F.4. UCI and partner country

F.4. UCI and partner country

15.106.   Determining the country of the ultimate controlling institutional unit (UCI) is the most important task in FATS compilation work. The UCI is the recommended basis for classification by country for inward FATS, but it is also relevant in some respects for outward FATS. (See MSITS 2010, box IV.2, and chapter 1, section C of the present *Guide*).

15.107.   Although many countries have been able to implement that concept, it may be difficult to define control relationships using the criteria as defined in international guidelines. Some countries have used the percentage of equity shares as a first estimation of the percentage of control of the voting power. In that context, compilers should note that large enterprises usually have complicated structures. Small and medium-sized enterprises tend to have simple structures, and the immediate controller is often the ultimate controller. However, when there is indirect control, the UCI may be more difficult to identify.

15.108.   **Compiling inward FATS** For inward FATS, variables for a given affiliate are attributed in their entirety to a single country of control. As descriptors of the operations of affiliates, they should not be factored down by share of ownership of voting power or equity, nor are the values of the variables to be apportioned between the controlling enterprise and any foreign minority owners of voting power.

15.109.   Data on the UCI should be directly available as a by-product of FDI statistics.[1] Alternatively, information on the UCI can be drawn from FATS or other data sources, or derived from a combination of sources and/or registers. If the UCI cannot be extracted directly from existing data, the decision about the UCI should be based on a step-by-step analysis of control relationships up the ownership chain in the enterprise group. MSITS 2010, BD4 and HEGI suggest some factors that could be used to decide how to define the country of the UCI for specific examples, in particular in the case of a group of affiliated investors (i.e. determining the status of the different investors, e.g. direct relationships vs. indirect, government entities, special purpose entities (SPEs), etc.).

15.110.   MSITS 2010 concludes that in the absence of any factor that could be used as a basis of attribution, the value of FATS variables may be allocated evenly among the foreign countries of control. However, data so allocated may pose problems of interpretation, and efforts should first be made to determine a basis for allocation to a single country (see MSITS 2010, section H.1, for more information). The Eurostat *FATS Recommendations Manual* provides useful additional considerations on the determination of the UCI. If necessary, it is advisable to check with important partners about how the decision on the UCI has been achieved for bigger players. This can in particular be relevant at the regional level, where a multinational enterprise may have established an affiliate or regional headquarters in one country that controls affiliates in other countries of the region.

15.111.   Frequently, the first foreign parent and the ultimate investor are the same. Although for inward FATS the recommendation is to allocate data to the country of the UCI as a first priority, in practice that might be difficult to achieve, in particular in the initial stages of development of a FATS national compilation framework. In practice, many economies initially develop their inward FATS classifying information on the basis of the immediate controlling country, before moving to a classification according to the country of the UCI. The present *Guide* proposes such an approach for compilers who are not able to determine the UCI when they start compiling FATS. In fact, that information on immediate controllers is available by referring to FDI data. If FATS entities are identified through linkages with FDI data or collected directly through FDI surveys, data on the country of immediate foreign parent should be readily available. To facilitate comparisons with those data, MSITS 2010 encourages compilers to make available data classified by the country of the first foreign parent on a supplementary basis.[2] However, in light of the relevance of the ultimate-controller basis and the demonstration by a number of countries that compilation on that basis is feasible, the present *Guide* advises the compilation of data on an ultimate controller basis as soon as achievable (i.e., as data sources, linking procedures or compilation procedures permit).[3]

15.112.   For certain countries, it may be of interest to compile operations data beyond the control relationship, e.g., for associates (share of control between 10 and 50 per cent). This may be driven by the fact that in those particular countries, the law does not allow foreign investors to own a majority equity stake either for all activities, or for strategic ones for the compiling economy. In such cases, and if of interest to the compiling economy, information could be compiled on operations, but with separate breakdowns for the activities of majority-controlled affiliates (over 50 per cent owned, i.e., FATS) and minority owned affiliates (e.g., 10 to 50 per cent).[4] However, a clear distinction should be made between both datasets so that users are informed of any divergence from international guidelines.

