SNA/M1.20/4.4

14th Meeting of the Advisory Expert Group on National Accounts, 5-9 October 2020, Virtual Meeting

Agenda item: 4.4

Treatment of MNE and Intra-MNE Flows

Introduction

As part of the System of National Accounts (SNA) Research Agenda, the Globalization Task Team (GZTT) has been asked to develop a guidance note on the “Treatment of multinational enterprises (MNEs) and intra-MNE flows”. MNEs and intra-MNE flows present measurement challenges for both national accounts and balance of payments. The challenges articulated with economic ownership, residence, MNEs, and SPEs in past publications – United Nations Economic Commission for Europe (UNECE) publications on ‘*The Impact of Globalization on National Accounts*’ and ‘*Guide to Measuring Global Production*’ as well as in the IMF Committee on Balance of Payments Statistics (BOPCOM) papers – have, in fact, laid a foundation for subsequent work to improve statistics subject to the potential distortionary effects of MNEs and SPEs.

A draft issue paper was prepared by the GZTT secretariat for written consultation among the members of the task team (TT). The issue paper, in addition to summarizing the previous discussions, examined ways to better account for the contribution of MNEs’ economic and financial flows within macroeconomic statistics, both from the national and international accounts’ perspective.

The options considered by the GZTT do not require a change to the existing core framework. The proposed solutions emphasize existing indicators and a further decomposition into more disaggregated (granular or supplemental) data consistent with the core framework. Extensions that go beyond the current 2008 SNA and BPM6 conceptual framework, providing alternative concepts, but leaving the “core” framework unchanged were also considered.

The GZTT showed a general preference for options I and II – emphasize existing indicators within the SNA and increase granularity of data provided using the institutional sector accounts (ISAs) – to highlight MNE activities in the national accounts.

The existing indicators that could be emphasized are NDP, GNI, GNDI, NNI, and NNDI to facilitate an in-depth analysis of the impact of MNEs activities on the domestic economy

Documentation

- Draft guidance note on *Treatment of MNE and Intra-MNE Flow*. Still be finalized by the GZTT (feedback due Sept. 25, 2020)

- Additional Materials: Feedback of the GZTT consultation is included in *Consultation Note of the Globalization Task Team Treatment of multinational enterprises (MNEs), special purpose entities, identifying economic presence and residency and Intra-MNE flow*

Main issues to be discussed

1. Does the AEG agree with the recommendations I and II – (I) emphasize existing “national and net” indicators within the existing SNA framework and (2) recommending additional breakdowns (e.g. new sub-sectors) which highlight the activities of MNEs.
    a. Does the AEG agree that additional indicators that extend the current SNA concepts such as GNI* or mainland GDP should not be included in this update?
2. Is there any preference on which existing indicator(s) should be highlighted (e.g. GNI or NNI)?
    a. Currently the GZTT highlights gross income measures in order to promote cross country comparability. What is the AEG opinion on this?
3. What is the AEG opinion on the proposal to define MNEs by emphasizing the control aspect shown in the Foreign Direct Investment Relationships (FDIR) as in BPM6 and BD4?
4. Please rank (1-3) which additional breakouts would be considered the highest priority by your data users:
    a. Institutional sector accounts (following the breakdown into foreign-controlled and domestically controlled corporations as designed in recommendation 8 of G20 DGI 2): _________
    b. Gross value added by industry broken down into foreign-controlled and domestically controlled units: ________
    c. Extended supply and use tables: _________

14th Meeting of the Advisory Expert Group on National Accounts,
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Inter-Secretariat Working Group on National Accounts

IMF's Committee on Balance of Payments

Globalization Task Team[1]

Treatment of MNE and Intra-MNE Flows

SNA/BPM6 Update

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[1] The GZTT consists of both national accounts and balance of payments compilers, from a diverse group of countries. The regional distribution includes Africa (represented by COMESA, that comprehends 21 African States), Asia and Pacific (Australia, China, Japan, and Malaysia), Europe (Ireland, Germany, Luxembourg, Norway, Russia, and United Kingdom), Middle East and Central Asia (Morocco), and Western Hemisphere (Brazil, Canada, United States, and Uruguay). International organizations, namely the ECB, Eurostat, IMF, OECD, UNECE, and UNSD are also represented.

