

4 Units in the SBR

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Introduction

This chapter briefly describes the different units or groups of units to be maintained in the statistical business register, both in a conceptual and an operational view. In order to do so, one has to distinguish two main different kinds of units: the Statistical Units (conceptual units for economic statistics), and the Observation or Reporting¹ Units (usually administrative units, used in practice to derive the Statistical Units).

The Statistical Unit serves as a tool for presenting, in an unduplicated and exhaustive manner, several aspects of the economy. It is important to have homogeneous definitions of the statistical units to increase the accuracy of economic statistics, by a better consistency across sectors, countries or geographic areas and over time. Reduction in the reporting burden, by collecting data from different sources, requires in practice a common understanding of those units.

In many cases, the Statistical unit is also the **Observation and the Reporting unit**. But the three concepts may differ, for example when dealing with large and complex enterprises.

Links between the different units are important. Each country has to find out what is the difference between the administrative definition of the observation units and the statistical definition of units : how is it possible to come from one to the other? Which challenges have to be solved?

The general structure of the data base (chapter 9) should be consistent with those concepts (see also statistical units model in Annex 4.2.3). The main variables, attribute to the units, are presented in the following chapter 5. “Characteristics of the units”.

4.1 Brief presentation of the issues and problems to be covered

The Statistical Business Register (SBR) should ideally record not only the Statistical Units (SUs) required for the production of harmonised statistics, but also all units eventually needed in practice for the compilation of economic statistics, their links with the Statistical Units and their use as Observation Units or ‘Reporting Units’ .

Nevertheless, for the statistical compilers, the Statistical Units about which information is sought and for which statistics are ultimately compiled are the crucial units in the Statistical Business Register. For the output of the statistical production process, the main Statistical Units are :

the (Global) Enterprise Group (and the Truncated Enterprise Group at country level),
the (Global) Enterprise (and the Truncated Enterprise at country level) and
the Establishment (or Local Kind of Activity Unit).

However, other units (e.g. Legal Units, their local units, kind of activity units, and segments and/or combinations of legal/local units) might as well be needed to maintain the Statistical Units in the statistical business register. They are generally country specific.

It should be noted that, to acknowledge the need *to develop statistics that take into account the globalisation of the economy*, the definitions of statistical units such as the Enterprise

¹ Terminology to be validated (‘observation’ and ‘reporting’ unit).

Group and the Enterprise are currently under revision in Europe² and are not yet commonly agreed and applied so far. It could be a source of inconsistencies between countries and/or statistical domains. But in many countries those definitions cannot be easily applied.

In particular, the outcome of the work programs launched by Eurostat and the members of the European Statistical System (ESS) and called “EssNet Profiling” and “EssNet Consistency” will be taken into account for the new definition of the Enterprise Group and Enterprise units (and their respective Truncated units, eventually unique). The challenge of international harmonisation implies to adopt a ‘top-down’ approach to analyse globally the managerial, accounting and legal structure of an Enterprise Group, in order to delineate Statistical Units such as Enterprises within that group, and their links with Legal Units or parts of them. “EssNet Profiling” offers implementation rules for the delineation of enterprises that belong to large and complex multinational enterprise groups. But they may be generalised to simpler cases, as domestic groups, or one-enterprise-groups (or ‘one-enterprise-truncated groups’). In practice, the related Observation / Reporting Units are based upon the most efficient structures available for the collection of statistical data for each relevant geographic level.

4.2 Statistical Units vs. Observation / Reporting Units

Introduction

In this paragraph the different units in the SBR are more precisely described, from a conceptual point of view. The links between those units will be a part of their description. As stated before, the units are divided in two main categories:

- the Statistical Units (SUs), not always directly observable, but *harmonised* for consistent economic statistics: enterprise group, enterprise, establishment...
- and the Observation / Reporting Units (RUs), usually administrative units, used in practice to derive the Statistical Units, if and when not directly observable³: mainly, legal units and local units of legal units (and, if needed, other units as local units of enterprises or local units of enterprise groups). Those units *may vary among countries* and over time, due to differences in national legislations and territorial organizations. *Observation Units* are identifiable entities about which data can be obtained. They may, or may not, be the same as the *Reporting Units* that report information for each of the Observation Units.

References to size thresholds may be added later on, to define the scope of domains from a practical point of view (see chap 5, characteristics of the units) but they will not be part of the conceptual definition of units, aim of this chapter.

