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Changes in the structure of multinational groups – a challenge for external statistics compilers¹

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Nadia Accoto, Giuseppina Marocchi and Silvia Sabatini¹

Abstract

In recent years, multinational enterprises adopted new internationalization strategies, pursuing pioneering forms of cross-border investments if compared to the traditional acquisition, total or partial, of an existing non-resident company.

One of the most interesting patterns of internationalization consists of the cross-border merger between two companies and the subsequent creation, in the merged company country, of a branch (a unit without legal personality and with limited accounting reports). This new entity inherits all assets and liabilities of the merged company. Another approach foresees the ad hoc creation of one or more subsidiaries, just to be reorganized in a short time, immediately after the provision of participations, brands or business units.

These new strategies imply relevant problems in compiling external statistics, particularly in the field of foreign direct investment. The main issues for compilers lie in the identification of the subjects involved in the transactions in order to obtain all necessary information. This is especially in the case of branches, due to the elusive and indefinite nature of these institutional units.

The purpose of the work is to highlight the challenges that these innovations pose to external statistics compilers, through the analysis of some real cases recently observed in Italy.

Keywords: multinational enterprises, external statistics, foreign direct investment

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1. Introduction

In the context of the lively process known as globalisation, large multinational groups, whose relevance, dimension and complexity largely increased in the last few years, play a key role.

In this framework, companies gather into groups with different internationalization strategies and new forms of cross-border investments, better meeting the needs for rationality, efficiency and optimization.

As a side effect, external statistics compilers face several challenges, particularly, but not solely, in the field of foreign direct investment. These challenges mainly relate to the lack of exhaustive and timely information, the troubles in uniquely classifying events, the continuous and quick appearing-and-disappearing of institutional units, etc.

This paper tackles some relevant issues studying two real cases, occurred in the past few years, each with a significant impact on the Italian external statistics, merely in the field of compilation. The first refers to the merger of the Italian *Beni Stabili Spa* with a French company, occurred in early 2019 (Chapter 2); the second concerns the acquisition of *Pirelli* group by the Chinese *National Chemical Corporation*, occurred during the years 2015-2018 (Chapter 3).

The two examples have been selected among many others, as they represent quite well the complexity of such processes; furthermore, they offer a fairly wide range of occurrences worth of analysis.

For each case, the key events are described in chronological order, highlighting the impact on Balance of Payments and International Investment Positions (BoP/IIP) statistics and focusing on the issues raised for compilers.

The discussion concentrates only on the financial account of the balance of payments and on the international investment position. The events described in the paper also influence the *current account* of the BoP through the investment income item. Challenges for current account compilers are quite similar to those described here and are not examined in the paper.

The circumstances described in the examples are derived from public documents and correspond to known facts. On the opposite, **reported amounts are fictitious and bear no relationships with actual figures**. There is no possibility to infer, directly or indirectly, confidential information from tables in the paper.

2. The Beni Stabili merger

2.1 General description and impacts on external statistics

At the beginning of 2019, a cross-border merger by incorporation took place between the Italian company Beni Stabili Spa (Beni Stabili) and its French controlling investor Foncière des Régions SA (FdR). Beni Stabili was a real estate company, listed in Milan stock exchange. FdR was a *société anonyme* incorporated under French law operating in the real estate sector, listed in compartment "A" of the Euronext Paris. The rationale of the merger was the simplification of the group structure and the improvement of the synergies between its various divisions and business areas.

The merger resulted in a new real estate joint-stock company, called Covivio SA, located in France and listed both on Italian and French stock exchanges.

According to the proposal² approved during 2018 by the Boards of Directors of the two companies, the merger developed in three stages:

- a **first phase** in which the shareholders of Beni Stabili might accept to exchange Beni Stabili shares with shares of FdR or, alternatively, decide to exercise a withdrawal right. In this last case, FdR committed to repurchase Beni Stabili shares;
- a **second phase**, occurred in January 2019, in which the two companies merged in the new French company Covivio SA whereas the Italian company Beni Stabili ceased to exist; the new company undertook all the obligations in respect of the Beni Stabili's bonds issued before the merger and not yet expired (or converted);
- a **third phase**, simultaneous but logically distinct from the second, in which a permanent establishment in Italy (a branch) was created and provided with all the Beni Stabili's existing assets and liabilities, including its shareholdings in controlled companies (excluding the liabilities connected to the above mentioned Beni Stabili's bonds).

After the merger, the permanent establishment has continued to carry out without interruption the same activities performed by Beni Stabili using the same resources and employees.

From an external statistics point of view, this process generated wide-ranging effects, both on the balance of payments and international investment position. In order to outline them, let us suppose (see Figure 1) that the value of the participation of FdR in Beni Stabili, before the phase 1 started, was equal to 200 Euros.

Let us also assume that, because of the adherence to the offers, FdR purchased all the additional shares³, for a total amount of 100 Euros: 25 Euros coming from exercise of the withdrawal right (15 by resident and 10 by non-resident shareholders) and 75 Euros coming from acceptance of the exchange offer (45 by resident, 30 by non-resident shareholders).

² As stated in the "Explanatory report by Beni Stabili's Board of Directors In accordance with article 2501-quinquies of the Italian civil code, article 8 of decree No.108/2008 and article 70, paragraph 2, of the Italian Issuers' Regulation".

³ We are supposing that all the diffuse shareholders adhere to the offers; it means that during phase 1 FdR increased the percentage of ownership of Beni Stabili up to 100%.

Finally, let us suppose that the bonds issued by Beni Stabili before the merger amount to 60 Euros (35 held by resident investors and 25 held by non-residents).

Equity investment in Beni Stabili before the merger

Figure 1

<i>Equity investment in Beni Stabili</i>	<i>Amount (Euros)</i>
Total	300
FdR	200
Resident floating shareholders	60
<i>exercising withdrawal right</i>	15
<i>accepting exchange offer</i>	45
Non resident floating shareholders	40
<i>exercising withdrawal right</i>	10
<i>accepting exchange offer</i>	30

From the Italian perspective, in the **first phase**, the adherence to the offers implies an increase in the foreign direct investment liabilities: FdR raises the value of the equity investment in Beni Stabili of 100 Euros (according to our assumptions).

Besides, the shareholders who exercise the withdrawal right sell Italian portfolio equity securities (25 Euros): if they are non-resident (10 Euros), it results in a decrease of portfolio investment liabilities too (if they are resident, they “only” receive 15 Euros from a non-resident purchaser (FdR), determining an increase in other investment, assets (deposits)).

