



STATISTICS

**INTER SECRETARIAT
WORKING GROUP ON
NATIONAL ACCOUNTS**

Treatment of MNE and Intra-MNE Flows

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Outline

- Overview of Guidance Note
- 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
- Summary Results of the Global Consultation

Conceptual Issues Discussed in the Guidance Note

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

- Option number 4 was rejected by all consultations with the Advisory Expert Group on National Accounts and Balance of Payments Committee
- However, GN notes that choice of which breakdown is dependent on compiling agency's statistical production process and the analytical and policy needs of users

Conceptual Issues - Definition of MNEs

To properly record MNE activities in the SNA, a clear statistical 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 directly by owning over 50 percent of the voting power in the entity or by indirect transmission 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 controlling parent.

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 directly, if the direct investor owns more than 50% of the voting power in the direct investment enterprise; or passed down indirectly through a chain of ownership, if control exists at each stage.

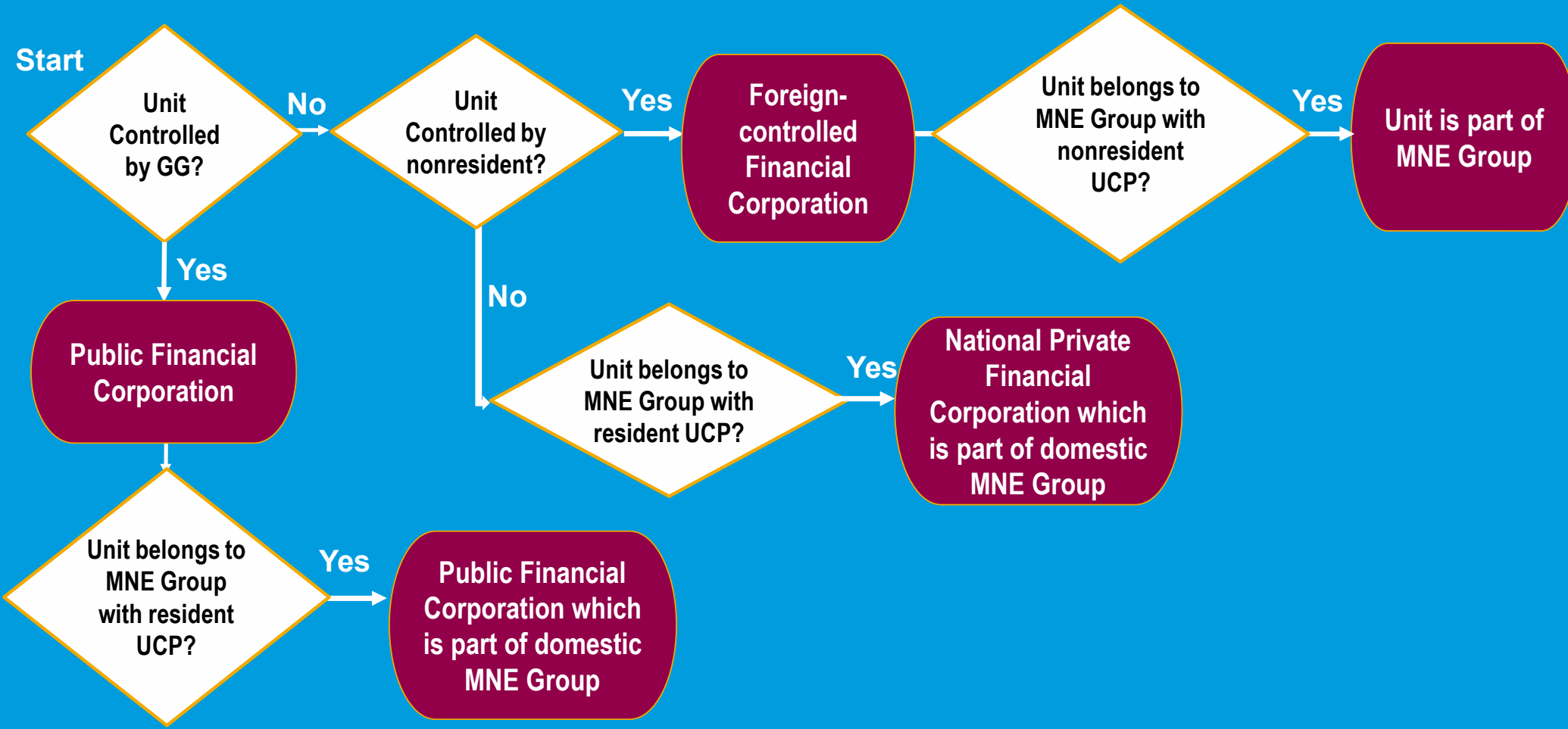
System of
National
Accounts

*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*

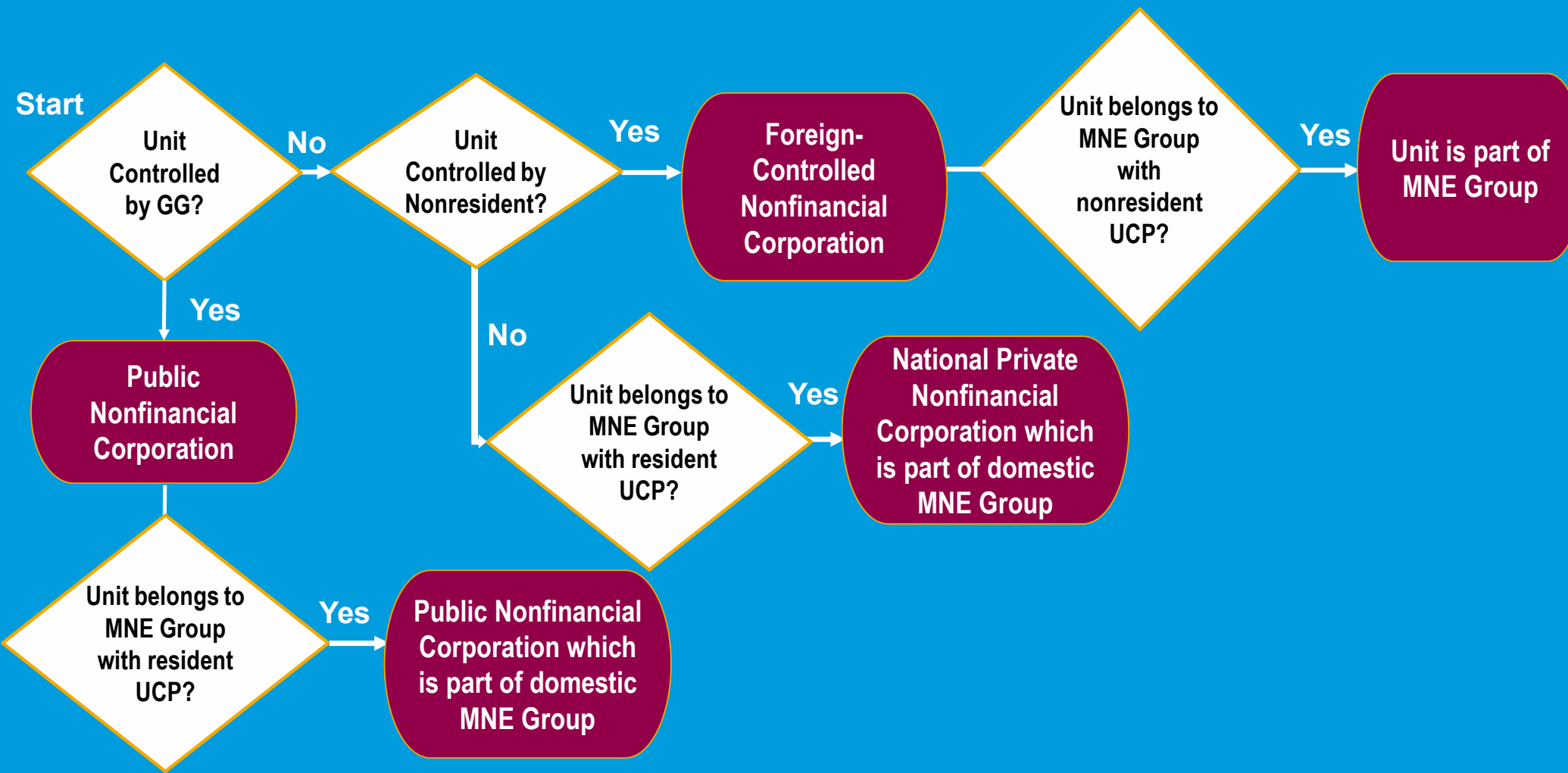
Decision Tree

- 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 is also extended to include SPE units.