Similarly, the market / non-market characteristic of the unit is considered as a qualitative variable, not as a part of the definition of the unit itself.

² the Eurostat FRIBS project (Framework Regulation Integrating Business Statistics) is aimed to establish a cross-cutting framework regulation to integrate business statistics. Annex I will refer to a list of Statistical Units.

³ The terminology of Observation and Reporting unit retained in this manual comes from Eurostat Business Registers Recommendations manual. It has to be validated

4.2.1 Statistical Units

A *Statistical Unit* is an entity about which information is sought and for which statistics are ultimately compiled. It is the unit that provides the basis for statistical aggregates and to which tabulated data refer. They can be *observable* such as a legal entity *or created* by splitting/grouping the observed entities (see 4.2.2), using statistical estimation methods, for the provision of a detailed and homogeneous set of statistics⁴.

For the statistical production process the principle statistical units are:

- the Enterprise Group,
- the Enterprise and
- the Establishment (local kind of activity unit).

The basic statistical unit model presented in this manual is also recommended for African countries, as follows. An overview of the statistical unit model (from UN) is presented in annex 4.D in 4.2.3, along with a more complex model suited for large and complex multi national enterprises in annex 4.E.

The current definitions of the statistical units in this manual will refer whenever possible (Enterprise and Establishment) to the ISIC Rev.4 international standard for classification by economic activity⁵. *Note that the definitions of the Enterprise Group and the Enterprise, as statistical units, are not yet commonly agreed and applied, and are currently under revision in Europe (see 4.1).*

⁴ extension of the UN Guidelines definition §5.27, which only considers to split entities (not to group them)

⁵ Statistical Paper Series M No.4/Rev4, United Nations (2008), chapter III.

http://unstats.un.org/unsd/publication/seriesM/seriesm_4rev4e.pdf

Example: [extracts from Guidelines for Building SBR in Africa - sept. 2012]

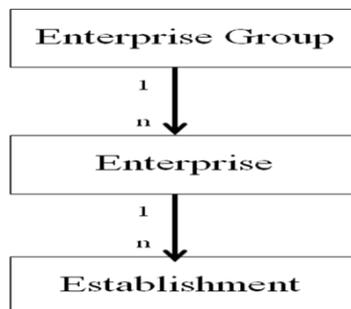
The set of standard statistical unit (SSU) types into which the SNA 2008⁶ partitions an enterprise *is an example of a statistical units model used by statisticians* as the basis for collecting data. The model is a statistical abstraction and simplification of the rather messy and complicated set of legal, operating, and administrative units that exist in the real world, i.e., the economic world that the NSO is measuring.../...

In summary, despite the widespread agreement on the use of SNA and ISIC⁷, there is no universally adopted SSU model. EU regulations prescribe a model for EU member states, but NSOs in other countries define their own models, with the result that there is a plethora of different models in use across the world../...

Recommended statistical units model

In the absence of strong reasons to the contrary, a good choice for the statistical units model is one loosely based on the EC regulation, comprising just three hierarchically organized standard statistical units, as illustrated in Figure 6.1.

Figure 6.1: Recommended statistical units model



Enterprise Group: comprising one or more enterprises; required to handle the sort of complex inter-corporate ownership and control situations found in countries with modern developed economies. This unit is not currently needed for most African countries at their current stages of development but is included in the model to ensure that the model can cope with a future situation in which the economy has become more complex.

⁶ The *System of National Accounts 2008* (2008 SNA) is the latest version of the international statistical standard for the national accounts, adopted by the United Nations Statistical Commission (UNSC)

⁷ International Standard Industrial Classification of All Economic Activities

4.2.1.1 Enterprise Group (and Truncated Enterprise Group)

Statistics based on enterprise groups are presently not very far developed, but in a period when globalisation has greatly increased, they should be given in the future a large interest. The challenge is to analyse the structure and concentration of dominant economic units in terms of production revenues and profits.

Enterprise groups are also essential for deriving, in a generally agreed top-down process, consistent enterprise units and, when the group is multinational, for compiling inwards and outward foreign affiliate statistics (FATS), and foreign direct investment (FDI) statistics.

