

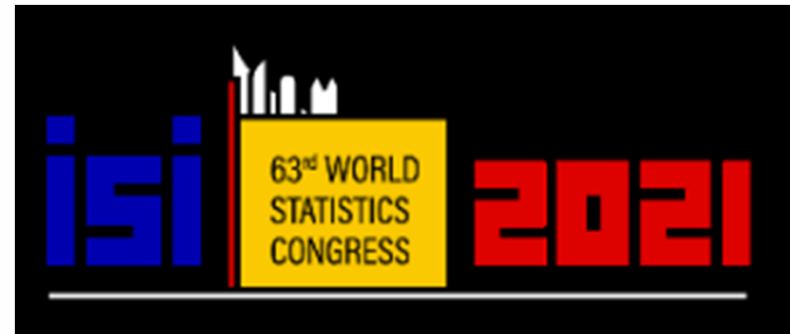
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A roadmap to the concept of “nationality” in the external sector statistics revision¹

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A Roadmap to the Concept of “Nationality” in the External Sector Statistics Revision



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Introduction

- National accounts and external sector statistics (ESS) frameworks are based on the concept of **residence**
“the economic territory with which it has the strongest connection ... its centre of predominant economic interest” (SNA 2008, par. 4.10, and BPM6, par. 4.113)
- At the same time, several statistical datasets address the concept of **nationality** (BIS International Debt Security Statistics (IDS), BIS International Banking Statistics (IBS), OECD databases for Activity of MNE (AMNE), OECD Trade by Enterprise Characteristics (TEC) and Trade in Value Added (TiVA), Eurostat-OECD database on services TEC (STEC))
- **Globalization** - related topics, such as multinational enterprises (MNEs), address **nationality** as a complement to **residence**

SNA 2008 and BPM6 revision processes

SNA 2008 and [BPM6 revision processes](#) (2020-25) are addressing several issues of research, related to **nationality**. The IMF's Committee on Balance of Payments Statistics clearly addressed this in a 2019 strategy note:

“ (...) extending the traditional residency-based cross-border positions with supplementary information based on nationality and/or of expanding the institutional sector breakdown of the accounts to record separately transactions/positions corresponding to resident units belonging to multinational groups.”

[A Backbone Strategy for Updating BPM6](#) (IMF, 2019)

The Task Teams (TTS) established for the revision of the BPM6 are addressing the concept of nationality in several Guidance Notes (GN)

Guidance Notes (1/4)

Current Account Task Team (CATT)

“C.2 Goods, Services, and Investment Income Accounts by Enterprise Characteristics”

- The GN proposes a breakdown by enterprise characteristics, including nationality (foreign-owned/domestically-owned), for exports and imports of goods and services, and for income
- Aims to support a better analysis of globalization, identifying the role of MNEs in current account transactions

Guidance Notes (2/4)

Direct Investment Task Team (DITT)

“D.6 Ultimate Investing Economy/Ultimate Host Economy and Pass-through Funds”

- Concepts of Ultimate Investing Economy (UIE) and Ultimate Host Economy (UHE) are closely linked to **nationality**
- Statistics using UIE and UHE are useful to Global Value Chain (GVC) initiative and to measure pass-through funds
- Financial linkages and interdependencies between economies are more evident knowing the ultimate investors
- MNE corporate structures are complex, and direct investment is frequently channeled through many economies, with several steps between the headquarters and the final destination

Guidance Notes (3/4)

Direct Investment Task Team (DITT)

“D.9 Reconciling BPM-Based Direct Investment (DI) and Activities of MNEs (AMNE) Statistics”

- AMNE statistics use the nationality approach, focusing on the location of the entity that ultimately controls the DI enterprise
- The GN recommends developing a framework for the reconciliation of DI statistics (residence approach) with AMNE:
“identifying additional breakdowns of either sets of statistics, new supplemental presentations, and perhaps additional variables to enable the two sets of statistics to be used together”

Guidance Notes (4/4)

Joint Globalization Task Team (GZTT)

“G.4 Treatment of Special Purpose Entities and Residency”

- Special Purpose Entities (SPE) have gained relevance
- The concept of residence should remain central following revisions
- Focus on resident SPEs with nonresident controller, implying no methodological change to the nationality concept
- However, the GN proposal is to increase the disaggregation and granularity of published data, separately identifying SPEs as “of which” items, and thus allowing to users to derive nationality information

