Working Party on National Accounts

STATISTICAL UNITS:
PUTTING THEORY INTO PRACTICE

JOINT MEETING

To be held on 27-29 October 2015
OECD Conference Centre
Beginning at 4 pm on the first day

This document has been prepared by Henk Nijmeijer - EUROSTAT and will be presented under item 4 of the draft agenda

JT03383910

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Abstract: The theoretical set-up of statistical units is well described in the System of National Accounts (SNA) and the European System of Accounts (ESA). The harmonised and integrated implementation of these concepts is crucial. Within the European Statistical System, Council Regulation 696 of March 1993 defines the statistical units 'for the observation and analysis of the production system in the Community'. It appears that the Member States of the European Union interpret this regulation in different ways. In some countries, enterprises (in institutional units) appear to be equivalent to legal units. In other countries, after profiling, enterprises can consist of many legal units. It is obvious that international comparability is hampered by these differences.

A joint initiative of European business statisticians and national accountants aims at improving comparability across countries. After some considerations, it was decided not to change the 1993 Regulation on statistical units. A Task Force focussed on the proper harmonised implementation of the current Regulation. In this paper the guiding principles and operational rules developed by the Eurostat Task Force on Statistical Units are presented. This work is separate from the more fundamental discussion on statistical units as foreseen in the research agenda for the next SNA.
1. INTRODUCTION

In June 2015 the Directors of Macro-Economic Statistics (DMES) and the Business Statistics Directors Group (BSDG) agreed on a ‘Notice of intention’ regarding statistical units. This paper explains the background of this notice and focuses on the guiding principles and operational rules as listed in the annexes of the notice. To avoid any misunderstanding, this work is separate from the more fundamental discussion on statistical units as foreseen in the research agenda for the next SNA. This joint initiative of European business statisticians and national accountants aims at improving comparability across countries by means of a proper harmonised implementation of current rules/concepts.

In Section 2 these current rules according to SNA/ESA and the EU Regulation concerned are briefly dealt with. The developments that led to the drafting of the notice of intention are described in Section 3. The general part of the notice of intention is treated in Section 4 while Sections 5 and 6 present the operational rules and the guiding principles from the notice. The conclusions can be found in Section 7.

2. CURRENT RULES

The fundamental units identified in the System of National Accounts 2008 (SNA 2008), as well as the previous version, SNA 1993, are the economic units that can engage in the full range of transactions and are capable of owning assets and incurring liabilities on their own behalf. These units are called institutional units (SNA 2008, par. 2.16). To study production and production functions the unit establishment is recognised. The European System of Accounts 2010 (ESA 2010) is fully in line with these concepts (only the establishment is named local kind-of-activity unit). For describing income, expenditure, financial flows and balance sheets, institutional units are grouped into sectors on the basis of their principal functions, behaviour and objectives (ESA 2010, par. 1.55). For describing processes of production and for input-output analysis local kind-of-activity units are grouped into industries on the basis of their type of activity (ESA 2010, par. 1.56).

Crucial for the identification of institutional units as economic entities is their capability of owning goods and assets, of incurring liabilities and of engaging in economic activities and transactions with other units in their own right (ESA 2010, par.157). According the definition as displayed in ESA 2010, par. 2.12: "an institutional unit is an economic entity characterised by decision-making autonomy in the exercise of its principal function."

Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, specifies the criteria and definitions used to identify the different statistical units. This Regulation is not the only legal text in the European Union applicable on this topic; the ESA itself is part of a Regulation as well (No 549/2013).

The Regulation on statistical units stresses that: "In order to define units that are recognizable and identifiable in the economy, legal or institutional criteria must be applied. In some cases, legally separate units must be grouped together as they are not sufficiently autonomous in their organization."

For the statistical unit enterprise the following definition is given in Regulation 696/1993:

"The enterprise is the smallest combination of legal units that is an organizational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations. An enterprise may be a sole legal unit."

The explanatory note of this definition reads: "The enterprise thus defined is an economic entity which can therefore, under certain circumstances, correspond to a grouping of several legal units. Some
legal units, in fact, perform activities exclusively for other legal units and their existence can only be explained by administrative factors (e.g. tax reasons), without them being of any economic significance. A large proportion of the legal units with no persons employed also belongs to this category. In many cases, the activities of these legal units should be seen as ancillary activities of the parent legal unit they serve, to which they belong and to which they must be attached to form an enterprise used for economic analysis."

For the statistical unit institutional unit the following definition is given in Regulation 696/1993:

"The institutional unit is an elementary decision-making centre characterized by uniformity of behaviour and decision-making autonomy in the exercise of its principal function. A unit is regarded as constituting an institutional unit if it has decision-making autonomy in respect of its principal function and keeps a complete set of accounts.