The Enterprise Group is one of the units selected in Europe for establishing a common framework for business registers for statistical purposes. The BR regulation (EC) No. 177/2008 includes a simplified model containing just 4 units to be maintained – namely, legal unit, enterprise, local unit, and enterprise group. The Eurostat BR Recommendations Manual [§21.21 - 21.26] states that :

“Whereas the enterprise is an actor in the economy at the level of the production process, with relative autonomy with respect to the allocation and use of its current resources, *the enterprise group is an actor at a more strategic level* taking strategic decisions on behalf of its constituent enterprises (e.g. on product policies, on major expansions, etc.). Since the enterprise group as a whole is subject to demographic events, the statistical unit ‘enterprise group’ in the register must be maintained according to special continuity rules for the global, truncated and all-resident groups⁸.” The characteristics of enterprise groups represent properties of the group at global or national (truncated or all-resident) level. It is recommended to determine *whether they refer to consolidated properties or non-consolidated properties.*”

4.2.1.1.1 Current definition of Enterprise Group

The enterprise group comes in addition - and upwards - to the set of standard statistical unit (SSU) types into which the SNA 2008 partitions an enterprise.

Definition ⁹:

An enterprise group is an association of enterprises bound together by legal and/or financial links. A group of enterprises can have more than one decision-making centre, especially for policy on production, sales and profits. It may centralize certain aspects of financial management and taxation. It constitutes an economic entity which is empowered to make choices, particularly concerning the units which it comprises.

This definition is under revision (see 4.1 and 4.2.1.1.2).

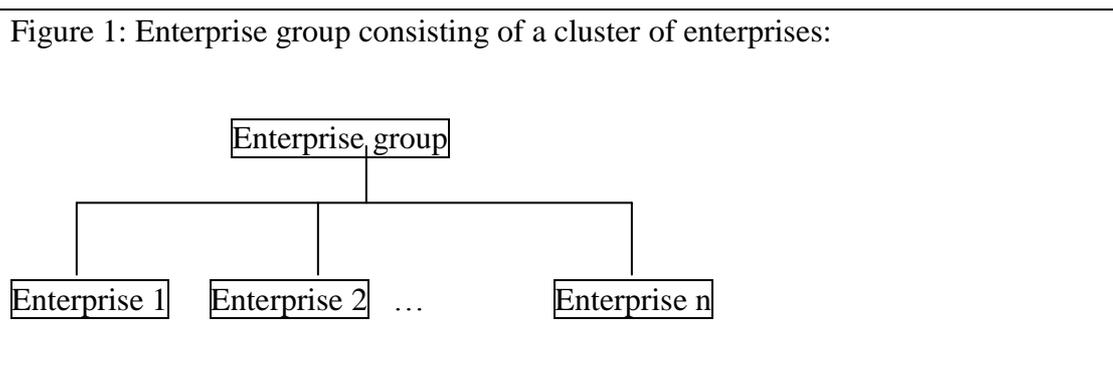
This current European SU Regulation states that an enterprise group is an ‘association’ of enterprises. Since, in contrast to legal units, the enterprise is a statistical construct, exclusively designed for economic analysis, *hierarchical relations between enterprises are not defined.*

⁸ see Chapter 22 Demographic changes and continuity rules for the enterprise group PP 237 - 249

⁹ [Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units (Annex Section III C

The ‘association of enterprises’ as stated in the SU Regulation therefore must be a two level hierarchy with the *enterprise group on top and its constituent enterprises all on the second level* (all constituent enterprises of an enterprise group having the same rank without a structure).

The following diagram illustrates this.



Both the enterprise group and its association with its constituent enterprises (the ‘economic view’ of the enterprise group) must be recorded in the business register. This means that :

- The object “enterprise group” as such
- The characteristics of enterprise group
- The relationship of enterprise group with its constituent enterprises

must be included in the register.

The underlying concept of links between the grouped *legal units* is *ownership and/or control*.

Explanatory notes

1. For certain observations and analyses it is sometimes useful and necessary to *study the links between certain enterprises* and to group together those which have strong ties with each other.

.../...

3. This definition as it stands is not suitable for statistical analysis because ‘accounting groups’ do not constitute mutually exclusive, additive groups of enterprises. A statistical unit known as ‘*enterprise group*’ based on the ‘*accounting group*’ concept must be defined by applying the following amendments:

- consider accounting groups at the highest consolidation level (group head),
- include in enterprise group units whose accounts are entirely integrated in those of the consolidating company,
- add majority-controlled units whose accounts are not included in the overall consolidating by virtue of application of one of the criteria allowed by the seventh Directive¹⁰, i. e. difference in the type of activity or small realive size,

¹⁰ EU legislation : Seventh Council Directive 83/349/EEC of 13 June 1983 based on Article 54(3)(g) of the Treaty on consolidated accounts

— discount temporary links of less than a year.