Conclusions

- Residence will remain the central concept in in the revised manuals
- More supplementary and encouraged items addressing nationality are expected
- More detailed guidance regarding nationality and coordination among the revision bodies is required to assure consistency across the different statistical domains
- A significant increase in reporting and compiling burdens should be expected from compiling statistics following the concept of nationality



A Roadmap to the Concept of “Nationality” in the External Sector Statistics Revision

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Abstract:

The System of National Accounts (SNA 2008) has only two incidental mentions to the concept of « nationality » (to discard it). The Balance of Payments and International Investment Position Manual (BPM6) has none. Nonetheless, this concept would likely play an important role in the current revision process of both manuals, as the main economic reasons for this revision are globalization and digitalization. While maintaining the concept of residence as pivotal to structuring macroeconomic statistics and recording transactions and positions, both SNA and BPM framework are likely to consider nationality as supplemental and explore the duality of both concepts. This paper focus on the revision process of the BPM framework and the role nationality concept is likely to play in it both in the current and the financial account, specially relating to direct investment.

Keywords:

Residence; Nationality; External Sector Statistics.

1. Introduction

Residence is one of the pivotal concepts for compiling macroeconomic statistics, both for transactions and positions. In this aspect, national accounts and external sector statistics (ESS) frameworks are fully consistent. In the two manuals, the residence concept is defined, for each institutional unit, as “*the economic territory with which it has the strongest connection ... its centre of predominant economic interest*” (SNA 2008, par. 4.10, and BPM6, par. 4.113)¹.

On the other hand, SNA 2008 has only two incidental mentions to the word “nationality”. The most relevant to this paper intends to explicitly differentiate residence from it: “*The concept of residence in the SNA is not based on nationality or legal criteria*” (SNA 2008, par. 2.19)². BPM6 does not use the word.

Nonetheless the explicit rejection of the nationality concept, it in a way enters the national accounts actual framework through the identification of “foreign controlled” institutional units. When sectorizing corporations, both SNA 2008 and ESA 2010 create a subsector for foreign controlled financial, non-financial and non-profit institutions serving households units. Foreign control is simply defined as “*corporations controlled by non-resident units*” (SNA 2008, par. 4.96), “*all ... corporations and quasi-corporations that are controlled by non-resident institutional units*” (ESA 2010, par. 2.54). Control is generally viewed as implying at least 50% of voting power by the investor. As such, these foreign controlled corporations are the multinational enterprises (MNE), established by direct investment (DI) transactions. MNEs, as

¹ For further details regarding to the residence concept refer to SNA 2008 par. 4.10 to 4.15 and 26.36 to 26.48 and to BPM6 par. 4.113 to 4.144.

² ESA 2010 has a similar paragraph: “*... Such units are known as resident units, irrespective of nationality, legal form or presence on the economic territory at the time they carry out a transaction*”.

a matter of fact, are a subgroup of DI enterprises, which could be separately identified in DI transactions as well as positions.

Some statistics already deal with the nationality concept, such as the Bank for International Settlements (BIS) International Debt Security Statistics (IDS) – with separate datasets by residence and by nationality – and International Banking Statistics (IBS) – which identifies foreign banks in the reporting country in the Locational Banking Statistics (LBS) and consolidates domestic banks' with its non-resident subsidiaries in the Consolidated Banking Statistics (CBS). In a sense, the United Nations Conference for Trade and Development (Unctad) statistics on foreign direct investment (FDI) debt instruments, using the directional principle, refers to the nationality principle when considering the parent company to classify the transactions as inward or outward FDI. The Organization for Economic Cooperation and Development (OECD) databases for Activity of MNE (AMNE), Trade by Enterprise Characteristics (TEC) and Trade in Value Added (TiVA) and Eurostat-OECD database on services TEC (STEC), all consider the duality of domestic and foreign institutional units.