Decision Tree for Sector Allocation of Units – Financial Corporations Sector



Decision Tree for Sector Allocation of Units – Nonfinancial Corporations Sector



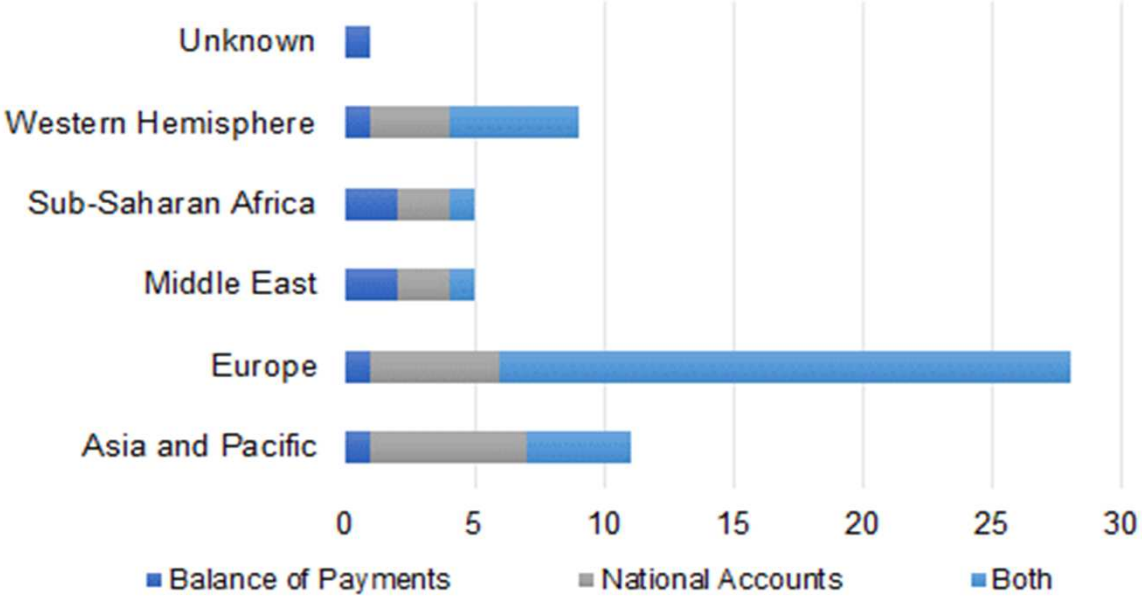
Results of Global Consultation

Outcomes of Global Consultation

- 55 participating economies submitted 59 complete responses.
- Global consultation showed strong support for the proposed definition of MNE, including 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- Options 1- 3 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.
 - The GN has now been approved by the AEG/BOP, no further testing will be done on this GN.

