Working Party on Financial Statistics

The treatment of holding companies and head offices in the new international standards

Common day

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THE TREATMENT OF HOLDING COMPANIES AND HEAD OFFICES IN THE NEW INTERNATIONAL STANDARDS
I. Introduction

• The introduction of 2008 SNA and ESA 2010 imply changes in the compilation processes of national accounts data.
• One of the most affected issues both for non-financial and financial accounts is the treatment and classification of head offices and holding companies.
• In this short paper, we analyse, both from a theoretical and a practical point of view, the implications these new international standards will have...
• ...with the aim of setting up a TF for timely guidance on the establishment of practical classification criteria.
II. Conceptual issues in the new international standards.

• 2008 SNA and ESA 2010 give the same treatment to HO and HC:
  • (1) A HO is a unit that exercises managerial control over its subsidiaries
  • (2) A HC (...) holds the assets of subsidiary corporations but does not undertake any management activities

• Also:
  • An entity of this type that cannot act independently of its parent and is simply a passive holder of assets and liabilities (sometimes described as being on auto-pilot) is not treated as a separate institutional unit unless it is resident in an economy different from that of its parent. (par. 2.23).
II. Conceptual issues in the new international standards.

- In 2008 SNA (ESA 2010), the ISIC (NACE) code of the unit determines if it is a HO or a HC:
  - Head offices are described under ISIC Rev. 4, Section M, class 7010 (NACE Rev. 2, M 70.10):
    - (...) includes the overseeing and managing(...); undertaking strategic or organisational planning and decision-making role(...); exercising operational control and managing(...)
  - Holding companies are described under ISIC Rev.4, section K, class 6420 (NACE Rev. 2, K 64.20):
    - (...) includes the activities of holding companies, i.e. units that hold the assets (owning controlling-levels of equity) of a group of subsidiary corporations(...). The holding companies in this class do not provide any other service to the businesses in which the equity is held(…).
III. From theory to practice: Implementation aspects

- The use of the industrial activities codes is not enough to reach a correct split of HO and HC.
- Further guidance needed. One of the most interesting works is the final report of the *Task Force on the recording of certain activities of multinationals on national accounts* (TF MUNA), which gives some recommendations. Main issue: the need for a comprehensive and with good coverage register of the entities.
- However, a good coverage and up-to-date register of the entities is only a first step towards a correct classification.
IV. Practical distinction between head offices and holding companies

1. Sources to detect HO and HC
   • Several EU countries have already begun to work with practical criteria to distinguish HO and HC.
   • All cases show some similar features, giving a basis for achieving a correct identification and classification of HO and HC:
     • A close cooperation between national institutions and the use of a register. This register should be complemented with other data sources as data coming from tax authorities or balance sheet information.
IV. Practical distinction between head offices and holding companies

2. Practical ways to distinguish HO and HC
   • As said, the clear definition and distinction between HO and HC is a new feature in the 2008 SNA and ESA 2010. Countries are now starting to develop practical rules to distinguish between them.
   • NACE coding is a useful starting point. But other variables have to be analysed (in line with ESA and SNA, variables related to employment and structure of the balance sheet are mentioned). The list of variables may be extended:

Need of harmonization.
V. Conclusions and way forward

• The new sectorisation of the financial sector (S.12) and the knowledge and distinction of HO and HC is a challenge for national accountants.
• While the theory may seem clear, its application will not be easy and may lead to inconsistencies across countries.
• As next steps, Eurostat and the ECB propose to establish with some urgency a Task Force in order to arrive at specific recommendations for the identification, distinction and correct classification of HO and HC.
• If the proposal is accepted, Eurostat can offer to draft a mandate and organise the Task Force