The developments of globalization since the publication of SNA 2008 and BPM6, specially the broader scope of MNEs activities across countries, raised the case for methodological discussions on the residence/nationality complementarity within these statistical frameworks. As MNE play a key role in the internationalization and integration of trade, production and finance – such as in production chains, research and development, intellectual property rights, services, capital flows, etc. including by creating complex corporate structures in many countries – methodological guidance, data collection and data templates for statistical presentations are viewed as important steps forward.

The remaining of the paper is structured as follows: item 2 presents SNA and BPM6 revision processes and highlights the role of nationality, item 3 discusses the guidance notes (GN) already approved or circulated for public consultation, and item 4 summarizes the main findings and concludes.

2. SNA and BPM revision process and the role of “nationality”

SNA 2008 and BPM6 revision processes both started in the beginning of 2020 and target the release of the new manuals by March 2025. Phase 1 of the BPM6 revision process, from March 2020 to March 2022, is expected to deal with the research issues listed in IMF (2020a) by the creation of dedicated Task Teams (TT). When issues overlap, SNA/BPM joint TT are created. On phase 1, the International Monetary Fund's (IMF) Committee on Balance of Payments Statistics (Bopcom) should take the methodological decisions whether to maintain status quo or to change the guidance regarding specific methodological concepts, disaggregation of information and standard or supplementary/encouraged presentations. Phase 2, then, is planned to prepare an Annotated Outline, make consultations and seminars worldwide and draft chapters and appendixes of the BPM7 (IMF, 2020b).

While a decision is already taken to sustain residence as the main concept and the criteria for all standard statistical presentations, the revision processes of both SNA 2008 and BPM6 are dealing with nationality issues.

The Intersecretariat Working Group on National Accounts (ISWGNA) included on the SNA update list of issues a specific topic on “Nationality concept / Extension of IIP on a nationality basis”. The distinction among domestic and foreign companies, according to the ISWGNA, is likely to achieve users' needs, contribute to financial stability analysis and to the better understanding of GDP/GNI relationship (ISWGNA, 2020). Bopcom likewise included the issue of extending the residence concept. The aim seems to be adding, on supplementary basis, nationality information by creating non-mandatory additional breakdowns to the standard

presentations or perhaps even consolidating cross-border positions of resident and non-resident MNEs according to the nationality of the parent company (IMF, 2019a).

Bopcom's compendium of research issues for the updating of the BPM6 (IMF, 2020a) includes a specific GN on the nationality concept, but the issue also touches upon several specific topics treated in individual GN. The planned list of GN include discussions on residence/nationality impacting the current and the financial accounts as, although mainly an DI issue, the impacts of separating domestic and foreign companies potentially reach trade in goods and services and primary income, as well as financial flows. For the current account, one issue is how to include TEC in the BPM framework. Regarding DI, one main topic is more detailed guidance for compiling DI statistics for the Ultimate Investing Economy (UIE) and Ultimate Host Economy (UHE), trying to go further than the immediate balance of payments transaction counterparts to identify the foreign controller or the chain of control from the domestic investor. Also, for DI relationships there are issues related to reconcile DI and AMNE statistics and to disentangle the connections of Special Purpose Entities (SPE) between the domestic unit and its foreign controller. In this latter case, consideration is also taken from the previous Bopcom work on SPEs and the separate SPEs data collection to start this year.

3. Guidance Notes (GN) proposals

The BPM6 updating process includes detailed research on the issues identified in IMF (2020a) and discuss how they would impact the new manual. This paper highlights the approved or in public consultation GNs, produced by the Current Account Task Team (CATT), the Direct Investment Task Team (DITT) and the Joint (ISWGNA and Bopcom) Globalization Task Team (GZTT), proposing to create supplementary tables and "of which" lines related to the nationality concept, broadening the scope of ESS.

CATT – GN C.2 Goods, Services, and Investment Income Accounts by Enterprise Characteristics

This GN proposes the development of an encouraged data collection template that introduces further disaggregation of exports and imports of goods and services, as well as investment income, specifically the breakdown of these balance of payments accounts by enterprise characteristics, including nationality (foreign-owned/domestically-owned). These statistics would support a better analysis of globalization – better identifying the role of MNEs in current account transactions – including the OECD-IMF Working Group on Balance of Payments Statistics Relevant to Global Value Chains, OECD TEC and Eurostat-OECD STEC statistics.

