STATISTICS

INTER SECRETARIAT
WORKING GROUP ON
NATIONAL ACCOUNTS

Treatment of MNE and Intra-MNE Flows (BOPCOM 21/03)

Joint (Virtual) Thirty-Seventh Meeting of the IMF Committee on Balance of Payments Statistics and Seventeenth Meeting of the Advisory Expert Group on National Accounts

October 26–November 1, 2021

Outline

- Options to Highlight the Activities of MNEs in the National Accounts
- Conceptual Issues
  - Definition of MNE
  - Definition of Control
  - Decision for the Allocation of Institutional Units
- Global Consultation Outcome
- Questions to the AEG and the Committee

Thank you to:

GZTT drafting team:

- Francien Berry (primary drafter, IMF)

- Dylan Rassier (USA)

- Jennifer Ribarsky (IMF, GZTT secretariat)

- Padma Hurree-Gobin (IMF, GZTT secretariat)

- UNSD for running the survey

Reviewers:

- ❖ Michael Conolly, GZTT co-Chair, Ireland

- ❖ Branko Vitas, GZTT co-Chair, Australia

- ❖ Maria Borga, IMF

- ❖ GZTT members

- ❖ DITT members

- ❖ AEG members

- ❖ All participating economies in the global consultation

Options Considered

The guidance note (GN) identifies four options to highlight the activities of MNEs in the national accounts:

1.Emphasize Existing SNA Indicators	2. Increase Granularity through ISAs	3. Increase Granularity through eSUTs	4.*Redefine Existing SNA Indicators

- At prior meetings, **AEG agreed with recommendations 1–3**. The AEG rejected Option 4.
- AEG noted that choice of which breakdown is dependent on compiling agency's statistical production process and the analytical and policy needs of users

Conceptual Issues

Conceptual Issues - Definition of MNEs

To properly record MNE activities in the SNA, a clear <u>statistical</u> definition of MNEs is required. The GZTT proposes the following definition:

An MNE as a legal entity that:

- ✓ has at least one nonresident affiliate or branch, **and**;

- ✓ exercises **control** over its affiliate(s) or branch(es) either **<u>directly</u>** by owning over 50 percent of the voting power in the entity or by **<u>indirect transmission</u>** of control.
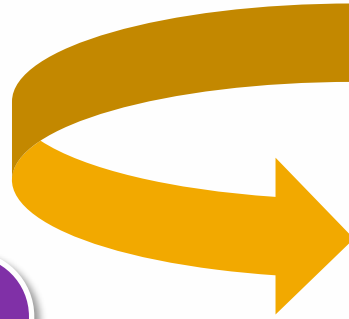
The **MNE** is the ultimate controlling parent (UCP). **The MNE group** consists of the MNE and the set of legal entities—regardless of their economies of residence—that are under the control of the same UCP.

The UCP concept used would be consistent with the ultimate investing economy (UIE) concept under the proposed "Winner Take All (WTA)" approach in GN D.6.

Conceptual Issues - Control

The definition of MNE emphasizes the concept of "control" as defined in *BD4/BPM6*—which is slightly more restrictive than the SNA definition.

Balance of Payments and

Control is determined to exist <u>directly</u>, if the direct investor owns more than 50% of the voting power in the direct investment enterprise; or passed down <u>indirectly</u> through a chain of ownership, if control exists at each stage.

