

F.2 Asymmetric Treatment of Retained Earnings

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Retained earnings of foreign direct investment (FDI) enterprises are considered in the international statistical standards as being remitted to the direct investors and reinvested by them. The corresponding income flows are called “reinvested earnings” (RIE). The treatment of retained earnings as RIE is circumscribed to FDI and does not extend to cross-border portfolio investment (PI) or to domestic equity relationships, which induces asymmetries in the reflection of corporate profits in official statistics and might be seen as giving rise to issues of interpretability and comparability of macroeconomic indicators.

This Guidance Note (GN) discusses several recording options to address these methodological asymmetries, ranging from removing the RIE treatment from all macroeconomic statistics, including FDI, to extending it to all equity relationships. It concludes that while there might be a conceptual preference for the extension of RIE to all equity investments, it is recommended, at least for practical reasons, that the treatment be universally applied only in supplementary information.

*The IMF Committee on Balance of Payments Statistics (Committee) and the Advisory Expert Group on National Accounts (AEG) supported Option 2 (i.e., **record the allocation of retained earnings in a supplementary table for domestic and external transactions and positions**) which leaves the core macroeconomic accounts unchanged and introduces supplementary tables for RIE in PI in balance of payments and national accounts, and in all domestic equity relationships in national accounts.*

The GN also briefly discusses the treatment of share buybacks as income distribution, given that they may be seen as a substitute to dividends, and recommends that a separate/subsequent GN should discuss this treatment in detail.

SECTION I: THE ISSUE

BACKGROUND

1. **Retained earnings correspond to the net distributable income that has not been distributed to shareholders in the form of dividends** (*System of National Accounts 2008 (2008 SNA)*, paragraph 7.139 and others; sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*, paragraph 11.34 and others).² Retained earnings of foreign direct investment (FDI) enterprises are considered in the international statistical standards as being remitted to the direct investors and reinvested by them and are called reinvested earnings (RIE).

2. **The BPM6 records RIE as being distributed to direct investors in proportion to their equity ownership in the enterprise.** A direct investor is seen as entitled to all the income generated³ by its subsidiaries, associates, and branches, irrespective of whether the income is distributed in the form of dividends (or branch profits) or retained as RIE (*BPM6*, paragraph 3.74). RIE are considered as the

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² See also *OECD Benchmark Definition of FDI, 4th Edition*, paragraphs 199 and 220, and Annex 6.

³ In proportion of its equity ownership.

income earned and not distributed by companies and are recorded as direct investment income in the current account and as a transaction in equity in the financial account (*BPM6*, paragraphs 8.15–8.16 and 11.33–11.47).

3. **Just as in the *BPM6*, the 2008 SNA treats retained earnings of foreign corporations included in FDI (e.g., foreign affiliates of multinational enterprises (MNEs)) as though they had been distributed and then reinvested by the shareholder** (2008 SNA, paragraphs 3.64 and 7.137–7.139). Similar to *BPM6*, the item is called RIE; the corresponding equal entry in the financial account is called reinvestment of earnings (2008 SNA, paragraph 26.88). As a result of this treatment, the net saving of corporations, which are 100 percent owned by foreign direct investors, is zero.

4. **However, REI is recorded only for equity in FDI and investment funds, but not for other types of equity.**⁴ The treatment as RIE is therefore not extended to all cross-border portfolio investment.

5. **Similarly, the 2008 SNA does not recommend the classification of resident-to-resident investment relationships as domestic direct investment**, and therefore, the RIE treatment of retained earnings does not arise in any domestic equity link.

6. ***BPM6* explains its treatment of RIE (also followed by 2008 SNA for FDI) by the fact that a direct investor has significant influence on the management of the FDI enterprise.** The reasoning is that direct investment involves a controlling shareholder, or with sufficient influence, who has effective access to the earnings of the corporation (*BPM6*, paragraph 11.41 and 2008 SNA, paragraph 7.138). Therefore, the decision to retain some earnings within the enterprise represents a conscious, deliberate investment decision on the part of the direct investors. An imputed distribution of the retained earnings is included in the income of the direct investors, which they then reinvest in the enterprise (*BPM6*, paragraph 3.17). This reinvestment of investors' imputed income under equity captures the fact that the retained earnings are available to the enterprise to use to acquire assets or extinguish liabilities.

7. **Dividends payments reduce RIE (which can be negative—see 2008 SNA, paragraph 26.64 and *BPM6*, paragraph 11.46).** As a result, dividends do not affect the overall income paid to FDI shareholders and only affect the split between dividends and RIE, as well as the financial accounts where they are seen as mere cash payments (that need not equal the earnings accrued by the enterprise) counterbalanced by financial transactions in equity.⁵ This is contrary to the treatment of dividends from non-FDI corporations (earned on portfolio or on domestic direct investment), where the dividend payments affect the overall income paid by the corporation and the corresponding decreases in corporate value are reflected as holding losses, and not as transactions.

⁴ REI corresponding to the whole ownership chain is attributed to direct investors who are in a direct investment relationship with the direct investment enterprises (i.e., when equity participation by direct investors meets directly or indirectly the 10 percent threshold). However, retained earnings are not attributed to investors when the equity participation provides less than 10 percent of the voting power (*BPM6*, paragraph 11.40).

⁵ Disproportionately large dividends (superdividends) are directly treated as withdrawal of equity without leading to entries in dividends and RIE (2008 SNA, paragraph 7.131). For a review of the treatment of superdividends in FDI see GN "D.17 Identifying Superdividends and Establishing the Borderline Between Dividends and Withdrawal of Equity in the context of Direct Investment".

8. **Nonetheless, a similar treatment to that of RIE is applied in statistical manuals (2008 SNA, paragraph 7.152) to collective investment funds** (as well as to some pension funds),⁶ whereby the income earned by the funds is deemed all distributed (D.443 – *Investment income attributable to investment fund shareholders*) and thus received by the equity instrument (F.52) holders, irrespective of whether actually distributed (D.4431) or actually retained (D.4432), using the *European System of Accounts 2010 (ESA 2010)* sub-codification. As a result, the savings of these investment funds are emptied (like in the case of companies whose direct investors hold 100 percent of the company).⁷

9. **The current recording of dividends from non-FDI corporations is sometimes described as a deviation from the strict accrual principle (including by the 2008 SNA, in paragraph 7.130)**, the income earned by investor being recorded at the time the share price goes ex-dividend rather than at time the investee's income is earned and can also be criticized for adversely impacting the crucial income/revaluation boundary. On the latter, indeed, the fall in share value that is mechanically occurring upon dividend distribution is recorded in the system as holding loss, while no price actually changed and only the composition of the investor's assets portfolio changed (more cash/receivable, less equity). This inconsistency is removed by RIE and is otherwise not visible/important for annual accounts or when companies pay large dividends out of their income but becomes visible in quarterly accounts and with the growing tendency of companies to resort to share buybacks for releasing cash to shareholders.