4. An **enterprise group** is a set of enterprises controlled by the group head. **The group head** is a parent legal unit which is not controlled either directly or indirectly by any other legal unit. The subsidiary enterprises of a subsidiary enterprise are considered to be subsidiaries of the parent enterprise. However there are some forms of cooperative or mutual associations where the parent enterprise is actually owned by the units of the group.

5. Enterprise groups are often bound together by various types of links such as **ownership, controlling interest and management**. These units are often linked with units of the same family from several different generations. The enterprise group unit often corresponds to a *conglomerate* bound together by a network of complex relationships and frequently covers a very wide range of activities. **Subgroups** can be identified within enterprise groups.

6. It is useful to recognize all (majority and minority) links between the group head and the controlled enterprise via the network of subsidiaries and sub-subsidiaries. This allows the group's entire organization to be depicted.

7. In view of the implications of the different accounting directives, an attempt should always be made to distinguish between *basic units of the group that belong to non-financial enterprises* and those which must be classified as *financial institutions*. In the case of the latter, a distinction must be drawn between units that are credit institutions and those that are insurance enterprises. Some enterprise groups span the whole world, but need to be analysed for the economic territory of the Community and for that of each Member State.

8. The enterprise group unit is particularly useful for financial analyses and for studying company strategies, but it is too varied in nature and unstable to be adopted as the central unit for observation and analysis, which remains the enterprise. It is used for compiling and presenting certain information.

4.2.1.1.2 Towards a new definition of Enterprise Group (and Truncated Enterprise Group)

There is not yet a definition of Enterprise Group or Enterprise commonly agreed or applied so far. In Europe, the definitions of Enterprise Group and Enterprise are under revision ¹¹.

UN [draft WP on Statistical Business registers §2.1] proposes another definition, making a clear difference between 'enterprise' and 'legal unit' terminology, and promoting a top-down approach to derive the enterprise from the enterprise group:

The enterprise group is a set of legal units under common direct or indirect control. It mostly appears as a combination of legal units bound together by legal and/or financial links. It may contain one or more enterprises. For those cases where an enterprise unit is not based on a single legal unit the enterprise group should be the basic unit for deriving the enterprise unit.

¹¹ the Eurostat FRIBS project (Framework Regulation Integrating Business Statistics) is aimed to establish a cross-cutting framework regulation to integrate business statistics. Annex I will refer to a list of Statistical Units, from the output of the working groups ESSNets on Profiling and on Consistency .

The European ESSNets on Profiling and on Consistency propose to define operationally the Enterprise Group and the Enterprise unit.

Definition: [proposed by Eurostat; provisional]

*An **Enterprise Group** (EG) is an association of legal units bound together by legal and/or financial links and under common control. An EG is controlled by its Global Group Head (GGH). The GGH is defined as the parent unit which is not controlled by any other legal or institutional unit. An EG is managed by the ‘head office’ (or ‘Global Decision Center’?), which is “a unit that exercises managerial control over its subsidiaries.”¹²*

Control over a financial or non-financial corporation shall be defined as the ability to determine general corporate policy, including by choosing appropriate directors if necessary¹³.

A single legal unit (another corporation, a household, a non-profit institution or a government unit) usually secures control over a corporation or quasi-corporation by owning more than half the voting shares or otherwise controlling more than half the shareholders' voting power.¹⁴

Note : The terminology of the operational managing units of the EGs is not yet stabilised (ex UCI : ultimate controlling institutional units).

4.2.1.1.3 Enterprise Group in practice

The major challenge is that statistical offices have in general only very limited information on the non-resident part of multinational enterprise groups. Statistical surveys and commercial data providers may assist in providing some information. However, it is difficult from the national perspective to ‘seeing the whole elephant’¹⁵ and in particular to have the same view on the multinationals as other statistical systems. For that reason Eurostat has launched the EuroGroups Register (EGR) which aims to coordinate statistics which are affected by multinational enterprise groups.