- In order to be said to have autonomy of decision in respect of its principal function, a unit must be responsible and accountable for the decisions and actions it takes.
- In order to be said to keep a complete set of accounts, a unit must keep accounting records covering all its economic and financial transactions carried out during the accounting period, as well as a balance sheet of assets and liabilities."

The first part of the explanatory note of this definition reads: "In the corporate enterprises sector, the enterprise corresponds to the institutional unit used in the ESA. Similar institutional units also exist in the general government and private non-profit institutions sectors. The institutional unit in the households sector covers all the activities of households, while the term 'enterprise' is reserved exclusively for their production activities."

3. DEVELOPMENTS

Although the definitions as displayed in Section 2 seem quite clear, the practice in the Member States of the European Union is quite heterogeneous. The main statistical unit in business statistics is the enterprise. As explained in the explanatory note of the definition of the institutional unit in the Regulation on statistical units, the enterprise should equal the institutional unit as applied in the national accounts. In some Member States however, the legal unit is not only providing basic data but it is identified as enterprise as a rule. In case of small companies this can be an acceptable method, in case of large companies this completely neglects the requirement of autonomy of decision-making.

In 2013 the ESSnet Consistency identified the inconsistent and in many Member States insufficient implementation of the definitions of statistical units and especially the enterprise as the main reason for incomparability of business statistics across the Member States. It proposed, in collaboration with the ESSnet Profiling, a set of updated definitions for the statistical units enterprise, enterprise group, kind-of-activity unit and local kind-of-activity unit together with operational rules for a uniform implementation. As part of the work on the Framework Regulation Integrating Business Statistics (FRIBS), draft definitions and operational rules were discussed and developed further by the Task Force on Statistical Units. After an ESS-wide consultation it appeared that including the new definitions in the proposed FRIBS-Regulation was not feasible. Among other things, the (non-)alignment of some specific aspects with national accounts (and balance of payments) concepts as given in ESA 2010, was reason for resistance. In November 2014 a Eurostat seminar on statistical units with business statisticians, national accountants and balance of payments compilers was conducted. In December 2014 Eurostat decided to decouple the revision of the definitions of statistical units from the FRIBS. The FRIBS will include a reference to the existing Regulation 696/1993 on statistical units. The work on improving the implementation of the statistical units' definitions would be included in the methodological guidelines for implementation of the existing Regulation. Accordingly, the mandate of the Task Force on Statistical Units was renewed to develop
operational rules for the implementation of Regulation 696/1993, consistent with ESA 2010 and BPM6 and
draft a note by which the Business Statistics Directors Group and the Directors of Macro-Economic
Statistics commit themselves to the implementation of the (current) rules on statistical units. This note:
'Notice of intention of the BSDG and the DMES on the consistent implementation of Council Regulation
(EEC) No 696/1993 on statistical units', was agreed on by the DMES and the BSDG in June 2015.

Before moving to the notice, it is important to mention the Riga Memorandum. In September 2014 the
European Statistical System Committee (ESSC) agreed on a document with this name, 'Towards better
measurement on the globalised economy'. In this document, among other things, the necessity is underlined
of using "adequate statistical units that need to be feasible, cost-effective and fit for purpose, for instance
through profiling to enable appropriate measurement and coherence between statistical domains and
emphasise the fact that comprehensive, up-to-date and interoperable statistical business registers serve as a
potential backbone for integrated business statistics".

4. NOTICE OF INTENTION

So, in June 2015 the Notice of intention of the BSDG and the DMES on the consistent
implementation of Council Regulation (EEC) No 696/1993 on statistical units was agreed on by both
groups of Directors. In the next sections (5 and 6) the guiding principles and the operational rules as
described in the annexes of the document are presented.

The abovementioned Council Regulation on the statistical units for the observation and analysis of the
statistical production system in the Community was and is meant to bridge the gap between the different
administrative structures in the Member States of the European Statistical System (ESS) and harmonised
statistical practices concerning statistical units. However, legal and administrative developments as well as
changes in the structure of the economy since its adoption have widened the gap between the statistical
units to be used in business statistics and those which are available in the Member States to provide data on
(mostly legal units). The main reason for this notice is the need for (further) guiding the operationalisation
of the current Regulation on statistical units in order to promote business statistics' relevance and
comparability.

The compliance with Council Regulation 696/1993 is needed in order to achieve good quality
business statistics, national accounts and related statistics like balance of payments, regional accounts, etc.,
in accordance with the European Statistics Code of Practice. This is needed for the users of statistics at the
national level as well as the supra-national level, who request comparability and coherence across
statistical domains and across the ESS of business statistics based on them.

Implementation of the Regulation on statistical units is needed where and when it is invoked by other
Regulations. In this respect Council Regulation (EEC) No 177/2008 on business registers for statistical
purposes is of particular importance, since it underlies the system of business statistics and statistics that
take business statistics as an input, such as national accounts.

