis-à-vis its subsidiaries can be considered as a holding company. This ratio can be considered as a practical indicator for identification of such entities. This criterion was also proposed by the OECD, ECB, Eurostat National accounts Task force.

The possibility was discussed of using also (or instead) the proportion of financial revenues on the total revenue with a threshold of more than 75% to be considered as a holding. Although in theory, this approach was considered correct, it was not retained by the Task Force because revenues lack stability

over time. Another proposal was to use the proportion of financial assets (very high for holdings) on the total revenue. This alternative was considered a good option in the case the data is easily available. As total financial assets are relevant to indicate those entities Italy proposed another alternative indicator i.e. the ratio of total financial assets to total assets (instead of using as denominator “total revenues”) with a threshold of 75%.

- Number of employees

Units classified in class 64.20 (Holding companies) usually do not employ staff (except possibly one or a few persons acting as legal representatives). For this reason, the number of employees is used by several countries as an indicator.

- Turnover

Buying, holding and selling assets of subsidiary corporations is not considered as an economic activity according to turnover tax law; therefore, a low turnover is an indication for companies to be classified in 64.20 (Holding companies).

### **3.2.1 Thresholds**

- Share of equity vis-à-vis subsidiaries

The threshold proposed was 50% to be considered as a holding.

The explanatory notes for this class state clearly that a company has to have controlling levels of equity of a group of subsidiary corporations in order to be considered a holding. In practice the threshold of owning more than 50% of equities vis-a-vis subsidiaries in total assets is in most cases an applicable indicator.

It was also discussed where to classify companies holding less than controlling levels of equity vis-a-vis subsidiaries in total assets and not having any other activities, employment or turnover. It was agreed that it could be an investment fund in the sense of NACE class 64.30 (although other indicators would need to be taken into account for an accurate classification).

- Proportion of financial assets

The threshold proposed was 80% to be considered as a holding.

- Number of employees

Employment thresholds for the identification of holdings should be determined taking into account national circumstances. In particular, national legislative requirements for the minimum number of employees of Holding Companies should be taken into account. As a general indication, employment of three or more persons, or employment exceeding the national legal minimum employment, is a first indicator that the unit is not a Holding.

- Turnover

Turnover of Holding Companies should in theory be 0 but in reality this is not always the case. To avoid exclusion of real holding companies by a threshold too small it was agreed to use a threshold of 250000€. In fact Holding companies can have a small turnover. According to the members of the Task Force this turnover can come for instance from administrative activities, occasional activities like renting of real estate to their subsidiaries or extraordinary gains like selling the company's used furniture

### 3.2.2 Limitations

- Share of equity vis-à-vis subsidiaries

Main limitation is the non-availability of the information. Balance sheet data is often not (yet) available in business registers, it is strongly recommended to make efforts towards making available this kind of information. The future availability of balance sheet data in business registers would most certainly facilitate and economise an appropriate rule based identification of Holding Companies.

- Number of employees

The main activity should govern the classification of the unit, but a unit, including HCs, may carry out other limited activities - occasional activities as described in 3.2.1, and employing small numbers of employees as well. In this case the number of employees is not 0.

In some countries national legislation conditions the institutional set-up of "holding-type units" to a minimum number of employees (e.g. a number of persons responsible for the unit in question). Therefore it may result in some employment recorded in registers.

- Turnover

Units may carry out other secondary activities and therefore have some small turnover due to these activities.

### 3.2.3 Sources

- Share of equity vis-à-vis subsidiaries

Balance sheets; Annual tax returns contain in principle information about the control of other units and the presence (and amount) of financial revenue related to the controlled units.

- Number of employees

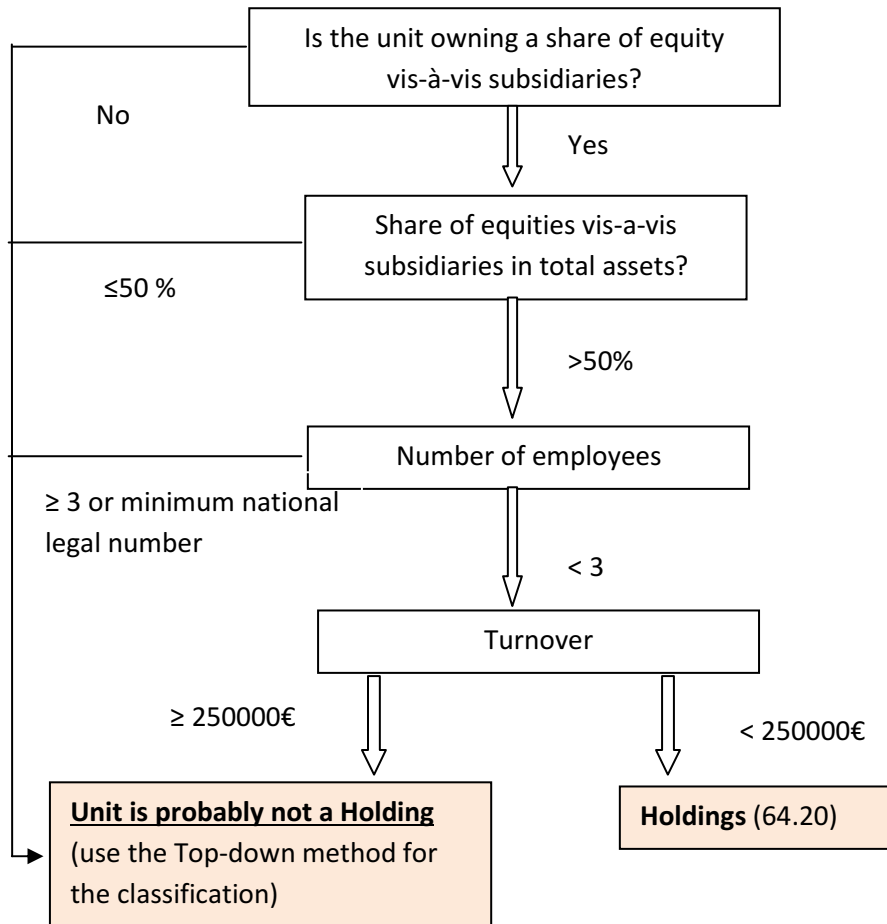
Information available in the business register or administrative data