As to the shareholders who accept to exchange Italian shares with French ones (for total 75 Euros), if they are non-resident (30 Euros), the result is a decrease in portfolio investment liabilities; if they are resident (45 Euros), the exchange produces an increase in portfolio investment assets.

The following figure summarizes the recording in the Italian external statistics before, during and after the first phase.

Impact of Phase 1 on BoP/IIP

Figure 2

Impact of the Merger - PHASE 1 on external statistics						
	Opening position		Transactions		Closing position	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financial account		265	60	60	60	325
Direct investment - Equity						
in listed companies		200		100		300
in unlisted companies						
Portfolio investment - equity		40	45	-40 (= -10-30)	45	0
- debt securities		25				25
Other investment			15		15	
Net IIP/ Net e&o		-265	0		-265	

During the second and the third phase, no transaction actually occurs: the events involving FdR, Beni Stabili and portfolio investors (both resident and non-resident)

do not give rise to balance of payments recordings; yet they lead to changes in the IIP.

In the **second phase**, the merging of Beni Stabili in Covivio produces, as an immediate effect, the elimination of the stock in the direct investment equity liabilities (300 Euros).

Furthermore, concerning the former Beni Stabili bonds, the change in residence of the issuer (from Italian to French) produces a double effect on the portfolio investment (debt securities) of the financial account: the elimination of the stock liability (25 Euros, connected to the holding by non-resident investors) on one hand; the arising of an asset (35 Euros, holdings by residents) on the other (see first and second part of Figure 3).

All these changes in the IIP (all in all +360 Euros on a net basis: from -265 to +95) are reconciled through an entry in the *other changes in volume* account.

Impact of Phases 2 and 3 on IIP

Figure 3

Impact of the Merger - PHASE 2 and PHASE 3 on external statistics						
	Opening position (end of Phase1)		Intermediate position (end of Phase2)		Closing position (end of Phase3)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financial account	60	325	95	0	95	200
Direct investment - Equity						
in listed companies		300		0		
in unlisted companies						200
Portfolio investment - equity	45		45		45	
- debt securities		25	35	0	35	
Other investment	15		15		15	
Net IIP	-265		95		-105	

Similarly, in the **third phase**, a stock arises in the liability side of the direct investment (equity) item: it refers to the birth of the permanent establishment created by Covivio in place of (and in continuity with) Beni Stabili, as described before. Note that the amount recorded for the new liability is rather different from the previous one; this reflects the change in the nature of the direct investment enterprise: from a listed company, valued at market price, to an unlisted one. As at the end of phase 2, all changes in the IIP (-200 Euros on a net basis: from +95 to -105) are explained by *other changes in volume*.

2.2 Main challenges

The Beni Stabili case represents quite well the complexity of such processes of mergers by incorporation. Indeed, however clear and well defined in theory, they pose a number of practical problems as the events have to be identified, understood and finally recorded in the external statistics.

A first type of issue refers to the **availability of information** on mergers. Frequently, news about such events are available on the media but are partial, approximate and often inaccurate. Rarely, the merger plan is published in advance by the companies involved (this is the case of Beni Stabili). Also in this circumstance,

anyway, its materialisation has to be carefully verified (checking whether and when facts actually occurred); moreover figures have to be exactly quantified.

In cases in which minor entities are involved, the lack of information can be total.

Another relevant issue concerns the coherent **interpretation of cases**: do all the BoP compilers involved read the same events in the same way? In this case, for instance, do France and Italy agree that the events in phase 2 and 3 have to be recorded as *other changes in volume*? Within the EU, a dedicated network allows to exchange views on many questions related to the FDI, included classification of events. However, this question remains an open issue as a potential source of asymmetries and BoP errors and omissions, both at national and Euro area level.

A third issue refers to the possibility to **identify the effects on BoP/IIP items other than FDI equity** (as for portfolio investment in Beni Stabili case), recognizing them as an offspring of the merger itself and recording them consistently. This depends crucially on the system in place for the compilation of external statistics: as an example, a system based on direct reporting for FDI and on security-by-security data collection for portfolio investment allows deeper analysis and further cross-checking (through the identification of the securities issuers that have been involved in mergers and reorganizations). A brief overview of the Italian BoP/IIP direct reporting system is reported in Box 1.

Finally, a very peculiar issue regards the **branches**, units without legal personality whose status raises some additional points. Indeed, a *branch* is recognized as an institutional unit resident in the economy where it is located if it compiles or *may compile* (whether requested) a complete set of accounts, separated from those of the parent company⁴. If not, it is considered as an indistinct part of the foreign parent company. Thus, criteria for identification of branches are neither unique nor fully objective and are based on hard-to-find information (who can say if a set of accounts including a balance sheet could be possible and meaningful?).

This has two main consequences: first, the same unit might be classified as a resident branch or as a non-resident unit by different compilers, depending on their subjective interpretations.

Furthermore, the estimate of the figures relevant for the external statistics (value of the equity investment, income, dividends...) might be rather difficult in case of absence of an actual balance sheet.

In these respects, the case of Beni Stabili is unambiguous: the permanent establishment is clearly and doubtless a branch with a complete and definite system of accounts⁵. Nevertheless, cases are often much more borderline and pose relevant problems in many macro-economic aggregates measurement (not only BoP/IIP)⁶.

⁴ See IMF, Balance of Payments and International Investment Position Manual, Sixth Edition (par. 4.27)

⁵ The permanent establishment, as defined in the merger plan (see note 2), satisfies all the branches' requirements listed in the international manuals (see par 18.12-18.14 ESA2010 for example).

⁶ The identification of branches has implications for the statistical reporting of both the parent and the branch in different domains (BoP/IIP and national account at least). The operation of the branch should be excluded from the accounts of the economy of its head office and included in the statistics of the economy in which it is located. The delineation of parent and branch should be made consistently in both of the affected economies.

The Italian BoP/IIP Direct Reporting system

The Italian data collection system is mainly based on direct reporting by entities involved in cross-border transactions.

Direct reporting entities include all the resident banks, all the other financial intermediaries, and the central bank, for their own transactions and positions, and a sample of non-financial and insurance companies.

With reference to resident banks and other financial intermediaries, data are collected, on a census basis, within the framework of supervisory reporting, through specific statistical reports.

The non-financial and insurance company direct reporting system consists of a set of sample surveys covering specific non-financial and financial transactions and positions and varying in frequency from monthly to annual, depending on the investigated phenomena.