Regarding this last paragraph, it needs to be emphasised that business statistics that comply with the
Regulations concerned are necessary but not sufficient for national accounts purposes. Business statistics
in the European Union focus on the statistical unit enterprise while, as was mentioned in Section 2, the
supply and use tables in the national accounts require data on the level of local kind-of-activity units.

The compliance with the Regulation on statistical units is implicit in strategic documents as the ESS
Vision 2020 and the ESS business architecture, which is currently being developed. Improving coherence
of business statistics and national accounts and related statistics is a key objective for the ESS for the
future.
The goal of the notice is (further) guiding the operationalisation of the current Regulation on statistical units. It is important to emphasise that Member States are free to organise data collection, processing and analyses for business statistics in a way they deem optimal, taking into account their national administrative structure, following the principle of subsidiarity. The ultimate objective is that quality requirements of ESS business statistics, national accounts and related statistics like balance of payments and regional accounts are met.

By agreeing on the notice of intention, the European Statistical System Business Directors Group and Directors of Macro-Economic Statistics adopted the guiding principles (see Section 5) and the operational rules (see Section 6) as drafted by the Eurostat Task Force on Statistical Units. Finally they agreed on encouraging the on-going efforts in the context of the Euro Groups Register and the national statistical business registers to improve coordination and consistency across Member States for situations where enterprise groups operate across borders, thereby ensuring an accurate description of the activities of the enterprise group in the European Union without double counting or omissions and consistent with the methodology of national accounts of balance of payments, improving the quality of the data at national level and providing the basis for meeting the increasing need for data on cross-border aspects of the statistical system in the European Union, including those data to better inform the work on global value chains.

5. GUIDING PRINCIPLES

Guiding principles for the implementation of the statistical units in National Statistical Authorities for business registers and business statistics

Full text of Annex 1 of the Notice of intention:

1. Introduction

a. This document provides a set of guiding principles for the implementation of the Council Regulation No 696/93 on statistical units in National Statistical Authorities (NSAs) for business registers and business statistics and coordinated with national accounts/balance of payments, combining both the producer and user perspective. These guiding principles should be considered alongside the operational rules supporting the Joint BSDG and DMES Notice of Intention.

b. This document is organised as follows:
   • Terminology and scope
   • Business registers and business statistics
   • Methods to apply the operational rules
   • Quality requirements
   • Quality evaluation
   • Coordinated implementation
2. **Terminology and scope**

a. In this document, the guiding principles are shorthand for the main guidelines, criteria and principles to be applied for the implementation of the statistical units in business registers and business statistics. The guiding principles are restricted to the following types of statistical units:
   - Enterprise group
   - Enterprise
   - Kind of activity unit
   - Local unit
   - Local kind of activity unit

b. In the context of the guiding principles, the term statistical unit applies to the unit referred to in the output of business statistics. These can be distinguished from those units from which the data are actually collected in the process of producing the output.

c. The operational rules cover these units.

d. Although the focus in this document may be viewed as the enterprise, it is important to note that the same principles apply to the other units as appropriate.

e. In the context of the guiding principles, the term business statistics does not comprise national accounts but business statistics is an essential data source feeding into the production of the national accounts.

3. **Business registers and business statistics**

a. The types of statistical units (output units) to be included in business registers and used in business statistics are identified in the regulations governing those business statistics.

b. It is important to recognise the role, and links, of the kinds of input unit(s) used to create statistical units in business registers and business statistics. These include:
   - Administrative unit\(^2\) – this entity is defined for administrative purposes.
   - Legal unit – this entity is recognised by law or society independently of the persons or institutions that own them (either legal person or natural person).
   - Reporting unit\(^3\) – this entity is defined as the unit from which data about an observation unit are collected.

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1. The importance of a correct delineation of the LKAU has to be emphasised for national accounts, in particular for units which are vertically integrated.

2. An administrative unit does not necessarily need to be as well a legal unit. For example, a legal unit may own several local units in different municipalities. Each of these local units may be registered as an administrative unit, e.g. in the administration of the municipality or for labour-administration purposes. The legal unit is a subcase of the administrative unit.
c. At the national level, for several Member States the links to the administrative unit(s) are critical to generating and maintaining a high-quality business register. There should also be clear conceptual and practical links between the different types of statistical units as well as the corresponding legal units. Input units are therefore not necessarily identical to the statistical (output) units. Statistical (output) units can be artefacts that need to be constructed and which are not directly observable.

d. In the case of multi-national enterprise groups it is important that the statistical units are determined in a coordinated and consistent way across the Member States.