- Turnover

Information available in balance sheets and in the business register



### 3.2.4 Flowchart to help classification



## 4. Head Offices

The activities of **Head offices** are defined in NACE (and ISIC) as:

*"This class includes the overseeing and managing of other units of the company or enterprise; undertaking the strategic or organisational planning and decision making role of the company or enterprise; exercising operational control and managing the day-to-day operations of their related units.*

*This class includes activities<sup>1</sup> of:*

*- head offices*

<sup>1</sup> In a revised version of NACE it would be useful to precise that these are management activities

- *centralised administrative offices*

- *corporate offices*

- *district and regional offices*

- *subsidiary management offices*

*This class excludes the activities of holding companies, not engaged in managing, see 64.20 (Holding companies)".*

#### **4.1 Boundary problems**

Head Offices were considered to have borderline issues with the following other NACE classes/divisions:

Activities of holding companies (64.20)

Wholesale trade except of motor vehicles and motorcycles (46)

Activities auxiliary to financial services and insurance activities (66)

Real Estate activities (68)

Other Human resources provision (78.30)

Units providing support services or carrying out a part of the core businesses of the group together with the management functions (various NACE categories)

#### **4.2 Indicators**

The classification of head offices is really focused on the type of activities of these units.

The principal activity of head offices should be the operational and strategic management of other units of the group of enterprises.. So the main indicator is the percentage of managerial activities of the group.

The Task Force considered that some other activities of support for the management of the group could also be seen as activities of Head Offices. Such activities are to be considered also as management activities. As example, the following activities were identified:

Legal activities (69.10)

Accounting, bookkeeping (69.20)

Marketing (73.11)

IT services (62 + 63)  
Human resources (78)  
Training (85)  
Technical consultancy services (71) (not repair and maintenance)  
Licensing (77.40)  
Business consulting (70.2)  
Real estate (68)  
Invoicing (82.99)

Although the Task Force has tried to be consistent with the method proposed by the ECB, Eurostat and the OECD Task force, in the classification of Head Offices our method diverge due to the nature of NACE classification.

The goal of this Task Force is to classify Head Offices according to NACE where the most important criteria for classifying a unit is the kind of activities provided. National accounts focusses more on the financial point of view of the classification of Head Offices according to institutional sectors.

In the definition provided by NACE Rev.2 there is no requirement that a Head Office should own the controlling levels of equity and the examples provided in the explanatory notes show clearly that this is not a requirement.

#### **4.2.1 Thresholds**

At least 50% of activity should relate to managerial activities for a unit or activities of support for the management as described in 4.2.1 to be considered as a Head Office