The total sample covers about 7,000 enterprises; the sample selection makes use of a BoP-specific business register (with a flag for the presence of FDI relationships) and is based on the size of enterprises and on their geographical location on the Italian territory. The most relevant enterprises in terms of dimension are included on a census basis.

This system offers different advantages; in particular a key factor is the direct contact with the reporting agents that allows the compilers to exchange different kind of information.

For instance, when a relevant event is reported by the media, the BoP/IIP compilers can:

- contact the units directly or indirectly involved for further explanations on the event, in order to: clearly outline the process, obtain the necessary details (including real amounts), correctly record in the external statistics all the relevant aspects (functional category and instruments such as equity, bonds and loans);^①
- evaluate the possibility to insert in the sample newly established companies.^②

The direct link with the reporting agent gives also the possibility to know about relevant operations in advance even when they do not jump to the press headlines or are not reported by commercial data providers.

^① In the two cases analysed in this paper, the frequent informal contacts with Beni Stabili and Pirelli gave a prompt and complete picture of all the most relevant aspects of the processes.

^② Remaining to our cases, Covivio and three of the new enterprises created within the Pirelli restructuring (see chapter 3) were included in the sample.

3. The acquisition of Pirelli and the consequent restructuring of the group

3.1 General description and impacts on external statistics

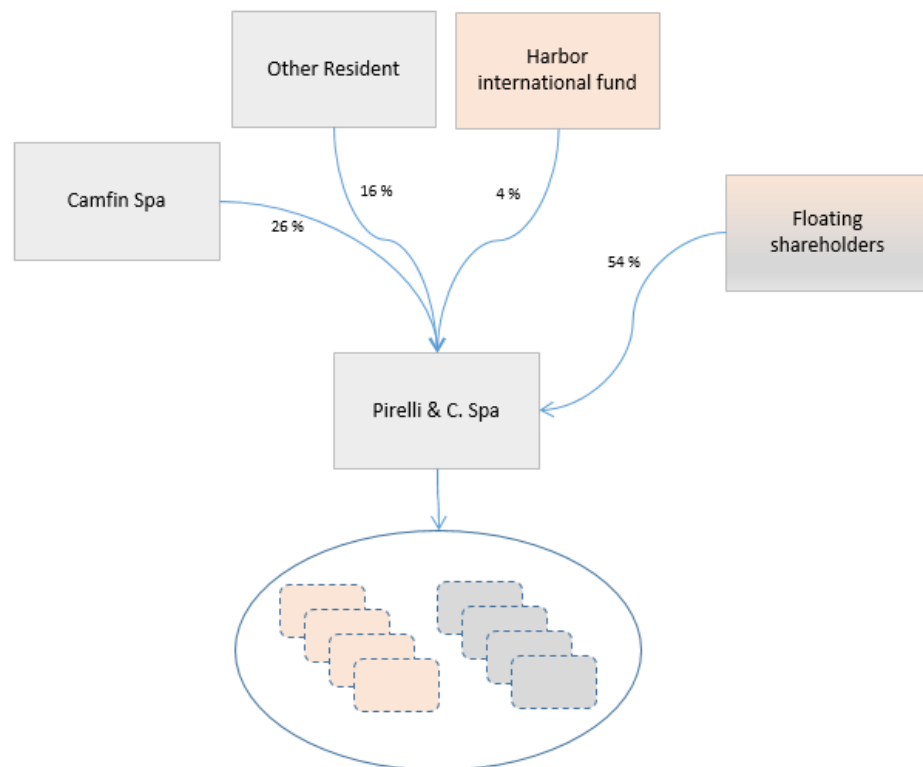
During the period 2015-2018 a deep restructuring involved the Italian company Pirelli & C. Spa, one of the main tyre makers globally, founded in Milan in 1872. The process developed in several steps⁷ and ended up in the acquisition of the entire Pirelli group by National Chemical Corporation (ChemChina), a state-owned enterprise headed by the Chinese Central Government.

⁷ See ["Explanatory report of the Board of Directors of Pirelli & C. S.p.A. on the merger by absorption of Marco Polo Industrial Holding S.p.A. into Pirelli & C. S.p.A."](#)

Before the restructuring, Pirelli was a listed company, owned by Camfin Spa, an Italian enterprise, and some other minor or floating shareholders (Figure 4, here and after, when not explicitly reported, the percentage of ownership is 100%).

