D.2 Valuation of Unlisted Equity: Outcome of Global Consultation[1]

The global consultation supported additional guidance in the statistical standards for the valuation of unlisted equity. The top three preferred methods were (1) Own Funds at Book Value (OFBV), (2) Recent Transaction Price, and (3) Market Capitalization Method – Price to book Value (P/B). Most of the respondents also agreed to the adoption of the use of the methods based on the decision tree presented in the GN. This consultation also confirmed that adequate application of any method requires sound data availability along with resources and training. Also, respondents were favorable to international institutions assisting in implementing an information-sharing system for the valuation of unlisted equity. Finally, the consultation also revealed that most respondents agreed to prepare a clarification note on the treatment of negative equity (Option 2.1) and to clarify the impact of various types of provisions on the valuation of unlisted equity in the BPM, SNA, and BPM Compilation Guide.

In view of the broad agreement received during the global consultation, this Guidance Note (GN) is proposed to be considered by the IMF Committee on Balance of Payments (Committee) and the Advisory Expert Group on National Accounts (AEG) for final decision.

OVERVIEW

1. **Sixty-one respondents from 55 economies participated in the global consultation of the Guidance Note (GN) D.2.**[2] The majority provided responses for balance of payments (30 respondents) followed by coordinated responses for balance of payments and national accounts (NA) (20 respondents) and for NA only (11 respondents). A large majority indicated that the compilation approach for unlisted equity is consistent across balance of payments and NA (44 respondents). This consultation took place during September 24—October 22, 2021 (see Figure 1 in Annex II).

CONCEPTUAL ISSUES

This GN analyzes the advantages and disadvantages of the recommended methods for the valuation of unlisted equity and raises the possibility of identifying some methods as preferred and/or even eliminating some of them. Additionally, and as a possible way of ordering the different methods, a decision tree is proposed with a view to facilitating decision-making for compilers.

2. **Almost half of the respondents (27 respondents) disagreed with maintaining the status quo (i.e., "no change in the current guidance") for the valuation of unlisted equity, with only nine respondents supporting it, with the remaining 20 respondents expressing no clear position or remaining neutral.** Most of the respondents (40 respondents) supported adoption of the use of the methods based on the decision tree presented in the GN, and 35 respondents agreed to adopt the methods recommended in the *European System of Accounts 2010* (*ESA 2010)* and the *Handbook on Financial Production Flows and Stocks in the SNA*, which are (a) the values of quoted shares where

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[2] There were 25 responses from Europe, nine from the Western Hemisphere, nine from the Middle East and Central Asia, eight from Asia and Pacific, and four from Africa.

appropriate; (b) the value of own funds; or (c) discounting forecast profits by applying an appropriate market price to earnings ratio to the smoothed recent earnings of the institutional unit.

3. **The majority (35 respondents) agreed that it would be helpful to reduce the current number of methods recommended by the *2008 SNA* and the *BPM6*.** Those who favored reducing the number of methods (especially for cross-border statistics) considered it a way of reducing bilateral asymmetries, while those who opposed deemed it important maintaining flexibility for countries to choose the valuation method (mostly for national accounts) based on data availability in their specific economy.

4. **Own Funds at Book Value (OFBV) (45 respondents), Recent Transaction Price (43 respondents), and Market Capitalization Method – P/B (28 respondents) were the top three preferred methods.** Further, a large majority supported the decision tree presented in the GN and agreed that the preferred methods and the proposed decision tree should be complementarily included in the update of IMF's *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*), OECD's *Benchmark Definition of Foreign Direct Investment, fourth edition* (*BD4*), and *System of National Accounts 2008* (*2008 SNA*) (see Figures 2.1. and 2.2).

CURRENT COMPILATION PRACTICES

5. **Of those representing the NA or both NA and balance of payments, almost all compile institutional sector accounts (ISAs) and balance sheets.** The majority of them indicated that their ISAs and balance sheets are on a market value basis. Almost half of them indicated that the share of unlisted equity in total financial assets is greater than 20 percent while just over one quarter estimated that unlisted equity is greater than 20 percent of household financial assets. Most respondents mentioned that the selection of valuation method depends on the institutional sector and data availability.