Guidance Note: Treatment of MNE and Intra-MNE Flows[2]

BACKGROUND TO THE ISSUE

1. **Economic globalization has created new opportunities for businesses to organize their production chains more efficiently**. Multinational enterprises (MNEs) are key players in globalization. Through their activities, MNEs manage production, trade, direct investment, and the international transfer of knowledge and technology with the aim of maximizing profits for their shareholders. Consequently, they organize global production strategically to leverage lower labor costs, more friendly regulatory environments, more educated workforces, and low-tax or no-tax jurisdictions among other factors - at times while creating special purpose entities (SPEs).[3]

2. **MNE and intra-MNE flows (including SPEs) present measurement challenges for both national accounts and balance of payments compilers**. The concepts of residence and economic presence which are central to macroeconomic accounts, are less important to MNEs, whose activities extend across national boundaries. This has increased the complexity of compiling economic statistics, as it is more difficult to breakdown production activities on a country-by-country basis. The current methodological standards posit that foreign subsidiaries or foreign affiliates of MNEs are resident in their respective economies of operation. This treatment is designed to place production in the economy in which it occurs, which is fundamental for estimating the economy's GDP. However, regardless of their residence, all affiliates of an enterprise group are to some degree controlled by their parent. Furthermore, the existence of transfer pricing on intra-MNE flows - when prices do not reflect the 'arm's length' market valuation required by the *System of National Accounts, 2008 (2008 SNA)* - or the practice of not recording transactions for the intra-MNE use of intellectual property products may result in the misallocation of GDP between the parent and subsidiary economy.[4]

3. **Although the extent of the issue is not easily quantified, economic decisions made by MNEs can have a sizeable effect on national accounts statistics.** Their mismeasurement can adversely impact the estimation of key macroeconomic indicators. The impact on GDP results from the misallocation between statistics on international trade in goods and services relative to income and the depreciation charges associated with movable corporate assets, especially intangible assets. Consequently, without robustly accounting for MNE activities, the reliability of the national accounts estimates for domestic policymaking purposes may be challenged.

[2] The preparation of this Guidance Note (GN) was primarily undertaken by Ms. Francien Berry (primary drafter), Ms. Padma Hurree-Gobin, and Ms. Jennifer Ribarsky (both Task Team Secretariat, Statistics Department, International Monetary Fund), who coordinated the contributions of the Globalization Task Team (GZTT) members. The work was undertaken under the supervision of Messrs. Michael Connolly (Chair of the Task Team) and Paul Roberts (co-Chair until July 2020). The GN benefitted from comments by Messrs. Carlos Sánchez-Muñoz (Balance of Payments Division), and Jim Tebrake (Real Sector Division) from the IMF Statistics Department.

[3] A separate Guidance Note on SPEs is being prepared that addresses the statistical challenges associated with the use of SPEs within MNEs.

[4] MNEs operate in multiple countries with different tax rates have an incentive to set transfer prices such that a higher portion of profits is allocated to lower tax rate jurisdictions.

EXISTING MATERIALS

4. **The latest revision of the *2008 SNA* and the *BPM6* manuals introduced several changes to better reflect the challenges associated with MNEs.** The update clarified principles related to (i) institutional units, (ii) residence, (iii) economic presence, and (iv) economic ownership. The *2008 SNA* Chapter 21: *Measuring Corporate Activity (pp. 21.47 – 21.5)* provides a brief description of MNEs and the treatment related to outsourcing of production. Additionally, the *2008 SNA* research agenda recognizes that "*some of the issues connected with globalization…. may lead to a reconsideration of how the phenomenon is reflected in the accounts. One possibility is alternative, supplementary, presentations of multinational enterprises based on alternative definitions of residence and ownership (2008 SNA A4.3).* Both the *Balance of Payments and International Investment Position Manual, 6th Edition (BPM6)* and the *OECD Benchmark Definition of Foreign Direct Investment (BD4)* discuss the methodology of compiling statistics on the activities of MNEs. The *2008 SNA* and the *BPM6* also provide conceptual guidance related to transfer pricing on intra-MNE flows (*2008 SNA* paragraphs 3.131–3.133 and *BPM6* paragraphs 11.101–11.102). They highlight the need for cooperation and exchange of information between the relevant compiling institutions to correct these valuation asymmetries. To this end, international taxation regulations are constantly being reformed to enforce the arm's length principle for intra-MNE transactions.