10. **Share buybacks have indeed considerably developed over the past decades, now reaching large amounts and exceeding the amount of dividends distributed by companies in some leading markets.** Share buybacks are perceived by investees as effective substitutes to dividends for returning cash because they typically allow tax optimization (across shareholders) and provide them flexibility (they can interrupt the program at will). Although the buyback is obviously a financial transaction from the point of view of the seller, this is not the case for the buyer who sees this as a substitute to dividends (or for the community of the shareholders as a whole). This leads to increasingly underestimating the income of shareholders (overestimating holding gains) and distorting the distribution of savings across sectors.

11. **Two inconsistencies in the international standards caused by the use of the RIE approach only for certain transactions are the main focus of this Guidance Note (GN).** First, FDI relationships are treated differently from foreign portfolio investment relationships⁸ (other than investment fund shares). Second, domestic direct investment relationships are treated differently from investment relationships between residents and nonresidents. In the rest of the GN, the term direct investment and portfolio investment will be used both for cross-border and domestic equity relationships.

Inconsistency 1 – Direct Investment vs Portfolio Investment

12. **RIE transactions are not recorded for foreign portfolio investment, that is, foreign investment where a nonresident investor owns less than 10 percent of the equity in an enterprise.**

⁶ In relation to Investment income payable on pension entitlements (D.442), a very similar recording applies for defined contribution pensions funds (see 2008 SNA, paragraph 7.148), while the SNA foresees a somewhat different recording for defined benefit pension funds (as the income payable is set equal to the stock of claims time the appropriate actuarial discount rate—2008 SNA, paragraph 7.150).

⁷ Moreover, the holding gains recorded by their investors are set exactly equal to the holding gains recorded on the fund's assets.

⁸ And other equity relationships that might be covered in other investment.

The increase in value in the FDI due to retained earnings is regarded a transaction, rather than a revaluation. In contrast, in the case of portfolio investment, retained earnings are recorded as the saving of the enterprise and the associated increase in the value of the investor's enterprise equity is recorded as a revaluation. The justification for the different treatment is that portfolio investors have an insignificant influence on the management of an enterprise and therefore have little input into the enterprises' saving decisions. Conditioning the treatment of retained earnings on investors' degree of control shifts the recording of financial returns on foreign investment positions arbitrarily between the income balance and revaluation, merely based on distribution decisions. The treatment of retained earnings does not affect the value of net foreign assets, but it does affect the share of the growth of net foreign assets that is accounted for statistically by the transactions as opposed to by revaluation.

13. **Moreover, to the extent that the RIE rule was mainly designed in order to appropriately measure national income, it might be argued that the current asymmetric treatment prevents fulfilling this objective**, which becomes significant when net portfolio cross-border positions are large and with an increasing prevalence of share buybacks.

14. **At the same time, it can also be argued that minority shareholders indeed do not have a say** on whether to distribute or instead reinvest the profit of the company shareholders invested in.

Inconsistency 2 – Foreign vs Domestic Investment Relationship

15. **Except in the special case of FDI, the 2008 SNA treats corporate earnings that are retained as saving of corporations.** Domestic direct investment is not an SNA concept, so no distinction is made between investors who own a controlling or influencing stake in an enterprise resident in the same economy and investors who own small portions of the outstanding stock. Thus, RIE transactions are never imputed for resident-to-resident investment relationships and the income of resident shareholders always depends on how much of its income the corporation decides to distribute as dividends.

16. **At the same time, the 2008 SNA entertains as part of its research agenda extending the RIE approach to domestic equity relationships, particularly for public corporations** (2008 SNA, paragraph 7.140). Extending the RIE to public corporations was envisaged in the previous SNA/BPM review as a way to tackle the problem that governments could play on transactions with public corporations so to impact the deficit but was rejected in favor of defining new rules on superdividends and capital injections.

17. **The 2008 SNA indeed warns that such an extension of RIE to domestic links would “have serious implications for interpretation of the accounts since it would be built on a different paradigm from the current treatment of dividends and corporate saving”** (2008 SNA, paragraph A4.29). The SNA regards corporations as independent institutional units, and as institutional units they own assets, are responsible for liabilities, and engage in transactions (2008 SNA, paragraphs 4.1–4.6). It also notes that corporations are legally recognized as separate entities from their owners, who enjoy limited liability (2008 SNA, paragraph 4.38b). Accruing income for the owners when a dividend is declared rather than as the corporation earns the income is perceived by many as consistent with the SNA paradigm that corporations are separate institutional units. Nonetheless, it is observed that this paradigm is not followed for FDI and for investment funds.

18. **Table 1 shows how the allocation of the saving associated with a corporation’s retained earnings to either the corporation or the investor varies with the type and residency of the investor.** The enterprise will have no saving if the RIE approach is applied because imputed distributions of its retained earnings will allocate the saving to the shareholders. In the current standards, the allocation of the saving depends on whether the corporation-to-shareholder relationship is one of direct investment or portfolio investment, and whether it is a cross-border relationship or a domestic relationship.

Table 1. Allocation of Retained Earnings on equity other than Investment Fund shares in the Current Standards

	Direct Investment	Portfolio Investment
Domestic Equity Relationship	Retained earnings allocated to <i>saving of the corporation</i>	Retained earnings allocated to <i>saving of the corporation</i>
International Equity Relationship	Retained earnings allocated to <i>saving of the shareholder (FDI, RIE)</i>	Retained earnings allocated to <i>saving of the corporation</i>

ISSUES FOR DISCUSSION

19. **A key issue is whether enterprises should have saving.** Letting corporations have their own saving would be consistent with a strict treatment of them as distinct institutional units. The decision to save rather than to pay dividends is similar to other decisions made in the management of the enterprise, such as decisions to invest in fixed capital. The enterprise is considered a separate institutional unit from its owners partly because it can make such decisions, regardless of the level of influence of its shareholders. Moreover, assuming that a transaction in income and equity is taking place between the participated corporation and the shareholder irrespective of the decision taken by the corporation in this respect might be seen as contradicting the definition of transaction in the standards where *mutual agreement* features prominently (e.g., *BPM6*, paragraph 3.4). This argument may be less compelling for 100 percent owned subsidiaries (particularly special purpose entities (SPEs)) or even for controlled entities.

