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

Nadia Accoto, Giuseppina Marocchi and Silvia Sabatini,
Bank of Italy

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1 This presentation was prepared for the meeting. The views expressed are those of the authors and do not necessarily reflect the views of the BIS, IFC, BoP, ECB or the central banks and other institutions represented at the meeting.
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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

1 The authors wish to thank Stefano Federico for his useful comments. The views expressed in the article are those of the authors and do not involve the responsibility of the Bank of Italy.
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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 proposal 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 shares, 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).

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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).

<table>
<thead>
<tr>
<th>Equity investment in Beni Stabili</th>
<th>Amount (Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>300</td>
</tr>
<tr>
<td>FdR</td>
<td>200</td>
</tr>
<tr>
<td>Resident floating shareholders</td>
<td></td>
</tr>
<tr>
<td>exercising withdrawal right</td>
<td>15</td>
</tr>
<tr>
<td>accepting exchange offer</td>
<td>45</td>
</tr>
<tr>
<td>Non resident floating shareholders</td>
<td></td>
</tr>
<tr>
<td>exercising withdrawal right</td>
<td>10</td>
</tr>
<tr>
<td>accepting exchange offer</td>
<td>30</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Impact of Phase 1 on BoP/IIP</th>
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<table>
<thead>
<tr>
<th>Financial account</th>
<th>Opening position</th>
<th>Transactions</th>
<th>Closing position</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Liabilities</td>
<td>Assets</td>
</tr>
<tr>
<td>Financial account</td>
<td>265</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Direct investment - Equity</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>in listed companies</td>
<td>200</td>
<td>100</td>
<td></td>
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<tr>
<td>in unlisted companies</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Portfolio investment - equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- debt securities</td>
<td>40</td>
<td>45</td>
<td>-40</td>
</tr>
<tr>
<td>Other investment</td>
<td></td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Net IIP/ Net e&amp;o</td>
<td>-265</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

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**

<table>
<thead>
<tr>
<th>Financial account</th>
<th>Opening position (end of Phase 1)</th>
<th>Intermediate position (end of Phase 2)</th>
<th>Closing position (end of Phase 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets Liabilities</td>
<td>60 325</td>
<td>95 0</td>
<td>95 200</td>
</tr>
<tr>
<td>Direct investment - Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in listed companies</td>
<td>300</td>
<td></td>
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<tr>
<td>in unlisted companies</td>
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<tr>
<td>Portfolio investment - equity</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- debt securities</td>
<td>45 25 35 0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other investment</td>
<td>15 15 15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net IIP</td>
<td>-265 95 -105</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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, valuated 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
cricts 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 company. 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 accounts. Nevertheless, cases are often much more borderline and pose relevant
problems in many macro-economic aggregates measurement (not only BoP/IIP).

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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.
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 steps 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.

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%).

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 position. 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:

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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 SpA\(^9\) 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* account\(^10\).

### Impact of 2015 Pirelli acquisition on BoP/IIP

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<tr>
<td></td>
<td>Assets</td>
<td>Liabilities</td>
<td>Assets</td>
</tr>
<tr>
<td>Direct investment - Equity</td>
<td>0</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>in listed companies</td>
<td>5</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>in unlisted companies</td>
<td>40</td>
<td></td>
<td>-40</td>
</tr>
<tr>
<td>Portfolio investment - equity</td>
<td></td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Other investment</td>
<td>-40</td>
<td></td>
<td>-65</td>
</tr>
</tbody>
</table>

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. 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.

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\(^9\) 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.
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 Meeting\(^{12}\)) 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.
References


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

Nadia Accoto, Giuseppina Marocchi and Silvia Sabatini
Bank of Italy - Statistical Analysis Directorate

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

<table>
<thead>
<tr>
<th></th>
<th>Opening position</th>
<th>Transactions</th>
<th>Closing position</th>
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<td></td>
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<tr>
<td><strong>Net IIP/ Net e&amp;o</strong></td>
<td>-265</td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>
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
### Impact of the Merger - PHASE 2 and PHASE 3 on external statistics

<table>
<thead>
<tr>
<th></th>
<th>Opening position (end of Phase1)</th>
<th>Intermediate position (end of Phase2)</th>
<th>Closing position (end of Phase3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>60</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Liabilities</td>
<td>325</td>
<td>0</td>
<td>200</td>
</tr>
<tr>
<td><strong>Financial account</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Direct investment - Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in listed companies</td>
<td>300</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>in unlisted companies</td>
<td></td>
<td></td>
<td>200</td>
</tr>
<tr>
<td><strong>Portfolio investment - equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in debt securities</td>
<td>25</td>
<td>35</td>
<td>0</td>
</tr>
<tr>
<td><strong>Other investment</strong></td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net IIP</strong></td>
<td>-265</td>
<td>80</td>
<td>-120</td>
</tr>
</tbody>
</table>

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

The Beni Stabili merger

The Pirelli case

Challenges...

and hints

Conclusions

Effects on BoP (none) and IIP
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

- Camfin Spa: 26%
- Other Resident: 16%
- Harbor international fund: 4%
- Floating shareholders: 54%

Pirelli & C. Spa

The Beni Stabili merger

The Pirelli case

Challenges...

and hints

Conclusions
During 2015:
I. ChemChina creates three new Italian companies
II. Camfin sold its participation
III. Tender offer of Marco Polo Industrial Holding using loans
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

Value increased due to the indirect acquisition of Pirelli. IIP change reconciled via other price changes.
IV. Marco Polo Industrial Holding and Pirelli merged by absorption into Pirelli (2016)
V. Holdco merged into Newco (2017)
VI. Pirelli returned to the stock market (2017)
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).
CHANGES IN THE STRUCTURE OF MULTINATIONAL GROUPS
as a consequence of globalizing processes

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

The Beni Stabili merger
The Pirelli case
Challenges...
and hints
Conclusions
Thank you for your attention!

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