5. **Since the publication of the manuals, further guidance has been provided on addressing the statistical challenges emerging from globalization**. In 2011, the UNECE published *The Impact of Globalization on National Accounts* to help compilers understand how globalization affects the national accounts. [5] The 2015 UNECE *Guide to Measuring Global Production* strengthens the practical and conceptual guidance provided to compilers on global production activities and addresses the emerging data needs to better explain the macroeconomic implications of globalization. The UN 2019 publication *Accounting for Global Value Chains: GVC Satellite Accounts and Integrated Business* Statistics provides a framework for the measurement of global value chains (GVCs) and outlines how economic statistics can be made more accurate in measuring the effects of globalization in national accounts. The IMF Committee on Balance of Payments Statistics (BOPCOM) has also examined this issue and provided in-depth analyses on challenges associated with economic ownership, transfer-pricing, and residence. The *Final Report of the Working Group on Balance of Payments Statistics Relevant for the Analysis of Global Value Chains* proposes a framework to provide supplementary data that highlights the role of MNEs in the current account.[6] To better highlight the effects of globalization, the G20 – DGI 2 Recommendation 8 encourages countries to separately identify foreign-controlled corporations and domestic-controlled MNEs through the sequence of accounts.[7] Finally, several authors have examined the challenges associated with measuring MNE activities in the national accounts and have proposed possible solutions, some of which are discussed in this note.[8] Notably, Ahmad (2018) discussed the global value chains from a

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[5] UNECE (2011) "The Impact of Globalization on National Accounts" http://www.unece.org/fileadmin/DAM/stats/groups/wggna/Guide_on_Impact_of_globalization_on_national_accounts_FINAL21122011.pdf and UNECE (2015) "Guide to Measuring Global Production" http://www.unece.org/index.php?id=42106

[6]BOPCOM 19/04 Final Report of the Working Group on Balance of Payments Statistics Relevant for the Analysis of Global Value Chains

[7] See Annex II: for the G20 – DGI sectoral breakdown of the financial and nonfinancial corporations' sectors.

[8] Moulton and van de Ven (2018) noted the statistical challenges of MNEs on the SNA and present options for identifying and analyzing the impact of MNEs, both within and outside the core framework. Both Harrison (2014) and Jellema (2018) proposed using the ISA to highlight key MNE activities. Harrison (2014) proposed a complementary sectorization of foreign-controlled

supply and use perspective and proposed constructing extended supply and use tables (eSUTs) with relevant breakdowns by ownership structures for example foreign-controlled affiliates, domestic MNEs with affiliates abroad, and domestic firms with no foreign affiliates.

OPTIONS CONSIDERED

6. **The written consultation by the Globalization Task Team (GZTT) affirms the measurement challenges highlighted in the literature and presents a set of options to be considered**.[9] The options include those that can be addressed (i) within the core SNA framework (options 1 to 3 below) and (ii) beyond the core SNA framework by developing additional indicators (option 4 below).

NO CHANGE TO THE CORE FRAMEWORK

7. **The first option proposed is for economies to emphasize existing indicators within the SNA, such as gross national income (GNI), gross national disposable income (GNDI), net national income (NNI), and net national disposable income (NNDI) which are less sensitive to the impact of MNE activities.** The current SNA framework produces several key indicators that are less distorted by globalization than GDP and better reflect the underlying economic activities of MNEs, which are simply not underscored. Therefore, MNE activities can be more intuitively analyzed by highlighting and promoting the use of these indicators. The consultation showed a preference for gross measures since net measures are more challenging to compile owing to the general need for compiling institutions to further develop measures of consumption of fixed capital.[10] This option has the advantage of international comparability and does not require a significant adjustment to the operations of compiling institutions but rather a refocus of user's attention to these indicators. However, it does not resolve the fact that some indicators may experience distortions that need to be more adequately addressed.