6. **Of the valuation methods currently used by respondents,** 43 respondents use OFBV; 16 use Recent Transaction Price, and 13 use Market Capitalization Method – P/B. The other methods are not used mainly due to the lack of data (48 responses) and of resources (25 responses). Looking at the next three years, 32 respondents indicated they have the data or could develop data sources to implement the OFBV method in their DI statistics, 14 could implement the market Capitalization Method – P/B, and 13 respondents could implement Recent Transaction Price and the Net Asset Value. Only seven respondents indicated that the methods to estimate unlisted and other equity for direct investment are not consistent with those for the domestic sectors.

7. **The consultation also provided important insights to help in deciding the valuation of unlisted equity:** (i) Only 19 respondents reported that they compile data for gross fixed capital formation and intellectual property products (IPPs). Only eight respondents declared that they adjust OFBV by taking into consideration IPPs, including those produced on own account (which are generally not capitalized in business accounting). (ii) More than half of the respondents have stock market information by branch/activity. (iii) National Generally Accepted Accounting Standards are the predominant accounting standard used by unlisted companies in the majority of economies. (iv) About half of respondents were able to align corporations' assets and liabilities to the *2008 SNA* definitions for instruments and balance sheets. (v) A large majority were in favor of a sharing information system facilitated by international organizations for the valuation of unlisted equity.

8. **The consultation also revealed majority agreement with the need to prepare a clarification note on the treatment of negative equity (Option 2.1), also with important support to clarifying the impact of various types of provisions on the valuation of unlisted equity in the BPM, SNA, and BPM compilation guide**.

FITT CONSULTATION

9. **The GN was also shared with the Financial and Payments System Task Team (FITT) for their review.** Only three FITT members responded. They were generally supportive of the decision tree but had mixed views on identifying preferred methods, noting that the "best" method may depend on the data sources available or differ by industry. All were supportive of additional clarifications on the treatment of negative equity and provisions, noting that all impacted statistical domains should be represented on the entities drafting these clarifications. Finally, they were all supportive of international organizations assisting in an information-sharing system for the valuation of unlisted equity.

Annex I. WGIIS Consultation on GN D.2

10. **The OECD's *Benchmark Definition of Foreign Direct Investment, fourth edition* (*BD4*) provides detailed guidance on the compilation of direct investment (DI) statistics in line with the IMF's *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*).** The OECD's Working Group on International Investment Statistics (WGIIS) further contributes to the update of the international standards on DI (*BPM7* and *BD5*) by reviewing the guidance notes produced by the Direct Investment Task Team (DITT) and providing feedback at different stages.

11. **During the public consultation phase, the OECD WGIIS secretariat consulted with WGIIS delegates on the DITT GN D.2 to gauge their support and preferences.** Twenty countries responded to an online survey set up by the OECD. The OECD organized a webinar on October 14 to discuss the outcomes of the consultation and gather additional insights on the feasibility of the proposed approaches. There were more than 70 participants.

12. **The most commonly used method to value unlisted equity by respondents to the online questionnaire was the Own Funds at Book Value (OFBV).** However, when using this method, a few (four) respondents use the books of the direct investor instead of those of the direct investment enterprise and the majority does not apply International Financial Reporting Standards (IFRS) in favor of the national General Accepted Accounting Practices (nGAAP). Intellectual Property Products (IPPs) are also not taken into consideration when deriving market valuation using the OFBV.

13. **A majority of respondents (13) was in favor of adopting the proposed methods based on the decision tree presented in Annex 7 of the GN, and to include them in the updated BPM and SNA (Option 1.1).** Among those that did not support Option 1.1, most preferred to reduce the number of methods available or to limit their application to very specific cases. **The OFBV, recent transaction price and market capitalization were the top three preferred methods, with the OFBV selected by 18 respondents, and the transaction price and market capitalization method selected by 11 respondents each.** During the webinar, it was considered important that the updated manuals provide more guidelines on the implementation of each preferred method to reduce the risk of asymmetries. The OFBV method is most commonly used by countries but various national implementation practices are currently responsible for large asymmetries, in particular in Europe. During the webinar, Eurostat indicated that about half of the total value of asymmetries that could not be solved through the ECB/Eurostat FDI network are due to valuation methods. Two participants suggested to rank the methods, although the preferences towards the OFBV, recent transaction price and market capitalization expressed by WGIIS delegates were already an implicit way of ranking these methods, both on a conceptual basis and in terms of common use of such methods.

