Unclassified **COM/STD/DAF(2009)3**

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development **26-Oct-2009**

English - Or. English

STATISTICS DIRECTORATE
DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS

COM/STD/DAF(2009)3
Unclassified

Cancels & replaces the same document of 06 October 2009

Working Party on Financial Statistics

Valuation of unquoted shares

To be held on 2-4 November 2009
OECD Conference Centre, Paris
Beginning at 2 p.m. on the first day

This document has been prepared by Michèle Chavoix-Mannato (OECD) and will be presented under item 3.a. of the draft agenda

For further information please contact:
Michèle Chavoix-Mannato
E-mail: michele.chavoix-mannato@oecd.org

English - Or. English

JT03272881

VALUATION OF UNQUOTED SHARES

1. Introduction

1. The main objectives of this document are:

- to remind all delegates of the Working Party on Financial Statistics (WPFS) and countries' experts of the work carried out during the past years on the measurement of equity;
- to inform delegates on the changes regarding the valuation of shares which will be incorporated in the revised 2008 SNA;
- to present a new survey on the valuation of unquoted shares to take stock of the methods used in OECD countries.

Delegates are invited to discuss this survey and propose amendments if necessary so that it can be launched before the end of 2009.

2. Historical background

2. In the 1993 SNA, there used to be two shortcomings concerning equity (F.5/AF.5), and therefore two questions for clarification to help harmonise the valuation of equity:

– no breakdown of the item "*Shares and other equity*" into quoted shares, unquoted shares and other equity, whereas, in ESA95, such subcategories exist.

– no reference to specific issues or methods regarding the valuation of shares. Paragraph 13.74 of 1993 SNA says, without making reference to specific issues or methods*,* that

> *"Shares and other equities should be valued in the balance sheets at their current prices when they are regularly traded on stock exchanges or other organized financial markets. The value of shares in corporations that are not quoted on stock exchanges or otherwise traded regularly should be estimated using the prices of quoted shares that are comparable in earnings and dividend history and prospects, adjusting downward, if necessary, to allow for the inferior marketability or liquidity of unquoted shares. Equity in quasi-corporations should be valued as equal to the value of the quasi-corporations' assets less the value of their liabilities."*

3. Since 2002, the valuation of unquoted shares has been studied and discussed extensively by European Union countries. In March 2002, the Eurostat Financial Accounts Working Party (FAWG) created the Working Group on Unquoted Shares (WGUS), with the mandate of developing a methodology of unquoted shares and of issuing a set of recommendations. To improve the harmonisation of the valuation of unquoted shares across European countries, the WGUS conducted various activities, including a common test exercise. A new "Issue N°9, Valuation of unquoted shares" in the *Manual on Sources and Methods*, mainly based on documents elaborated by the WGUS, was finally approved by written procedure by the FAWG at the end of April 2004.

4. At that time, the issue of the valuation of unquoted shares became very relevant in most OECD countries, as unquoted shares in many countries are far more important than quoted shares.

<u>October 2004: *OECD Workshop on Unquoted Shares*</u>

5. Because of the importance of the issue of the valuation of unquoted shares in the context of the financial accounts, an "*OECD Workshop on Unquoted Shares"* was convened in October 2004 to discuss the method proposed by Eurostat. This method was based on the use of a pan-European database of capitalisation ratios calculated for a wide range of quoted companies and applied to the own funds of unquoted companies.

6. A number of non-European countries presented their own method and accepted to test the Eurostat method as well. According to the discussions, there was a strong interest in the Eurostat method on the "Valuation of Unquoted Shares". However, as several limits to this method had been highlighted by EU Member countries, further improvements were needed.

7. The OECD Secretariat proposed to collect methodological information on the valuation of equity from its member countries and asked for volunteers to test the European method.

<u>April 2005: *OECD Task Force on the Valuation and Measurement of Equity (TFVME)*</u>

8. The *Task Force on the Valuation and Measurement of Equity* (TFVME) was mandated to clarify the treatment of equity in 1993 SNA by reviewing in depth the conceptual and methodological issues surrounding equity and its components in the context of the sequence of accounts. The purpose was to draft recommendations to be forwarded first to the Advisory expert Group (AEG) and ultimately to the Inter-secretariat Working Group on National Accounts (ISWGNA) for amending 1993 SNA, so as to expand and clarify the existing sections on equity and to add additional sections where it is deemed necessary.