20. **Letting enterprises whose owners have limited liability have saving is also consistent with their legal existence as independent entities.** This avoids the need for an over-simplified allocation of all the benefits of its retained earnings—or costs of its losses—to common shareholders. Moreover, the level of saving of an enterprise is a useful indicator of the extent to which it intends to fund investment from internal resources. In line with this view, some analysts do not include RIE in FDI when measuring foreign capital inflows because they do not consider it new foreign capital to the economy as it was generated in the host economy.

21. **On the other hand, this issue of the saving of corporations may be more a question of terminology/presentation than of substance.** Users routinely ask what is meant by “saving” of corporations—as saving is usually understood as what is left of disposable income after final consumption, a concept not applicable to the corporation sectors (i.e., corporations do not have final consumption expenditure), and they often understand it better when described as “retained earnings” (as noted in paragraph 9.11 of the *2008 SNA*, another term to describe retained earnings is the “undistributed incomes” of corporations). While extending RIE to all corporations’ equity links would indeed set their net

saving (B.8n in the SNA balancing and net worth items) to zero, their retained earnings could still be transparently observed by users, by looking at their net RIE—such that no loss of information would be entailed. Similarly, on the recipient side no loss of information is entailed either because users would be able to observe what is the RIE component (larger, if an extension is implemented) of their saving. In the specific case of households, it has to be acknowledged that increases in share prices resulting from retained earnings contribute heavily to incentivize consumption, and the saving ratio appears artificially depressed under the current non RIE-based treatment (as income do not cover the additional income—i.e., consumption capacity—arising from RIE). The creation of an alternative balance could solve the communication problem.

22. The view that earnings accrue to investors as they are earned can also be justified.

Owners' limited liability may have little practical impact, or even no impact in the case of direct investors who may be obligated to stand behind the debts of their enterprise for reputational reasons or in the case of FDI in a branch. As owners of the corporation, all shareholders benefit from its earnings regardless of whether they are distributed or not. Retained earnings contribute to the change in market value of the corporation, and the whole question is whether this contribution is better recorded as a transaction or as a revaluation. Also, any holder of equity in a corporation that retains earnings could, in principle, sell shares to affect a situation that is identical to the one in which the corporation actually distributed the earnings as dividends. Conversely, companies may distribute dividends in kind by way of extra shares, which is economically very similar to retaining earnings, and these would be recorded as income (2008 SNA, paragraph 7.129).

23. The current mixed approach in which the saving of enterprises is treated differently depending on whether they are owned by foreign direct investors, portfolio investors, or resident investors causes some asymmetries. Because earnings are not passed through to shareholders who have no control nor influence over their use for dividends or investment or who are resident in the same economy, the amount of saving recorded for an enterprise depends on the mix of investors that own it. The net saving of an enterprise that is 100 percent owned by foreign direct investors equals zero (2008 SNA, paragraph 26.65). In contrast, all the retained earnings of an enterprise that is 100 percent owned by portfolio or resident investors are recorded as saving of the enterprise, and the growth of the wealth of the investors is recorded as a revaluation. A situation where the impact of the asymmetry treatment becomes evident is that of corporate inversions, which result in shifts of net primary income receipts and related national accounts indicators (e.g., GNI) from the economy of the inverter to the economy of the new foreign parent company (see GN "D.4 Corporate Inversions" for a detailed discussion).

24. The 2008 SNA research agenda identifies the asymmetry as particularly relevant for public corporations (2008 SNA, paragraphs A4.29 and 7.140). The extension of RIE to public corporations would be a way to decisively tackle the incentive for governments to use their ownership relationship with their controlled corporations to artificially optimize the deficit figures (for instance by distributing large dividends to meet specific deficit targets in a given year and recapitalizing (later) the companies through capital injections described as subscriptions of equity). Although, these problems have been contained by new superdividend and capital injection rules (2008 SNA, paragraphs 7.131 and 22.138), in practice these rules are subject to contestations notably because they are ad-hoc and do constitute deviations to general principles. It is indeed debatable to reclassify a distribution of income as financial only because of the time of distribution. Similarly, capital injections are always net worth neutral at time of injections, such

that treating them as expenses is debatable. Those problems would largely disappear by extending RIE to public corporations: the government deficit would then be reduced when investees' earnings are earned (rather than when distributed) and would be increased when investees' losses occur (rather than when actually covered). This would ensure a better measurement of the government net lending/net borrowing at any particular point in time.

25. **The treatment of FDI is based on the presumption that the foreign investor has control of or influence on the company, and therefore has direct access to its net income.** Public corporations also have a controlling shareholder, so routing retained earnings of public corporations to the government would also improve the logical consistency of the system of accounts. The consistent principle would be that the retained earnings are routed in cases of controlling shareholder.⁹ This treatment of public corporations would also eliminate the potential for large swings in government saving, which can occur when the classification of the public corporation changes between market producer and non-market producer.

26. **Imputing distributions of retained earnings to all kinds of shareholders would make the role of saving in the growth of shareholders' assets more visible and make the measures of institutional sector saving, national saving, and the current account balance more meaningful.** For example, holding gains are often responsible for most of the growth of household net worth in the accounts for institutional sectors, but adding retained earnings on equity owned by households would reveal a more significant role of saving in building wealth. As another example, national income and the current account balance of an economy that has a large net negative position in foreign portfolio investment would better reflect the resources available to residents if the claims of foreign portfolio investors on retained earnings of resident corporations were taken into account.

27. **The uncertain assumptions involved in estimating retained earnings might be a practical disadvantage of giving them a more prominent role in the accounts.** The assumptions include the service lives used to model consumption of fixed capital, the definition and location of software and other intellectual property assets, the assignment of prices to inventory additions and withdrawals, among others. However, these assumptions are routinely made for the compilation of RIE on FDI and for the allocation of retained earnings on collective investment schemes.¹⁰

28. **Note that a resolution of a single asymmetric treatment in isolation might make the others more problematic.** For instance, applying the RIE treatment to foreign portfolio investment only would make the difference between the treatment of cross-border investment and the treatment of domestic investment even greater. Similarly, extending the current treatment of FDI to domestic investment by controlling shareholders would expand the difference in treatment between direct and portfolio relationships.

⁹ It should be noted that the RIE relating to FDI is based on a 10 percent threshold, while the threshold would be set at 50 percent for public corporation. The notion that an associate can control the distribution is probably less solid than in the case of a controlling parent. At the same time, it can be understood that the *2008 SNA/BPM6* found it convenient to use the existing categories when defining the RIE boundary.

¹⁰ See also GN "D.3 Treatment of Collective Investment Institutions".

29. **At the same time, expanding such differences may be acceptable or even commendable in consideration of the reason the RIE on FDI is enforced:** to the extent that RIE is largely designed to better measure national income, its extension to cross-border portfolio investment is warranted and the difference in treatment with domestic transactions is also warranted; similarly if this RIE treatment is justifiable by the shareholder control criterion, this then justifies an extension to domestic direct investment relationships. However, such an extension to domestic investment links can potentially complicate the interpretation of the saving of institutional sectors due to changes over time in how enterprises are classified.