Pirelli group before the acquisition

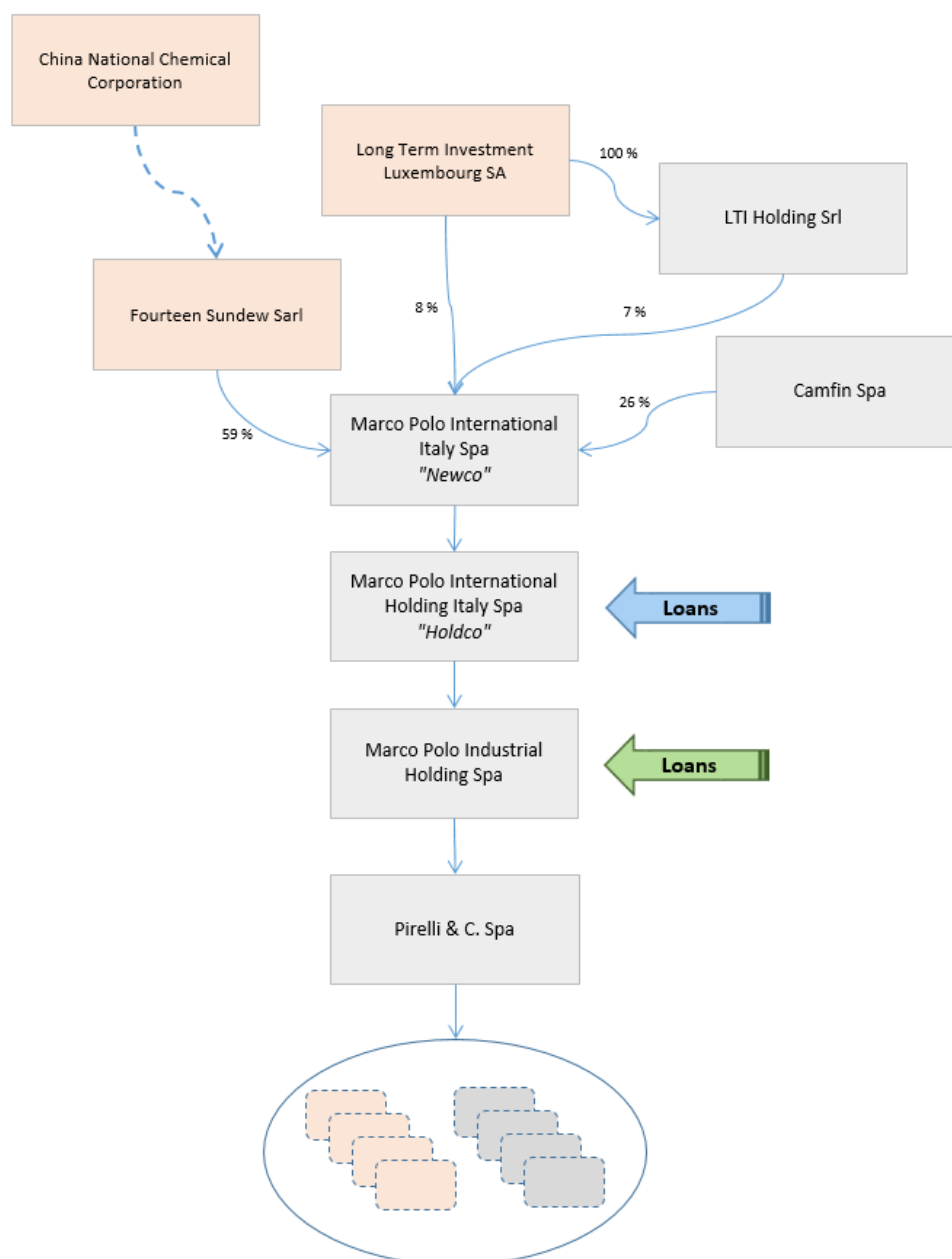
Figure 4



In the framework of the acquisition, in spring 2015, ChemChina, through its Luxembourgish subsidiary Fourteen Sundew Sarl, created three new Italian companies: Marco Polo International Italy Spa (Newco), with a share capital of 5 Euros, Marco Polo International Holding Italy Spa (Holdco) and Marco Polo Industrial Holding Spa, both with a small share capital as well. The three new companies are linked each other by an FDI (100%) relationship.

In the same period, Camfin sold its 26% participation in Pirelli to Marco Polo Industrial Holding Spa, receiving in return a direct participation in Newco. Afterwards, Marco Polo Industrial Holding launched a tender offer on the ordinary and savings share capital of Pirelli, aimed to acquire the entire share capital to achieve the delisting of Pirelli from Electronic Stock Market.

For the completion of the transactions, two loan agreements were signed between Holdco and Marco Polo Industrial Holding Spa, on one side, and a pool of Italian and foreign banks on the other. The two loans provided the necessary resources to finance the acquisition of Pirelli by Marco Polo Industrial Holding Spa (directly and indirectly, via a capital increase subscribed by Holdco). Figure 5 summarizes the ownership chain after the aforementioned operations.



From an external statistics point of view, this first step of the process produced effects both on the balance of payments and on the international investment position⁸. In order to outline them, let us suppose that the value of the Pirelli shares owned by non-resident floating shareholders at the end of 2014 was equal to 40 Euros, included in the Italian IIP as Portfolio investment, equity, liability.

During 2015, the following transactions occurred in the Italian BoP:

⁸ The participations abroad of Pirelli & C. Spa were not affected by the acquisition and they are not considered in the analysis of the Bop/IIP effects.

- an **investment of 5 Euros** in Direct investment, equity, liability, as a consequence of the creation of Newco;
- a **divestment of 40 Euros** in Portfolio investment, equity, liability which represented the adherence of non-residents to the tender offer launched by Marco Polo Industrial Holding SpA on the Pirelli share capital;
- an **increase of 100 Euros** in Other investment liability, due to the loans taken out by Marco Polo Industrial Holding SpA⁹ with non-resident banks.

At the end of 2015, the value of Newco increased (from 5 to 200 Euros) as a consequence of the indirect acquisition of Pirelli (through Holdco and Marco Polo Industrial Holding). The corresponding change in the IIP was reconciled through the *revaluation - other price changes* account¹⁰.

Impact of 2015 Pirelli acquisition on BoP/IIP

Figure 6

The acquisition of Pirelli						
	End of 2014		2015 Transactions		End of 2015	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financial account	0	40	0	65	0	300
Direct investment - Equity						
in listed companies						
in unlisted companies				5		200
Portfolio investment - equity		40		-40		
Other investment				100		100
Net IIP/Net Financial Account (non-bank sector)	-40		-65		-300	

Settlements of the described financial account transactions have not been reported in the table.

During 2016, in order to streamline and simplify group structure and indebtedness, the parent company Marco Polo Industrial Holding Spa and Pirelli & C. Spa merged by absorption into Pirelli & C. Spa. Consequently, the financial debt of Marco Polo Industrial Holding was transferred to Pirelli.

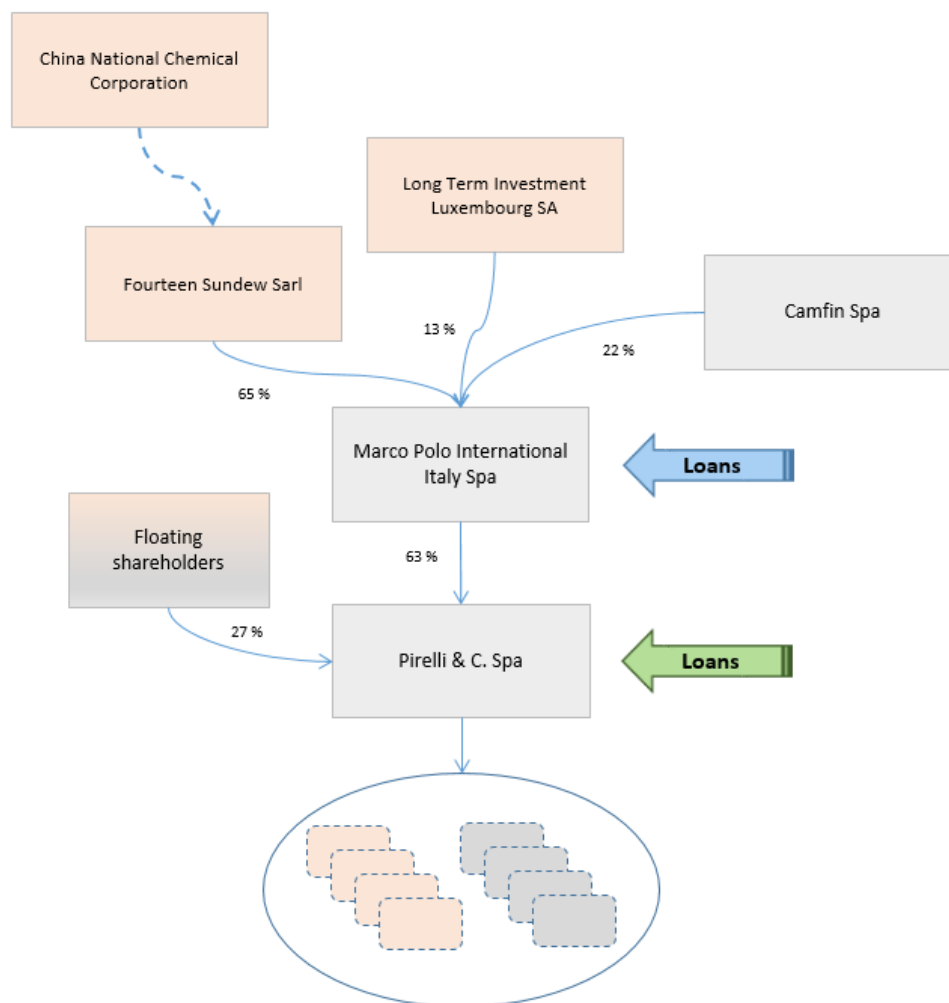
In the same year, Fourteen Sundew Sarl subscribed a capital increase of Newco increasing its percentage of ownership from 59% to 65%.

