SNA/M2.21/8.2

16th Meeting of the Advisory Expert Group on National Accounts,
12-14 July 2021, Remote Meeting

Agenda item: 8.2

F.2 Asymmetric Treatment of Retained Earnings: Outcome of the Public Consultation[1]

The views coming out of the public consultation were fairly split across the five options proposed in the Guidance Note (GN). The recommended Option 2 (keeping the core accounts unchanged, but providing supplementary information on reinvested earnings (RIE) for portfolio investment and public corporations in the balance of payments and for all resident enterprises in the national accounts) was supported by around 35 percent respondents—many of them reasoning the pragmatic aspects explained in the GN. Option 3 (extension to cross-border portfolio investments and public corporations in the core Balance of Payments and national accounts) received support from 27 percent respondents. Option 1 (no changes to the current standards) was supported by around 18 percent of the respondents, and Option 5 (discontinuing the current treatment of RIE for direct investment (DI)) by 12 percent of them. Option 4 (extension of RIE treatment to all type of equity in the Balance of Payments and National Accounts) was supported by 9 percent of the respondents. The overwhelming majority of respondents agreed with the GN's proposal of preparing a separate GN to discuss in detail the statistical treatment of buyback shares and the possibility of treating them as income distribution.

The GN is presented to the AEG for final decision. A summary of the survey responses is presented below.

1. *Do you agree with Option 2, extending the treatment of reinvested earnings (RIE) to all equity relationships in supplemental tables without affecting the core accounts?*

    - **Around 35 percent of public consultation respondents supported Option 2.**

      The respondents favoring Option 2 agreed on the pragmatic reasons provided in the GN to support this option. Additional reasons for supporting this option, such as the potential to gradually improve symmetry in the recording of income between companies and comparability of portfolio investment data across countries, were provided. One respondent also noted that Option 2 is a similar approach intended to be followed in its country. Furthermore, other respondents suggested testing its feasibility on practical grounds, including confirmation of usefulness. The experiences of those countries which may be able to collect additional information for the proposed supplementary items can also be shared with countries with less developed statistical systems.

[1] Prepared by Joji Ishikawa, Kenneth Egesa, and Borys Cotto—FITT Secretariat—and reviewed by Mr. Celestino Giron (European Central Bank–ECB) and Mr. Artak Harutyunyan (IMF)—Co-Chairs of the FITT. Thirty-four respondents reported to the public consultation survey.

2. *Do you have a preference for any other option proposed in GN?*

    - **Among the alternative options proposed by this GN, Option 3 (extension to cross-border portfolio investments and public corporations in the core balance of payments and national accounts) was the most supported by respondents (27 percent). It was followed by Option 1 (no changes to the current standards—18 percent), Option 5 (discontinuing the current treatment of RIE for direct investment (DI)—12 percent), and Option 4 (extension of RIE treatment to all type of equity in the balance of payments and national accounts—9 percent).**

      Respondents supporting Option 3 argued that this option is the best methodological approach to improve symmetry in the treatment of retained earnings in macroeconomic statistics. This option was also considered as a sound approach to measure the current account balances across countries and time. Supporting respondents also see this option as helpful to explain and to potentially reduce large values compiled as valuation changes reflected in the international investment position (IIP) statistics. Two respondents favored Option 3 but suggested adjusting it to limit the extension of the concept of RIE to publicly controlled corporations only. A comment was also received on that the extension of RIE to public corporations would be a sound way to replace the superdividend and capital injection rules introduced with the *2008 SNA*.

      Respondents supporting Option 1 did not find convincing conceptual reasons to change the status quo and commented that the heterogeneous treatment of retained earnings is methodologically well founded in the manuals.

      Regarding Option 5, respondents supported discontinuing the current treatment of RIE in DI for practical reasons. One of them commented that RIE estimates have been a disruptive factor in their statistical systems, especially due to often large revisions. One of them also proposed that RIE for DI be rather recorded as memorandum items or in supplementary tables.

      A few respondents preferred Option 4 as the most conceptually sound approach. One of the respondents favoring this option noted that extending the concept of RIE to all types of equity holdings would enable to equally reroute reinvested earnings to all shareholders—the ultimate owners—in a symmetric way. The extension of RIE to all equity investments would result in more robust headline figures. However, on practical grounds the implementation of this approach would need significant efforts and time.

3. *Do you agree with the proposal to prepare a separate detailed GN on the treatment of share buybacks, considering the possibility of treating them as income distribution?*

    - **The overwhelming majority of respondents agreed on the proposal to prepare a separate detailed GN (around 89 percent) to discuss the topic and the possibility of treating them as income distribution.**

      Many of these respondents noted that the topic has been increasingly relevant for macroeconomic statistics and therefore a more comprehensive discussion is welcome. The proposed subsequent GN is seen as the way forward by most of the respondents commenting on this question.

4. *Any other comments/suggestions?*

Most of the comments received pointed out the importance of the scope and the relevance of the GN, given the analytical considerations and potential implications for relevant macroeconomic indicators of any changes introduced in the new manuals.