OPTIONS TO CONSIDER

30. **The authors of this GN have considered five options, as follows** (the implications of the options are discussed throughout the GN):

Option 1: Keep the status quo (i.e., the current treatment in both *BPM6* and *2008 SNA*).

Option 2: Leave the core balance of payments accounts and national accounts unchanged but add supplementary information on portfolio investment RIE to the balance of payments (and possibly memorandum items) and national accounts, and supplementary information on public corporations RIE and overall investment in resident enterprises RIE to the national accounts.

Option 3: Extend the concept of RIE that is currently applied to foreign direct investors to public controlled corporations and/or to cross-border portfolio investors.

Option 4: Extend the concept of RIE that is currently applied to foreign direct investors to all equity holdings in the national accounts and balance of payments accounts.

Option 5: Eliminate asymmetries by discontinuing the current treatment of RIE for FDI (with the possibility to keep the treatment in supplemental tables or memorandum items).

31. **Table 2 sketches the implications of the options proposed on the core accounts and supplemental information.**

Table 2. Options to Consider

						<i>RIE in ...</i>
		Option 5	Option 2			<i>supplemental tables/ memorandum items</i>
	Option 5	Option 1 to 4	Option 3 and 4		Option 4	<i>core accounts</i>
<i>RIE applied to ...</i>	<i>none</i>	<i>FDI enterprises</i>	<i>public corporations</i>	<i>foreign portfolio investment</i>	<i>private domestic equity stakes</i>	

SECTION II: OUTCOMES

32. **It is the majority view of the FITT members, both from conceptual and practical perspectives, that there is a need for enhancing coherence and internal consistency in the system of accounts as regards the treatment of corporate income.** This would call for examining possible avenues for achieving it and would lead to reject Option 1 as a way forward. A possible approach for enhancing the conceptual coherence of the accounts would be to apply the RIE treatment uniformly to controlling/influencing shareholders, both foreign and domestic. The owner control/influence rationale used to justify the RIE treatment for FDI is equally applicable to domestic investment.

33. **In practice, this sort of consistency may be costly to achieve because distinguishing the relevant enterprises that have a local controlling shareholder will require adapted databases.** It should also be noted that the RIE treatment requires the attribution of the income generated to the ultimate shareholders, which in turn requires knowledge of ownership chain. However, many statistical institutes and central banks maintain databases on the ownership structures of resident companies which distinguish between resident and nonresident ownership but do not provide a complete breakdown of resident ownership by sector except where there is a security-by-security database. In addition, the extension of the RIE to domestic investment links can also be carried out by way of macro-adjustments, using equity cross-sector whom-to-whom positions.

34. **Extending the RIE treatment only to public corporations (as in Option 3) would probably be more practical than extending it to all domestic investment involving a controlling shareholder but would improve the coherence of the accounts only slightly for some economies.** For others, it would still be a significant improvement to *2008 SNA* owing to the prominence of the general government deficit and because it could allow dropping the superdividend and capital injection rules that were designed to prevent manipulations of this key indicator but have proved both time and resource consuming to implement and occasionally controversial.

35. **By the same token, extending instead the RIE to all cross-border (also as in Option 3) equity links would ensure a more correct measurement of another key indicator: national income (GNI etc.).** While such an extension may pose some compilation challenges, these may be less severe than for FDI or at least not more severe.¹¹ It is noted that while removing the current treatment of RIE in FDI (as in Option 5) would indeed result in enhanced methodological consistency, it would also hamper some of the analytical and policy usefulness of GNI in the context of globalization: the distortions in the geographical allocation of operating surplus and other corporate income caused by MNE operations are partially corrected by the RIE treatment in FDI (making GNI or NNI more robust indicators than GDP for countries with high presence of MNE subsidiaries).

36. **Extending the RIE treatment to all enterprises regardless of the owners' residency and control (Option 4) would allow the system of accounts to follow a coherent, unified approach that fully reflects owners' claims on the retained earnings of their enterprises.** When applied consistently, this approach will attribute the saving to the ultimate beneficiary of the retained earnings. Nevertheless, this approach presents significant practical challenges for implementation. Maintaining

¹¹ A proxy (such as well publicized Price Earning Ratio (PER) and Dividend yields) could be used to considerably reduce the compilation burden; if not perfectly accurate or perfectly aligning with statistical standards, such proxies can nonetheless remove the largest misreporting of portfolio income, at low cost.

internal consistency of the accounts means that the approach must be applied to all sectors that contain enterprises or equity investors and also to all relationships between resident investors/enterprises and nonresident enterprises/investors. This will be challenging in practice,¹² and the effects on important aggregates such as the current account balance, national saving, and household saving would be significant. The practical challenges could possibly lead to delays in implementation, reduced reliability, and important breaks in time series, hampering international comparability and comparisons over time, unless simplifying assumptions are used.¹³

37. **Regarding Option 2, items published as supplemental information can be based on alternative definitions without generating concerns about the internal consistency, international comparability, and time series continuity of the core accounts.** This allows the timetable for their development to be flexible. A pragmatic outcome would therefore be a conceptual acceptance of the proposition that RIE should apply to all equity investments, while recommending that, for practical reasons, the treatment be universally applied only in supplementary information (in the context of balance of payments statistics, this option could also consider that RIE on cross-border portfolio investment be added as memorandum items to the standard presentation—instead of as supplementary items).¹⁴

38. **Under an extended RIE treatment in supplementary tables, the RIE treatment would continue to be applied to FDI in the core accounts.** The supplementary information would include an alternative presentation of the balance of payments accounts in which the RIE treatment is also applied to portfolio investment, and alternative measures of income, saving and investment at the national level and for the institutional sectors in which the RIE treatment is applied to all equity investment. The alternative measure of government deficit could be compiled and labeled as such.

39. **The FITT consultation on the subject although yielded a majority of opinions favoring Option 4 or 3 (extension of RIE) from a conceptual viewpoint, expressed preference for Option 2 as a pragmatic solution that leaves the decision on whether to publish the (then supplementary) information to compiling agencies themselves,** while leaving the core national accounts and balance of payments unchanged (not the least because the implementation of Option 4 may be problematic in economies with less developed statistical systems or less comprehensive statistical business registers—Option 3 may likely have similar issues to Option 4).¹⁵ In a subsequent consultation, DITT members expressed split views between Option 1 (keeping the status quo) and Option 5 (removing the RIE

¹² But probably not more than the current RIE in FDI. Also note for instance that the proliferation of sec-by-sec infrastructures worldwide eases compilation.