In 2017, Holdco merged into its shareholder Newco, while Pirelli started to repay the loan received and, on October 4 of the same year, returned to the stock market.

The ownership chain at the end of 2017 is described in Figure 7.

⁹ Holdco did not take out loans with non-resident banks.

¹⁰ The acquisition of Pirelli by Marco Polo Industrial Holding Spa did not affect the BoP as both the investor and the investee were Italian.



This phase of the restructuring process implied several BoP registrations:

- in 2016, **an investment of 50 Euros** in Direct investment, equity, liability due to the subscription of the capital increase of Newco by Fourteen Sundew Sarl;
- in 2017, **a divestment of 60 Euros** in Other investment liability as a result of the repayment by Pirelli of part of the loan previously subscribed by Marco Polo Industrial holding SpA and **an investment of 25 Euros** in Portfolio Investment, equity, liability, representing the newly listed Pirelli shares purchased by non-resident investors.

Impact of Pirelli group restructuring on 2016-2017
BoP/IIP

Figure 8

The restructuring of Pirelli group										
	End of 2015		2016 Transactions		End of 2016		2017 Transactions		End of 2017	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financial account	0	300	0	50	0	350	0	-35	0	315
Direct investment - Equity										
in listed companies										
in unlisted companies		200		50		250				250
Portfolio investment - equity								25		25
Other investment		100				100		-60		40
Net IIP/Net Financial Account (non-bank sector)	-300		-50		-350		35		-315	

Settlements of the described financial account transactions have not been reported in the table.

In 2018, a non-proportional demerger of Marco Polo International Italy Spa occurred and Marco Polo's stake in Pirelli was allocated to three Italian companies (Camfin Spa and the newly created Marco Polo International Italy Srl and LTI Italy). This last part of the process is not illustrated in this paper as it did not imply relevant BoP/IIP issues.

3.2 Main challenges

The acquisition of Pirelli and the consequent reorganization of the group structure put in evidence relevant challenges that an external statistics compiler face in this kind of situation.

Some of them had already emerged in the Beni Stabili case (described in Chapter 2) and refer to the availability of clear and comprehensive **information**, the coherent **interpretation** of cases and events, the **identification** of additional related effects, such as the resources granted by banks to finance the acquisition.

In addition, a new issue arises not encountered in Chapter 2. It concerns the **creation of ad-hoc short-living companies**, only functional for the acquisition and born to be absorbed at the end of the process (as for Newco, Holdco and Marco Polo Industrial Holding in the Pirelli case).

Such cases pose new problems for the compilers. First, a specific challenge regards the identification of the entities involved in the restructuring and of the subject(s) able to provide the necessary information. This aspect is particularly tricky as such companies often cease their business even before completing the financial year, without closing a balance sheet.

Furthermore, the creation of ad-hoc short-living companies is problematic for the correct interpretation of FDI flows: being them newly established companies, the foreign investment should be formally classified as "greenfield" even though, substantially, the unit is created for the mere acquisition of an already existing company, not for the establishment of a new production activity.

As an extra consideration, note that only the presentation of FDI by Ultimate Investing country reveals the presence of a Chinese investment in Italy, a relevant feature not visible in the standard presentation.

4. Conclusions

The paper focuses on the wide range of challenges that BoP compilers meet when dealing with new internationalization strategies adopted by multinational enterprises.

Some of them emerged in the two real-world cases analyzed in this paper. They can be summarized as follows.

- **Availability and timeliness of information.** The details provided by the media are often inaccurate, incomplete, approximate (for example with respect to the timing or the amounts). Thus they need to be verified and integrated via additional sources/information.
- Consistent **interpretation of facts** among all the external statistics compilers from countries involved in the cross border operations, in order to avoid potential asymmetries and reduce BoP errors and omissions.
- Correct **identification and allocation of the effects on BoP/IIP items other than FDI equity.** Operations of this type are often connected to portfolio investments and/or to other investment (e.g. takeover bid, financing from banking system). In this framework, the challenge is to identify all the details useful for a correct quantification and classification in the BoP/IIP schemes.
- Necessity to deal with peculiar cases, such as **branches** or **temporary ad-hoc units** that pose a specific category of problems. The relevance of these cases is general and goes beyond those that emerge during mergers, acquisition and corporate restructuring.

Some suggestions that may help external statistics compilers can be highlighted.

A pivotal starting point would be a **widespread sharing of the main definitions, classifications and methodologies.** In this respect, a clear and objective definition of “branches” could also help avoiding asymmetries. Furthermore, an international discussion on the treatment of the merger of a resident unit into a non-resident one (and vice versa) could be useful: is it correct that it should be treated as other adjustment in volume in the external statistics? Why some compilers classify it as a transaction? And how do they avoid consequent errors and omissions?

Another suggestion refers to the **data collection systems:** of course, the more flexible, granular and direct the system, the greater its potential. As mentioned, a system based on direct reporting allows a deeper understanding of the phenomena; moreover a security-by-security data collection for portfolio investment also allows deeper analyses and further cross-checking.