14. **There was strong support (by 16 respondents) for the proposed decision tree, which was considered a practical tool to identify the best method to use based on available information.** One respondent stressed that the decision tree is useful from a theoretical perspective but stressed that a ranking of the methods would be preferable from a practical point of view because the decision tree can be hard to implement when a large number of enterprises is involved in FDI. To overcome this practical challenge, one respondent suggested that the guidelines could further clarify in which cases the decision tree could be used (i.e., for the largest companies, representing more than a certain share of total FDI).

Two respondents did not support the decision tree mainly as it could lead to asymmetries across countries, when two countries end up selecting different methods because the information available to them is not be the same. **Most respondents (11) were in favour of including preferred methods and the decision tree in a complementary manner in the updated manuals. Yet a significant number of respondents (eight) supported including only the preferred methods.**

15. **There was clear support (by 18 respondents) for including more guidance on some factors that might affect valuation of unlisted equity.** Yet, no clear preference between whether this should be included in the core manuals or in the compilation guides. **Almost all respondents agree with the proposal to prepare a separate clarification note on negative equity.** Some concerns were raised concerning the zeroing out of negative equity and the need to consider the related debt-financing counterpart. A similar comment was made during the webinar, asking whether the zeroing out of negative equity that is reported by a company as part of a global corporate strategy, would necessitate a corresponding adjustment by the partner country. It is particularly challenging to look at this issue from an individual country perspective and the question is whether it would be better to approach the issue from an enterprise perspective instead.

16. **The majority of respondents believes international organizations (IOs) assisting in implementing a system of information-sharing among statisticians could promote homogeneity in the valuation of unlisted shares worldwide.** However, confidentiality was reported by many respondents as the main challenge to data sharing among countries. Furthermore, legal constraints were also raised as well as the lack of comparability of the information shared (as data are extracted from different FDI populations and compiled according to different methods).

17. Table 1 below reports the distribution of the answers received to the questions included in the online survey filled in by WGIIS delegates.

Table 1. Results of the WGIIS Consultation

	Inward	Outward
Q1. When compiling inward (outward) FDI position data, which of the following valuation methods do you use for equity in enterprises not listed on a stock exchange?	Nb of respondents	
Recent transaction price	6	6
OFBV	17	18
Net asset value incl. goodwill&intangibles	0	0
Net asset value excl. goodwill&intangibles	0	0
Market capitalisation	4	3
Present value of future earnings	1	1
Apportioning global value	3	2
Historic or acquisition cost (Not recommended)	0	0
Accumulation of FDI equity flows (Not recommended)	1	2
Stock market price index on accum. equity flows (Not recommended)	0	0
Book value (Not recommended)	2	3

Q1b (Q1c). When applying the OFBV method, do you use of the books of the direct investment enterprises (DIE) or of the direct investors (DI)?	**Inward**	**Outward**
DIE	16	
DI	14	4

	IFRS	**nGAAP**	**Other**
Q2. What is the most predominant accounting standard method used by unlisted corporations in your economy?	6	10	2 (mix of both)

	Yes	**No**
Q3.Do you attempt to derive a market valuation of OFBV considering IPP rights, including those produced on own account, generally not capitalised in business accounting?	0	19

Q4. What are your top three preferred methods on a conceptual basis from the list below (whether or not currently used) in compiling unlisted equity?	
Recent transaction price	18
OFBV	11
Net asset value	11
Market capitalisation	5
Present value of future earnings	3
Apportioning global value	2

Q5. The GN proposes five options with respect to reducing the number of valuation methods based on how well they approximate market value and their ease of implementation. Please select which option (s) you support	
Option 1.1 Adopt the proposed use of the methods based on the decision tree	13
Option 1.2 Adopt the methods recommended in the ESA 2010 as the preferred methods	2
Option 1.3 Cease recommending some of the proposed methods,	6
Option 1.4 Limit the use of some of the proposed methods to specific cases	8
Option 1.5 No change in the current guidance	1