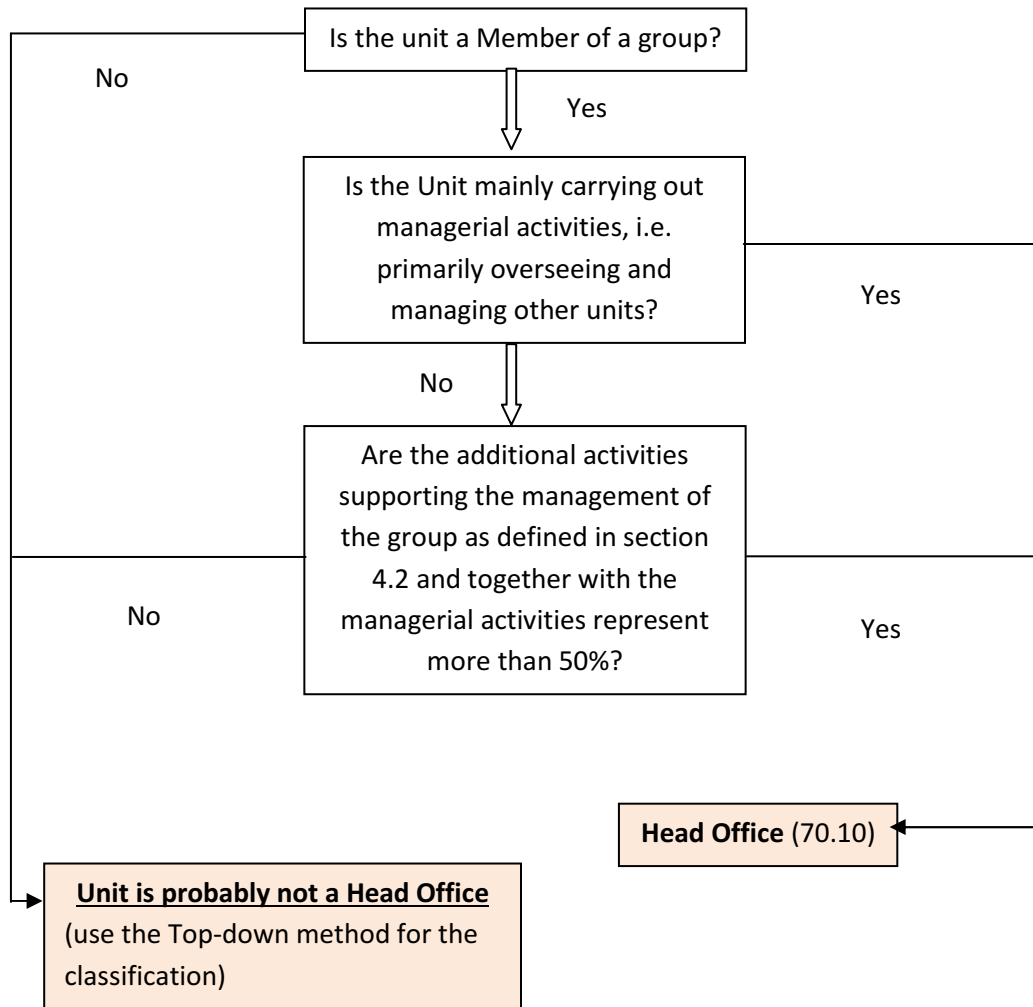
#### **4.2.2 Limitations**

This information is only available via a survey or manual analysis of descriptions of activities published in the company's website and quite detailed data needs to be collected. An automatic classification of these entities is difficult.

#### **4.2.3 Sources**

Descriptions of activities published on their websites, Annual Reports from the company, Surveys

### 4.3 Flowchart to help classification



### 4.4 Proposal for amendment NACE Rev. 2

Germany would like to propose a change in the content of class 70.10 to be discussed during the next revision of the NACE classification:

The German wording for NACE Rev. 2 class 70.10, which can be re-translated into English as "Administration and management of enterprises and establishments", invites to classify units conducting different business administration services for other units in a widest sense as head offices. This leads to over-coverage in class 70.10 in both administrative data collections and the BR and an even higher over-coverage in services statistics.

## 5. Correspondence NACE-SNA and description of possible problems

The following correspondence table between NACE Rev.2/ISIC Rev. 4 and SNA 2008 was agreed by the Members of the Task Force

### Correspondence table between NACE Rev.2, ISIC Rev.4 and SNA 2008 for Special Purpose Entities.

NACE Revision 2	ISIC Revision 4	SNA 2008	Comments
64.11 – Central banking	6411 - Central banking	S121 – Central Bank	
64.19 - Other monetary intermediation	6419 - Other monetary intermediation	S122 – Deposit-taking corporations, except the central bank	The explanatory notes of the three classifications have the same coverage
64.20 – Activities of holding companies	6420 - Activities of holding companies	S127 – Captive financial institutions and money lenders	Holding companies are explicitly mentioned as captive financial institutions in SNA 2008 § 4.114
64.30 - Trusts, funds and similar financial entities	6430 - Trusts, funds and similar financial entities	S124 – Non-MMF investment funds	
64.30 - Trusts, funds and similar financial entities	6430 - Trusts, funds and similar financial entities	S123 - Money market funds	
64.30 - Trusts, funds and similar financial entities	6430 - Trusts, funds and similar financial entities	S127 – Captive financial institutions and money lenders	Trust, estates or agency accounts are mentioned in the explanatory notes to the three classification systems (§ 4.114 in SNA)
64.91 – Financial leasing	6491 - Financial leasing	S125 – Other financial intermediaries, except insurance corporations and pension funds	Financial leasing is mentioned in the explanatory notes to the three classification systems (§ 4.110 in SNA)

