D.17 Superdividends: Resolution of Issues

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The Issue

- The Guidance Note (GN) D.17 on 'Identifying Superdividends and Establishing the Borderline Between Dividends and Withdrawals of Equity in the context of [Foreign] Direct Investment', which was prepared by the Balance of Payments Direct Investment Task Team, proposed three alternative treatments for 'superdividends' in the recording of foreign direct investment (FDI) equity income
  - (A1) maintain the status quo (i.e. identifying superdividends as dividends disproportionately large compared to past levels)
  - (A2) adopt the treatment in ESA 2010, which is to treat any distribution out of accumulated reserves as a superdividend
  - (A3) discard the concept of superdividends for foreign direct investment enterprises and treat any distributions of accumulated reserves from ordinary earnings as dividends
- The GN recommended option A3
- This option was approved by BOPCOM in 2021

The Issue

- The AEG was consulted on the GN in May 2022
  - Of the six AEG members who responded, five did not support option A3, on the grounds that it would create an inconsistency with the treatment of other dividends in the national accounts, and because of practical concerns
- The July ISWGNA/TT leads meeting decided that there were sufficient concerns from the AEG to warrant discussion between the SNA and BPM update editorial teams to identify a way forward
  - This is in accordance with the agreed dispute resolution process established for the update of the SNA and BPM.

Options

1. Keep the definition of FDI dividends unchanged retain existing treatment of ‘superdividends – that is option A1
2. Adopt option A3 for FDI equity income and leave the treatment of ‘superdividends’ unchanged for other corporations (an alternative would be to adopt option A2 for dividends payable from non-FDI enterprises)
3. Adopt option A2 for both FDI equity income and for dividends payable from non-FDI enterprises
4. Adopt option A3 for all dividends -- that is to change the treatment of dividends payable from non-FDI enterprises to that proposed for FDI enterprises – that is record dividends paid out of accumulated ordinary earnings as dividends for all corporations
5. Expand the scope of RIE beyond foreign direct investment enterprises

Analysis of Options

- Options 1 and 3 fail to address the concerns with the current recording of dividends for FDI enterprises
- Option 2 creates an inconsistency in the recording of dividends between FDI enterprises and other corporations
- Option 4 provides significant concerns in regard to dividends from public corporations with the possibility for manipulation of key fiscal balances
- Option 5 is the most appealing conceptually.
  - It is only by recording RIE that the equity income of corporations is properly accounted for on a full accrual basis
  - this option would ensure full consistency in the recording of FDI equity income and other equity income
  - However, the option of recording RIE for all corporations was canvassed in GN F.2 “Asymmetric treatment of retained earnings between direct and portfolio investment and potential extension to domestic relationships” and rejected, at least as far as the core accounts are concerned

The Way Forward

- Because of the conceptual appeal of the RIE approach in resolving the superdividends issue, consideration was given to seeking to extend it to corporations in domestic direct investment relationships – in particular public corporations
- However, it is clear that from a GFS perspective it would involve major challenges for fiscal interpretation should RIE for public corporations be included into the core accounts at the present time
- Therefore, it is considered that the 'least worst' alternative option would be to adopt option A3 for FDI equity income and option A2 for other equity income
  - This would remove the concerns with the current recording of FDI dividends in the BPM, and it could be justified by the fact that FDI investment are generally treated differently in the system to other forms of equity investment
  - Clearly, we want a consistent treatment of FDI dividends in the BPM and SNA!

Furthermore…

- Given the support for including RIE information (beyond FDI enterprises) as supplementary items in the balance of payments and national accounts (subject to testing), it is proposed that the next editions of the SNA and BPM foreshadow a possible extension of the concept of RIE to all equity positions
- This would resolve the inconsistency in treatment of dividends between FDI equity income and other equity income and, importantly, ensure all equity income is measured on a full-accrual basis
- Implementation would be subject to extensive testing and gaining of practical experience.
- In the meantime, through the preparation of supplementary information, countries will be able to resolve any practical issues with measuring RIE on all equity positions (including public corporations) and users will be able to become accustomed to analyzing and interpreting the data.

Consultation

- The Issue Note was circulated to the Balance of Payments Task Team (BPTT) and the ISWGNA/SNA Task Team Leads for comments
- The majority of the BPTT members were supportive of the approach recommended in the Note. However, two voiced concerns -- one on the grounds of inconsistency in the treatment of dividends and one on the grounds of practicality
- There were three responses from the ISWGNA/SNA Task Team Leads who expressed concerns about inconsistency (one of these responses was also a response to the BPTT). The remaining responses from the ISWGNA/SNA Task Team leads supported the approach recommended in this Note.
- Three alternative suggestions were put forward:
  - to include a new item under direct investment income called “distribution of accumulated reserves” (and to record dividends on the basis of A2)
  - to record only total equity income for foreign direct investment (i.e., to remove the disaggregation into dividends and reinvested earnings) and in the financial account, show entries for total equity income as an increase in foreign direct investment liabilities and “repatriation of capital” (equal to dividends — including superdividends — and withdrawals of income from quasi corporations) as a decrease in foreign direct investment liabilities
  - to discontinue the RIE treatment from FDI

Question for the AEG/Committee

Does the AEG/Committee agree with the recommendation in the Issue Note

> that is, to adopt option A3 for FDI equity income and option A2 for other equity income AND to foreshadow in the next edition of the SNA and BPM a possible extension of the concept of RIE to all equity positions

or is an alternative option for resolution preferred?


Thank you for your interest!