¹³ Simplifying assumptions for recalculating historical data is common for statistical series. In the case in question, portfolio income can usefully be adjusted based on the PER/dividend ratio, while domestic DI links merely reallocate savings across sectors which can be done using equity shareholdings, in a manner similar to what is done for CII income (D.443).

¹⁴ It is noted that for any option entailing the extension of the RIE treatment (Options 2 to 4) the new BPM Compilation Guide would have to contain a detailed discussion of the implications regarding data collection and statistical compilation.

¹⁵ Out of 13 FITT members expressing views, eight supported Option 2 either as a first choice or as a preferred option for feasibility reasons (and another member indicated support for Option 2 as a second-best alternative). Among those that did not expressly support Option 2 as a recommended solution, three supported Option 4 (another one as a second choice), one Option 3, and another one Option 5.

treatment in FDI), while Option 2 received some substantial support, also taking into account the feasibility difficulties associated with Options 3 and 4.

40. **At the same time, although the FITT expressed broad support to treat share buybacks as income distribution in the core accounts, the preference was to have a more detailed discussion in a separate/subsequent GN.** This treatment would contribute to reductions in asymmetries in the treatment of corporate income distribution as share buyback programs may be seen as a substitute to dividends. However, the FITT expressed preference to prepare a separate/subsequent GN that discusses the treatment in detail examining all possible implications (Annex 1 presents an illustration of a possible implementation of such treatment). This view was also shared by a majority of DITT members.

41. **Given the practical difficulties in the implementation of Option 2, it was also recommended that its feasibility should be tested.** Testing would be particularly needed if options affecting the core accounts (Options 3 or 4) were adopted, as the resource implications for agencies would presumably be larger, and the impact on headline macroeconomic indicators would deserve a careful examination.

OUTCOMES OF THE DISCUSSIONS AT THE COMMITTEE AND THE AEG MEETINGS

42. **Both the Committee and the AEG members supported the adoption of Option 2 to record the allocation of retained earnings in a supplementary table for international and domestic transactions and positions.** However, initially the views of the Committee and AEG members were somewhat split with around half of them supporting Option 2 and others mostly expressing preference for either Option 4 (extension the RIE treatment to all equity) or Option 1 (i.e., maintaining the status quo). Those supporting Option 2 considered it was a good compromise for pragmatic reasons such as significant challenges associated with data collection and implications for different macroeconomic aggregates (e.g., current account, national income). Members supporting Option 4 underscored that this option is conceptually sound and would address the inconsistencies discussed in the GN. Members also noted the complexities in ensuring a symmetric treatment of RIE in macroeconomic statistics and the impact of the recommendations of the GN on the work of other sub-task teams. Most members that expressed preference for other options, deemed Option 2 as an acceptable compromise/a second-best solution. Therefore, the Committee and the AEG endorsed Option 2, taking also into account the results of testing exercise on REI for PI and domestic equity links¹⁶ and requesting additional guidance to both external sector statistics (ESS) and national account compilers in the updated statistical manuals.

43. **The feasibility of the recommendations under Option 2 has been separately tested among both ESS and national account compilers.** During the first stage compilers in each community were asked about availability of source data for compiling REI for PI equity for ESS and domestic transactions for national accounts. During the second stage selected compilers provided experimental calculations. The results of the testing exercises were presented during the March 2022 Joint Committee and AEG Meeting and the March 2023 AEG Meeting. The results of testing proved that although the data availability remains challenging, there are existing methods for calculating REI both for PI equity and for domestic REI transactions. Based on these results some members requested further compilation guidance on acceptable/recommended methods to be provided (i.e., in the new BPM Compilation Guide).

¹⁶ Results of the testing exercises are presented in Annex 2.

44. **On the issue of share buybacks, both the Committee and the AEG acknowledged the usefulness of preparation of a separate GN to address the related issues in a comprehensive manner.** However, AEG members also requested the chairs and secretariats of the FITT to assess if this topic can be incorporated into an existing GN, given the already large number of guidance notes for the update of the *2008 SNA* and *BPM6*. In consultation with the *BPM6* and *2025 SNA* editorial team, it was decided to move the issue to the post-review research agenda.

Annex 1. Why and How to Expense Share Buybacks¹⁷

WHY EXPENSING SHARE BUYBACKS?

1. Share buyback occurs when companies repurchase their own shares on the market. Share buybacks can be carried out with the purpose of distributing them back in the context of options programs, less often in view of later resale, or as a mean to release funds to shareholders—as substitute or in addition to regular dividends.
2. In the past three decades, share buybacks have extraordinarily developed for this third motive; two main reasons explaining this: (i) share buybacks are often highly tax-efficient from the point of view of the whole of shareholders, and (ii) share buybacks are very flexible for companies, as they can stop these programs in case of need, while they are often reluctant to cut regular dividends owing to adverse reputational effects. Some companies (notably hi-tech ones) have even had a policy of never distributing regular dividends, instead carrying out heavy share buybacks.
3. Share buybacks are currently treated as financial transactions (F.5) in statistical manuals, largely because the event is undisputedly a financial transaction from the point of view of the share seller: disposing of shares and getting cash in place—for an unchanged net worth. Given that the system must be consistent, the transaction must then also be a financial transaction in the accounts of the buyer (the company). However, for the latter, this is more a substitute for handing out dividends, and recording the transaction as such (D.42) would make sense.
4. In addition, from the point of view of the whole of shareholders, treating share buybacks as income would also make sense, because, in their perspective, the company is releasing to them cash made on earnings although in a different legal form than dividends. Limited cases where companies distribute all their earnings via share buybacks rather than via dividends are not uncommon and do entail that no income is ever recorded in the SNA at the moment: this has the potential of adversely affecting income measurement, the saving rates within an economy, and also GNI. This bias in income measurement is already at play for significant amounts, as, for example, share buybacks have exceeded (for a number of years already) the dividends paid out by quoted companies in the US (exceeding one trillion dollars a year—close to five percent of GDP).
5. In this sense, expensing share-buybacks while keeping the current core framework could thus be considered as an intermediate approach between Option 4 and Options 2/1 of this GN, because this approach would significantly increase the distribution of income across the economy (as Option 4 would do) but still stay within the boundary of Options 2/1 (which insist that the saving of corporations should not be set to zero). The question is whether, by handing out cash to shareholders, the corporations are taping in their savings or not. Many think they do, and de facto many companies borrow to do so.
6. It can be also noted that share buybacks are reported similarly to dividends in companies' financial statements (IFRS): as financing transactions. This serves to recall that seeing dividends as income in the SNA is to a certain extent a convention deemed necessary to appropriately measure the income of shareholders and notably households (that use these resources to consume); but in concept, a

¹⁷ Prepared by Philippe de Rougemont (Eurostat).

dividend can be conceived as essentially a return of cash to shareholders, which is in fact net worth neutral to them (and indeed the price of shares falls when the dividend is distributed). It has thus been argued by some that the true income on equity is the company's earnings, that is: dividend plus REI (D.42+D43). Some others have gone the other direction, proposing that dividends are not included in income altogether.