4. **European Statistical System good practices to apply the operational rules**

a. For statistical units, the Task Force on Statistical Units has elaborated a set of operational rules. These operational rules were drafted in order to provide agreed solutions to problems of unit delineation for common situations that may be encountered by NSAs. For such situations, these solutions result in coordination across ESS Member States as well as across statistical domains.

b. In some cases but certainly not all cases, these operational rules can be applied automatically. The results intended by operational rules can also be approximated by making use of nationally defined automated rules that operate on administrative units or legal units.

c. Due to the complexity in delineating large and complex economic organisations, an alternative approach is to apply the operational rules manually (profiling). In this context, complex organisations tend to be large groups of legal units operating within a single nation or multi-national enterprise groups.

d. Wherever appropriate, and possible, the recommendations from the ESSNets on ESBRs, Profiling and Consistency should be considered and applied.

5. **Quality requirements (European Statistics Code of Practice, principles 12-15)**

a. It is up to NSAs to organise data collection for the business register and for business statistics in a way that they deem optimal, given their national administrative systems, provided that the requirements for ESS business registers and business statistics are met.

b. For enterprise groups and enterprises, NSAs are required to apply appropriate statistical units' delineation approaches, in line with the legal requirements for European statistics.

c. In case a NSA discovers a specific situation that may not be explicitly covered in the set of operational rules, it still has to choose between the different methods of delineation (automated rules, manual delineation of statistical units and the use of administrative units) as proxies for statistical units. This is up to the NSAs, provided that the requirements for European statistics are met.

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3 Reporting units may be e.g. the administrative unit or the legal unit. The reporting unit may be identical to the statistical unit.

4 It should be noted that some of the operational rules are related to profiling. In business statistics, the term profiling is normally used for the activity of sending staff to the headquarters of a large business (group) to discuss the delineation of statistical and reporting units on the basis of the operating structure of the business. If no visit is carried out and just public information (annual reports, information from the website of the business, etc.) plus survey information is used, then this is called “light profiling” or “desk profiling”. In both cases, it is a “manual” activity.
6. Quality evaluation

a. Due to the range of legal, taxation and regional structural differences across Member States as well as the burden on business, resource and time limitations, it may not always be possible to implement best practice. Thus the different operational rules for the different types of units and associated guidance will be categorised as A, B and C quality-approaches, depending on the complexity and size of the enterprise group, where:

- A methods: most appropriate methods ("A" methods are deemed to meet recommended or best practice, for example, application of manual profiling to deal with all the large, difficult or complex cases of enterprise groups. In the case of multinational enterprise groups, the national delineation approaches need to take into account the complexity of the enterprise group and its global structure).

- B methods: those methods which can be used in case an A method cannot be applied ("B" is deemed to cover alternatives to recommended or best practice but which form good practice. For example, manual or automatic delineation approaches are applied to simple multi-national enterprise groups at the national level, with appropriate consideration of the global structure of the delineated national enterprises).

- C methods: those methods which shall not be used ("C" is deemed to recognise the application of the rules, for example in an uncoordinated way to simpler cases or to specific situations addressed without a rules based approach).

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b. NSAs must be able to demonstrate in a plausible way that the quality requirements for ESS business registers and business statistics are met. This means that they can convincingly justify the choice made for the threshold for applying the different methods and that the impact of any automated rules has been tested.

7. Organising a supported implementation

c. NSAs that do not currently meet the quality requirements for ESS business registers and/or business statistics require an organised and agreed roadmap towards implementation of the changes that are needed. It is proposed that the NSAs focus in particular on the business registers. Naturally, this

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5 Large: significant impact in the NACE classes in question  
Small: negligible impact in the NACE classes in question  
Complex: e.g. many legal units with many different activities and delivery-relations between the units  
Simple: e.g. one activity in all legal units and ancillary activities
would most probably lead to a subsequent focus on business statistics, followed by the statistics further upstream (such as national accounts).

d. Where significant differences occur between the old and new method of delineation of statistical units, their effect on statistics has to be quantified and coordinated with the users.

e. For business statistics, a linked programme between the short-term statistics and the annual statistics is recommended. This may entail that for at least one period that structural business statistics (SBS) data will be established according to the old and new ways of producing the data. This will provide details of the scale of the discontinuities and allow users (like national accounts, regional accounts, etc.) to plan for, and address, the impact of the changes which may affect key short-term and annual aggregates. The same principle will apply to other statistical domains whereby at least a single period exists to develop the join between old and new and avoid discontinuities. More detail may be produced by the specific Working Groups upon request by Member States.

f. Once the quality criteria for statistical business registers are met, it is recommended that business statistics implements the changes following an organised approach and timetable.

g. After the business statistics have been produced, a natural likely next step would be to take the implementation of the data changes through the other domains concerned. Again, the same principles as above apply, in particular the avoidance of discontinuities.

h. There is a key extension of the coordinated implementation within NSAs that should be considered. Where enterprise groups operate across borders, there will be a benefit from greater coordination and collaboration between and across Member States to ensure good quality structures and associated data which meet both national and ESS needs. This aspect is being addressed in the context of the EuroGroups Register and the ESS.VIP ESBRs as well as developing international profiling across the Member States.

