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For discussion

D.4 Corporate Inversions: Outcome of the Public Consultation

Prepared by the Direct Investment Task Team (DITT)

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D.4 Corporate Inversions: Outcome of the Public Consultation[1]

The public consultation shows some support to the view that corporate inversions have been distorting the analytical value of direct investment statistics if not separately identified. The proposal to have supplemental statistics on corporate inversions has been well received, as long as they are kept optional. For that purpose, there is significant support for an official definition of corporate inversion for statistical purposes, and the current definition in BPM6*, paragraph 8.19, as acknowledged in the Guidance Note (GN), is deemed a useful start.*

In view of the broad agreement received during the public consultation, the GN is proposed to be considered by the Committee for final decision.

1. **The public consultation[2] revealed diverging views with a slightly larger support that corporate inversions have degraded the analytical usefulness of direct investment (DI) statistics, and key national accounting aggregates, for the economies concerned.** Corporate inversion, in principle, involves large values in financial account but with no or little movement of resources and equally have a non-negligible impact on key macroeconomic aggregates such as Gross National Income (GNI). The motivation for corporate inversion, according to the respondents, is different from conventional DI such that when not distinguished separately, DI statistics get distorted. However, most economies are not impacted by corporate inversions and, so, do not see an impact on their DI statistics. Cognizant of the numerous of proposed supplementary breakdowns in different GNs, a few respondents indicated their preference to use the forthcoming IMF's initiative of special purpose entities (SPE) cross-border data collection, which if effective, should help identify DI associated with corporate inversions.

2. **There was significant support for an official definition of corporate inversion for statistical purposes.** An official definition is expected to guide compilers and promote a uniform approach to the recording of corporate inversions for statistical purposes, and international comparability. The definition would help the compilers to streamline which of the corporate reorganizations to classify as corporate inversions.

3. **The current definition in *BPM6,* paragraph 8.19, as acknowledged in the GN, is considered useful, although more guidance is necessary given that it is too concise.** Additionally, there have been suggestions to highlight an operational definition and objective criteria to determine corporate inversions. Respondents have pointed to more clarification to assist compilers in the Compilation Guide, even with numerical examples to illustrate the recordings of these operations in the balance of payments and international investment position. For instance, guidance on (i) borderline cases (e.g., "born inverted"), (ii) how to treat subsequent acquisitions of companies in the country of the inverter by the new foreign parent company, and (iii) corporate restructurings, which differ from corporate inversions, will be helpful. It may be necessary to know if the new parent company is resident of a tax haven economy, or still how to define the location of headquarters.

4. **Respondents generally concurred that supplemental statistics on corporate inversions for concerned economies will increase the analytical interpretability of their DI statistics, but they**

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[1] Prepared by Ms. Padma S. Hurree-Gobin (IMF), and Ms. Francesca Spinelli (OECD), both DITT Secretariat.

[2] Sixteen responses, altogether but not all respondents replied to all questions. See detailed results in Annex II.

should be kept optional. DI statistics, if unexplained, can distort macroeconomic aggregates; the more so that corporate inversions have an impact on both cross-border statistics and national accounts indicators. The importance of disclosing these details was demonstrated by Ireland's publication[3] on these types of firms and their effects. Some respondents, nonetheless, have recognized the difficulty of producing supplemental statistics due to confidentiality concerns. In that respect, this data collection should be kept optional, depending also on the availability of data sources.

5. **From a practical perspective, respondents referred to confidentiality concerns, operational difficulties to obtain the information, cost-benefit analysis of this undertaking, amongst others, that should be considered when collecting statistics on corporate inversion.** Corporate inversions can be difficult to track, especially if undertaken by non-listed firms, or if they are the outcome of complex corporate restructurings. Whenever they are conducted by only a few very large firms, confidentiality issues may arise. Respondents also noted the operational difficulties in obtaining information from the currently available data sources. In that regard, some respondents noted the need for national compilers to discuss bilaterally prior to the recording of a given operation and also when providing additional information, to alleviate confidentiality concerns. The provision of supplemental statistics should also take into account whether their analytical and policy merit outweigh their production cost especially in countries with limited capabilities.