	Yes	**No**
Q6. Annex VII of the GN proposes a decision tree. Do you agree with the proposed decision tree?	16	2

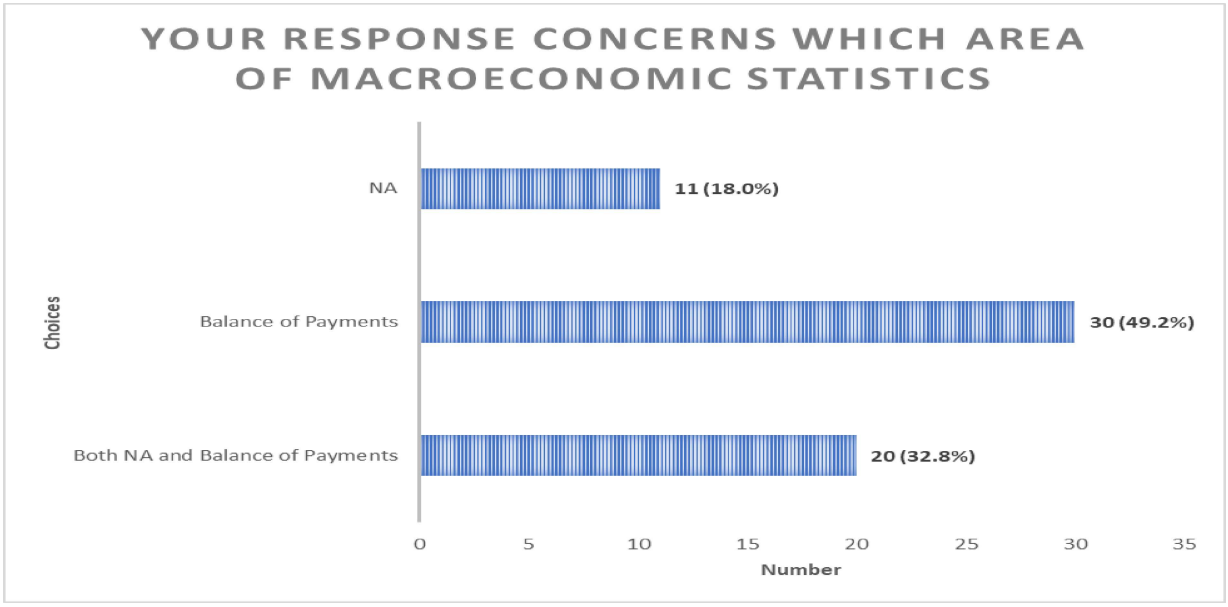
Q7. Do you think that the preferred methods, that will be identified through the global consultation, and the proposed decision tree should be complementarily included in the updated manuals?	
A1 Yes, include preferred methods and decision tree complementarily in BPM7, BD5 and SNA	11
A2 No, include preferred methods only in BPM7, BD5 and SNA	8
A3 No, include decision tree only in BPM7, BD5 and	1
A4 Do not include either one	0

Q8. The GN mentions some factors that can significantly affect the valuation of unlisted equity (i.e liquidity, control premium, negative equity values, and treatment of provisions). Do you think that it is necessary to incorporate guidelines on those issues?	
A1 Yes, in both the updated BPM6 and SNA	9
A2 Yes, in the BPM Compilation Guide	2
A3 Yes, in both BPM and SNA Compilation Guides	9
A4 No	0

	Yes	**No**
Q9. Do you agree with the proposal of preparing a separate clarification note on the treatment of negative equity?	18	1
Q10. Do you consider that IOs assisting in implementing a system of information-sharing among statisticians could promote homogeneity in the valuation of unlisted shares worldwide?	13	1