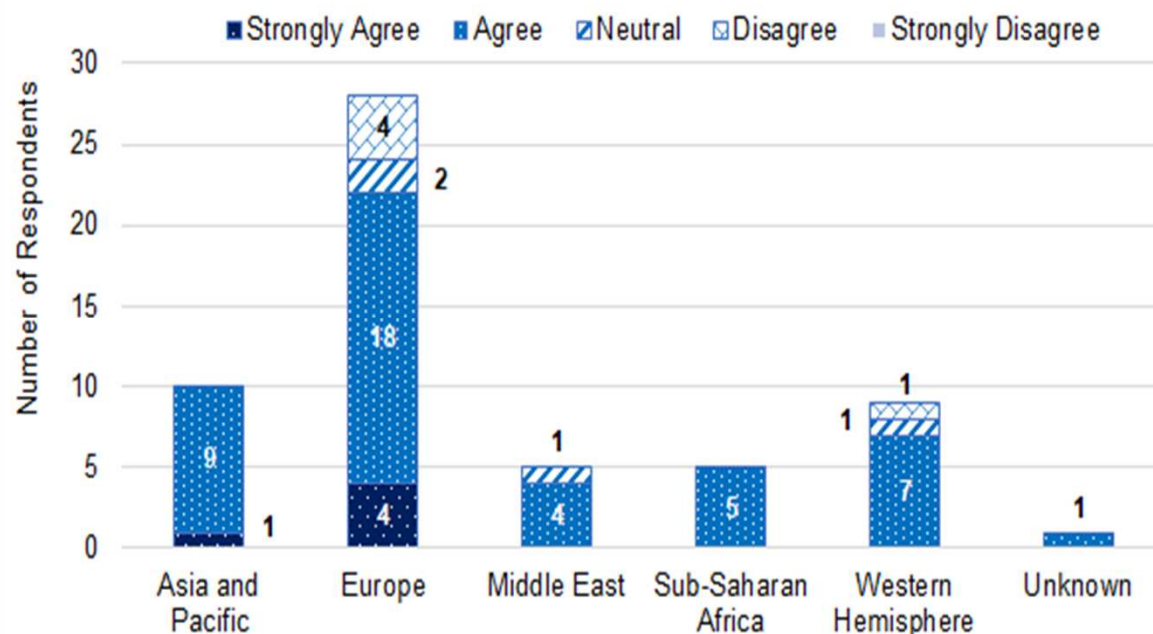
Additional Slides for Background Information Only

Number of Responses: By Region and Statistical Domain



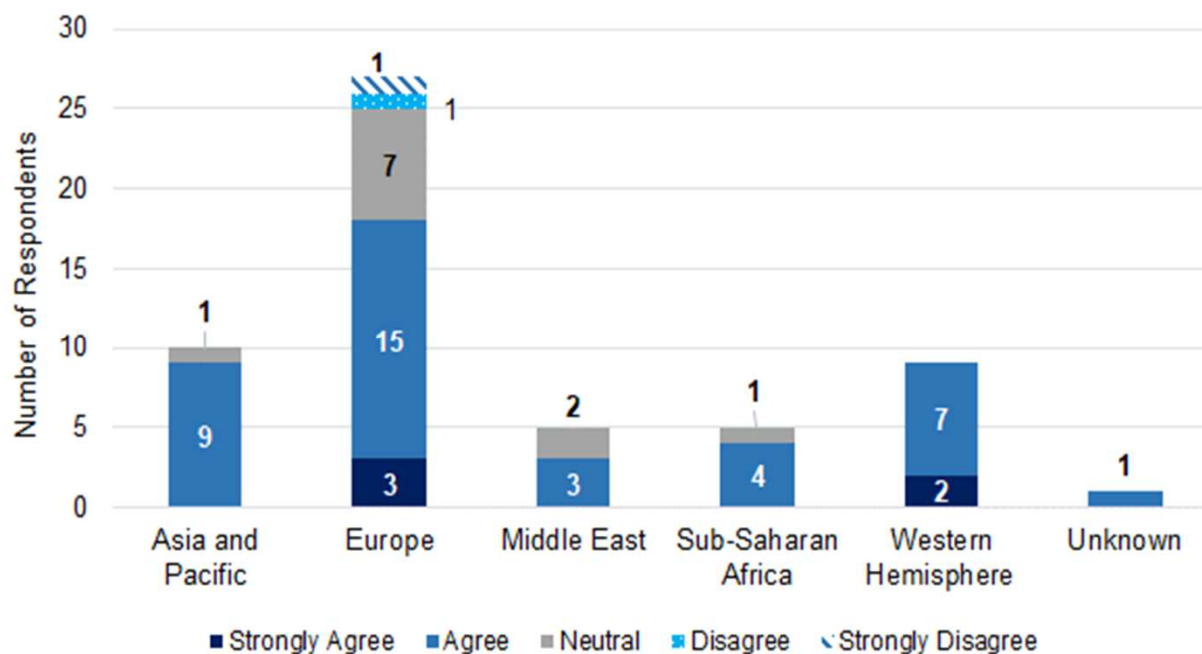
- 55 participating economies submitted 59 complete responses
- 33 coordinated responses were provided for balance of payments and national accounts, 18 for national accounts only, and 8 for balance of payments only

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.

Thank You!!!!