8. **The second option proposes to increase the granularity and supplementary data provided within the SNA framework using the institutional sector accounts (ISAs).** This option builds on the proposals of Harisson (2014) and Jellema (2018) and considers breaking down at the subsector level, the financial and nonfinancial corporations' sectors to show foreign-controlled corporations and domestic corporations that are a part of MNEs. This proposal leverages on the G20 – DGI 2 sectoral accounts template (see Annex I). This option provides the benefits of capturing the full impact of MNE activities in the macroeconomic accounts and highlights not only the foreign-controlled entities but also the domestic MNEs. While the *2008 SNA* discusses a subsector for foreign-controlled corporations (see *2008 SNA* Annex 1), the G20 recommendation 8 adds further granularity, such as separately identifying domestic MNEs, as well as identifying an aggregate domestically controlled nonfinancial/financial corporations subsector. The foreign/domestic split helps policymakers to distinguish between economic activity driven

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corporations to better distinguish income flows between MNEs and their affiliates. Jellema (2018) proposed increasing the visibility of MNEs using the existing system of accounts but showing these entities as an international and domestic subsector. Fetzer et al. (2018) and other studies have also demonstrated the feasibility of extended SUTs.

[9] The detailed consultation within the GZTT is presented in the accompanying supporting document on SPEs and MNEs.

[10] The perpetual inventory method is widely used to compute CFC. The calculation of CFC requires that compilers estimate the present value of the stock of fixed capital, lifetime of various types assets, and patterns of depreciation among other assumptions. Not all countries make these calculations, and some may use inadequate data. Consequently, gross measures are more readily available, reliable and internationally comparable than net measures.

by the domestic firms and those driven by MNEs, which may have different implications for domestic welfare.

9. **Option three proposes to provide more granularity within the SNA framework using the extended supply and use tables, drawing on the proposal of Ahmad (2018)**. In the eSUTs, relevant industries are broken down into enterprises operating domestically, enterprises controlled by domestic multinationals, and foreign controlled affiliates of foreign multinationals. eSUTs decompose the heterogeneity within industries of the supply-use framework to better understand the effects of MNEs on industry and product flows for trade in value added and other global value chain analyses.

INDICATORS BEYOND THE CORE OF THE SNA FRAMEWORK

10. **The final option considers redefining existing indicators within SNA framework such as Ireland's GNI*[11] (adjusted GNI).** This approach could be implemented without changing the core system of the SNA framework. However, the consultation exercise showed little preference for this approach. The consultation highlighted that while these indicators are useful to examine the impact of globalization on individual economies, they should be left up the compiling institutions to define based on their specific country circumstances and policy needs. Emphasis, however, should be placed on the use of international comparable indicators – already existing within the SNA.

RECOMMENDED APPROACH – CONCEPTUAL ASPECTS

11. **The GZTT showed a general preference for options I and II – emphasize existing indicators within the SNA and increase granularity of data provided using the ISAs – to highlight MNE activities in the national accounts**.[12]

12. **Indicators beyond GDP such as NDP, GNI, GNDI, NNI, and NNDI facilitate an in-depth analysis of the impact of MNEs activities on the domestic economy**. Where GDP may be more severely impacted by globalization, these other indicators are less distorted and better reflect economic realities. For instance, transfer pricing – which has the effect of misallocating GDP towards economies in which subsidiaries or affiliates face lower taxes – has a less distortionary effect on GNI. Furthermore, GDP is not intended to provide the user with a view of the well-being effects and can be misinterpreted since a part of the earnings of affiliates or subsidiaries of MNEs is usually repatriated to the parent economy. For countries that are large recipients of direct investment, this can have significant policy implications. As a result, a refocus towards the use of additional key indicators within the national accounts can better highlight MNE activities. While net indicators are preferred, compilation of net measures may be difficult to implement consistently among all countries because of the challenges in