6. OPERATIONAL RULES

Operational rules for the consistent implementation of statistical units as defined in Council Regulation 696/1993.

Introduction

The Statistical Units Regulation was adopted one year after the implementation of the Single Market. Its purpose was to provide a basis for consistent and integrated European statistics with the quality and contents required for its management.

The establishment of the Single Market aimed at growing international activities of the enterprises, which resulted first in an increase of international trade but then also in a growing volume and number of direct investments in other countries. Enterprises originally operating only from their home country became more global and are today located in several countries. At the same time the legal complexity of the enterprises increased. Enterprises, which used to consist of one legal unit, split up their activities into a number of legal units in very different ways. This has its origins in tax-, liability-, tariff- and other reasons, not directly related to the economic purpose of the enterprise. Both tendencies also occur for a growing number of small and medium-sized enterprises.

In this changing economic world a mere equation of legal or administrative units with statistical units displays a more and more unrealistic picture of the economy. Moreover, legal and administrative units are designed for purposes which are not primarily connected to statistics and the legal and administrative
systems of the Member States are not fully harmonised, so that units created by them may not be comparable.

In order to achieve a uniform interpretation and implementation of statistical units definitions, which makes it possible to compare the data of the different Member States, the ESSnet Consistency was launched in the framework of the MEETS programme and had proposed a reformulation of the definitions of the statistical units enterprise, enterprise group, kind of activity unit and local kind of activity unit complemented with operational rules. A second ESSnet established under the MEETS programme, the ESSnet profiling, concentrated on enterprise and enterprise group definitions and operational rules and developed practical guidance and methods for profiling with a focus on the tendencies towards globalisation and increasing complexity of enterprise structure. In both ESSnets several Member States collaborated. Based on this work, a Eurostat Task Force has been established to develop a set of operational rules for the interpretation and implementation of Council Regulation 696/93.

The mandate of the Task Force on Statistical Units was adopted by the European Statistical System Business Statistics Directors Group and supported by the Directors of Macroeconomic Statistics at their respective meetings in December 2014. The objective of the Task Force was to provide guidance on and ultimately to foster an improved and comparable implementation of statistical units as laid down in Council Regulation 696/1993.

Emphasis was put on consistency with ESA 2010 (and SNA 2008), the BoP Regulation and other EU legislation. Therefore the Task Force comprised experts from business registers and business statistics, national accounts, balance of payments and other statistical areas, coming from Member States, Eurostat, the ECB and the OECD.

The rules can be understood as a compromise and some Member States may consider them as second best solutions. However, from a users’ perspective, consistency and comparability across domains and countries should be given priority. The operational rules are meant to cover the vast majority of cases. In their application, all rules should be jointly considered rather than looked at an individual rule in isolation.

Operational rules have been developed for the following statistical units: enterprise, enterprise group, kind-of-activity unit, local unit, local kind-of-activity unit. Each operational rule is preceded by the respective part of Council Regulation 696/1993. In some cases, further guidance has been added.

The text below is limited to the operational rules regarding enterprise, kind-of-activity unit and local kind-of-activity unit.
Enterprise

Definition Council Regulation 696/1993

The enterprise is the smallest combination of legal units that is an organizational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations. An enterprise may be a sole legal unit.

Explanatory note

The enterprise thus defined is an economic entity which can therefore, under certain circumstances, correspond to a grouping of several legal units. Some legal units, in fact, perform activities exclusively for other legal units and their existence can only be explained by administrative factors (e.g. tax reasons), without them being of any economic significance. A large proportion of the legal units with no persons employed also belongs to this category. In many cases, the activities of these legal units should be seen as ancillary activities of the parent legal unit they serve, to which they belong and to which they must be attached to form an enterprise used for economic analysis.

Operational Rules

(1) Operational rule: Characteristics of an enterprise

A unit is deemed to be an enterprise if it

a. operates the necessary factors of production (e.g. human resources, capital, technology, land and in particular management) and

b. accesses the necessary controlling systems, e.g. an integrated cost calculation, which covers the main, secondary and ancillary activities of the unit deemed as enterprise and

c. has adequate managerial structures, i.e. managers that can decide about the production process and about the economic transactions.

(2) Operational rule: Activity of an enterprise

An enterprise is deemed as active in a certain period if it generates turnover, employs staff or makes investments in the period.