¹² ESA 2010. Annex A, paragraph 2.14 (a)

¹³ ESA 2010, Annex A, paragraph 2.35.

¹⁴ ESA 2010, Annex A, paragraph 2.36

¹⁵ “Seeing the whole elephant: A proposed experiment on measuring the activities of multinational enterprises”; Richard Barnabé; Statistics Canada 2003

The EuroGroups Register

The EuroGroup Register (EGR) is the statistical register of multinational groups created by the cooperation between Eurostat (the statistical agency of the European Commission) and the statistical authorities of European Member States and EFTA countries. The EGR contains structural economic information on enterprises that are part of multinational groups with an interest in Europe.

The EuroGroup Register is foreseen to become the common coordination frame for all European statistical authorities, National Statistical Institutes and National Central Banks, for sampling populations in the production of statistics on globalization. It will offer statistical compilers access to integrated and up-to-date register data on those enterprise groups which have relevant transnational operations (financial and non-financial) in at least one of the European countries.

The EGR is built up as a network composed of a central system located at Eurostat and local systems located in the participating countries

More information is available under: <http://egr.istat.it/>

4.2.1.1.4 Annexes

Annex 4.A Concept of control

Two clarifications are necessary in order to make these definitions operational:

- The enterprise groups are identified through the *links of control between their legal units* (parent and its subsidiaries)
- The concept of control is the basic concept to be used for the delineation of an enterprise group.

The definition of European SU Regulation states that control may be exercised in different ways. The acquisition of an *absolute majority (50 % +1) of shareholdings* with voting rights is the main instrument used to take control over a legal unit and in the absence of other information it is generally *used as a proxy to control*. On the other hand, the absolute majority of ownership of the capital share ownership *is not always necessary or a sufficient condition* to have control.

A legal unit can thus be ‘captured’ by another unit without being owned by it. The link may be a commercial contract, which ensures the ‘de facto controlling’ legal unit the exclusive rights to the work of the ‘subordinate’ unit.

According to the SU Regulation¹⁶ ”The subsidiary enterprises of a subsidiary enterprise are considered to be subsidiaries of the parent enterprise. (...)”. This means that a parent unit may have *indirect control* over a legal unit (sub-subsidiary) through one or many other subsidiaries. *Indirect control does not require the parent unit to own a majority of an integrated shareholding in the capital share of the sub-subsidiaries.*

¹⁶ Annex III C, Explanatory notes 4

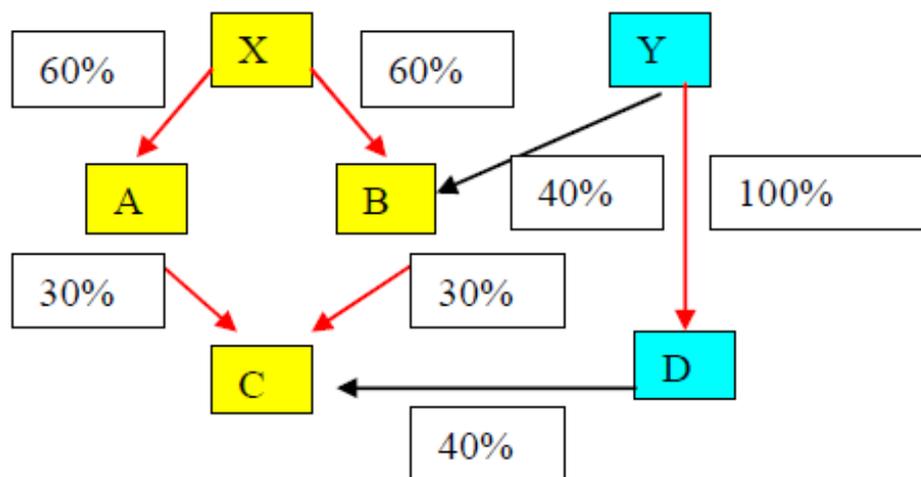
The difference between control and ownership is shown in Figure 3.

The example in figure 3 shows that X has indirect control over unit C, even though it owns indirectly $(60\% * 30\%) + (60\% * 30\%) = 36\%$ of its capital share, X controls C through its two subsidiaries A and B by combining their voting rights in the meeting of C $(30\% + 30\%) = 60\%$.

On the other hand, Y owns $(40\% * 30\%) + (100\% * 40\%) = 52\%$ of C, but has no power to control it, since the voting rights that it has in its meeting of C amount only to 40% of its capital share.