9. A first meeting of the "*OECD Task Force on the Valuation and Measurement of Equity - TFVME -*" took place in April 2005, in Ottawa (Canada). Its main objectives and conclusions were:

– reviewing and assessing methodological issues and practical approaches to the valuation of equity in OECD countries;

  -- the Eurostat method (*ratio capitalisation to own funds at book value* - OFBV - applied from listed to non-listed companies) was considered as the best method to promote consistency across countries,

  -- an international database of capitalisation ratios should be developed and maintained which could provide smaller economies with such capitalisation ratios.

- drafting recommendations relating to a clarification of alternatives for the valuation of unquoted shares and a possible expansion of the equity instrument breakdown in the SNA;

  -- it was recommended to extend the split of F.5/AF.5 in 1993 SNA in line with ESA95 with a breakdown between F.51/AF.51 (sub-broken between quoted shares, unquoted shares and other equity) and F.52/AF.52 (Mutual fund shares, with possible further splits in a satellite account),

  -- a need to further define the split between *quoted* and *unquoted shares*, as well as the split between *unquoted shares* and *other equity,* was identified.

– informing the Advisory Expert Group (AEG) on proposed revisions of the 1993 SNA and other Groups (such as Canberra II, IMF BOPCOM, ...) on preliminary conclusions.

July 2005: *Advisory Expert Group on National Accounts*

10. The TFVME presented a *paper for information* to the AEG in July 2005 explaining the reasons for its work and the need for further extension and clarification in the SNA.

11. The following points were raised during the discussion:

- the TFVME should ensure it uses national accounting terminology in its reports
- work of the TFVME should be coordinated with work in similar fields undertaken in Europe by the ECB, and by the Canberra II Group
- outputs from the TFVME that are potentially going to be used in the updated SNA should focus on the underlying concepts and not be too prescriptive.

12. The AEG suggested that the Task Force should take into account the work already undertaken on this topic in Europe and related work by the Canberra II Group and, as suggested for the clarification question on non-market output, should document reasons for changes and proposals rather than simply present redrafted text.

October 2005: *OECD Task Force on the Valuation and Measurement of Equity (TFVME)*

13. In a second meeting of the TFVME, which took place in October 2005, basic issues were reminded to the Group, in particular, the importance of a conceptual framework and harmonised methodological approach to the measurement of equity, the complex nature of equity and of its valuation, the link between the balance sheet account and the international investment position. Moreover, the results of the survey on country practices, launched after the 2004 *Workshop on Unquoted Shares* meeting, were presented to the experts and showed that country experience with respect to valuing equity was quite varied.

14. Concerning the method to be adopted to value unquoted shares, it was agreed that in SNA the approach would be generalised and presented either as the *Market capitalisation method* which has a wide support but raises some sensitive issues, or as other methods such as the *Net asset value* (NAV), estimated by a number of countries but presenting shortcomings, the *Present value* (PV), better adapted to certain economies but which raises an important comparability concern, or the *Own funds at book value* (OFBV), widely used in both balance sheet accounts and IIP and which remains a valuable option. In addition, it was agreed that the principle of flexibility would be adopted in the application of the liquidity discount in the market capitalisation method.

15. The TFVME agreed on the basic split between corporate shares (F.51/AF.51) and Investment fund units (F.52/AF.52) but did not support any further breakdown.

January/February 2006: *Advisory Expert Group on National Accounts*

16. The final report of the TFVME was submitted to the AEG in January 2006. It contained several items related to "Equity", including, among others, the treatment of unquoted shares and the equity components' detail.

17. In its report, the Task Force recommended that the new SNA should be more flexible with the main recommendation for valuing unquoted shares being to use transaction prices where they are available. In the absence of transaction prices, several possible methods could be used:

- market capitalisation method (with choice of applying a liquidity discount factor);

- net asset value;
- present value;
- own funds at book value.

18. It also recommended that the classification of the new SNA should distinguish the following components inside the position AF5 *Shares and other equities*:

AF5.1: Equity
AF5.1.1 Quoted shares
AF5.1.2 Unquoted shares
AF5.1.3 Other equity

AF5.2: Investment fund shares

19. As a conclusion regarding these two questions:

– the AEG agreed to the principle of flexibility in the treatment of unquoted shares. It also agreed that transaction prices are the preferred means of valuing unquoted equity, but did not rank the other alternative methods proposed for valuing unquoted equity when transaction prices are not available.

– the AEG concluded that the possible breakdowns of the item "Shares and other equity" into "Equity" and "investment funds" with equity being further disaggregated between quoted shares, unquoted shares and other equity should be discussed in the context of the classification of financial assets and liabilities.