The GN proposes separate templates for international trade in goods and in services. At the first level of the proposed breakdown, there is a distinction between enterprises domestically controlled and those controlled from abroad. In a second level, within the domestic controlled enterprises, the template disaggregates enterprises belonging to a multinational group. All the lines are associated with the main products/services, industry and partner countries. This data collection would allow to start to build a map of importers and exporters considering the nationality criteria and thus going beyond the residence concept.

According to the GN, the ownership of enterprises engaged in international trade, foreign or domestically owned, have recently been added to TEC statistics by many countries. Nevertheless, precise definitions of MNE and control (UIE versus Immediate Investor Economy), and more guidance on the identification of partner country are yet to be elaborated.

From the description above, it is clear the need for much more disaggregated data collection processes and databases. The users' needs, in this case, will probably represent a significant additional burden both to compilers and data providers. Legal provisions and regulations would have to be enacted or amended, closer contact to data providers should be established,

compilers units budget are likely to increase or to represent a risk to the data collection and an enterprise-by-enterprise business register would probably have to be developed to include the necessary information on foreign control.

DITT – GN D.6 Ultimate Investing Economy/Ultimate Host Economy and Pass-through Funds

Standard bilateral DI statistics are based on the first known counterpart, i. e., on an immediate partner basis and are the ones more frequently compiled by reporting countries and are useful to know where financial claims and liabilities are created. However, a simple ownership structure, with the direct investor resident on one economy and the direct investment enterprise resident in another economy, very often does not resume the complexity of MNEs corporate arrangement. The DI is frequently channelled through many economies, with several steps between the headquarters and the final destination. In this sense, DI by UIE and UHE also have analytical value identifying who makes the investment decisions, who has the benefits and holds the risks. The financial linkages and interdependencies between economies are more evident knowing the ultimate investors, information which is also useful to treat the country allocation of income in the Global Value Chains (GVCs) framework.

This GN recommends the development of supplementary presentations of DI statistics by ultimate partner economy and identifying pass-through funds to greatly enhance the interpretability and usefulness of these statistics to users. Addressing one issue raised by the previous GNs, including IMF (2021a), the text discusses different definitions of the UIE and UHE, and proposes a presentation by residency of the ultimate investor as an indication of funds and income passing through an economy.

While residency concept is related to DI statistics on an immediate partner basis, statistics based on UIE and UHE are closely linked to the nationality concept. From the point of view of the reporting economy, UIE/UHE statistics means going beyond the immediate partner economy by identifying the control chain of the UIE, i.e., by considering the nationality of the unit at the end of the control chain.

As mentioned in analysing the first GN, there are likely significant additional costs to revising survey forms and interacting with respondents to clarify the needed information on the full controlling chain of its investors or of its investments abroad.

DITT – GN D.9 Reconciling BPM-Based Direct Investment (DI) and Activities of MNEs (AMNE) Statistics

Geographical diversification for reasons such as trade barriers, proximity to markets and reduction of costs and taxes is a characteristic of MNEs activities. As already pointed out in the previous GN (IMF, 2021b), the ultimate source and destination of DI could be “masked” in ESS by investment passing through various intermediate enterprises and economies. Providing a better understanding of the location and nature of MNE operations is an objective of the AMNE statistics.

AMNE statistics uses the nationality approach, focusing on the location of the entity that ultimately controls the DI enterprise. AMNE statistics are nationality-based and statistics by immediate partner are out of its scope. But some variables can include links between affiliates in the same country (transactions between residents, not included in the BPM framework), and also between fellows in different economies, that share a common parent (transactions between non-residents, not included in the BPM framework). Nevertheless, the framework of DI statistics is based on the residency concept, which excludes such transactions.

There is currently no agreed framework for reconciling AMNE with DI statistics, including the residency/nationality approach. The GN recommends developing a framework for this reconciliation within the current revision process, “*identifying additional breakdowns of either sets of statistics, new supplemental presentations, and perhaps additional variables to enable the two sets of statistics to be used together*”.

Regarding the challenge for compilers and the burden for respondents, the reconciliation will probably need additional detailed and granular information on the transactions of each affiliated with other, as well as the ultimate controller. As mentioned in a previous paragraph, not all such transactions are included in the resident/non-resident framework of ESS, making this data collection specially challenging for balance of payments compilers. Necessary granular data sharing with other agencies is also far from granted.