HOW TO EXPENSE SHARE BUYBACKS?

7. Some wonder how a proposed reclassification of buybacks as D.42 would work because it is very clear that the seller is merely engaging in a financial transaction. Thus, it would not be reasonable to record D.42 revenue in the seller accounts. Such a direct reclassification of the cash transaction as D.42 could have catastrophic effects, allowing, for instance, governments to generate revenue at will by merely reselling shares (purchased in advance on the market) to the company during its buyback programme at the moment that is convenient. Also, the measure of GNI would vary according to whether many or few nonresidents participate in buyback programmes, which is undefendable.

8. In addition, from a source data point of view, it seems highly uncertain if data on share transactions can reliably identify if the latter is carried out with the issuing company (i.e., as part of the buyback programme) or with the rest of the market. Also, it could be argued that, in concept, the distinction may not make sense at all, notably if the buyback is carried out via financial intermediaries or via other markets organized such that sellers cannot identify who are the buyers.

9. Given the above, one proposal (that needs to be further investigated) would be to simply impute a dividend for the amount and at time of share buyback in both the account of the company (use/expenditure/debit) and that of all shareholders (resource/revenue/credit). The counterpart of this imputed D.42 is F.5, in the same way as in REI (D.43). The allocation across shareholders is also in the same way as REI. This would be a deviation from current rules, whereby some D.42 would now be an imputed flow rather an observed flow but would be justified by the fact that the imputation is based on an observed flow and by the need to treat share buybacks as distribution of income.

10. In the accounts of the company, the outflow of cash currently coded (-)F.5L becomes D.42. In the account of the shareholders as a whole, there is a D.42 that is imputed across all shareholders against (+)F.5A, while the share seller itself records the following: (-)F5.A against cash received (+)F2A, in addition to its apportioned D.42/(+)F.5A.

11. The proposal is thus not to classify the buyback transaction itself as nonfinancial, because the seller indeed carries out a financial transaction, but to use the amount and time of buyback to impute a dividend applying the REI method, with the same effects, although the rationale to do so is different. This difference in rationale is not so problematic: as mentioned in the GN, the REI method is already applied in other circumstances, for instance in collective investment schemes (D.443)—also based on a different rationale to D.43.

12. Because the proposal is to merely impute a further D.42 corresponding to the share buyback in addition to the regular dividends, the new total D.42 should nonetheless be superdividend tested. This is to ensure that share buybacks that merely seek to distribute the earnings of a period are treated as income, while share buybacks that essentially aim a liquidating a large part of the company should be treated as financial.

13. Following the introduction above, one could wonder whether the proposed treatment of share buybacks should depend on the subsequent use of the shares bought back. The proposal rejects the notion that a different recording should be applied depending on use, because one should generally not classify according to the ulterior motive of the transaction, and because no information will generally be available for this. Also, it is adequate that a subsequent use is treated separately.

Annex 2. Outcomes of the Testing of the Recommendation under Option 2.

OUTCOME OF THE SURVEY ON DATA AVAILABILITY AND TESTING FOR ESS

Eighty-one respondents from 75 countries completed the survey (Table 3). Twenty-nine countries (39 percent) were interested in participating in the testing exercise for the reinvested earnings (REI) of portfolio investment (PI) assets and 31 countries (41 percent) for the REI of PI liabilities (Table 3 provides the list of respondent countries). The lack of the relevant source data was the main reason preventing the participation of the other countries. However, countries considered the exercise as an important initiative for the updates of macroeconomic statistical manuals.

The results of the survey are discussed in more details in the following section.

Question 1. Does your institution have relevant source data to compile RIE for portfolio investment as supplementary items in the balance of payments?

Seventy-seven percent of the respondent countries do not have the source data to compile the RIE of portfolio investment assets and 63 percent of countries do not have it for RIE of portfolio investment liabilities.

Many countries indicated not having the source data or that the available data have limitations. Countries pointed to more difficulties to obtain data for the PI assets. Data on PI liabilities can be obtained from the annual foreign investment surveys or financial statements. However, countries with significant PI holdings indicated that it would not be feasible to ask corporations to report the data. Some countries responded that they would be able to compile the data for some institutional units only (e.g., financial corporations, government, banks). One European country highlighted its previous experience on the use of security-by-security database for PI statistics.¹⁸

Question 2. Would your institution be interested in participating in an experimental exercise to prepare RIE data for portfolio investment for your country/economy?

Thirty-nine percent of countries expressed interest to participate in the testing exercise for the REI of PI assets and 41 percent for the REI of PI liabilities. Countries that showed no intention to participate, pointed to the lack of resources and the absence of source data as major issues.

Question 3. Does your institution have plans to develop relevant source data to compile RIE for portfolio investment in the future?

Around 20 percent of the respondent countries would develop the source data to compile the supplementary tables. Countries that would like to develop the new data sources, plan to include additional tables in the enterprise surveys. However, countries with large PI holdings did not see a possibility to collect the data. Some countries indicated that they have other priorities, and the feasibility of introducing changes to their data collection systems should be evaluated.

¹⁸ The database includes data on dividends, price/earnings ratios, which may assist in calculations of RIE estimates.

Table 3. Responses to Relevant Survey Questions

Respondent Country	Region	Portfolio Investment Asset		Portfolio Investment Liability	
		Available source data	Interest in participation in testing	Available source data	Interest in participation in testing
Albania	EUR	No	Yes	No	Yes
Algeria	AFR	No	No	No	No
Armenia	MCD	No	No	Yes	Yes
Austria	EUR	No	No	Yes	No
Azerbaijan	MCD	No	No	No	No
Bahamas	WHD	No	No	Yes	No
Bahrain	MCD	No	Yes	No	Yes
Bangladesh	APD	Yes	Yes	Yes	Yes
Belarus	EUR	No	No	No	No
Bermuda	WHD	No	No	No	No
Botswana	AFR	Yes	Yes	Yes	Yes
Brazil	WHD	No	No	No	No
Bulgaria	EUR	No	No	No	No
Cameroon	AFR	Yes	Yes	Yes	Yes
Chile	WHD	No	No	No	No
Colombia	WHD	No	No	No	No
Costa Rica	WHD	Yes	Yes	Yes	Yes
Croatia	EUR	Yes	No	Yes	No
Curaçao	WHD	Yes	Yes	Yes	Yes
Cyprus	EUR	No	No	No	No
Denmark	EUR	No	No	No	No
Dominican Republic	WHD	No	No	No	No
Estonia	EUR	No	No	Yes	No
Ethiopia	AFR	No	Yes	No	Yes
Georgia	MCD	No	No	Yes	Yes
Germany	EUR	No	No	No	No
Guinea	AFR	Yes	Yes	Yes	Yes
Hong Kong (SAR China)	APD	No	No	No	No
Israel	EUR	No	No	No	No
Italy	EUR	No	No	No	No
Japan	APD	No	No	No	No
Jordan	MCD	No	Yes	Yes	Yes
Kosovo	AFR	No	No	No	No
Latvia	EUR	No	No	Yes	No
Lebanon	MCD	No	No	No	No
Lithuania	EUR	No	No	No	No
Macao (SAR China)	APD	No	No	No	No
Madagascar	AFR	No	No	No	No
Malawi	AFR	Yes	Yes	Yes	Yes
Maldives	APD	No	No	No	No