3. White-cover version of the 2008 SNA

20. The pre-edit white-cover version of the 2008 SNA was approved by the Bureau of the UN Statistical Commission in August 2008 and is now available on the UNSD website (http://unstats.un.org/unsd/sna1993/draftingphase/volume1and2.asp). In particular, changes regarding the valuation of shares have been incorporated in the following chapters:

21. In Chapter 3, Stocks, flows and accounting rules, E. Accounting rules, 2. Valuation, the paragraphs 3.123 and followings deal with the issue of the non-availability on market prices for transactions and mention substitutive methods.

22. In Chapter 11, The financial account, C. Recording of individual financial instruments, 5. Equity and investment fund shares, the instrument, previously called "Shares and other equity" in 1993 SNA, has been renamed "*Equity and investment fund shares*" and is broken down into "*Equity*" and "*Investment funds shares or units*" with "*Equity*" being further disaggregated between listed shares, unlisted shares and other equity and "*Investment funds shares or units*" being divided into money market fund shares and other investment funds shares. (paragraphs 11.81 to 11.102)

23. In Chapter 13, The balance sheet, C. The entries in the balance sheet, 3. Financial assets and liabilities, under Equity and investment funds, the paragraphs 13.68 to 13.74 detail the various methods of valuation for the sub-items mentioned above: listed shares should be valued at their current prices; for unlisted shares, an estimate is required and alternative methods, to be used according to the circumstances and the plausibility of results, are explained: recent transaction price, net asset value, present value/price to earnings ratios, book values reported by enterprises with macro-level adjustments by the statistical compiler, own funds at book value, apportioning global value; other equity should be valued as equal to the

value of the unit's assets less the value of their liabilities; investment fund shares should be valued in a manner similar to the methods proposed for equity.

24. In paragraph 13.72, it is clearly stated that: *"If the current market price is not directly observable, the decision about the method to adopt should take into account the availability of information as well as judgments as to which available method best approximates market values."* It is also added that: *"Compilers should be transparent and should state clearly the method(s) used.*"

4. Follow-up

25. The survey on country practices, launched after the 2004 *Workshop on Unquoted Shares* meeting, related to a small number of countries (Belgium, Canada, Finland, France, Italy, Japan, Netherlands, Spain, Sweden, United Kingdom and United States). Two countries (Ireland and Israel) participated in this exercise but had no financial balance sheets at the time of the survey.

26. The information collected in 2005 now needs to be updated and completed with other OECD countries' experiences. A new survey is therefore proposed to the WPFS delegates to know which method is applied to calculate Unquoted Shares in the Financial Accounts.

OECD SURVEY ON VALUATION

OF QUOTED AND UNQUOTED SHARES IN FINANCIAL ACCOUNTS

1 While in the 1993 SNA, no reference to specific issues or methods regarding the valuation of shares is mentioned, in the revised 2008 SNA, various methods of valuation for the sub-items of "*Equity*", listed shares, unlisted shares and other equity, and for "*Investment funds shares or units"* are proposed and defined in Chapter 13, The balance sheet. Paragraphs 13.68 to 13.74 it is said that:

- listed shares should be valued at their current prices;
- for unlisted shares, an estimate is required and alternative methods, to be used according to the circumstances and the plausibility of results, are explained: recent transaction price, net asset value, present value/price to earnings ratios, book values reported by enterprises with macro-level adjustments by the statistical compiler, own funds at book value, apportioning global value;
- other equity should be valued as equal to the value of the unit's assets less the value of their liabilities;
- investment fund shares should be valued in a manner similar to the methods proposed for equity.

2 The questionnaire launched in 2004-2005 requested information regarding shares and other equity and the methods used to calculate their values as well as the sources of this information. Moreover, explanation about the consistency/inconsistency between financial accounts and balance of payment statistics were asked. Eleven countries had replied to this questionnaire.

3 In 2006, a more specific survey was launched on the type of valuation used to estimate financial assets, liabilities and corresponding transactions for two sectors, S13 (General Government) and S14 (Households). It concerned the categories F3 "Securities other than shares", F5 "Shares and other equity", and F6 "Insurance technical reserves". Its main aim was to know whether the estimate for flows (net acquisition of financial assets or net incurrence of financial liabilities) included a part which should be in principle included in the revaluation account and not in the transaction account.