GZTT – GN G.4 Treatment of Special Purpose Entities and Residency.

Special Purpose Entities (SPE) acquired growing importance in global financial flows and MNE corporate structure, being used as financial conduits, channels to pass-through investments, holding companies, intragroup lending, captive financial activities etc. Besides that, SPEs have also broadened their scope to nonfinancial activities (see the SPEs typology in IMF, 2018). As such, SPEs activities not only cannot be disregarded in the analysis of capital flows but there is a growing users’ demand for separately identifying SPEs activities and flows.

From a compiler’s point of view, it is necessary to have a clear and unique definition of SPEs, consistent across statistical domains, to avoid national definitions influenced by legal or institutional frameworks and achieve international comparability. The GN adopts the Bopcom’s Task Force on SPE (IMF, 2018) definition of SPEs as an institutional unit, resident in an economy, direct or indirectly controlled by non-residents, transacting almost entirely with non-residents, with little or no physical presence or production nor employees. The discussion in the SNA and BPM revision processes highlighted the need to maintain the residence concept, focus on resident SPEs with non-resident controller, and consider SPEs as institutional units, not consolidating them with the non-resident parent.

The maintenance of the residence concept aims at keeping SPEs as institutional units, i.e., not consolidating with the non-resident parent company – which would be the case if a methodological change to the nationality concept were proposed to be implemented. The GN proposal is to increase the disaggregation and granularity of data published, on a supplementary/encouraged basis, to separately identify SPEs as “of which” items to the ESS standard presentation. These separate lines are to be provided by institutional sector (financial and nonfinancial), by current account items (goods – merchanting, services – transport, financial services, charges for the use of intellectual property, and other business services, and income) and financial accounts functional categories (DI, portfolio investment, financial derivatives and other investment).

The GN proposal allows users to derive nationality information from the statistical frameworks, via more disaggregated data. A more disruptive proposal, disregarded on practical grounds (costs involved and practical feasibility), was to prepare a supplementary presentation completely disregarding the residence concept and consolidating resident SPEs with the non-resident parent on a nationality basis. It is equivalent to a global consolidation of the domestic MNE in its reporting country statistics, i. e., the resident unit and all its non-resident-controlled entities. Although dismissed on practical grounds as a recommendation in the forthcoming manuals, the GN recognizes users’ interest in such presentation, provided that careful explanations are given, to avoid confusion of both datasets.

To achieve the objective of separately identifying SPEs, there is an obvious need for more disaggregated data. Following the Task Force on SPE report, the IMF decided to launch a

data collection initiative (IMF, 2019b) to separately identify SPE's transactions as "of which" lines to the ESS standard presentation on supplemental/encouraged basis. This annual exercise will begin with end-2020 position, to be reported to the IMF this year and be publicly disseminated by early 2022.

4. Conclusion:

This paper provided an overview of the current discussions within the revision process of SNA and BPM regarding the duality of the residence and nationality concepts. While a decision was already taken to maintain the residence criteria as the structuring one for compiling and presenting macroeconomic statistics, there is likely to be an increasing role to supplementary and encouraged, non-mandatory, presentations using the nationality concept.

The reasons for the growing role of nationality-based statistics are the increased globalization, the central role of more and more complex MNE structures involving many countries, the blurring definitions of its activities at each economic territories boundaries, and users' needs for additional presentations to provide a broader and more complete picture of economic and financial flows, activity and production. In this sense, several topics in the research agenda of both SNA and BPM deal with methodological guidance (concepts and definitions), collection of additional and granular data, new templates with more disaggregated presentations, all related to complementing residence-based statistics with information by nationality.

This paper analysed the main nationality related GN already made public and reached three main conclusions:

1. It is a necessity that the new SNA and BPM framework present more detailed guidance regarding nationality, as well as supplementary/encouraged templates to disclosure additional information needed by users.
2. While this is still a work in process, higher-level coordination among the main SNA and BPM bodies are crucially needed to consolidate the different proposals and make them consistent within the framework of each statistical domain and among them.
3. If all proposals are accepted there will likely be a significant increase in respondent's cost of observation and in the compilers' burden, which have to be carefully evaluated.

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