System of National Accounts

*A nonresident unit controls a resident corporation if it owns more than 50% of the equity of the corporation. **However**, control may also be possible while holding less than 50% of the equity, if the nonresident can exercise control for example by controlling the board .....*
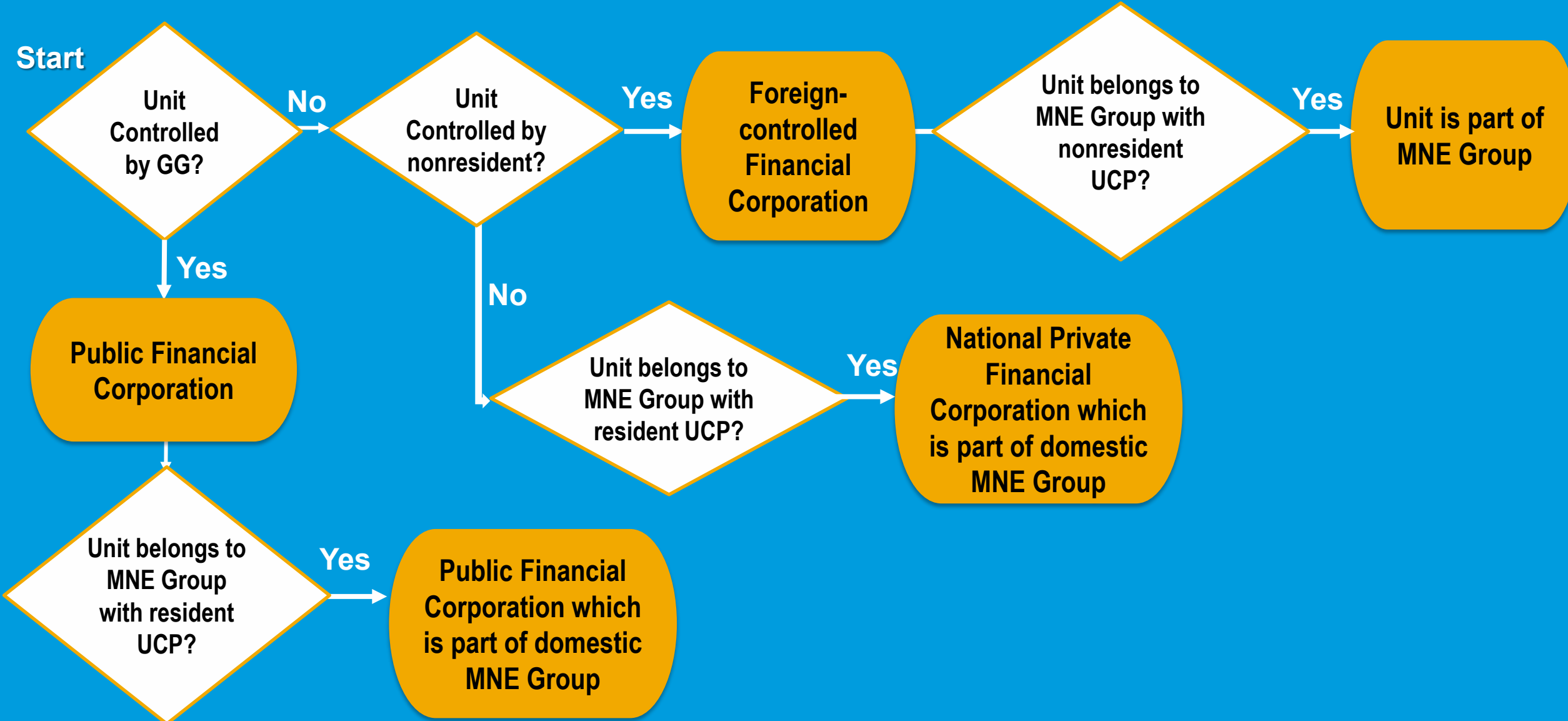
A Simplified Example of MNE Relationships Within Foreign Direct Investment Relationships
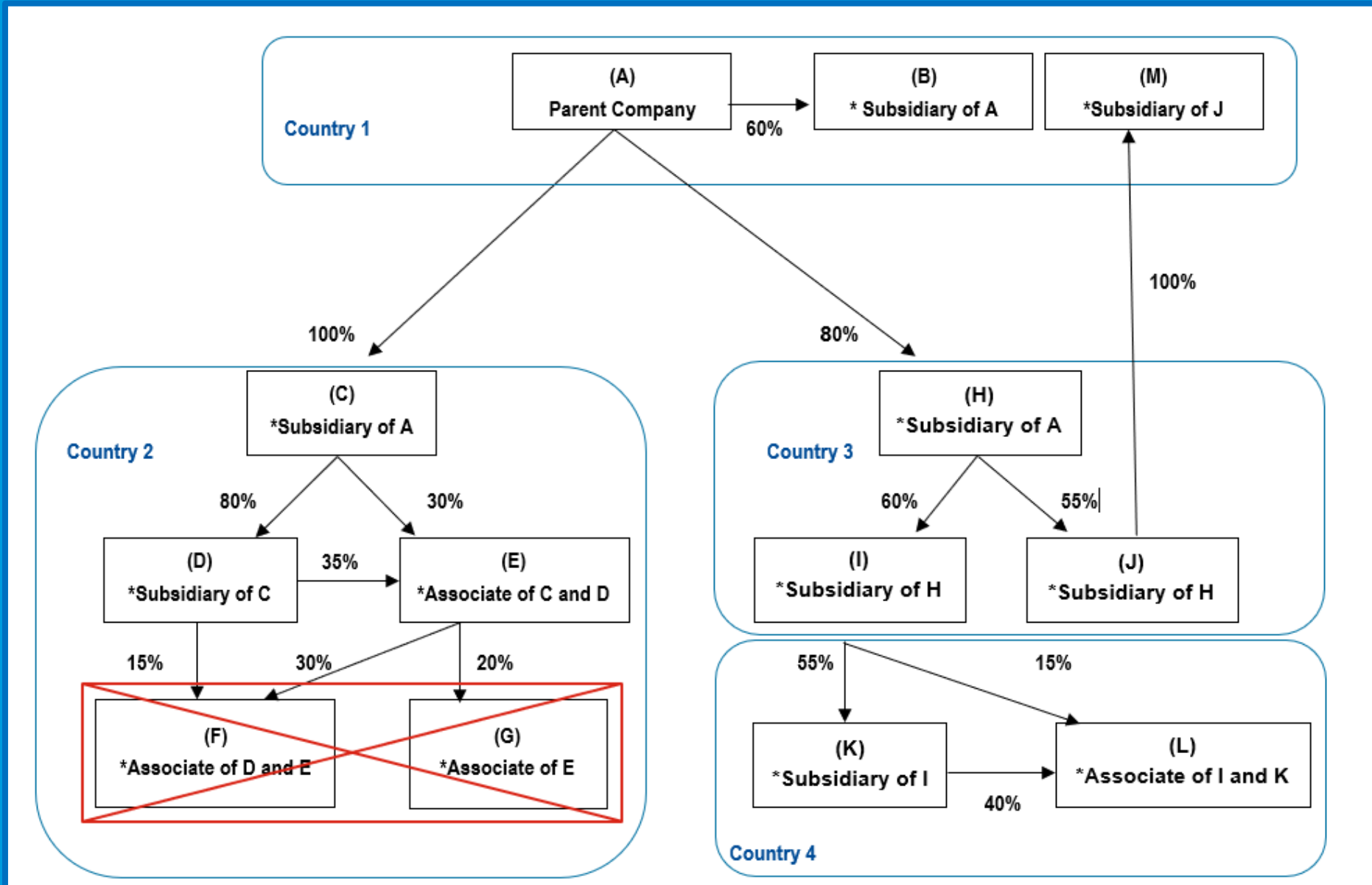
Conceptual Issues – Decision Tree