Respondent Country	Region	Portfolio Investment Asset		Portfolio Investment Liability	
		Available source data	Interest in participation in testing	Available source data	Interest in participation in testing
Marshall Islands	APD	Yes	Yes	No Response	No Response
Mauritania	MCD	No	Yes	No	Yes
Mauritius	AFR	No	No Response	No	No Response
Mexico	WHD	No	No	No	No
Moldova	EUR	No	No	Yes	Yes
Morocco	MCD	Yes	Yes	Yes	Yes
Myanmar	APD	No	No	No	No
Nepal	APD	No	Yes	No	Yes
Netherlands	EUR	Yes	No	Yes	No
Nicaragua	WHD	No	Yes	No	Yes
North Macedonia	EUR	No	No	No	No
Norway	EUR	No	No	Yes	No
Oman	MCD	Yes	Yes	Yes	Yes
Palestine, State of	MCD	Yes	Yes	Yes	Yes
Papua New Guinea	APD	No	Yes	No	Yes
Paraguay	WHD	No	Yes	Yes	Yes
Philippines	APD	No	No	No	No
Poland	EUR	No	No	No	No
Portugal	EUR	No	Yes	No	Yes
Romania	EUR	No	No	Yes	No
Rwanda	AFR	Yes	Yes	Yes	Yes
Samoa	APD	No	No	No	No
Saudi Arabia	MCD	No	Yes	No	Yes
Singapore	APD	No	No	No	No
Solomon Islands	APD	No	Yes	No	Yes
South Africa	AFR	No	No	No	No
Sweden	EUR	No	No	No	No
Switzerland	EUR	Yes	Yes	Yes	Yes
Thailand	APD	No	No	No	No
Turkey	EUR	No	No	No	No
Tuvalu	APD	Yes	Yes	Yes	Yes
United Kingdom	EUR	No	No	No	No
USA	WHD	No	Yes	No	Yes
Vietnam	APD	No	No	No	No
Zimbabwe	AFR	No	Yes	No	Yes
Total Respondents (positive answers)	75	16	28	26	30
Total EBA-ESR Respondent (positive answers)	27	4	6	6	6

Table 4. Responses summary to the Survey Questionnaire

Questions	Number of Responses	%
1. Does your institution have relevant source data to compile RIE for portfolio investment as supplementary items in the balance of payments? For portfolio investment assets		
Yes	16	21%
No	59	79%
Total	75	100%
1. Does your institution have relevant source data to compile RIE for portfolio investment as supplementary items in the balance of payments? For portfolio investment liabilities		
Yes	26	35%
No	47	64%
No response	1	1%
Total	75	100%
1.1 Provide more information (if any) on the source data availability.		
2.1 Would your institution be interested in participating in an experimental exercise to prepare RIE data for portfolio investment for your country/economy? For portfolio investment assets		
Yes	28	37%
No	46	61%
No response	1	1%
Total	75	100%
2.1 Would your institution be interested in participating in an experimental exercise to prepare RIE data for portfolio investment for your country/economy? For portfolio investment liabilities		
Yes	30	40%
No	43	57%
No response	2	3%
Total	75	100%
2.1. Provide brief reasons (if any) in support of your response.		
3. Does your institution have plans to develop relevant source data to compile RIE for portfolio investment assets in the future?		
Yes	16	21%
No	40	53%
No response	19	25%
Total	75	100%
3.1. Provide more information (if any) on your plans or main challenges.		
4. Does your institution have plans to develop relevant source data to compile RIE for portfolio investment liabilities in the future?		
Yes	13	17%
No	32	43%
No response	30	40%
Total	75	100%
4.1. Provide more information (if any) on your plans or main challenges.		

SUMMARY OF THE EXPERIMENTAL CALCULATION EXERCISE

Six respondents out of 31 volunteer countries responded to second phase questionnaire. Only four of them provided data, and one compiler responded that due to other commitments it was not possible to undertake the compilation.

Two countries (US and Switzerland) used aggregated stocks and aggregated performance indicators to compile the data. Compilers used indirect indicators to calculate the total earnings and dividends (or ratios) and then to calculate the difference at the final stage.

The US used price earnings ratios (PER) (MSCI excluding US index for PI assets, and S&P 500 for PI liabilities) as a performance indicator. The difference between earning per price (the opposite of price earning ratio) and dividend yield (DY) represents the reinvested earnings ratio expressed in percent. Average aggregated positions (S) from the IIP are used to calculate the REI in terms of USD.

$$1) \text{ RIE}\% = (1 \div \text{PER}) - \text{DY} \qquad 2) \text{ RE} = (\text{RIE}\% \div 4) \times ((S^{t0} + S^{t1}) \div 2)$$

Switzerland used a similar calculation method. The average payout ratio from Bloomberg is applied to IIP stocks, and the difference between the payout and dividend payout represents the REI in PI.

Both methods use aggregated performance indices that contain some “noise” (performance aggregates may be based on non-negative ratios, the PIs composition may differ from MSCI compositions, etc.), which is typical when using any aggregated indicators/volumes. Both countries realize the limitation of the aggregated ratios/stocks and indicated that for accurate calculations more granular data are needed to link the performance indicator to a specific stock.

The other two countries (Armenia and Portugal) used more granular data to make estimates.

Armenia compiled data only for liabilities (the country indicated in the first phase that it may perform calculations only for liabilities). Data from balance sheets and income statements of individual enterprises were used, containing information on net profit and dividends. The country indicated that nonfinancial corporations do not report any data for PI.