<b>NACE Revision 2</b>	<b>ISIC Revision 4</b>	<b>SNA 2008</b>	<b>Comments</b>
64.92 - Other credit granting	6492 - Other credit granting	S125 - Other financial intermediaries, except insurance corporations and pension funds	Export/import finance is mentioned in the explanatory notes to the three classification systems (§ 4.110 in SNA)
64.92 - Other credit granting	6492 - Other credit granting	S127 - Captive financial institutions and money lenders	Pawnshops and money lenders are mentioned in the explanatory notes to the three classification systems (§ 4.114 in SNA)
64.99 - Other financial service activities, except insurance and pension funding activities n.e.c.	6499 - Other financial service activities, except insurance and pension funding activities, n.e.c.	S125 – Other financial intermediaries, except insurance corporations and pension funds	Factoring services are mentioned in the explanatory notes to the three classification systems (§ 4.114 in SNA)
64.99 - Other financial service activities, except insurance and pension funding activities n.e.c.	6499 - Other financial service activities, except insurance and pension funding activities, n.e.c.	S127 – Captive financial institutions and money lenders	
65.11 – Life insurance	6511 – Life insurance	S128 – Insurance corporations	
65.12 – Non-life insurance	6512 – Non-life insurance	S128 – Insurance corporations	
65.20 – Reinsurance	6520 – Reinsurance	S128 – Insurance corporations	Reinsurance is explicitly mentioned in the explanatory notes to SNA 2008 (§ 4.115)
65.30 – Pension funding	6530 – Pension funding	S129 – Pension funds	
66.11 - Administration of financial markets	6611 - Administration of financial markets	S126 - Financial auxiliaries	Central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units (§ 4.112 in SNA)

<b>NACE Revision 2</b>	<b>ISIC Revision 4</b>	<b>SNA 2008</b>	<b>Comments</b>
66.12 - Security and commodity contracts brokerage	6612 - Security and commodity contracts brokerage	S126 - Financial auxiliaries	Securities brokerage; Foreign exchange bureaux
66.19 – Other activities auxiliary to financial services, except insurance and pension funding	6619 - Other activities auxiliary to financial service activities	S126 - Financial auxiliaries	Investment advisers
66.21 - Risk and damage evaluation	6621 - Risk and damage evaluation	S126 - Financial auxiliaries	Claim adjusters are mentioned in the explanatory notes to the three classification systems (§ 4.112 in SNA)
66.22 - Activities of insurance agents and brokers	6622 - Activities of insurance agents and brokers	S126 - Financial auxiliaries	Insurance brokers are mentioned in the explanatory notes to the three classification systems (§ 4.112 in SNA)
66.29 - Other activities auxiliary to insurance and pension funding	6629 - Other activities auxiliary to insurance and pension funding	S126 - Financial auxiliaries	Salvage and claims adjusters (whether employed by the insurance company, an independent adjuster or a public adjuster employed by the policyholder) (§ 4.112 in SNA)
66.30 - Fund management activities	6630 - Fund management activities	S126 - Financial auxiliaries	Managers of pension funds, mutual funds, etc. are mentioned in the explanatory notes to the three classification systems (§ 4.112 in SNA)
70.10 – Activities of head offices	7010 - Activities of head offices	S11 – Non-financial corporations	All or most subsidiaries are non-financial corporations

<b>NACE Revision 2</b>	<b>ISIC Revision 4</b>	<b>SNA 2008</b>	<b>Comments</b>
70.10 – Activities of head offices	7010 - Activities of head offices	S126 – Financial auxiliaries	All or most subsidiaries are -financial corporations

There was some discussion on the following issues:

- To assign most NACE classes to one sector and only one sector. This proposal was not retained because it is quite common that NACE classes are linked to different SNA sectors and SNA sector should not be deduced from the NACE class only. Furthermore, from a Business Register perspective, there is no need to have a 1:1 correspondence
- The correspondence between 70.10 (Activities of head offices) and S126 (Financial auxiliaries) was questioned but it was decided to keep it because this correspondence can exist when subsidiaries are financial although the number of cases can be reduced.
- To include a correspondence between 64.20 and S11 – Non-financial corporations for units that are not institutional units. This proposal was not retained because this correspondence table concerns only the relation of SNA institutional units with NACE.

## **6. General recommendations and future activities**

This methodology was mainly elaborated to give a common framework of thinking.

The method proposed stresses what are the main indicators to have in mind for a correct classification but it is not a compulsory method.

Countries can adapt the flowcharts to their national reality and limitations in the availability of the information.

It should also be underlined that this method was designed to limit the number of manual verifications. Nevertheless these verifications are not completely excluded. The application of the flowcharts just limits the number of controls.

A follow-up and exchange of experience how the flowcharts will be working in the MS can help register and survey units' workers in practise a lot and we will discuss this issue in future Classification Working Groups



## **Annex 1: Main conclusions of the ECB, Eurostat and the OECD Task Force**

- on institutional independence:

1. The standard criteria for an institutional unit should always be applied – thus also for HOs and HC and similar Special purpose entities (SPE).
2. Entities owned by non-residents are always to be considered as institutional units.
3. For entities wholly owned by a single resident unit, "no employees and no compensation of employees" is not a sufficient criterion for lack of institutional independence; however it can be used as an indicator to consider units for further investigation on its lack of independence .
3. For entities wholly owned by a single resident unit, "no employees and no compensation of employees" is not a sufficient criterion for lack of institutional independence; however it can be used as an indicator to consider units for further investigation on its lack of independence .
4. The Task Force recommends that having multiple parents/shareholders is a sufficient qualification for a unit being an institutional unit (see also issue 1).
5. Head offices are always to be considered as separate institutional units (Issue 2).