4 The present survey, which corresponds to an update of the first questionnaire, deals with more specific questions regarding the method used to calculated shares, of which unquoted shares. In particular, it would be interesting to know whether countries apply the method recommended by Eurostat in the *Manual on Sources and Methods*, Issue N°9, Valuation of unquoted shares, adopted in 2004 or apply other methods as those mentioned in the revised 2008 SNA. It aims at describing current methods used in countries, and highlighting the differences, as well as bringing out problems which still need to be addressed.

GENERAL QUESTIONS

1. Do you make a split of the 1993 SNA category 'Shares and other equity' (F5) into sub-categories of 'Shares and other equity, except mutual fund shares' (F51) and Mutual fund shares' (F52) in your financial accounts?

2. Do you make a split of the 1993 SNA category ‘Shares and other equity’ (AF5) into sub-categories of ‘Shares and other equity, except mutual fund shares’ (AF51) and Mutual fund shares’ (AF52) in your financial balance sheets?

3. Do you make a split of the 1993 SNA category ‘Shares and other equity, except mutual fund shares’ (F51) into sub-categories of quoted shares (F511), unquoted shares (F512) and other equity (F513) in your financial accounts? (see definitions in Annex 1)

4. Do you make a split of the 1993 SNA category ‘Shares and other equity, except mutual fund shares’ (AF51) into sub-categories of quoted shares (AF511), unquoted shares (AF512) and other equity (AF513) in your financial balance sheets? (see definitions in Annex 1)

5. What is the practical computational link between stocks and flows:

5.1 Are stocks the starting point for transactions? If so, how do you compile stocks?

5.2 Are transactions the starting point for stocks? If so, how do you compile transactions?

5.3 Are quoted shares (F511), unquoted shares (F512) and other equity (F513) also available in your revaluation accounts?

6. Is there any consistency between your Financial Accounts, Balance of Payments Statistics (BOP) and International Investment Position Statistics (IIP) in terms of different types of equity investment (Listed corporate equity included in portfolio investment; Listed Inter-company (direct) equity investment; Unlisted corporate (direct) equity investment; Unlisted Inter-company (direct) equity investment etc.)? Please explain.

SPECIFIC QUESTIONS

5. Sources of the data with regard to quoted shares, unquoted shares and other equity

1.1. Please describe, **by 1993 SNA institutional sectors**, and **on the asset and liability sides,** the main sources and supplementary information used to compile financial accounts (or financial balance sheets) with regard to quoted shares, unquoted shares and other equity. (**please fill in the table in the appendix at the end of the survey**)

1.2. In particular, specify which of the following sources is/are used:

a) Accounting records (balance sheets and profit and loss accounts) of enterprises introduced for purposes other than financial accounts;

b) Supervisory reports;

c) Administrative and fiscal data;

d) Statistics on the issuance of securities;

e) Foreign direct Investment Statistics;

f) Specific surveys introduced for financial accounts purposes;

g) Other sources.

1.3. For each source, please give the following information:

i) Frequency (monthly, quarterly, annual) and timeliness of the data sources;

ii) Coverage of the total population of enterprises (total number and evolution over time);

iii) Coverage of the sample (total number and evolution over time);

iv) Availability of transactions and/or balance sheet data;

v) Valuation of equity assets and liabilities in the data sources (market values, book values, nominal values);

vi) Combination of various types of equity and of sectors in the sources;

vii) Any other information that might be considered as relevant.

6. Method of valuation of quoted shares and compilation of unquoted shares

2.1. How do you value quoted shares in your financial accounts, according to 1993 SNA institutional sectors:

2.1.1. Are they valued at their current prices, as stated in 2008 SNA?

2.1.2. If not, how are they valued? Please explain

2.2. How do you value quoted shares in your financial balance sheets, according to 1993 SNA institutional sectors:

2.2.1. Are they valued at their current prices, as stated in 2008 SNA?

2.2.2. If not, how are they valued? Please explain

2.3. Which alternative method(s) do you use to compile unquoted shares in your financial accounts and balance sheets, to approximate market values of shareholders' equity:

2.3.1. Do you apply the method recommended by Eurostat in the *Manual on Sources and Methods*, Issue N°9, Valuation of unquoted shares, adopted in 2004, which has been discussed by the OECD *Task Force on the Valuation and Measurement of Equity* (TFVME)?

2.3.1.1. Do you contribute to the *Pan-European database of quoted corporations*?

2.3.1.2. Do you exclude specific quoted companies:

2.3.1.2.1. Quoted company with small own funds? If so, which is the threshold?

2.3.1.2.2. Quoted companies in the Stoxx-600 index?

2.3.1.3. How many branches do you use to evaluate the stocks of unquoted shares? In particular, do you isolate *Information and Communication Technology* activities?