(3) Operational rule: Identification of Enterprise in case of an Enterprise Group

In case of an enterprise group, the identification of the statistical unit enterprise should in principle be made on the basis of the structure and the perimeter of the enterprise group reflected in the national Statistical Business Registers and in the EGR.

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6 Holding assets and/or liabilities may also be considered to be an activity, in which case the operational rules for HO/HC/SPEs apply.
Further guidance:

- It should be noted that some enterprise groups may decide to organise their activities in various so-called profit-centres or operating segments\(^7\).
- Each of these operating segments can be considered, for statistical purposes, as a starting point for the identification of an enterprise inside the enterprise group.
- Inside an operating segment there may be one or more legal units, or parts thereof, which are organisationally integrated with each other but not with the rest of the segment and have the factors of production at their disposal. Such units have to be considered as an enterprise, if they operate under an own management and do not carry out ancillary or vertically integrated activities\(^8\).
- The application of operational rule “Identification of Enterprise in case of an Enterprise Group” may result in an enterprise being equal to enterprise group. This is the case if an enterprise group performs its activities under a single management and operates as one organisational unit.

(4) Operational rule: Ancillary legal units\(^9\)

If a legal unit performs one or more ancillary activities for other legal units within the same enterprise group, it has to be considered as an ancillary legal unit. In this case it is not considered an enterprise. The outputs of the ancillary legal unit have to be considered as inputs for the other units of the enterprise group and its data have to be consolidated within the enterprises which consume these outputs.

In case the output of the legal unit, which performs one or more ancillary activities, is only partly consumed by other legal units, and the legal unit sells to a third party on a regular basis, it may be treated as an enterprise.

A legal unit or part thereof located in one country may carry out exclusively ancillary activities inside an enterprise group and deliver its services to more than one enterprise of the enterprise group it belongs to. If the enterprises that receive the ancillary services have locations in one or more other countries the legal unit providing these services is by convention treated as an enterprise and is classified according to the activity it is performing.

(5) Operational rule: Vertically integrated legal units\(^9\)

A vertically integrated enterprise is one in which different stages of production are carried out in succession by different parts of the same enterprise. The output of one stage becomes an input for the next stage, only the output from the final stage being actually sold on the market\(^10\).

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\(^7\) In general the profit centre equals the operating segment, but it can also be different. An operating segment as defined in IFRS is a component of an enterprise group that has discrete financial information available, and whose results are reviewed regularly by the entity’s chief operating decision maker for purposes of performance assessment and resource allocation. An operating segment manager is accountable to the chief operating decision maker for the results of the segment.

\(^8\) Vertical Integration: The output of one stage becomes an input for the next stage, only the output from the final stage being actually sold on the market (Source: SNA 2008 paragraph 5.23).

\(^9\) This operational rule may also apply to operating segments by analogy. It applies also to legal units managing only factors of production, such as land, buildings, equipment or staff for other legal units.

\(^10\) Source: SNA 2008 paragraph 5.23.
A legal unit is vertically integrated, if its output is used as a pre-product in another legal unit of the same enterprise group. In this case, the vertically integrated legal unit or operating segment is merged inside the group with the legal unit using the output. The merged legal units have to be considered as one enterprise\textsuperscript{11}.

(6) Operational rule: Enterprises active in more than one country

Application of the enterprise concept may lead to identifying enterprises active in more than one country. In such cases, there will be links of the national part of the unit with the EGR. For national statistics the national part of the unit is to be considered an enterprise. Such a resident unit is regarded an enterprise unit in the economic territory where it is located. However in some specific cases this may lead to more than one national enterprise. Techniques like European profiling will aid such consistency.

Operational Rules for Head Offices, Holding Companies and Special Purpose Entities

Explanatory notes

Head Offices (HOs), Holding Companies (HCs)\textsuperscript{12} and Special Purpose Entities (SPEs) have special characteristics.

- The activities of a HO include the overseeing and managing of other legal units of the enterprise, supporting their day-to-day operations.
- A HC is described as a legal unit that holds the assets of other legal units but does not undertake any management activities.
- SPEs, as identified in operational rule 4, often have only limited presence in the country where they are registered. In general, SPEs are not seen to have autonomy of decision and are combined with one or more legal units to an enterprise. An important question is whether a HO/HC/SPE has autonomy of decision, which has to be answered in order to be able to delineate the enterprise. For example, a legal unit wholly owned by a parent legal unit may just be created to avoid taxes. Generally, such legal units do not satisfy the definition of an enterprise because they lack the ability to act independently from their parent and their accounts have to be consolidated with those of the parent. Therefore, in the first place, the autonomy of decision of the legal unit has to be assessed.