- on the identification of head offices and holding companies:

6. An entity having at least 50% of its assets consisting of equity vis-à-vis its subsidiaries can be considered as a practical indicator for identification of such entities.
7. Employment thresholds for the delineation between HOs and HCs should be determined taking into account national circumstances. In particular, national legislative requirements for the number of employees of HCs should be taken into account. In general, employment of three or more persons is a first indicator for a unit being a head office.

## Annex 2: SNA NEWS AND NOTES

### THE DELINEATION OF HEAD OFFICES AND HOLDING COMPANIES IN THE NATIONAL ACCOUNTS

#### Clarification by the ISWGNA

##### Introduction

1. The 2008 SNA contains a more explicit definition of financial services than the 1993 SNA, which helps to ensure that financial services other than financial intermediation are appropriately captured. The 2008 SNA has also introduced a more detailed classification of the financial corporations sector to allow for more flexibility and an improved consistency with other monetary and financial statistics, such as those of the International Monetary Fund (IMF) and the European Central Bank (ECB).

2. In addition, the 2008 SNA (*paragraphs 4.53 - 4.54*) explicitly distinguishes between head offices and holding companies as follows:

- A holding company (HC) is described as a unit that holds the assets of subsidiary corporations but does not undertake any management activities.
- The activities of a head office (HO) include the overseeing and managing of other units of the enterprise and managing the day-to-day operations of their related units.

3. The distinction between HOs and HCs directly affects the compilation and analysis of the institutional sectors within an economy. According to the 2008 SNA, HCs are to be classified in the financial corporations sector, while HOs are allocated to the non-financial corporations sector, unless all or most of their subsidiaries are financial corporations. The 1993 SNA did not give any explicit guidance on the treatment of HOs, the whole group of

'holding corporations' being defined as corporations owning and directing a group of subsidiaries, and to be classified according to the main activities of their subsidiaries.

4. The delineation and classification of HOs and HCs - usually holders of significant assets (and liabilities) and thus important receivers and payers of property income - may have a significant impact on the allocation of primary income in the non-financial sector accounts. Consequently, it was considered relevant to develop more specific guidance to arrive at an internationally comparable treatment of these units.

5. A Task Force on Head Offices, Holding Companies and Special Purpose Entities, under the auspices of the Inter Secretariat Working Group on National Accounts (ISWGNA), considered the delineation of HOs and HCs and the treatment of Special Purpose Entities (SPEs). The Task Force submitted their results to the Advisory Expert Group on National Accounts (AEG), for consideration at its 8th meeting, 29-31 May 2013, Luxembourg. The final Task Force report is available at:

[http://ec.europa.eu/eurostat/documents/737960/738007/Final\\_Report\\_Task\\_Force\\_SPEs.pdf/9390b392-62d3-45b4-a4ee-fd9ed7a78da2](http://ec.europa.eu/eurostat/documents/737960/738007/Final_Report_Task_Force_SPEs.pdf/9390b392-62d3-45b4-a4ee-fd9ed7a78da2)

6. Although the Task Force also considered the treatment of special purpose entities (SPEs), this work is still ongoing, particularly in relation to the treatment of intellectual property products (IPPs). This issue is being further investigated by the UNECE Task Force on Global Production.

7. It should be noted that SPEs created or owned by general government have not been analyzed and categorized by the Task Force. In the European Union, a case by case analysis of this type of entities is undertaken, with sometimes quite specific and very detailed rules.

8. The conclusions presented in this note take into account the AEG recommendations.

##### **Institutional independence**

9. The 2008 SNA describes entities that cannot act independently from its parents as "passive holders" and "artificial subsidiaries".

“Passive holders” and “artificial subsidiaries” are not treated as a separate institutional unit unless they are resident in an economy different from that of their parent.

10. At the same time, the 2008 SNA broadens the financial corporation sector to include a sub-sector “captive financial institutions and money lenders”. A HC that is only holding assets (controlling levels of equity) is an example of a captive financial institution (2008 SNA, *paragraph 4.114 b*).

11. Consequently, it is necessary to elaborate on the criteria to determine the institutional independence of HCs that are themselves subsidiaries of (resident) corporations.

### **Distinguishing head offices and holding companies from other institutional units**

12. Both HOs and HCs are often referred to as holding companies, because both of them have relations to other entities, namely, their subsidiaries.

13. Hence, information on the structure of the balance sheet is one tool to determine whether an institutional unit is a HO or HC.

14. Although currently balance sheet data are not always available in (business) registers, it is strongly recommended to make efforts towards making available this kind of information. The (future) availability of balance sheet data in business registers would most certainly facilitate and economise the identification of HOs and HCs in register data or similar data sources. Balance sheet data are generally available in the context of central balance sheet offices, tax authorities’ fiscal databases, and specialized surveys. The incorporation of this kind of information into business registers is an important task, amongst others, to ensure the correct identification of HOs and HCs.

15. Where balance sheet data are not available, other supporting information has to be analysed. The information on the relation to an enterprise group (control and ultimate parent, affiliates) in conjunction with small turnover may be used for identifying HOs and HCs.