15.113.   **Compiling outward FATS** Outward FATS are statistics on foreign affiliates controlled by residents of the compiling economy and should include all controlled foreign affiliates, regardless of whether the control in the affiliate is held directly or indirectly through a chain of ownership and regardless of whether the direct investor in the compiling economy is the UCI unit or is, instead, an intermediate investor in an ownership chain. The data should be allocated to the country in which the operations of the affiliate take place.[5] In accordance with the treatment of foreign-controlled enterprises in the 2008 SNA, the value added in production by the enterprise is attributed in all cases to the economy of location of the enterprise. In other words, it is included in the GDP of the economy in which the enterprise is located. In addition, variables should not be apportioned according to the level of control (e. g., 100 per cent of sales should be reported, even if the mother company controls less than 100 per cent of the voting power).

15.114.   However, because the activities of an affiliate held through an ownership chain could be recorded in the FATS of both the ultimate and intermediate investors, and in order to facilitate international aggregation without double-counting, compilers are strongly encouraged to identify the aggregate share of FATS variables accounted for by enterprises for which the compiling country is the ultimate controller. Of particular interest will be data on that set of foreign affiliates belonging to ultimate investors resident in the compiling economy. (See section G for more information on UCI and regional aggregations.)

15.115.   It is advised that FATS data be attributed geographically, as a first priority, to the economy of the UCI unit for inward FATS and to the economy in which the affiliate's operations are taking place for outward FATS. If control relationships cannot be clearly established, compilers should adopt a step-by-step approach to determine them. For big players, it is good practice to investigate ways to coordinate with compilers in major counterparty countries. The present *Guide* further advises that ownership of 50 per cent or more of equity shares could be used in the compilation process as an approximation to determine control. However, compilers should aim to work on the basis of control relationships. Although the first priority for inward FATS is to allocate variables to the UCI, in first instances, compilers can consider producing data according to the country of the immediate controller. In fact, this is suggested as a supplementary dataset in MSITS 2010. Outward FATS should be compiled for all affiliates controlled by enterprises resident in the compiling economy. For reporting to regional and international organizations, outward FATS data should also be compiled for the subset of affiliates of UCIs of the compiler's economy (i.e., controlling units in the compiling economy that are not themselves controlled from abroad).

15.116.   **European Union** Identifying the UCI plays a crucial role as all data for foreign affiliates under direct or indirect control should be attributed to the country of the UCI. If the information on the UCI is not available from the existing data, the European statistics on FATS follow a general rule, which says that the identification of the UCI should be based on a step-by-step analysis of control relationships up the ownership chain in the enterprise group. Once the top enterprise of the group is identified, its decision-making ability must be examined.

15.117.   An important source for identifying affiliates and allocating them to the UCI should be the new EuroGroups Register (EGR).The EGR should cover, step-by-step, all multinational enterprise groups operating in the European Union. This will help to correctly identify the country code of the UCI to which the enterprises belong. With a full and well-developed EGR, no double-counting or gaps will exist and the same data sets from different compilers will be linked.

Back to F. Attribution of FATS variables

---

[1] BD4 "strongly encourages" the reallocation of all FDI positions (voting power of 10 per cent or more) to the country of the ultimate controlling parent (UCP) of the direct investor. To the extent that the UCPs of all direct investors in resident enterprises are identified, the UCPs of those direct investors with controlling interests in residents will be available. In order to apply the directional principle, FDI statistics identify whether the resident direct investment enterprise has a foreign or domestic UCP (noting that this parent will be controlled by itself and so will have a resident ultimate parent, if there are no controlling links above it).
[2] As a matter of comparison, BD4 encourages that supplemental inward FDI position statistics be compiled on an ultimate investing country (UIC), and the corresponding industry sector..
[3] Identification of the UCI can also be used to identify cases of round-tripping in inward FATS statistics. Round-tripping refers to the channelling abroad by direct investors of local funds that are then subsequently returned to the local economy in the form of direct investment.
[4] It is important to note that for the latter, this will lead to double counting when comparing with data compiled by other countries.
[5] This is in contrast to the guidelines for FDI. According to BD4, if the ownership is through a directly held affiliate located in another country, the variables should be attributed to the country of that affiliate. BD4 included in its research agenda the presentation of FDI positions by the country in which the affiliate is located (ultimate host country). Because of the difficulties in tracking financial flows from the immediate counterparty to the ultimate destination, most countries present only FDI data attributed to the immediate counterparty.