Portugal used different methods to calculate RIE for PI assets and liabilities. For PI assets, data from the Centralized Securities Database (CSDB) were used (accrued income factor), and the outstanding (equity) amounts by country and issuance sector breakdown were used to obtain the total income. In addition, the distribution of earnings (dividends) was obtained from a direct monthly report by companies. The reinvested earnings correspond to the difference between the estimated total income and the distributed earnings. For liabilities, direct investment reinvested earnings are weighted by the percentage owned by the non-resident portfolio investors weight.

Other countries (Nicaragua, Botswana and Curacao) responded that they could not compile the data.

Overall, countries indicated that the current data collection systems are not designed to collect RIE data for portfolio investments. Countries noted that additional data sources are needed to compile more precise data, in form of databases containing information on (i) foreign companies, (ii) domestic companies with PI (similar to those that are used to compile direct investments), and (iii) security by security databases.

Table 5. Responses to Relevant Survey Questions

Countries	Provided data	Answered to questionnaire
Albania	No	No
Armenia	Yes	Yes
Bahrain	No	No
Bangladesh	No	No
Botswana	No	Yes
Cameroon	No	No
Costa Rica	No	No
Curaçao	No	No
Ethiopia	No	No
Georgia	No	No
Guinea	No	No
Jordan	No	No
Malawi	No	No
Marshall Islands	No	No
Mauritania	No	No
Moldova	No	No
Morocco	No	No
Nepal	No	No
Nicaragua	No	Yes
Oman	No	No
Palestine, State of	No	No
Papua New Guinea	No	No
Paraguay	No	No
Portugal	Yes	Yes
Rwanda	No	No
Saudi Arabia	No	No
Solomon Islands	No	No
Switzerland	Yes	Yes
Tuvalu	No	No
USA	Yes	Yes
Zimbabwe	No	No

SUMMARY OF SURVEY ON DATA AVAILABILITY FOR NATIONAL ACCOUNTS¹⁹

A total of 44 respondents contributed to this consultation.

Summary

The topic is of high or medium relevance to most respondents of the National Accounts global consultation on this issue.

RIE for public corporations

For 56 percent of respondents, institutions have source data available to compile RIE for public corporations as supplementary items in the national accounts for domestically controlled public corporations. Of which 80 percent have Government Finance Statistics (GFS) assets and liabilities (stock) data, 72 percent have GFS financial transaction data, and 24 percent have other source data (e.g., enterprise databases, financial statements, and Balance of Payments data).

Of the respondents, whose institutions have these source data available, most (83 percent) institutions have access to detailed (audited) financial statement informal including notes for public corporations. And in half of respondents' countries, equity of public institutions can be available for sale to private investors.

Three respondents' institutions have plans to develop relevant source data to compile RIE for public corporations' assets and/or liabilities in the future.

Sixteen institutions are interested to participate in an experimental estimate exercise to prepare RIE data for public corporations.

RIE for private domestic equity stakes

Approximately 50 percent of all respondents' institutions have relevant source data available to compile RIE for private domestic equity stakes as supplementary items in the national accounts for domestically-controlled private corporations. In those institutions the dominant types of source data available are financial statements, administrative tax data (mostly individual taxable receipts and withholding tax data), and surveys for enterprise income statements.

Two respondents' institutions have plans to develop relevant source data.

Fourteen institutions are interested to participate in an experimental estimate exercise to prepare RIE data for private domestic equity stakes.

¹⁹ Prepared by the United Nations Statistics Division.

SUMMARY OF EXPERIMENTAL CALCULATIONS AMONG NATIONAL ACCOUNT STATISTICIANS FOR DOMESTIC TRANSACTIONS²⁰

Introduction

A global questionnaire for national accountants was launched to ascertain the feasibility of compiling RIE for public and for private domestic equity stakes including the data sources and methods that could be used in the estimation. The questionnaire consisted of 11 questions and a total of 13 economies responded.

Methodology

For both Public and Private nonfinancial corporations, three approaches are mentioned for the measurement of RIE:

RE1 = net operating surplus plus net property income plus net current transfers.

RE2 = net operating surplus plus net property income; and

RE3 (Residual Approach) = Profits after taxes²¹ less dividends or Profits before taxes less (taxes and dividends).

As for Public and Private Financial Corporations, the following methodologies are identified:

RE4=

- a. For Deposit taking and other financial corporations = interest revenue minus interest payable, plus income from fees and commissions, plus net dividend income, minus costs from fees, staff expenses and other administrative costs;
- b. For the Central Bank same as above, except there are no income from fees and commissions²²;
- c. RE3, Residual approach (same as above).

Data sources

The main data sources used to estimate and allocate RIE are surveys (investment surveys, inter-corporate ownership returns, enterprise surveys), administrative data (corporate tax schedules and regulatory data), company financial statements and other. Most economies have not introduced any new data sources in their estimation compared with the sources used for national accounts' calculations with the exception for one economy, which has incorporated commercial databases such as Dun & Bradstreet and Bureau van Dijk.

²⁰ Prepared by Emmanuel Manolikakis (IMF, Real Sector Division) and reviewed by Artak Harutyunyan (IMF, co-chair of FITT) and Celestino Giron (ECB, co-chair of FITT).

²¹ Profits after taxes are aligned to SNA concepts i.e. excluding capital gains and losses etc.

²² However, in cases where the central bank also serves retail clients income from fees and commissions.

Feasibility

For Public Corporations, 3 economies indicated that they could allocate reinvested earnings to general government for both public financial and public non-financial companies. Similarly for private financial and non-financial corporations, 5 economies indicated that, through existing data sources, an allocation for reinvested earnings to equity holders could be undertaken.

For those economies that currently have adequate data sources, RIE calculations could be undertaken on an annual basis and for some even quarterly. Interestingly, the estimation seems more plausible for private corporations rather than public entities.

Issues identified

The major concern mentioned is that currently the data required to allocate RIE to equity holders is not available. Information on shareholdings is not always available from administrative sources. Other challenges include that the basis of estimation may not be exhaustive, excluding RIE of companies that do not provide public financial statements and for small and medium size companies.

Recommendation

The results obtained from the global consultation were limited to 13 participants. Nonetheless, there are economies that have indicated that they can calculate and allocate RIE to domestic equity holders on either an annual and/or quarterly basis.

From the results of the questionnaire, it is proposed to endorse the recommendation for economies to provide information for sectorised RIE.

- Allocation of reinvested earnings will not be part of the core accounts but as supplementary information. A supplementary table will allow for economies to continue to investigate potential data sources and methodologies.
- More importantly, adoption would ensure consistency and alignment between the System of National Accounts and the Balance of Payments community (which has already agreed to a supplementary table in BPM7); and
- The AEG is asked to consider the best way to provide guidance to economies on how to compile the estimates, drawing on the experience of countries such as Portugal who have already been able to compile estimates and Ireland who have conceptually worked through the steps for estimating RIE.