Annex II. List of Figures from the IMF and UNSD Joint Consultation

Figure 1. Introduction



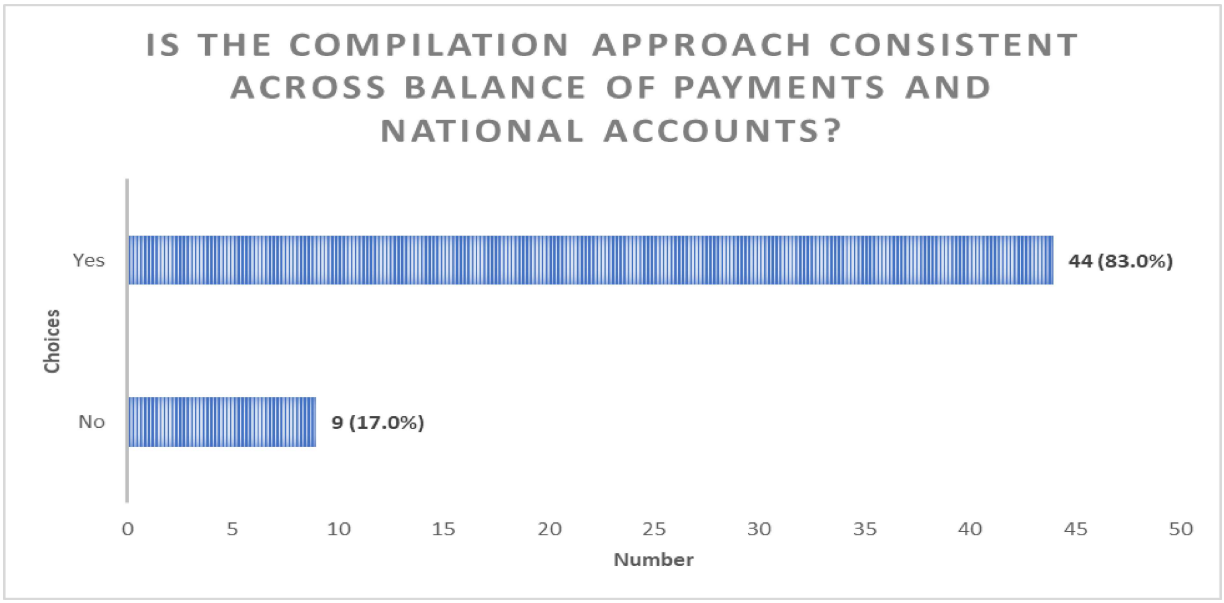
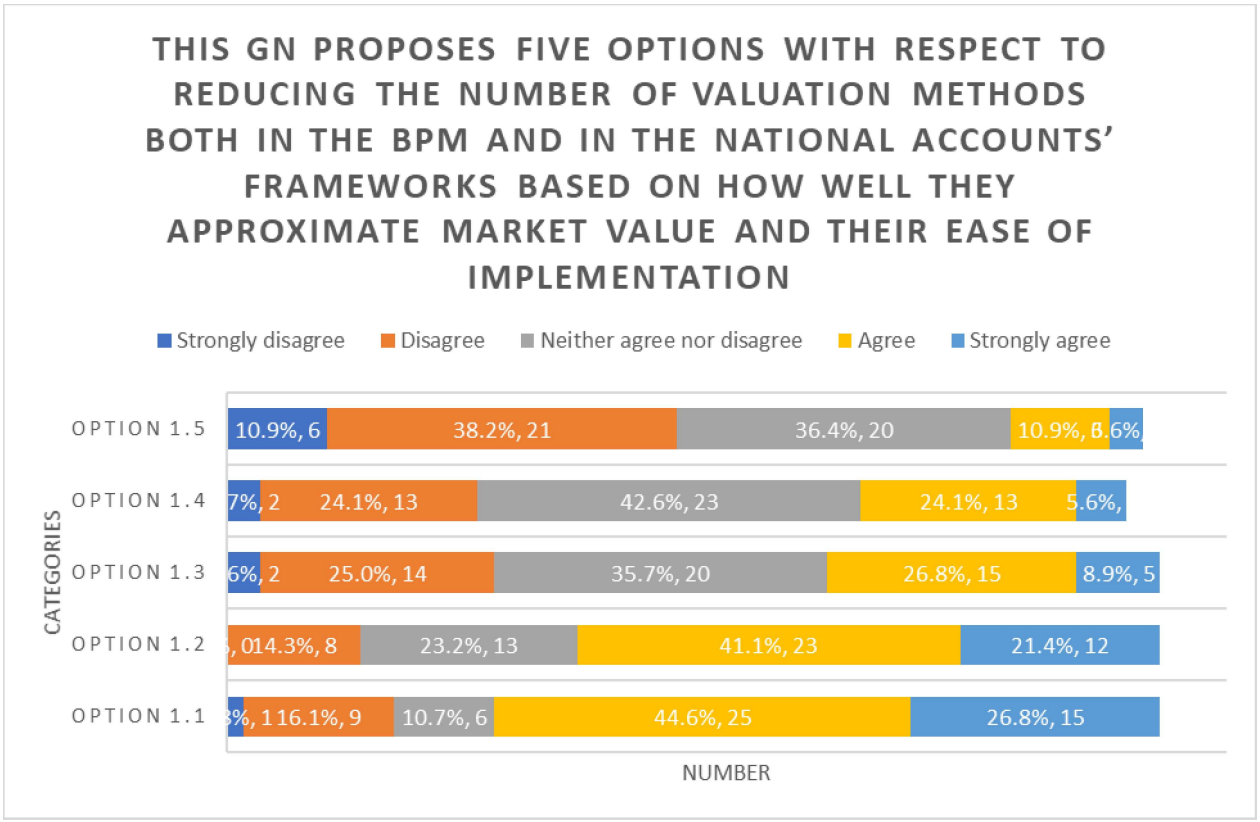