The following rules are based on ESA and the final report\textsuperscript{13} by the ECB/Eurostat/OECD Task Force on Head Offices, Holding Companies and Special Purpose Entities (SPEs). They regulate how to distinguish Head offices from Holdings and in which cases these entities are characterised as institutional units. The rules refer to Head offices and Holding companies of very large enterprise groups owning subsidiaries. A head office of a huge international enterprise group is clearly in the scope of these rules, whereas a legal unit, employing the chairman of a small or medium sized enterprise, which may have moreover e.g. the

\textsuperscript{11} The rule should be seen in connection with the other rules, in case not all the output is absorbed by the other unit, it still has to be checked, whether the unit delivering the output has autonomy or not and forms an organisational unit with the unit using the output. 

\textsuperscript{12} For the definition of Head Offices and Holdings see: Final report from the Task Force on the classification of Holding Companies and Head Offices according to NACE Rev.2, 20 April 2015

\textsuperscript{13} Final Report by the Task Force on Head Offices, Holding Companies and Special Purpose Entities (SPEs), 14 June 2013
purpose to reduce liability, does not fulfill the criteria of being an institutional unit; and is hence not in the scope of these rules.

(1) Operational rule: Identification of the enterprise characteristics

To identify the enterprise characteristics of a HO/HC/SPE the following conditions apply:

a) A HO/HC/SPE owned by a non-resident parent is to be considered by convention as an enterprise.

b) A HO/HC/SPE owned by multiple owners, and not controlled by any other legal unit, should be considered as a separate enterprise.

c) For a HO/HC/SPE wholly owned by a single resident unit, having no employees and no compensation of employees are not sufficient criteria for lack of independence; in such cases, further investigation is needed.

d) HOs are always considered to have autonomy of decision.

e) Governments' (and corporations') use of SPEs is normally to raise finance. Such SPEs are not separate institutional units when resident. Non-resident SPEs of governments are recognized as separate institutional units. At the same time, all stocks and flows between general government and the non-resident SPE are recorded in the general government and SPEs accounts; including imputed transactions reflecting general governments borrowing from the non-resident SPE.\(^{14}\)

(2) Operational rule 2: Identification of Head Offices and Holding Companies

HOs and HCs have relations to other entities, namely, their subsidiaries. Hence, information on the structure of their balance sheet is one tool to determine whether an entity is a HO, HC or another type of unit. In order to identify these entities the following practical rule should be applied:

- A legal unit having at least 50% of its assets consisting of investments in its subsidiaries can be considered to be of the type of HO or HC.

(3) Operational rule: Distinction between Head Offices and Holding Companies

A HO may have noticeably fewer employees than the legal units it oversees and manages. However, having zero employment is a clear indication of not being a HO. On the other hand, HCs simply holding assets may do this with very few or without any employed personnel. Employment thresholds for the delineation between HOs and HCs should be determined taking into account national circumstances. In particular, national legislative requirements for the number of employees of HCs should be taken into account.

- In general, employment of three or more persons is a first indicator for a legal unit to being a HO.

(4) Operational rule: Identification of SPEs

In order to identify SPEs the following practical rules should be applied:

a) SPEs are always related to another legal unit, often as a subsidiary of that legal unit.

b) SPEs have large balance sheets; usually with no non-financial assets. Therefore, investment income and holding gains are major elements of their accounts.

\(^{14}\) See ESA 2010, para 20.47- 20.48
c) SPEs have few or no employees.
d) The production of SPEs is very limited. Usually fees are charged from the parent company.
e) SPEs are often ultimately controlled by a non-resident parent, directly or indirectly.

Kind-of-activity unit (KAU)

Definition Council Regulation 696/1993

The kind of activity unit (KAU) groups all the parts of an enterprise contributing to the performance of an activity at class level (four digits) of NACE Rev. 1 and corresponds to one or more operational subdivisions of the enterprise. The enterprise's information system must be capable of indicating or calculating for each KAU at least the value of production, intermediate consumption, manpower costs, the operating surplus and employment and gross fixed capital formation.

Explanatory notes
1. The KAU was devised as an observation unit in order to improve the homogeneity of the results of statistical surveys by activity and hence the international comparability of these results, since at the level of the enterprise different types of horizontal and vertical integration can be observed at both national and international level. An entity which only carries out ancillary activities for the enterprise to which it belongs cannot be considered as a separate KAU. In fact the KAU corresponds to the operational definition given in paragraph 96 of the introduction to ISIC Rev. 3.
2. The KAUs falling within a particular heading in the NACE Rev. 1 classification system can produce products outside the homogeneous group, on account of secondary activities connected with them which cannot be separately identified from available accounting documents. Conversely, the KAUs classified under a particular heading in the classification system on the basis of a principal activity do not produce the entire output of homogeneous groups of specific products because the same products can be produced in secondary activities of KAUs falling under some other classification heading.
3. The internal accounts of enterprises (e.g. profit or cost centres) have often been developed according to criteria that are close: the activity concept. They enable the supply of data at KAU level, so that these can be observed.
4. All the costs of ancillary activities of an enterprise must be allocated to the principal and secondary activities and thus to the KAUs observed within the enterprise.