➢ To support the practical implementation of the definition, the GN proposes a decision tree (next slide) on how to allocate institutional units, including units that belong to an MNE group to institutional sectors.

➢ The decision tree extends Figure 4.1 of the *2008 SNA*.

➢ The next two slides show **only the extensions for the financial and nonfinancial corporations sectors.** The full decision tree is provided in the GN which is also extended to include SPE units.

Decision Tree for Sector Allocation of Units – Financial Corporations Sector

Start

Unit Controlled by GG?

— **No** → Unit Controlled by nonresident?

— **Yes** → **Foreign-controlled Financial Corporation** → Unit belongs to MNE Group with nonresident UCP? — **Yes** → **Unit is part of MNE Group**

Unit Controlled by nonresident? — **No** → Unit belongs to MNE Group with resident UCP? — **Yes** → **National Private Financial Corporation which is part of domestic MNE Group**

Unit Controlled by GG? — **Yes** → **Public Financial Corporation** → Unit belongs to MNE Group with resident UCP? — **Yes** → **Public Financial Corporation which is part of domestic MNE Group**

Decision Tree for Sector Allocation of Units – Nonfinancial Corporations Sector

Start

Unit Controlled by GG? — **No** → Unit Controlled by Nonresident? — **Yes** → Foreign-Controlled Nonfinancial Corporation → Unit belongs to MNE Group with nonresident UCP? — **Yes** → Unit is part of MNE Group

Unit Controlled by GG? — **Yes** → Public Nonfinancial Corporation → Unit belongs to MNE Group with resident UCP? — **Yes** → Public Nonfinancial Corporation which is part of domestic MNE Group

Unit Controlled by Nonresident? — **No** → Unit belongs to MNE Group with resident UCP? — **Yes** → National Private Nonfinancial Corporation which is part of domestic MNE Group

Global Consultation Outcome

Outcomes of Global Consultation

- Global consultation showed strong support for the proposed definition of MNE.

- There was also strong support in aligning the SNA/*BPM6*/*BD4* definitions of control used in the definition of MNE.

- Wide support for the proposed decision tree to classify MNE units to institutional sectors and to replace SNA Figure 4.1 with this extended version.

- Better highlighting MNE activity—proposed approaches were supported from a conceptual point of view and considered beneficial.

- Regarding the practical method of implementation of the options proposed:

  - The majority of respondents have a business register and 63% of them can distinguish foreign-controlled corporations.

  - Respondents highlighted the resource and data intensity of implementing options, especially 2 and 3.

Questions for Discussion:

1. *Do the AEG and the Committee agree with the proposed definition of MNEs?*

2. *Do the AEG and the Committee agree to align the SNA with the BPM6 and BD4 on the definition of control when defining foreign-controlled corporations?*