2.3.1.4. Which average of the ratios of capitalisation do you use? Simple average, weighted average or median?

2.3.1.5. Do you use a liquidity discount to correct the weighted average of the ratios of capitalisation to own funds of quoted companies?

2.3.1.6. Do you apply the *International Accounting Standards* directive?

2.3.2. Do (will) you follow 2008 SNA recommendations? (see explanation in Annex 2). Please explain the method(s) you (will) use.

2.3.2.1. *Recent transaction price*

2.3.2.2. *Net asset value (NAV)*

2.3.2.3. *Present value/price to earnings ratios (PER)*

2.3.2.4. *Book values reported by enterprises with macro-level adjustments by the statistical compiler*

2.3.2.5. *Own funds at book value (OFBV)*

2.3.2.6. *Apportioning global value*

2.3.3. Which other method do you use? Please explain.

ADDITIONAL QUESTIONS REGARDING INVESTMENT FUNDS SHARES

1. Are supplementary classifications of investment fund shares available in your accounts? If so please indicate for which sub-categories? (see definitions in Annex 1)

1.1. Are investment fund shares classified according to the composition of their assets?

1.1.1. Are *Money market fund shares* separately available?

1.1.2. Are other types of investment fund shares available separately?

1.1.2.1. Real estate fund shares

1.1.2.2. Bond fund shares

1.1.2.3. Mixed fund shares

1.1.2.4. Equity fund shares

1.1.2.5. Other fund shares

1.2. Are investment fund shares distinguished between listed and unlisted investment fund shares?

2. Please indicate which sources are used with regard to investment fund shares.

3. How do you value investment fund shares in your financial accounts, according to 1993 SNA institutional sectors

3.1. Are they valued at market prices, as stated in 2008 SNA?

3.2. If not, how are they valued? Please explain.

APPENDIX

Sources of the data with regard to quoted shares, unquoted shares and other equity

Specify, in each cell, on the line of the sector, which of the following sources is/are used, by writing the corresponding letter A to G: A. Accounting records (balance sheets and profit and loss accounts) of enterprises introduced for purposes other than financial accounts; B. Supervisory reports; C. Administrative and fiscal data; D. Statistics on the issuance of securities; E. Foreign direct Investment Statistics; F. Specific surveys introduced for financial accounts purposes; G. Other sources (please specify in a note below the table).	**For each source, please give the following information:** i. Frequency (monthly, quarterly, annual) and timeliness of the data sources; ii. Coverage of the total population of enterprises (total number and evolution over time); iii. Coverage of the sample (total number and evolution over time); iv. Availability of transactions and/or balance sheet data; v. Valuation of equity assets and liabilities in the data sources (market values, book values, nominal values); vi. Combination of various types of equity and of sectors in the sources; vii. Any other information that might be considered as relevant.

	ASSETS				LIABILITIES			
	AF511	**AF512**	**AF513**	**AF52**	**AF511**	**AF512**	**AF513**	**AF52**
S11 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information	…							

Notes:

APPENDIX (continued)

Sources of the data with regard to quoted shares, unquoted shares and other equity, by sector

	ASSETS				LIABILITIES			
	AF511	AF512	AF513	AF52	AF511	AF512	AF513	AF52
S121 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information								
S122 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information								

Notes:

APPENDIX (continued)

Sources of the data with regard to quoted shares, unquoted shares and other equity, by sector

	ASSETS				LIABILITIES			
	AF511	AF512	AF513	AF52	AF511	AF512	AF513	AF52
S123 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information								
S124 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information								

Notes:

APPENDIX (continued)

Sources of the data with regard to quoted shares, unquoted shares and other equity, by sector

	ASSETS				LIABILITIES			
	AF511	AF512	AF513	AF52	AF511	AF512	AF513	AF52
S125 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information								
S1311 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information								

Notes:

APPENDIX (continued)

Sources of the data with regard to quoted shares, unquoted shares and other equity, by sector

	ASSETS				LIABILITIES			
	AF511	AF512	AF513	AF52	AF511	AF512	AF513	AF52
S1312-S1313 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information								
S1314 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information								

Notes:

APPENDIX (continued)

Sources of the data with regard to quoted shares, unquoted shares and other equity, by sector