Finally, it is crucial to **exchange views** among compilers in order to share information on the event occurred and their recording in the BoP/IIP within the limit

of confidentiality issues. In this regard, the *FDI Network*¹¹ and the related initiatives and instruments (for example the methodological functional mailbox and the Asymmetries Resolution Meeting¹²) represent a very useful tool. A wider use of them could be a step forward in the solution of such issues.

¹¹ A network set up on a European level (ECB and Eurostat) for secure exchange of information related to FDI transactions or positions.

¹² The ARM is a periodical virtual meeting organized by the ECB and Eurostat aimed at reducing the biggest asymmetries.

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Beni Stabili SpA (2018): *Explanatory report by Beni Stabili's Board of Directors In accordance with article 2501-quinquies of the Italian civil code, article 8 of decree No.108/2008 and article 70, paragraph 2, of the Italian Issuers' Regulation.*

Changes in the structure of multinational groups A challenge for external statistics compilers

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*Bridging measurement challenges and analytical needs of external statistics:
evolution or revolution? (Lisbon, 17-18 February 2020)*

Introduction

In the context of globalisation, large **multinational enterprises** play a key role: companies gather into groups with different **internationalization strategies** and new forms of cross-border investments.

We will illustrate the challenges these processes pose

- from the **point of view of external statistics compilers** (challenges for BoP current account not seen),
- through the study of **two real cases**, occurred in the past few years in Italy;
- **reported amounts are fictitious** and bear no relationships with actual figures.



**The Beni
Stabili merger**

The Pirelli case

Challenges...

and hints

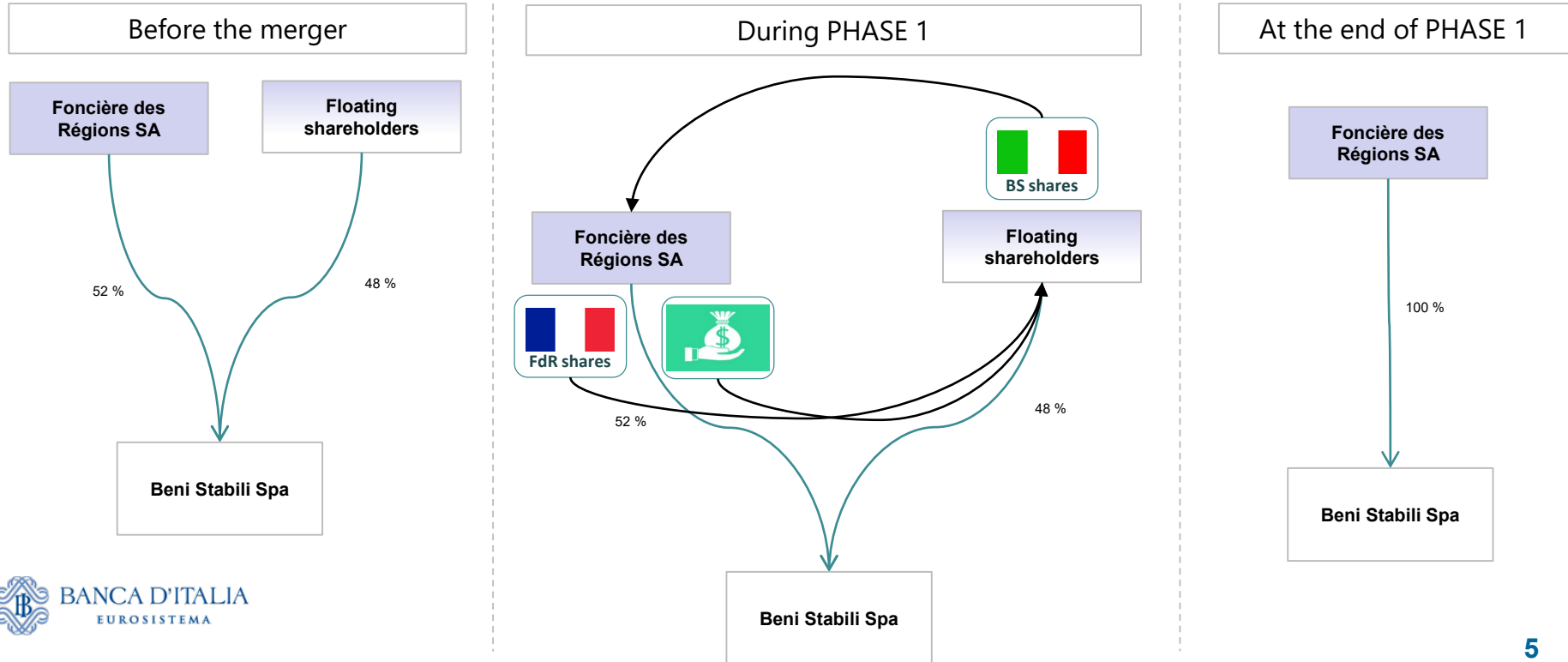
Conclusions

At the beginning of 2019, a cross-border **merger by incorporation** took place between the Italian company **Beni Stabili Spa** (Beni Stabili) and its French controlling investor **Foncière des Régions SA** (FdR).

Beni Stabili was a real estate company, listed in Milan stock exchange. FdR was a société anonyme incorporated under French law operating in the real estate sector, listed in compartment "A" of the Euronext Paris.

The process developed in several steps...