In other words, the voting rights resulting from paths X-A-C and X-B-C have to be cumulated to determine actual control (sometimes this is called 'cumulative control').

Figure 3: **How control can differ from ownership**



source : EU Business registers Recommendations manual 21.39 p.199

Annex 4.B

Link between the National/Global views: the Truncated Enterprise Group

In practice, enterprise groups may be *All-resident enterprise groups* (or ‘domestic groups’ or ‘national’ groups) or *Multinational enterprise groups* (MNEs: either domestically controlled MNEs or foreign controlled MNEs). When dealing with a National Business Register, it is useful to define the “**Truncated enterprise group**” of Multinational enterprise groups

Definition :

*The part of a multinational enterprise group, which comprises only the legal units resident in the same country, is called **truncated enterprise group**.*

It is thus possible that a truncated group consists of several seemingly unlinked units and subgroups, if their parent is non-resident, but they belong to the same multinational group. A truncated group *may also consist of only one unit*, parent or subsidiary, which is in the national territory.

[from EU Business Register Recommendations Manual (edition 2010), § 21.48¹⁷]

(See also model in annexes 4.2.3)

4.2.1.2 Enterprise (and Truncated Enterprise)

The enterprise is often viewed as the core standard statistical unit, and should be maintained in the Business Register.

The enterprise is the level of statistical unit at which all information relating to its transactions, including financial and balance-sheet accounts, are maintained, and from which international transactions, an international investment position (when applicable), consolidated financial position and net worth can be derived¹⁸

4.2.1.2.1 Current definition of Enterprise

As for the Enterprise Group, the definition of Enterprise is not yet commonly agreed and applied (currently under revision in Europe; see 4.1 and 4.2.1.2.2). The 2008 System of National Accounts gives a conceptual definition, whereas the 1993 European Statistical Units Regulation is more operational.

Definition ¹⁹:

An enterprise is the view of an institutional unit as a producer of goods and services.

¹⁷ This definition is also recommended by the Eurostat- OECD Manual on Business Demography Statistics (2007 Edition)

¹⁸ [ISIC Rev4 introduction, Statistical units in the System of National Accounts, §79]

¹⁹ System of National accounts 2008

The term *enterprise* may refer to a corporation, a quasi-corporation, an NPI²⁰ or an unincorporated enterprise.

An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

The main attributes of institutional units may be described as follows:

- a. An institutional unit is entitled to own goods or assets in its own right; it is therefore able to exchange the ownership of goods or assets in transactions with other institutional units;
- b. It is able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law;
- c. It is able to incur liabilities on its own behalf, to take on other obligations or future commitments and to enter into contracts;
- d. Either a complete set of accounts, including a balance sheet of assets and liabilities, exists for the unit, or it would be possible and meaningful, from an economic viewpoint, to compile a complete set of accounts if they were to be required.

There are two main types of units in the real world that may qualify as institutional units, namely *persons or groups of persons in the form of households, and legal or social entities*.

Explanatory notes, from ISIC Rev. 4 manual (2008), complement this description:

77. An institutional unit in its capacity as a producer of goods and services is known as an **enterprise**. An enterprise is an economic transactor with autonomy in respect of financial and investment decision-making, as well as authority and responsibility for allocating resources for the production of goods and services. It may be engaged in one or more productive activities.

78. An enterprise may be a corporation (or quasi-corporation), a non-profit institution or an unincorporated enterprise. Corporate enterprises and non-profit institutions are complete institutional units. On the other hand, the term “unincorporated enterprise” refers to an institutional unit—a household or government unit— only in its capacity as a producer of goods and services.

Whereas the former **definition and explanatory notes** in the European Statistical Units Regulation ²¹ are more operational:

An enterprise is the smallest combination of legal units that is an organizational unit producing goods or services which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources.

An enterprise carries out one or more activities at one or more locations. An enterprise may be a sole legal unit.

²⁰ non-profit institution

²¹ COUNCIL REGULATION (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community.