[3] https://www.cso.ie/en/releasesandpublications/ep/pia/internationalaccountsq12020final/redomiciledplcs2019/

Annex I. WGIIS Consultation on GN D.4

As part of the BPM6 *and* BD4[4] *update process, the OECD Working Group on International Investment Statistics (WGIIS) Secretariat, consulted with WGIIS delegates[5] on the DITT GN D.4 to gauge their support and preferences. The OECD also organized a webinar[6] on February 4 to discuss the outcomes of the consultation and gather additional insights on the feasibility of the proposed approaches.*

1. **The consultation showed that corporate inversions are not significant in most economies but can, nevertheless, have large effects on macroeconomic statistics (i.e., GNI)**. Therefore, there is unanimous support for including an official definition of corporate inversion in *BPM7*. It was suggested during the WGIIS webinar to also include guidance about corporate restructurings, which differ from corporate inversions but are also a major cause of significant distortions of FDI flows.

2. **There was general support (from 17 respondents) for the definition of corporate inversion proposed in the GN[7] and some respondents stressed the need to ensure the interpretability of the supplemental statistics, through detailed guidance for users**. Given the complexity of the phenomenon across various countries, the note proposed a general definition to leave compilers some flexibility in identifying corporate inversion while taking into account the specificities of their economies. A couple of respondents opposed the proposed definition because it did not include born-inverted companies or follow-up acquisitions. During the webinar several comments were raised on the existence of specific cases of corporate inversion that are not covered by the proposed definition (including other forms of corporate restructuring). It was also suggested that countries for which corporate inversion are important, could coordinate the treatment of corporate inversion identified in their economies. Finally, one participant suggested a decision tree to support the definition of corporate inversion and help identify the type of information required.

3. **Finally, there was strong support (from 20 respondents) for including a supplemental collection of DI statistics on corporate inversion, for economies where the phenomenon is important (proposed alternative A2 in the GN).** Many indicated that it would improve the analytical usefulness of DI statistics without making it mandatory for countries where the phenomenon might be less significant and subject to stricter confidentiality rules.

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[4] The IMF and the OECD are collaborating in the work of the Direct Investment Task Team (DITT), serving as co-Chairs and in the DITT Secretariat. The OECD's *Benchmark Definition of Foreign Direct Investment, fourth edition* (*BD4*), which is being updated, provides detailed guidance on the compilation of direct investment (DI) statistics in line with the IMF's *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*). The WGIIS reviews the guidance notes produced by the DITT and provides feedback at different stages.

[5] Twenty-six countries responded to an online survey set up by the OECD, but not all countries responded to all questions. Includes answers provided by two countries during the earlier WGIIS/BPTT consultation exercise conducted in December 2020.

[6] There were more than 100 participants, and no dissenting opinions emerged during the discussion.

[7] While the questionnaire included reference to an older version of the proposed definition in the GN, there was no objection to the revised version that was proposed in the GN for public consultation.

Table 1. WGIIS Delegates' Answers to the Questions Included in the Online Survey

	Yes	No
Q1. Has your country developed an official definition of corporate inversion (e.g., for statistical or fiscal purposes)?	0	24

	Yes	No	Don't know
Q2. Are corporate inversions significant in your country?	3	14	6

	Yes	No
Q3. Do you feel that corporate inversions have impacted the analytical usefulness of macroeconomic statistics in your country?	11	14
Q4. Do you agree that an official definition of corporate inversion is needed for statistical purposes?	25	0
Q5. The Guidance Note proposes a definition. Do you find it sufficient to explain the concept and for compilers to identify corporate inversions?	17	5

	A1	A2	A3
Q6. The guidance note proposes various alternative approaches for the treatment of corporate inversions in BPM7. Which of the following alternative would you support?	3	20	0

Annex II. Summary Results of the Public Consultation

1. Do you believe that corporate inversions have degraded the analytical usefulness of direct investment statistics, and key national accounting aggregates like corporate profits and gross national income, for your country?

Yes	No
56%	44%

2. Do you agree that an official definition of corporate inversion is needed for statistical purposes?

Yes	No
88%	13%

3. Paragraph 18 of the Guidance Note proposes a definition. Do you find it sufficient to explain the concept and for compilers to identify corporate inversions?

Yes	No	Abstention
73%	27%	7%

4. Do you agree that the countries for which corporate inversion is an important phenomenon, with a clear definition provided to guide compilers, should produce supplemental statistics on corporate inversions?

Yes	No	Abstention
81%	13%	6%