I. Shareholders of BS might exchange BS shares with FdR shares or money (withdrawal right) – PHASE 1

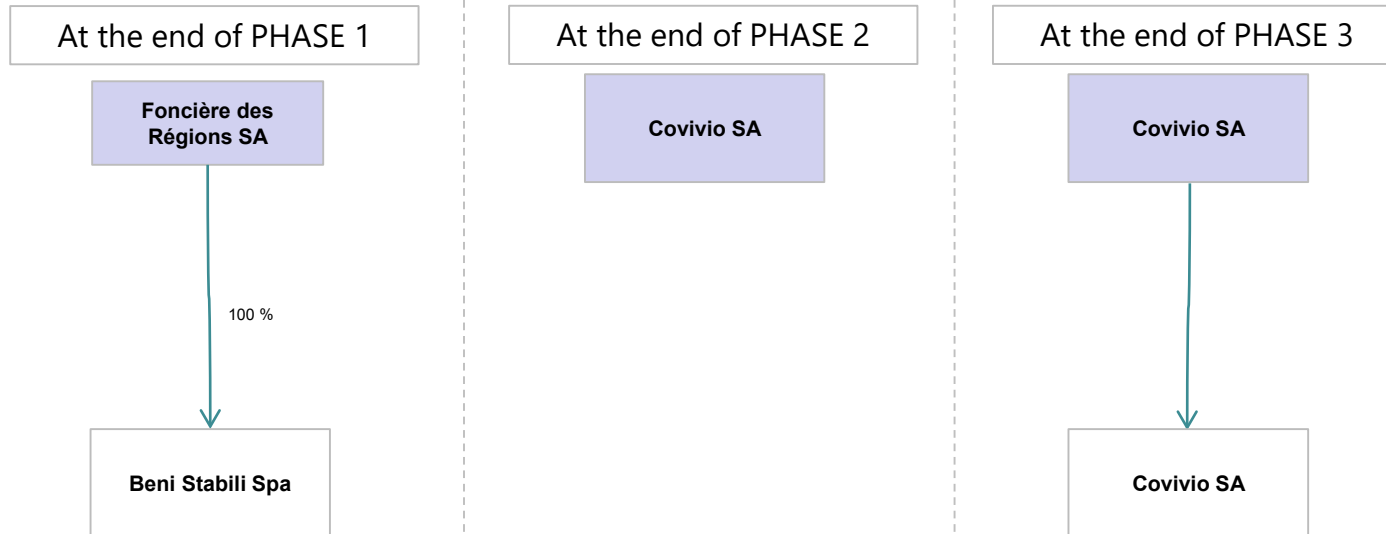


Effects on BoP and IIP

Impact of the Merger - PHASE 1 on external statistics						
	Opening position		Transactions		Closing position	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financial account		265	60	60	60	325
Direct investment - Equity						
in listed companies		200		100		300
in unlisted companies						
Portfolio investment - equity		40	45	-40	45	0
- debt securities		25				25
Other investment			15		15	
Net IIP/ Net e&o		-265	0		-265	



- II. The two companies merged in the new French company Covivio SA – PHASE 2
- III. In Italy a branch was created and provided with all the Beni Stabili's existing assets and liabilities – PHASE 3



Effects on BoP (none) and IIP

IIP changes
reconciled via
**other changes in
volume**

Impact of the Merger - PHASE 2 and PHASE 3 on external statistics						
	Opening position (end of Phase1)		Intermediate position (end of Phase2)		Closing position (end of Phase3)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financial account	60	325	80	0	80	200
Direct investment - Equity						
in listed companies		300		0		
in unlisted companies						200
Portfolio investment - equity	45		45		45	
- debt securities		25	35	0	35	
Other investment	15					
Net IIP	-265		80		-120	

The Beni
Stabili merger

The Pirelli case

Challenges...

and hints

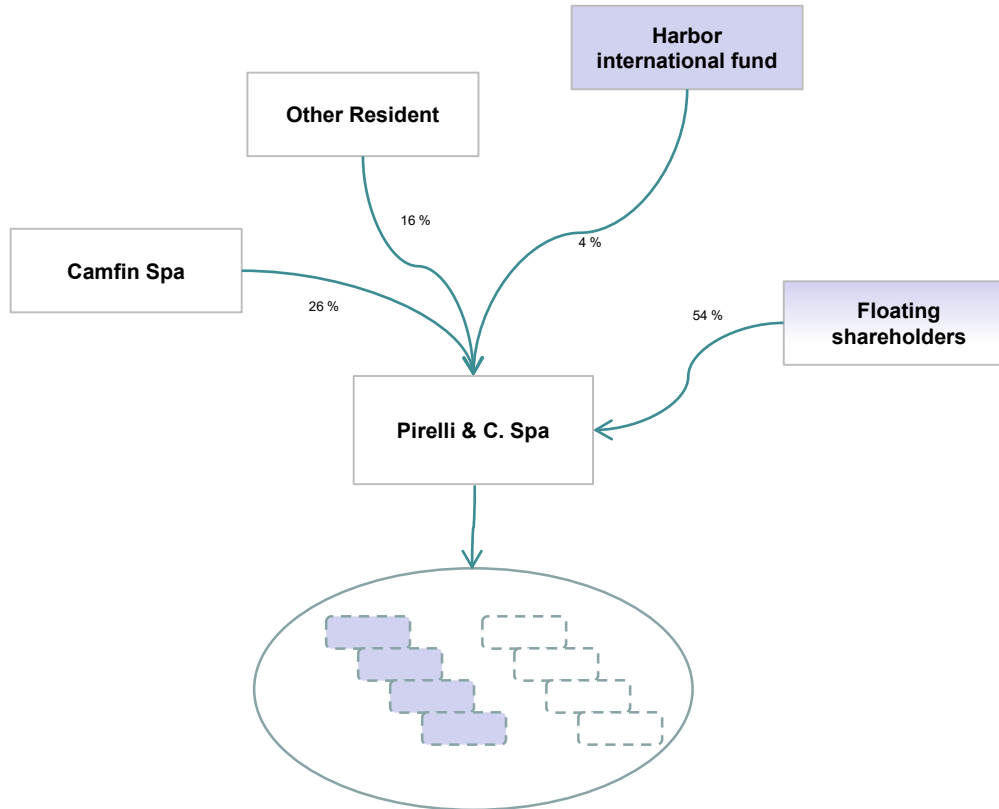
Conclusions

During the period 2015-2018 a **deep restructuring** involved the Italian company **Pirelli & C. Spa**, one of the main tyre makers globally, founded in Milan in 1872.

The process ended up in the **acquisition of the entire Pirelli group by National Chemical Corporation (ChemChina)**, a state-owned enterprise headed by the Chinese Central Government.

The process developed in several steps...

Before the acquisition



National Chemical Corporation (ChemChina)

Fourteen Sundew Sarl

During 2015:

- I. ChemChina creates three new Italian companies
- II. Camfin sold its participation
- III. Tender offer of Marco Polo Industrial Holding using loans

Camfin Spa

Marco Polo International Italy Spa "Newco"

Marco Polo International Holding Italy Spa "Holdco"