Figure 2.1. Conceptual Issues



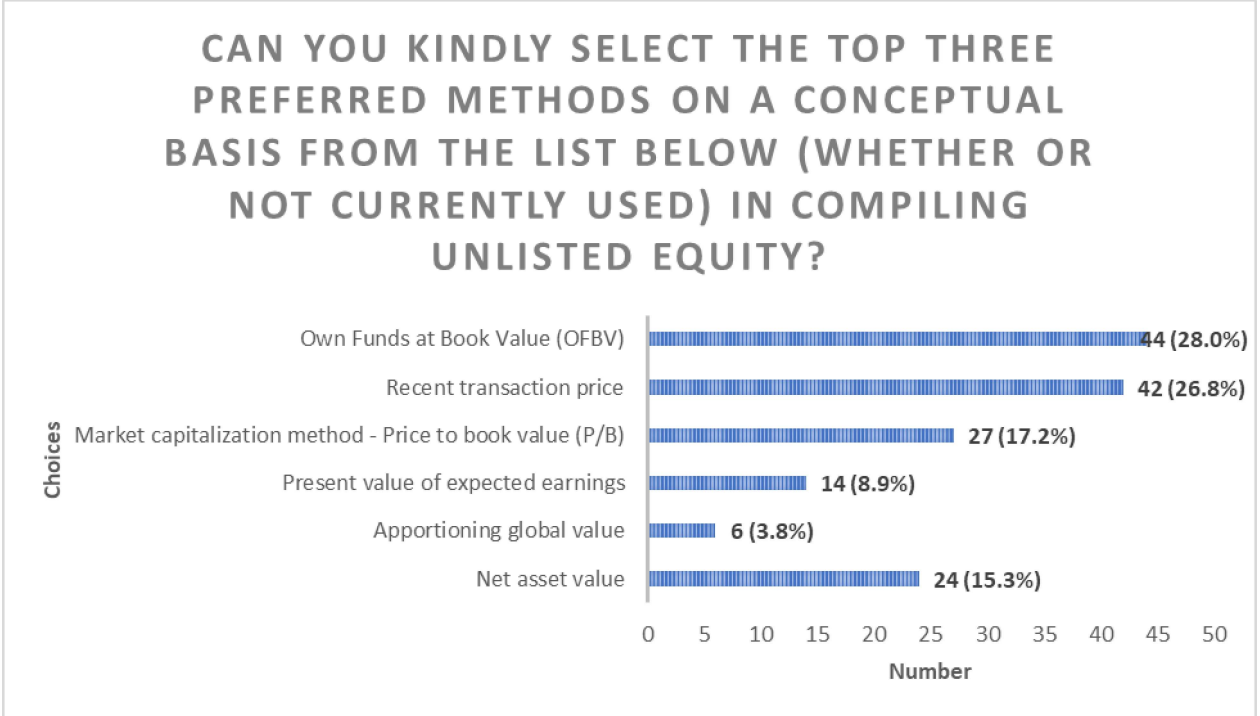


Figure 2.2. Conceptual Issues