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[11] GNI*, used in Ireland, excludes the impact of certain aspects of globalization namely the depreciation related to both the cross-border additions to the stock of IP assets and the stocks of aircraft involved in international aircraft leasing for Ireland. In addition, retained earnings of corporate inversions (i.e., redomiciled public limited companies (plcs)) headquartered in Ireland are also excluded. This level indicator is for use primarily as a denominator in ratio analysis, and as an alternative or to complement the use of GDP.

[12] It may be more analytically useful to emphasize these other key indicators such as GNI, GNDI, NDP, NNI, and NNDI which are not equally affected by MNEs.

estimating consumption of fixed capital (CFC). For the same reason, net measures of income tend to be, less comprehensive than the gross measures, and compiled at a lower frequency – mainly annually.

13. **The consultation further affirmed that in general, compiling institutions could continue to highlight these other key analytical indicators and their relative importance to users.** It is worth emphasizing to users, the role of these indicators in analyzing various activities in the economy. Currently, this is not typically done and will require more focused communication efforts, since users are less familiar with these measures.

14. **The ISA framework shows the full sequence of accounts by institutional sectors instead of the familiar breakdown by industry (see Annex I).** They provide coherent and consistent granularity - from gross value added to net lending and borrowing – for the nonfinancial and the financial accounts and balance sheets. This framework for measuring domestic activities is analytically useful and helps policymakers to distinguish between economic activity driven by the domestic firms and those driven by MNEs. Although they are not highlighted in the template, corporate inversions can be separately identified as a subsector of domestic nonfinancial corporations sector.[13] Mainly because of the data intensity involved, the consultation showed little support for further breakdown at the financial subsector level (e.g., at the Money market funds (S123), Non-MMF investment funds (S124) etc. level) to show those the foreign-controlled corporations and domestic corporations that are part of MNEs. The ISA supplementary data is supported by the existing SNA framework but adds additional granularity as discussed in paragraph 8.

15. **The consultation exercise also pointed that in order to adopt the full sequence of accounts, it is deemed important to readily identify foreign-controlled institutional units, which supports the need for a definition of MNEs**. MNEs refer to enterprises that establish subsidiaries and affiliates abroad through direct investment relationships, based on the concept of control - as elaborated in *BPM6* and *BD4*. The relationships between entities within an MNE is defined by direct investment (DI) relationships, where ownership of 50 per cent or more of ordinary shares or voting power generally reflects the direct investor's control over the management of the enterprise.

16. **Direct investment[14] is one of the functional categories recommended in *BPM*, contrary to the instrument-based classification in the *2008 SNA***. It is recognized that the conceptual framework in the statistical manuals (*BPM6*, *2008 SNA* and *BD4*) is similar although the data are organized differently in the balance of payments relative to the national accounts. In that respect, the objective of *BPM6* and, to a larger extent, *BD4* is to set clarity for recognizing direct investment control in the context of MNEs. Additionally, both *BPM* and *BD4* acknowledge that direct investment and activities of MNEs (AMNE) statistics offer valuable insights into the operations and financing of MNEs.[15] The statistics on AMNE

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[13] Also referred to corporate or headquarter relocations, corporate inversions refer to the restructuring of MNEs such that the original parent in one economy becomes a subsidiary of a new parent in another economy. In the 'Irish Case,' these 'redomiciled Plcs', has the effect of distorting or overstating estimates of reinvested earnings, and consequently estimates of GNI. From an analytical viewpoint, it is worth separately identifying these types of restructurings in the ISA framework

[14] See *BPM6* paragraph 6.8, *BD4* paragraphs 117-120.