3. *Do the AEG and the Committee agree with the proposed decision tree for allocating MNE units to institutional sectors?*
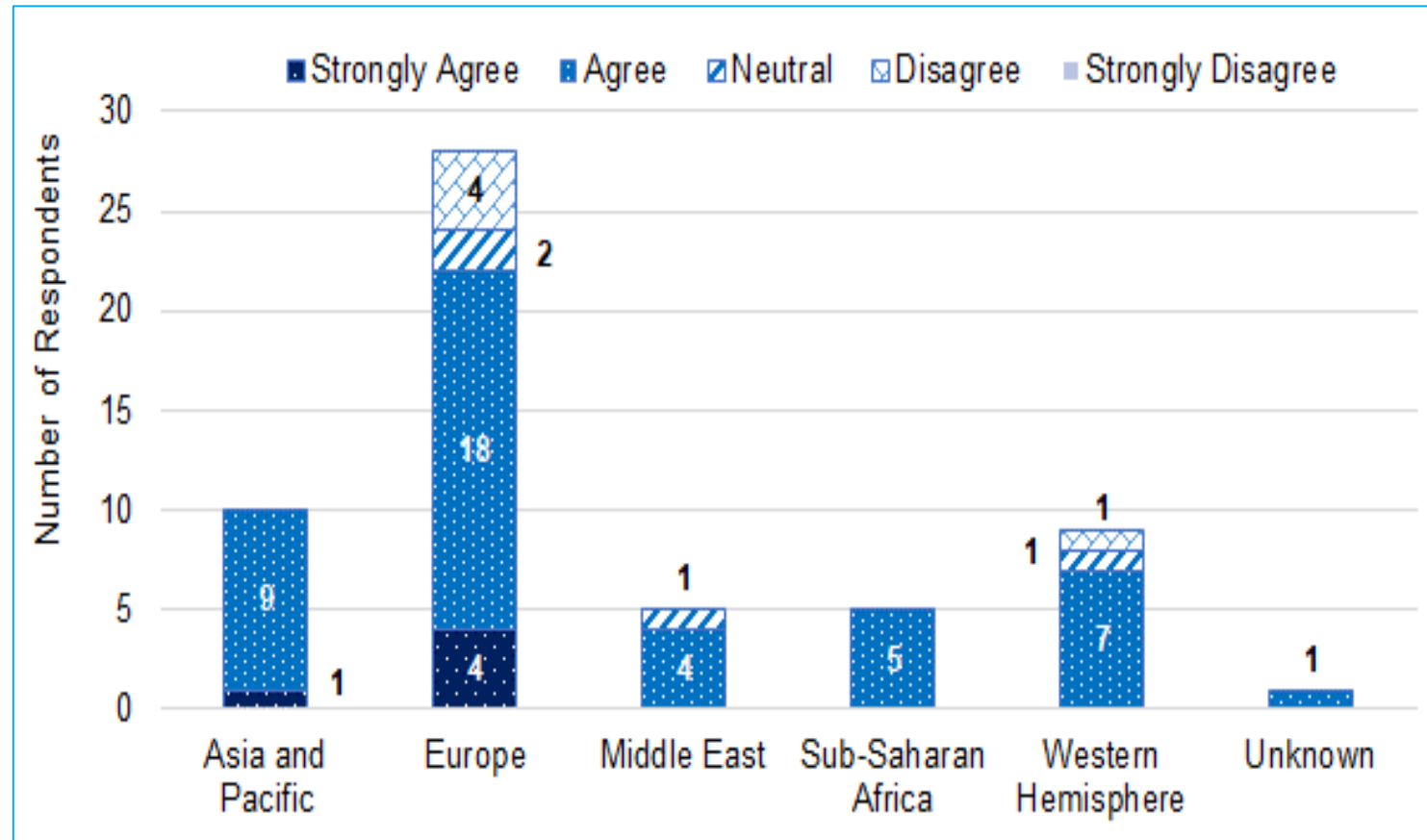
Background Slides