	ASSETS				LIABILITIES			
	AF511	AF512	AF513	AF52	AF511	AF512	AF513	AF52
S14-S15 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information								
S2 i. Frequency and timeliness; ii. Coverage of the total population; iii. Coverage of the sample; iv. Availability of flows and/or stocks data; v. Valuation of equity assets and liabilities; vi. Combination of various types of equity and of sectors; vii. Any other information								

Notes:

ANNEX 1 – DEFINITIONS OF EQUITY

Extract of the New 2008 SNA

Chapter 11. The financial account, C. Recording of individual financial instruments, §11.81-§11.102

5. Equity and investment fund shares

11.81 Equity and investment fund shares have the distinguishing feature that the holders own a residual claim on the assets of the institutional unit that issued the instrument. Equity represents the owner's funds in the institutional unit. In contrast to debt, equity does not generally provide the owner with a right to a predetermined amount or an amount determined according to a fixed formula.

11.82 Investment fund shares have a specialized role in financial intermediation as a kind of collective investment in other assets, so they are identified separately.

Equity

11.83 ***Equity comprises all instruments and records acknowledging claims on the residual value of a corporation or quasi-corporation after the claims of all creditors have been met.*** Equity is treated as a liability of the issuing institutional unit.

11.84 Ownership of equity in legal entities is usually evidenced by shares, stocks, depository receipts, participations, or similar documents. Shares and stocks have the same meaning, while depository receipts are securities that facilitate ownership of securities listed in other economies; a depository issues receipts listed on one exchange that represent ownership of securities listed on another exchange. Participating preferred shares are those that provide for participation in the residual value on the dissolution of an incorporated enterprise. Such shares are also equity securities, whether or not the income is fixed or determined according to a formula. (Non-participating preferred shares are treated as debt securities as explained above.)

11.85 Equities are sub-divided into:

a. listed shares;

b. unlisted shares; and

c. other equity.

Both listed and unlisted shares are negotiable and are therefore equity securities.

11.86 ***Listed shares are equity securities listed on an exchange.*** They are also referred to as quoted shares. The existence of quoted prices of shares listed on an exchange means that current market prices are usually readily available.

11.87 ***Unlisted shares are equity securities not listed on an exchange.*** Unlisted shares can also be called private equity; venture capital usually takes this form. Unlisted shares tend to be issued by subsidiaries and smaller scale enterprises and typically have different regulatory requirements but neither qualification is necessarily the case.

11.88 ***Other equity is equity that is not in the form of securities.*** It can include equity in quasi-corporations (such as branches, trusts, limited liability and other partnerships), unincorporated funds and notional units for ownership of real estate and other natural resources. The ownership of some international organizations is not in the form of shares and so is classified as other equity (although equity in the Bank for International Settlements is in the form of unlisted shares).

11.89 Transactions in equity in the financial account cover three different types of transactions. The first is the recording of the value of shares bought and sold on an exchange. From time to time corporations restructure their shares and may offer shareholders a new number of shares for each share previously held. These bonus shares are not however treated as transactions but as a form of redenomination since the value of the new number of shares times the new price represents the same proportion of the value of the corporation as the old number of shares times the old price.

11.90 The second type of transaction concerning equity is capital injections by the owners or, on occasion, withdrawals of equity by the owners. Dividends are recorded in the distribution of primary income account as if they were always paid out of operating surplus earned in the current period. An enterprise, though, usually aims to have a smooth track record of dividend payments and will therefore sometimes pay out more than the current operating surplus and sometimes rather less, the balance carrying through to the accumulation accounts by way of saving (which might be negative). However, if the dividends paid out are significantly in excess of recent average earnings, then the excess should no longer all be recorded in the distribution of primary income account but should be regarded as a withdrawal of equity by the owners and be reflected under this item. Such payments are sometimes referred to as “super-dividends”. Withdrawals may take the form of proceeds from sales of fixed or other assets, transfers of fixed and other assets from the quasi-corporation to the owner and funds taken from accumulated retained earnings and reserves for the consumption of fixed capital. (The particular case of payments between government and public enterprises is discussed in chapter 22.) Equally, liquidating dividends paid to shareholders when an enterprise becomes bankrupt should be recorded as withdrawal of equity.