Additional explanatory text:

In the currently valid ISIC Rev. 4 the operational definition of the KAU is given in paragraph 85.

In all cases where NACE Rev. 1 is quoted in the definition of the KAU of CR 696/93, the rules of the currently valid NACE Rev. 2 are identical.

Operational Rules

1) Operational rule: Thresholds

In the practical implementation, the delineation of KAU may be restricted to enterprises which because of their size (e.g. production value) have:

(i) a significant influence on the aggregated (national) data at NACE activity level,
and

(ii) at the level of the individual enterprise, as guidance one secondary activity accounts for:

- more than 30% of its total production at the 4-digit (class) level of the valid NACE classification,

or

- more than 20% of its total production at the 2-digit (division) level of the valid NACE classification.

(2) Operational rule: Other KAU

In the case of enterprises which are not covered by rule 1, the KAU is considered to be equal to the enterprise.

(3) Operational rule: Estimates

In case that not all of the economic indicators are available from the respondents, they may also be estimated by the national statistical authorities.

Remarks:

(a) KAU do not have to be delineated for all enterprises. The delineation of KAU can be restricted to only those enterprises which – because of their size – are considered as relevant nationally. Possible criteria for relevance at national level are turnover or employment. This operational rule leaves the decision of how far to go with the delineation of individual enterprises, to the NSAs.

(b) The delineation of KAU is relevant only for enterprises which are (i) heterogeneous, and (ii) the secondary activities of which are so important that not to delineate these enterprises into KAU would have a significant negative impact on the accuracy of the measurement of national production, at the level of NACE activities.

The number of KAU to be delineated will thus depend, on the one hand, on the desired level of accuracy (of the indicator in question), and on the other hand, on the concrete economic structure, in a given country and at a given point in time, i.e. the number and size of the enterprises, their heterogeneity at activity level, and their organisation.

(c) The thresholds (of 30% and 20% respectively) quoted in operational rule (1) as guidance mean that NSAs may delineate more KAU. Examples could be where one of the secondary activities of an enterprise is of little significance for the enterprise in question (i.e. it would contribute less than 30% or 20% to the enterprise’s total production) but where that particular secondary activity is of national significance (e.g. if the enterprise in question is the only national producer in that specific NACE activity).
Local kind-of-activity unit (local KAU)

**Definition Council Regulation 696/1993**

The local kind-of-activity unit (local KAU) is the part of a KAU which corresponds to a local unit. Explanatory notes

1. Each KAU must have at least one local KAU; however, the KAU can be made up of a grouping of parts of one or more local units. On the other hand, a local unit may in certain circumstances comprise solely a group of ancillary activities. In this instance, a supplementary classification of the local unit is possible. Furthermore, each enterprise should have at least one local KAU.

2. The local KAU corresponds to the operational definition of the establishment as given in paragraph 106 of the introduction to ISIC Rev. 3.

Additional explanatory text:

*In the currently valid ISIC Rev. 4 the operational definition of the LKAU is given in paragraph 87.*

**Operational Rules**

(1) **Operational rule: Cases in which LKAU may be delineated**

In case where in one location an activity is prevailing, which is not the main activity of any KAU of the enterprise, and this activity accounts on enterprise level for less than the threshold to form a KAU, an additional KAU may be delineated so that correct LKAUs can be formed.

(2) **Operational rule: several local units in same NUTS region**

It is not requested that the LKAUs strictly form part of a KAU corresponding to a single local unit. It is also acceptable when the LKAU comprises the sum of all respective activities performed within the lowest level of NUTS for which LKAUs are required.

(3) **Operational rule: Ancillary activities**

In case that in a local unit only ancillary activities are carried out, this unit is treated as a LKAU and classified according to the activity of the KAU (for national statistics) as well as of the ancillary activity (for regional statistics).

7. **CONCLUSIONS**

The Member States of the European Union interpret the text of the Regulation on statistical units in different ways. International comparability of economic statistics is hampered by this. A joint initiative of European business statisticians and national accountant aims at improving the situation. A Task force focussed on the proper harmonised implementation of the Regulation concerned. In June 2015 the Directors of Macro-Economic Statistics and the Business Statistics Directors Group agreed on a Notice of intention on the consistent implementation of Council regulation (EEC) No 696/1993 on statistical units. The notice contains annexes with guiding principles and operational rules to facilitate the work. Crucial is that profiling (manual intensive or manual desktop) is applied to delineate the correct statistical units in
case of large companies. Or, the other way around, that automatic methods (for instance: legal unit = enterprise) should only be applied for small and simple companies.