### **Distinguishing between head offices and holding companies**

16. From a conceptual point of view the distinction between HOs and HCs is clear. However, applying the concepts in practice is more complicated. The statistical identification of these units, as either a HO or a HC, is often based on a self-classification by the unit, or an assessment and/or guided registration by national statistical authorities. This pure labelling of an entity as “holding company” or “managing fund” may often be misleading. Therefore, feedback loops from a central information point to the corporation and other data providers are necessary in order to achieve a consistent treatment of entities in the various registers.

17. It is recommended to follow a strict definition of HCs (in the sense that HCs do not provide any management services) when classifying institutional units as HCs.

18. Information on variables like management control is quite relevant for the distinction between HOs and HCs. At the same time, such data are usually available for large units or large groups only. For units where such information is not available, or only available at great cost in practice, it is recommended that the distinction between HOs and HCs should be based on an employment criterion.

19. A one dimensional application of the employment criterion, classifying all units with positive employment as HOs, will not necessarily lead to reliable results. Requirements set out by national legislation in relation to the institutional set-up of HCs may result in some employment being recorded in registers for these entities too. However, well-designed employment thresholds can be the basis for a practical rule for distinguishing HOs.

20. Other criteria may refine the delineation process. This may include the analysis of sales. Does the entity have substantial sales of goods and services? As HCs usually don’t have turnover, this may be an indicator for a unit being a HO. Also additional information regarding the employment may be considered: does the employment structure reflect the status of the entity? For example,

the employment of very senior staff may be a signal that one is dealing with a HO.

21. Finally, it should be noted that the application of practical criteria won't cover all cases. Some HOs or HCs may show different characteristics and therefore need an individual analysis. In this respect, costs and benefits should be appropriately balanced and transparency should be enhanced by the provision of adequate metadata.

### **Conclusions**

22. The ISWGNA therefore provides a clarification on the delineation of HOs and HCs as described below:

#### ***Institutional independence***

23. To determine the institutional independence of HCs and HOs the following principles apply:

- The standard criteria for an institutional unit should always be applied – thus also for HOs and HCs.
- Entities owned by non-residents are always to be considered institutional units.
- For entities wholly owned by a single resident unit, “no employees and no compensation of employees” is not a sufficient criterion to conclude that there is a lack of institutional independence; however, it can be used as an indicator to consider units for further investigation to consider their lack of independence.
- Having multiple parents or shareholders is a sufficient qualification for a unit being an institutional unit.
- HOs are always to be considered as separate institutional units.

#### ***Distinguishing HOs and HCs from other institutional units***

24. Using information on the structure of the balance sheets, one may identify HCs and HOs as follows:

- An entity having at least 50 per cent of its assets consisting of equity vis-à-vis its subsidiaries can be considered as a practical indicator for the identification of such entities as HCs or HOs.

#### ***Distinguishing between HOs and HCs***

25. A strict definition of HCs (in the sense that HCs do not provide any management services) should be used when classifying institutional units as HCs.

26. For units where information on variables like management control is not available, or only available at great cost in practice, it is recommended to base the distinction between HOs and HCs on an employment criterion, as follows:

- HOs are actively engaged in production, although they may have noticeably fewer employees, and more at a senior level, than its subsidiaries. However, having zero employment is a clear indication of not being a HO.
- On the other hand, HCs simply holding assets may do this with very few or without any employed personnel.
- Employment thresholds for the delineation between HOs and HCs should be determined taking into account national circumstances. In particular, national legislative requirements for the number of employees of HCs should be taken into account. As a general indication, employment of three or more persons, or employment exceeding the national legal minimum employment, is a first indicator for a unit being a HO.

In accordance with its mandate from the United Nations Statistical Commission (UNSC), the Advisory Expert Group on National Accounts (AEG) is assisting the Intersecretariat Working Group on National Accounts (ISWGNA) in resolving issues on the research agenda of the SNA and emerging research issues and in reviewing the SNA implementation programme. Within this context, the 9<sup>th</sup> Meeting of the AEG was held from 8 to 10 September 2014, Washington DC.

The main purpose of the meeting was to discuss guidance on issues related to the implementation of the SNA, in particular on the following topics:

- accounting for pensions;
- global production arrangements;
- the valuation of land and other non-financial assets;
- the recording of flows and stocks of international organizations;

#### **HANDBOOKS AND GUIDANCE DOCUMENTS ON NATIONAL ACCOUNT AND SUPPORTING STATISTICS**

##### **By ISWGNA**

As part of its mandate and programme of work, the ISWGNA coordinates and facilitates the preparation of manuals and handbooks for guidance and training in the implementation of the SNA and supporting statistics in order to strengthen the statistical capacity in countries for compiling national accounts. The list below presents the handbooks that have been finalized.