11.91 Conversely, owners may inject extra finance into an enterprise. If the enterprise is publicly controlled and runs a regular deficit each year as a matter of government economic or social policy that is covered by a receipt from government to match this deficit, the payment is regarded as a subsidy. If the payment from government is irregular but clearly designed to cover accumulated losses, it is treated as a capital transfer. If government makes an investment grant to a public corporation this also is recorded as a capital transfer. However, there may be cases where the owners (public or private) agree to make new finance available to permit expansion, say, and represent not just a reduction of debt but a positive addition to the enterprise’s own funds. The finance consists of funds for use by the enterprise in purchasing fixed assets, accumulating inventories, acquiring financial assets or redeeming liabilities. Transfers by owners of fixed and other assets to the quasi-corporation are also included as addition to equity. Such payments are to be included in this item as an acquisition of equity, even if no new shares are issued in response to the financial contribution.

11.92 The third type of transaction concerning equity is the special case of equity addition and withdrawal that happens in respect of the reinvestment of earnings of foreign direct investment enterprises. In the distribution of primary income account, the share of operating surplus proportionate to the foreign direct investor’s share of equity is shown as being withdrawn and distributed to him as reinvested earnings. Because it is not actually withdrawn, it adds to the value of the equity of the enterprise by a recording as reinvestment of earnings in the financial account.

11.93 Notional resident units are treated in the same manner as quasi-corporations. For example, an extension to a holiday home of a non-resident is recorded as an increase in the value of an asset owned by a resident notional unit with a matching increase in the equity of the non-resident owner. However, the entire income from a holiday home is treated as a withdrawal by the owner of the notional resident unit so there are no earnings left to be reinvested. This ensures that the entire net worth of the notional resident unit is the value of the property in question.

Investment fund shares or units

11.94 ***Investment funds are collective investment undertakings through which investors pool funds for investment in financial or non-financial assets.*** Those units acquiring shares in the funds thus spread their risk across all the instruments in the fund.

11.95 In a detailed flow-of-funds table, the acquisition of instruments by the investment funds is shown separately from the acquisition of shares in the funds and a full analysis of the from-whom-to-whom transactions captures the holdings of instruments via investment funds without needing to have a separate category for it. However, as noted in connection with the category of inter-bank positions, timely flow-of-funds tables are not always available. Therefore, in order to distinguish when nonfinancial units acquire instruments such as securities and equities directly and when they are acquired via investment funds, the latter are shown separately.

11.96 Investment funds include mutual funds and unit trusts. Investment funds issue shares when a corporate structure is used and units when a trust structure is used. Investment fund shares refer to the shares issued by mutual funds, rather than the shares the mutual fund may hold.

11.97 Investment funds are divided into money market funds (MMF) and non-MMF investment funds. The fundamental difference between them is that MMFs typically invest in money market instruments with a residual maturity of less than one year, are often transferable and are often regarded as close substitutes for deposits. Non-MMF investment funds typically invest in longer-term financial assets and possibly real estate. They are not transferable and are typically not regarded as substitutes for deposits.

11.98 The increase in value of investment fund shares or units other than from holding gains and losses and after any reinvested earnings are deducted is shown in the SNA as distributed to the share or unit holders and reinvested by them in the financial account.

Money market fund shares or units

11.99 ***Money market funds are investment funds that invest only or primarily in short-term money market securities such as Treasury bills, certificates of deposit, and commercial paper.*** Money market funds sometimes are functionally close to transferable deposits, for example, accounts with unrestricted cheque-writing privileges. If these fund shares are included in broad money in the reporting economy, they should be recorded as a separate item to allow reconciliation with monetary statistics. ***Money market fund shares or units represent a claim on a proportion of the value of an established money market fund.***

Other investment fund shares or units

11.100 ***Other investment fund shares or units represent a claim on a proportion of the value of an established investment fund other than a money market fund.***

Supplementary classifications of investment fund shares

11.101 It may be useful to distinguish listed from unlisted investment fund shares.

11.102 Investment funds invest in a range of assets including debt securities, equity, commodity-linked investments, real estate, shares in other investment funds and structured assets. Data on the composition of their assets could be useful in economies where investment funds are significant.

.

ANNEX 2 – METHODS OF COMPILATION OF UNQUOTED SHARES

Extract of the New 2008 SNA

Chapter 13. The balance sheet, C. The entries in the balance sheet, 3. Financial assets and liabilities, §13.68-§13.74

Equity and investment funds

Equity

13.68 ***Listed shares*** are regularly traded on stock exchanges or other organized financial markets. They should be valued in the balance sheets at their current prices.

13.69 For ***unlisted shares***, there may be no observable market prices for positions in equity not listed on a stock exchange. This situation often arises for direct investment enterprises, private equity, equity in unlisted and delisted companies, listed but illiquid companies, joint ventures, and unincorporated enterprises.