[15] The BOPCOM Direct Investment Task Team (DITT) is currently preparing a guidance note to consider the reconciliation of BPM-based Direct Investment and AMNE statistics with a view to provide comprehensive and integrated data on the financing and operations of MNEs and address some of the measurement challenges posed by MNEs to support analyses and policymaking.

cover affiliates which are controlled by an enterprise resident in another economy. The *OECD Handbook on Economic Globalisation Indicators* recommends that AMNE statistics cover the majority controlled affiliates. In principle, AMNE data cover a sub-set of the entities involved in DI.

17. **The GZTT discussed aligning the definition of MNEs by clearly emphasizing the control aspect of DI, considering policymakers' views to observe separately those parts of the economy that are subject to control from abroad**. The framework for direct investment relationships (FDIR) is a generalized methodology for identifying and determining the extent and type of direct investment relationships. It equally sets the rules for indirect transmission of control and influence through a chain of ownership.[16] Control can be passed down a chain of ownership as long as control exists at each stage. Whereas the FDIR applies a criterion of 10 percent or more of voting power for immediate direct investment, transmission through chains of ownership is not linked to a particular equity share, but a chain of control. For example, a chain of ownership of enterprises with each link involving 60 percent of the voting power involves a chain of control, even though the indirect equity by the top enterprise is 36 percent at the second level (i.e., 60 percent of 60 percent), 21.6 percent at the third level (i.e., 60 percent of 36 percent), and so on. The application of these principles is explained in *BPM6*—see Box 6.1, *BD4* Chapter 3, and *2008 SNA* chapter 4 (Annex I). The FDIR (see Annex II) allows compilers to determine the population of direct investors and direct investment enterprises.

18. **The proposal is, therefore, to utilize the definition of control for the detailed breakouts proposed in recommendation 8 as per the *BPM6* and *BD4* guidelines**. In some cases, these can be identified using shared business registers as is done in Europe. For other compiling institutions , the foreign-controlled enterprises can be identified using the direct investment (DI) statistics, which shows an MNE's ownership relationship with other enterprises within the global production chain.

19. **The third considered approach was viewed as a viable option by the consultation exercise but the consensus view is it may be too ambitious and resource intensive to implement consistently across countries**. Members noted that for this method to be implemented, it would require a significant redesign of surveys, compilation systems, methods, and data. A more feasible compromise could be to breakdown gross value added (GVA) by relevant industries according to domestic MNEs versus foreign controlled affiliates of MNEs.

RECOMMENDED APPROACH – PRACTICAL ASPECTS

20. **The recommended options have varying practical implications for compiling institutions** . Option I is the most practical, since for many countries this involves more efforts on communicating with users and strengthening existing indicators within the SNA instead of developing new statistical products. A subset of GZTT members, primarily those from economies with advanced statistical capacity, construct net income measures on both a quarterly and annual basis. Therefore, the GZTT highlights gross income measures in order to promote cross country comparability. Given the importance of producing net measures, international organizations may consider providing capacity development and technical assistance to economies with less statistical capacity to ensure that net income measures can be

[16] *BPM6* paragraphs 6.14–6.16, *BD4* Chapter 3.

produced and disseminated on a regular basis. However, there may be practical challenges for compiling institutions to implement options 2 and 3.

21. **Options 2 and 3 require considerable resources dedicated to data collection and linking especially where ISAs and eSUTs are not already being produced.** Therefore, a cost-benefit analysis must be considered, given that there are varying degrees of statistical sophistication among countries.[17] Developing recommendations as to what constitutes something as material for an economy and therefore requiring measurement and what is not material and does not require measurement would be useful in the next update to the standards.[18]

22. **To undertake this approach, data sharing agreements will need to be enhanced.** Data exchange is, nonetheless, subject to confidentiality issues and may be hindered by technical, administrative, or legal obstacles – an impediment that may not be easily overcome. The approach used in Europe on the Eurogroup Register (EGR) can serves as a model. The EGR is a unique example of this international register of MNEs. It contains information on MNEs active in Europe and provides to national compilers harmonized identification, demographic, and economic data on the MNE groups, enterprises, and their legal units; their investment, control, and ownership relationships.[19] The OECD Handbook on Sectoral Accounts that is currently being developed may provide some practical guidelines on the steps to implement the approach. Equally work done by countries, for instance Ireland, can provide practical examples of the implementation of the ISA approach.