- **Handbook on Financial Production, Flows and Stocks in the System of National Accounts** (UNSD/ECB). Available at: <http://unstats.un.org/unsd/nationalaccount/docs/FinancialHB-wCover.pdf>
- **Guidelines on Integrated Economic Statistics** (UNSD). Available at: <http://unstats.un.org/unsd/nationalaccount/docs/IES-Guidelines-e.pdf>

- the SDMX-initiative related to national accounts, balance of payments and foreign direct investment;
- the use of indicators on deficit and debt;
- manuals, handbooks and other guidance;
- statistical units in supply and use tables and institutional sector accounts;
- distribution of income, consumption and wealth; and
- practical national accounts issues such as backcasting and the use of big data for national accounts compilation.

All the paper discussed at the 9<sup>th</sup> meeting of the AEG as well as the conclusions of the meeting are available on the AEG website hosted by the UNSD at:

<http://unstats.un.org/unsd/nationalaccount/aeg/2014/M9-2.asp>

- **International Recommendations for the Index of Industrial Production (Revised)** (UNSD). Available at: [http://unstats.un.org/unsd/industry/iip\\_review.asp](http://unstats.un.org/unsd/industry/iip_review.asp)
- **The Impact of Globalization on National Accounts** (UNECE-Eurostat-OECD). Available at: [http://www.unece.org/fileadmin/DAM/stats/publications/Guide\\_on\\_Impact\\_of\\_globalization\\_on\\_national\\_accounts\\_web.pdf](http://www.unece.org/fileadmin/DAM/stats/publications/Guide_on_Impact_of_globalization_on_national_accounts_web.pdf)
- **The 2008 SNA – Concepts in Brief** (World Bank). Available at: <http://unstats.un.org/unsd/nationalaccount/docs/2008SNA-ConceptsBrief.pdf>
- **The 2008 SNA – Compilation in Brief** (World Bank). Available at: <http://unstats.un.org/unsd/nationalaccount/docs/2008SNA-CompilationBrief.pdf>

- **Government Finance Statistics Manual 2014** (IMF). Available at:  
<http://www.imf.org/external/np/sta/gfsm/>
- **Balance of Payments and International Investment Position Compilation Guide** (IMF). Available at:  
<https://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm>
- **Glossary on Rapid estimates** (Eurostat). Available at:  
[http://ec.europa.eu/eurostat/statistics-explained/index.php/Category:Rapid\\_estimates\\_glossary](http://ec.europa.eu/eurostat/statistics-explained/index.php/Category:Rapid_estimates_glossary)
- **Manual on Measuring Research and Development in ESA 2010** (Eurostat). Available at:  
<http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-14-004>
- **Handbook on quarterly national accounts** (Eurostat). Available at:  
<http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-13-004>
- **Essential SNA: Building the Basics, 2014 edition** (Eurostat). Available at:  
<http://ec.europa.eu/eurostat/en/web/products-manuals-and-guidelines/-/KS-GQ-14-008>
- **Manual on the Changes between ESA 95 and ESA 2010, 2014 Edition** (Eurostat). Available at:  
<http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-14-002>
- **Manual on Government Deficit and Debt - Implementation of ESA 2010, 2014 edition** (Eurostat). Available at:  
<http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-14-010>
- **Manual on goods sent abroad for processing – 2014 edition** (Eurostat). Available at:  
<http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-14-003>
- **Manual on Regional Accounts Methods, 2013 edition** (Eurostat). Available at:  
<http://ec.europa.eu/eurostat/en/web/products-manuals-and-guidelines/-/KS-GQ-13-001>
- **Manual on Measuring Capital** (OECD). Available at:  
<http://www.oecd.org/std/productivity-stats/43734711.pdf>
- **Handbook on Deriving Capital Measures of Intellectual Property Products** (OECD). Available at:  
<http://www.oecd.org/std/na/44312350.pdf>
- **Methodological Guide for Developing Producer Price Indices for Services, 2014 edition** (Eurostat-OECD). Available at:  
<http://www.oecd.org/std/prices-ppp/Eurostat-OECD%20SPPI%20Guide%20Provisional%20Draft.pdf>

**DECISIONS ON NATIONAL ACCOUNTS BY THE UNITED NATIONS STATISTICAL COMMISSION AT ITS 45<sup>TH</sup> SESSION**

**By UNSD**

The forty-fifth session of the United Nations Statistical Commission was held in New York from 4 to 7 March 2014. Under agenda item 3(d), the Commission discussed the report<sup>2</sup> of the ISWGNA describing: the progress on the changeover to the 2008 SNA; the response of the ISWGNA to the request of the Commission with regard to scaling up the implementation of the 2008 SNA and supporting statistics at the country level; the activities of the members of the ISWGNA and of the regional commissions; and the status of the reporting of national accounts data. The Statistical Commission<sup>3</sup>:

(a) Welcomed the report of the ISWGNA and expressed its appreciation for the work done by the Working Group over the past year.