13.70 When actual market values are not available, an estimate is required. Alternative methods of approximating market value of shareholders' equity in a direct investment enterprise follow. These are not ranked according to preference, and each would need to be assessed according to the circumstances and the plausibility of results.

a. ***Recent transaction price***. Unlisted instruments may trade from time to time, and recent prices, within the past year, at which they were traded, may be used. Recent prices are a good indicator of current market values to the extent that conditions are unchanged. This method can be used as long as there has been no material change in the corporation's position since the transaction date. Recent transaction prices become increasingly misleading as time passes and conditions change.

b. ***Net asset value***. Appraisals of untraded equity may be conducted by knowledgeable management or directors of the enterprise, or provided by independent auditors to obtain total assets at current value less total liabilities (excluding equity) at market value. Valuations should be recent (within the past year).

c. ***Present value/price to earnings ratios***. The present value of unlisted equity can be estimated by discounting the forecast future profits. At its simplest, this method can be approximated by applying a market or industry price-to-earnings ratio to the (smoothed) recent past earnings of the unlisted enterprise to calculate a price. This method is most appropriate where there is a paucity of balance sheet information but earnings data are more readily available.

d. ***Book values reported by enterprises with macro-level adjustments by the statistical compiler.*** For untraded equity, information on "own funds at book value" can be collected from enterprises, then adjusted with ratios based on suitable price indicators, such as prices of listed shares to book value in the same economy with similar operations. Alternately, assets that enterprises carry at cost (such as land, plant, equipment, and inventories) can be revalued to current period prices using suitable asset price indices.

e. ***Own funds at book value***. This method for valuing equity uses the value of the enterprise recorded in the books of the direct investment enterprise, as the sum of (i) paid-up capital (excluding any shares on issue that the enterprise holds in itself and including share premium accounts); (ii) all types of reserves identified as equity in the enterprise's balance sheet (including investment grants when accounting guidelines consider them company reserves); (iii) cumulated reinvested earnings; and (iv) holding gains or losses included in own funds in the accounts, whether as revaluation reserves or profits or losses. The more frequent the revaluation of assets and liabilities, the closer the approximation to market values. Data that are not revalued for several years may be a poor reflection of market values.

f. ***Apportioning global value***. The current market value of a global enterprise group can be based on the market price of its shares on the exchange on which its equity is traded, if it is a listed company. Where an appropriate indicator may be identified (for example, sales, net income, assets, or employment), the global value may be apportioned to each economy in which it has direct investment enterprises, on the basis of that indicator, by making the assumption that the ratio of net market value to sales, net income, assets, or employment is a constant throughout the transnational enterprise group.

13.71 In cases where none of the above methods is feasible, less suitable data may need to be used. For example, cumulated flows or a previous balance sheet adjusted by subsequent flows may be the only sources available. Since these sources use the prices of previous periods, they should be adjusted for subsequent price developments, for example by using aggregate share price or asset price indices, and taking into account exchange rate movements, where relevant. The use of unadjusted summing of past transactions is not a recommended practice. Equity represents owners' funds. The means through which equity can be generated may take various forms, such as share issues, equity injections without any commensurate issue of shares (sometimes called "contributed surplus" or "capital contributions"), share premiums, accumulated reinvested earnings, or revaluation. While these should be taken into account when cumulated flows need to be used as a starting point to measure the value of equity, the different categories are all components of equity and need not be identified separately in other cases.

13.72 If the current market price is not directly observable, the decision about the method to adopt should take into account the availability of information as well as judgments as to which available method best approximates market values. Different methods may be suitable for different circumstances and a standard ranking of the alternative methods is not proposed for valuing instruments when current market prices are not directly observable. Compilers should be transparent and should state clearly the method(s) used. Methods for valuation of direct investment equity positions are discussed in more detail in the *OECD Benchmark Definition of Foreign Direct Investment*.

13.73 ***Other equity*** covers equity in any corporation or quasi-corporation that does not issue shares or units. Such corporations include public enterprises, the central bank, some special government units, partnerships, unlimited liability companies and quasi-corporations whenever they are institutional units without shares. Other equity should be valued as equal to the value of the unit's assets less the value of their liabilities.

Investment fund shares or units

13.74 Shares (or units) in money market funds or in other investment funds should be valued in a manner similar to the proposals under equity. Listed shares should be valued using the market price of the share. Unlisted shares should be valued according to one of the methods described above for unlisted equity.