23. **Majority of the respondents of the written consultation identified the lack of readily available granular information on MNEs; the resource intensity; and confidentiality issues as practical challenges to implement the recommended approach**. Properly accounting for MNEs will require several techniques to better capture the data and harmonize estimates across the various sets of statistics. compiling institutions are increasingly challenged by the need to get information about MNEs' activities, structures and subsidiaries, and global intra-group transaction. compiling institutions rely on data reported by MNEs that follow tax and legal requirements. However, country-level consolidation may result in mismeasurement as compilers are unable to view the complete picture. To this extent, as much is possible compiling institutions should exchange aggregated data and information on adjustments that deviate from company accounts in order to avoid asymmetries, while maintaining confidentiality considerations. Nevertheless, statisticians will be more reliant on administrative data sources or business surveys to compile macroeconomic estimates.

24. **To be able to determine direct/indirect control of entities, national compilers may have recourse to different sources.** These are mostly:

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[17] The work on the implementing *The Template* across G-20 economies may also provide a gauge of the ease and relevance of implementation of this approach. DGI-2 recommendation 8 states that all G20 economies compile and disseminate, annual and quarterly institutional sector accounts and balance sheets. As at the 2019 assessment, at least 8 members had not met the target of compiling the current, capital and accumulation accounts *annually.* Nine members partially met these targets and were working to complete them.

[18] This issue is being discussed by the Communication Task Team.

[19] EGR 2018 Metadata Report: https://ec.europa.eu/eurostat/documents/54610/4463793/EGR_Metadata_Report.pdf

a. business registers in the context of external sector statistics compilation (direct investment enterprises) with information on entities with nonresident participation. The adequacy of the registers could be carefully refined when targeting MNEs.

b. regulatory institutions which have information about shareholding structure of large and complex enterprises.

c. local enterprise group surveys provided they contain information on shareholders' structure.

25. **To accommodate these practical challenges, more structured institutional arrangements in compiling institutions are important for understanding and compiling estimates on MNEs**. Compilers in countries with well-developed business registers include the ownership links of their MNEs (often limited to control links only). Several countries have established so called *Large and Complex Enterprise Units,* dedicated to all aspects of managing the collection and analysis of data from large MNEs. These units facilitate consistent recording in national accounts and balance of payments of activities related to MNEs. This may require the coordination between the local statistical agencies – mainly the compiling institutions and local central banks. The LCUs is an important strategic step for international data sharing and appropriate data reconciliation.

CHANGES REQUIRED TO THE 2008 SNA AND OTHER STATISTICAL DOMAINS

26. **The work on globalization and the treatment of MNE and Intra-MNE flows supports the addition of a new chapter in the 2008 SNA to address the definition of MNE, and the agreed upon approach(es)**. Currently, several paragraphs in the *2008 SNA* address these issues, however a chapter in which all the discussions are consolidated would be beneficial to users.[20] Furthermore, additional institutional sectors will need to be identified. Specifically, an aggregate domestically controlled nonfinancial/financial corporations sector and national private financial corporations, which are part of domestic multinationals.

Questions to the GZTT:

Do members agree that more focused communication efforts will be needed to emphasize the use of superior existing indicators?

*Do members agree with the proposal to define MNEs by emphasizing the control aspect shown in the FDIR as in BPM6 and BD4**?***

Please rank (1-3) which additional breakouts should be given the highest priority:

a. Institutional sector accounts (following the breakdown into foreign-controlled and domestically controlled corporations as designed in recommendation 8 of G20 DGI 2):

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[20] Issues related to MNEs and globalization are addressed in paragraphs: 2.48, 4.34, 4.81-4.82, and 21.47 – 21.5

b. Gross value added by industry broken down into foreign-controlled and domestically controlled units: ________

c. Extended supply and use tables: _________

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Annex I: G20 Data Gaps Initiative-2 (DGI-2) Institutional Sector Accounts (Financial and Nonfinancial Corporations)

DGI-2 recommendation 8 requires all G20 economies compile and disseminate institutional sector accounts, on a quarterly and annual frequency. This is based on the internationally agreed template. The template provides minimum and encouraged breakdowns by sector and instrument.