(b) Endorsed the programme of work of the ISWGNA and the AEG, appreciated the priority given to addressing issues emerging from the implementation of the 2008 SNA, urged the ISWGNA to expedite resolving such issues, and requested the Working Group to report on the outcomes to the Commission in due course;

(c) Expressed appreciation for the activities undertaken by international organizations, regional commissions, other regional organizations and countries providing technical assistance to facilitate the

implementation of the 2008 SNA and supporting statistics;

(d) Appreciated the progress on the completion of a number of manuals, handbooks and guidelines that facilitate the implementation of the 2008 SNA and supporting statistics, urged the ISWGNA to expedite the development of the handbooks and guidelines within a stipulated timeline, and requested that these materials be made available in all the official languages of the United Nations;

(e) Requested the ISWGNA, the regional commissions and other international and regional organizations to harmonize the collection, validation and dissemination of the data collected from countries to avoid unnecessary duplication, taking into consideration the Statistical Data and Metadata Exchange data transmission mechanism;

(f) Welcomed the report prepared by UNSD, in consultation with the AEG, selected countries and the ISWGNA, on ways to scale up the coordination, the advocacy and the resources for the implementation of the 2008 SNA at the national level;

(g) Recognized that to scale up the coordination, the advocacy and the resources for the implementation of the 2008 SNA at the national level requires an integrated statistics approach, adopted by the Commission for the global initiative on the implementation of the 2008 SNA and supporting statistics and building on, and in support of, the ongoing regional statistical capacity development programmes;

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<sup>2</sup> E/CN.3/2014/5. Available at <http://unstats.un.org/unsd/statcom/doc14/2014-5-SNA-E.pdf>

<sup>3</sup> E/2014/24-E/CN.3/2014/35. Available at: <http://unstats.un.org/unsd/statcom/doc14/2014-Report-E.pdf>

(h) Confirmed that the scope of a capacity-building programme on integrated statistics and its ramifications for coordination and global governance mechanisms of such a programme extends beyond the remit of the mandate of the ISWGNA;

(i) Expressed the significant need for technical assistance to many developing countries in adopting an integrated statistics programme in support of the implementation of the 2008 SNA, in this context requested the development of an integrated business statistics programme and related guidelines on programme management;

(j) Recognized that countries should take ownership of the required actions for strengthening the statistical production process, institutional arrangements, and a communication strategy with users, to facilitate the compilation of the required scope and detail of economic statistics and national accounts, based on country priorities for evidence based policymaking;

(k) Supported the formation of a “friends of the chair” group to work out the modalities for establishing a harmonized integrated statistics programme, focusing on overcoming national issues in producing internationally comparable macroeconomic accounts, taking into consideration existing statistical capacity development programmes in close collaboration with the regional commissions and other international and regional organizations.



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## MEETINGS AND SEMINARS

***Global Conference on a Transformative agenda for Official Statistics***, New York, 15 - 16 January 2015. The Conference is organized jointly by UNSD and Eurostat with the objective to formulate an adequate response to the increased demand for detailed and timely data to monitor progress on the goals and targets of the post-2015 development agenda. Further information is available online at: <http://unstats.un.org/unsd/nationalaccount/workshops/2015/NewYork/lod.asp>

Forty-sixth session of the ***United Nations Statistical Commission***, New York, 3 - 6 March 2015. Further information is available online at: <http://unstats.un.org/unsd/statcom/sc2015.htm>

***W(h)ither the System of National Accounts?***, OECD Headquarters in Paris, France 16 - 17 April 2015. This Conference on the future of national accounts is organized by the International Association for Research in Income and Wealth (IARIW) and the Organisation for Economic Cooperation and Development (OECD). Further information on the registration for this conference and the draft programme is available online at: <http://www.oecd.org/std/na/whither-the-sna-paris-april-16-17-2015.htm> and <http://iariw.org/c2015oecd.php>.

***UNECE-Eurostat-OECD Group of Experts on National Accounts: Measuring Global Production***, Geneva, Switzerland, 7 - 8 July 2015.

***EFTA-UNECE Workshop on Implementation of the 2008 SNA in EECCA countries***, 6 - 8 (provisional) May 2015 Istanbul, Turkey.

***Regional Course on Statistical Business Registers: Making a Business Case for an Operational Statistical Business Register***, Perak, Malaysia, 26 - 30 January 2015, organized by the Statistical Institute for Asia and the Pacific (SIAP) in collaboration with Australian Bureau of Statistics, Department of Statistics Malaysia and ESCAP Statistics Division.

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## Editorial Note

SNA News and Notes is a bi-annual information service of the ISWGNA prepared by the United Nations Statistics Division (UNSD). It does not necessarily express the official position of any of the members of the ISWGNA (European Union, IMF, OECD, United Nations and World Bank).

SNA News and Notes is published in four languages (English, French, Russian and Spanish) and can be accessed on the internet: <http://unstats.un.org/unsd/nationalaccount/snaneews.asp>

The website of the ISWGNA includes, in addition to information about the ISWGNA activities, a platform for monitoring the implementation of the SNA with links to the work programmes of the ISWGNA members and regional commissions; information about the research agenda of the SNA; and the activities of the AEG. The website is available at:

<http://unstats.un.org/unsd/nationalaccount/iswgna.asp>. Searchable PDF copies of the 2008 SNA and earlier versions of the SNA are available at <http://unstats.un.org/unsd/nationalaccount/sna.asp>.

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