# Number of Responses: By Region and Statistical Domain
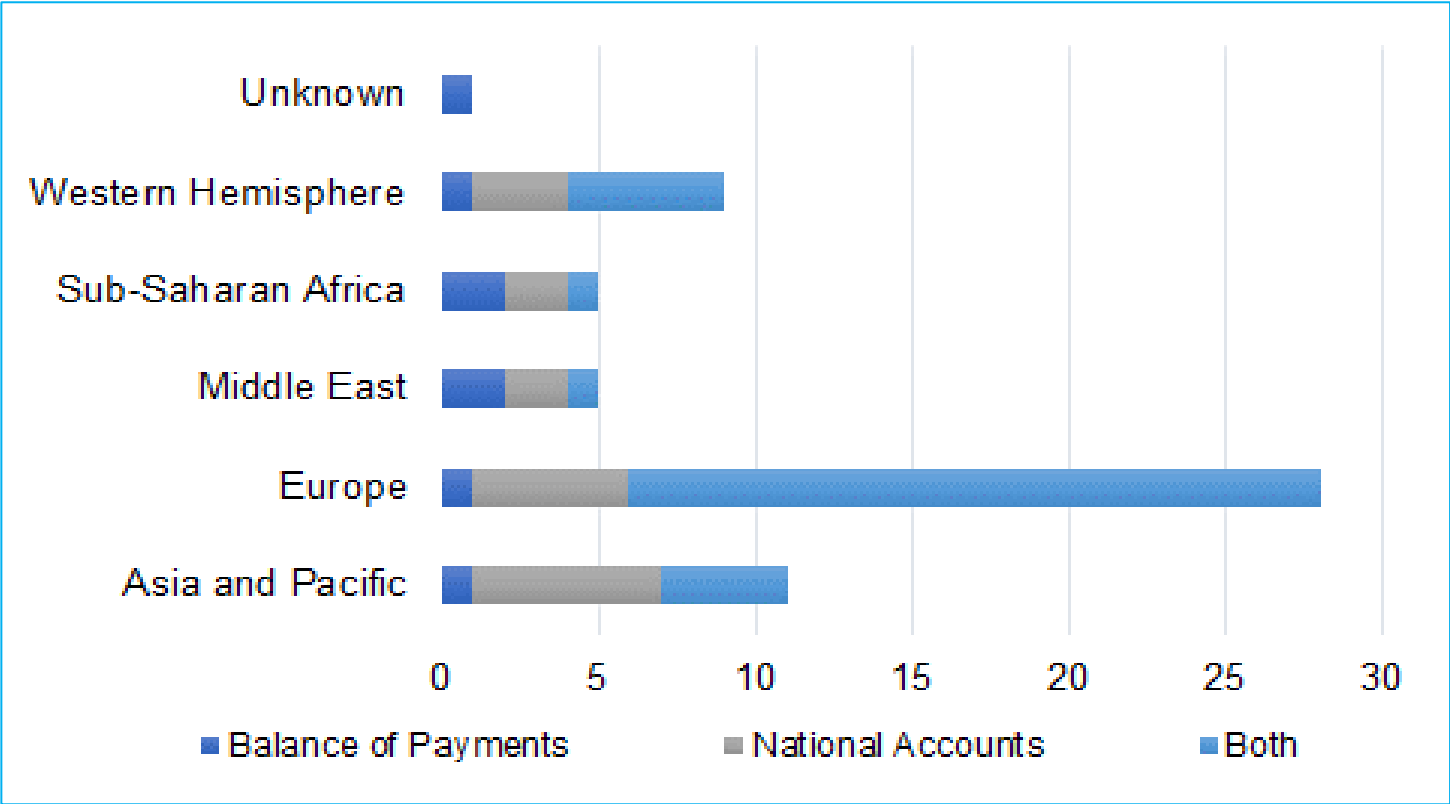
- 55 participating economies submitted 59 complete responses

- 33 coordinated responses were provided for balance of payments and national accounts, 18 for national accounts only, and 8 for balance of payments only

Support for the Definition of MNEs Proposed by the GZTT

- 83 percent of respondents (49) agreed with the definition proposed in the guidance note Those not in favor, preferred if the definition included all D.I. relationships (i.e., greater than 10 percent and less than 50 percent).

- A key aspect—aligning the SNA/*BPM6*/*BD4* definitions of control used in the definition—was supported by 88 percent of respondents. Those not in favor highlighted that this restriction may inadvertently lead to exclusion of key information obtained in the profiling process that could help to identify MNE units.