Non-Financial Corporations						
	Domestically controlled non-financial corporations					Foreign-controlled non-financial corporations
		Public non-financial corporations		National private non-financial corporations		
Total	Total		*Of which*: Public non-financial corporations, which are part of domestic multinationals		*Of which*: National private non-financial corporations, which are part of domestic multinationals	
S11	S11DO	S11001	S110011	S11002	S110021	S11003

Financial Corporations						
	Domestically controlled financial corporations					Foreign-controlled financial corporations
		Public financial corporations		National private financial corporations		
Total	Total		*Of which:* Public financial corporations, which are part of domestic multinationals		*Of which:* National private financial corporations, which are part of domestic multinationals	
S12	S12DO	S12001	S120011	S12002	S120021	S12003

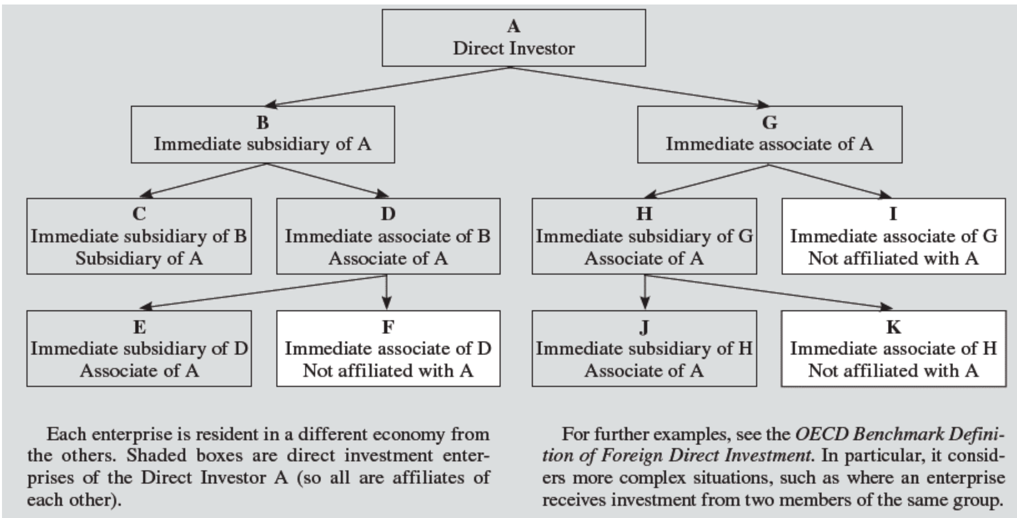
= Target

= Encouraged

Annex II: Foreign Direct Investment Relationships (FDIR)

Ownership structure of MNEs can be viewed from the perspective of the foreign direct investment framework (FDIR). The framework as elaborated in *BPM6 Box. 1* and *2008 SNA chapter 4* is developed to assist compilers of direct investment statistics. Since large MNEs are traditionally the most dominant players in direct investment transactions, the FDIR is useful in identifying how MNEs control the production process.

Figure 1: Examples of Identification of Direct Investment Relationship



Source: BPM6 Box 6.1

In regard to the direct investment relationship, the 2008 SNA and BPM6 defines as subsidiary and an associate as[21]:

(A) A subsidiary is a direct investment enterprise over which the direct investor is able to exercise control.

(B) An associate is a direct investment enterprise over which the direct investor is able to exercise a significant degree of influence, but not control.

Affiliates of an enterprise consists of (i) its direct investors, both immediate and indirect (ii) its direct investment enterprises, associates, and subsidiaries of associates (iii) fellow enterprises, those that are under the control or influence of the same immediate or indirect investor, but neither fellow enterprise controls or influence the other fellow enterprise.

[21] BPM6 paragraph 6.15 – 6. 17