Marco Polo Industrial Holding Spa

Pirelli & C. Spa

Loans

Loans

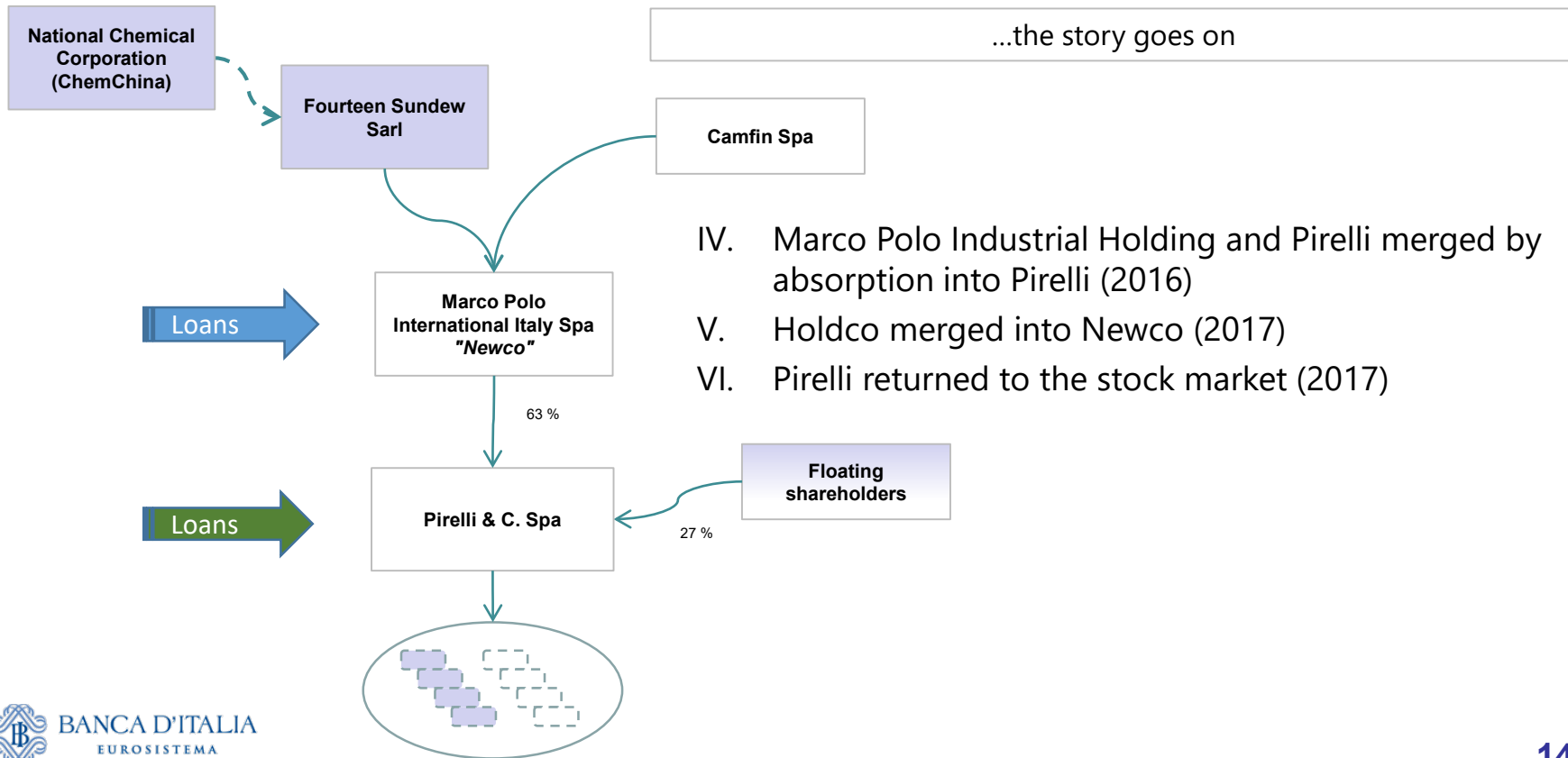
100 %

Effects on BoP and IIP

- I. ChemChina creates three new Italian companies
- II. Camfin sold its participation
- III. Tender offer of Marco Polo Industrial Holding using two loan agreements signed with a pool of **Italian** and **foreign** banks

The acquisition of Pirelli						
	End of 2014		2015 Transactions		End of 2015	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financial account	0	40	0	65	0	300
Direct investment - Equity						
in listed companies						
in unlisted companies				5		200
Portfolio investment - equity		40		-40		
Other investment				100		100
Net IIP/ Net e&o	-40		-65		-300	

Value increased due to the indirect acquisition of Pirelli. IIP change reconciled via other price changes





Availability and timeliness of information

In some cases (as in the two real cases seen), the merger plan is published in advance. Anyway all the events have to be carefully verified

More often, news on the events are available in the media, but they are often inaccurate, incomplete, approximate (timing, amounts, counterpart country...)

In cases in which minor entities are involved, the lack of information can be total

Consistent interpretation of facts among compilers

Do all the compilers involved read the same events in the same way?

Does Luxemburg agree that the increase in the value of the Newco has to be treated as price changes?

Does France agree that the events in phase 2 and 3 in the Beni Stabili merger have to be recorded as other changes in volume?

Does France agree that the permanent establishment has to be considered as an institutional unit resident in Italy (and not an indistinct part of the French parent company)?

Identification and allocation of the effects on BoP/IIP items other than FDI equity

Operations of this type are often connected to portfolio investments and/or to other investment (e.g. takeover bid, financing from banking system)

Peculiar cases, such as branches or temporary ad-hoc units and related problems

Identification of the entities involved in the restructuring and of the subject(s) able to provide the necessary information

Classification of units (branches)

Misinterpretation of events (greenfield)

Widespread sharing of the main definitions, classifications and methodologies

Merger of a resident unit into a non-resident one (and vice versa): when does it have to be treated as transactions and when other adjustment?

A clear and objective definition of “branches” could also help avoiding asymmetries

Data collection systems

The more flexible, granular and direct the system, the greater its potential

A system based on direct reporting allows a deeper understanding of the phenomena (see Box 1 in the paper)

A security-by-security data collection for portfolio investment also allows deeper analyses and further cross-checking

Exchange views among compilers

Share information on the event occurred and their recording in the BoP/IIP within the limit of confidentiality issues (FDI Network and related tools)

Extra considerations (some advise for users)

Data interpretation

For a complete understanding of the phenomena, conventions and metadata need to be well known (e.g. flows/adjustments)

Greenfield

Carefully use statistics on greenfield (new companies do not necessarily mean new production activity)

UIC

Standard and "by UIC" presentations of FDI must be jointly considered in order to have a complete picture (see China)



CHALLENGES

Information
Interpretation
Other BoP/IIP impacts
Specific issues



HINTS

Shared methodologies
Data collection systems
Exchange views



NOTICE TO SKIPPERS

Data and metadata
Greenfield
UIC



CHANGES IN THE STRUCTURE OF MULTINATIONAL GROUPS

as a consequence of globalizing
processes

Thank you for you attention!

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