Support for the Decision-Tree Proposed by GZTT
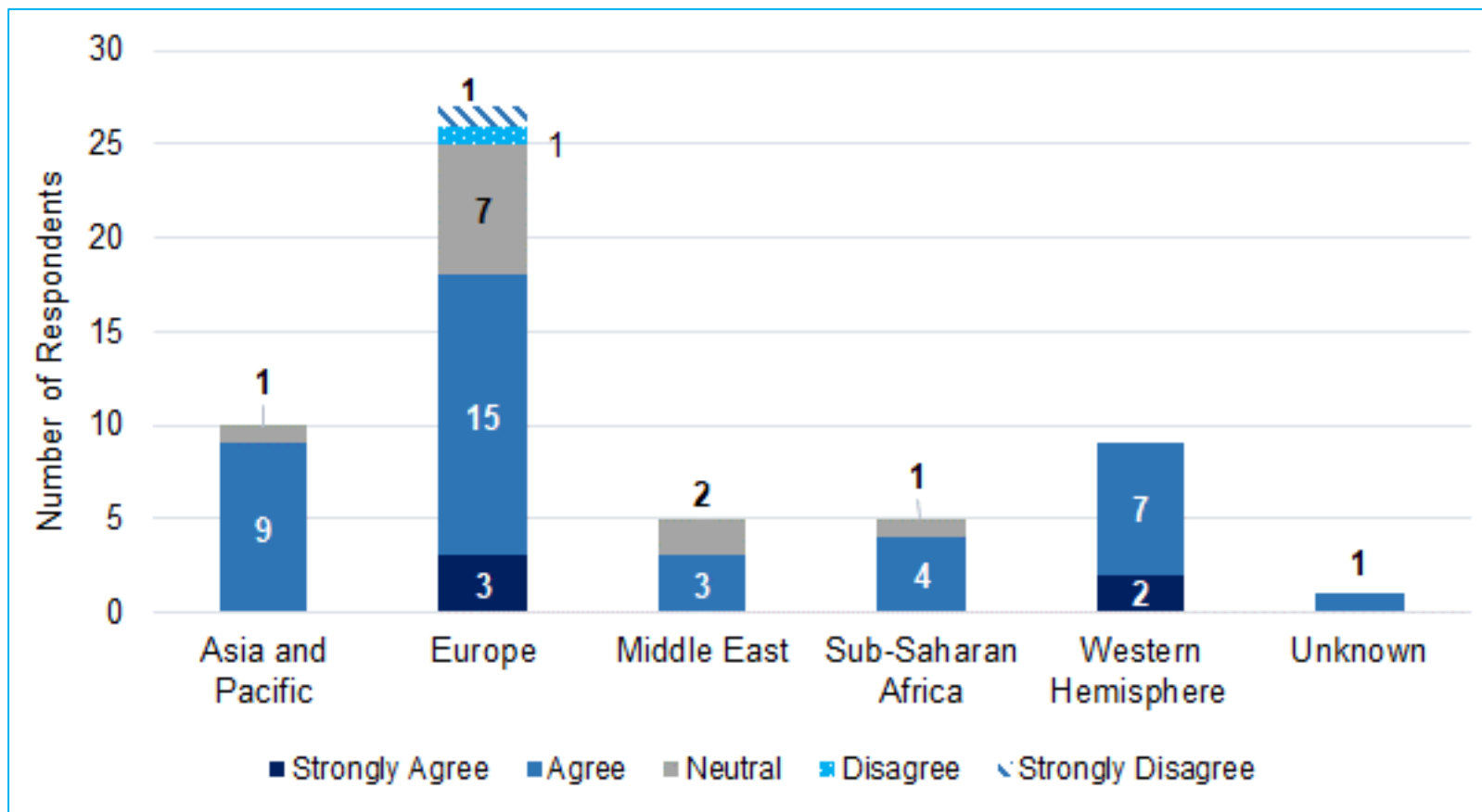
- 44 respondents supported the proposed decision tree to classify MNE units to institutional sectors and to replace SNA Figure 4.1 with this extended version.

- Other respondents were largely neutral, and some recommended the extension be added as an annex instead of a replacement for Figure 4.1.

Options for Highlighting MNE Activities

	Proposed Approaches			
	1 – Existing Indicators	2 – Granularity through ISAs	3 – Granularity through eSUTs	4 – Breakdown of GVAs
Strongly Agree	17	8	5	8
Agree	27	25	14	16
Neutral	10	15	23	20
Disagree	1	7	11	10
Strongly Disagree	1	2	2	1

- Majority of respondents preferred Approach 1 citing that it is: (i) practical and implementable within the current framework, (ii) relies on already existing aggregates, and (iii) requires minimum adjustment to existing infrastructure.

- Approaches 2 and 3 were considered conceptual sound but respondents highlighted the resource and data intensity of these two approaches.

- Those in favor of Option 4 noted that it would strike a reasonable balance between the users' needs and the NSOs' resource requirements, but others noted that the costs of this approach would outweigh the benefits.