This definition is also adopted in the Eurostat- OECD Manual on Business Demography Statistics (2007 Edition)

The enterprise thus defined is an economic entity which can therefore, *under certain circumstances, correspond to a grouping of several legal units*. Some legal units, in fact, perform activities exclusively for other legal units and their existence can only be explained by administrative factors (e. g. tax reasons), without them being of any economic significance. A large proportion of the legal units with no persons employed also belongs to this category. In many cases, the activities of these legal units should be seen as *ancillary activities* of the parent legal unit they serve, to which they belong and to which they must be attached to form an enterprise used for economic analysis.

4.2.1.2.2 Towards a new definition of Enterprise

This current definition of enterprise in European SU regulation needs to be updated (and is under revision) for two main reasons:

- to delineate a relevant and more harmonised description of general *government bodies*
- to *take into account the globalisation of the economy*

The legal unit structure is often not useful to determine the statistical unit within the government bodies. As the legal environment concerning public administration varies considerably between countries and even within a country depending on the sector - legal units may be defined only at a very high level or at a much lower level of the hierarchy. Using the smallest combination of legal units for deriving the enterprise unit would lead to incomparability in public administration. Hence, it is recommended to use a top-down approach (profiling methods) for defining meaningful enterprise units for the general government bodies. This may lead in exceptional cases to a split of a legal unit in several enterprise units. Those legal units may for functional purposes be broken down and registered to several 'quasi' legal units.

The need to develop *statistics that take into account the globalisation of the economy*: the challenge of international harmonisation implies also to adopt a 'top-down' approach to analyse globally the managerial, accounting and legal structure of an Enterprise Group in order to delineate Statistical Units such as Enterprises within that group, and their links with Legal Units or parts of them.

Definition [proposed by Eurostat; provisional]:

*The **Enterprise** is an organisational market oriented unit which benefits from sufficient degree of autonomy in decision-making. An enterprise carries out one or more activities at one or more locations* ²².

The Enterprise can correspond either to

- *a single legal unit not controlled by any other legal entity=independent legal unit,*

²² The enterprise corresponds to the institutional unit contributing to the Gross Domestic Product identified in ESA 2013 as market producers (sectors S11, S12, S141 and S142) with the exclusion of the institutional units that in S14 are "producing for final use only"

- an enterprise group as a set of legal units under common control, or
- an autonomous part of an enterprise group.²³

Organisational means: for the economic activities in which the enterprise is engaged, a planned and formal structure is identified. This structure is able to govern the whole production processes managing the whole productive means.

Market-oriented means: the enterprise sells in its own will goods and services to an independent buyer and the exchanges are made on the basis of commercial consideration only, called at “arm’s length” (at economically significant prices.). If not all of the exchanges are made at arm’s length, the 50% criterion has to be used: the unit is market oriented if more than 50% of its total cost is covered by exchanges made at arm’s length.

Sufficient autonomy in decision-making means: the enterprise has the control of the use (may not be the owner from a legal point of view) of nearly the whole productive means, processes and outputs of the economic activities in which it is engaged.

The enterprise statistical unit is defined for economic statistics purposes. In practice, meaningful data for statistics can be provided for this unit.

Meaningful data for statistics means that a set of core variables (including P&L and elements of assets and of liabilities) exists for the enterprise, or that they could be meaningfully estimated.

One main difference with the current European regulation (1993) is that *the enterprise perimeter is delineated by a global top-down approach (and not by a bottom-up approach, as a group of legal units within national boundaries)*. In practice, the organizational unit Enterprise (or Truncated Enterprise) is often a combination of legal units (not always the smallest), *but in a few cases, legal units may be split and allocated to several enterprises.*

For example: this is the case in France, for some public companies or newly privatised companies (as in rail transport - *SNCF* - or in postal and financial activities - *La Poste*). They are profiled into several enterprises of different activities, that may belong to different institutional sectors, as financial and non-financial sectors. The group-head, the biggest legal unit, is organised in different business units, managing several autonomous operational divisions defined as enterprises. This legal unit has to be split following these organizational criteria.

Another example is the existence of some shared services, as common real estate or human resources. Keys may be assessed with the group to allocate each year the accounts of such auxiliary units between the relevant (truncated) enterprises. Those auxiliary units are not defined as Enterprises (even if they derive from distinct legal units)

In addition to this new conceptual definition of enterprise, profiling rules are proposed. In practice, it should be explored with regard to:

- the costs of implementation
- the coherence with the concepts of ESA 2010 and their implementation

²³

- the understanding of Global/National views

Note: The scope of this (provisional) definition of Enterprise is related to the market sector coverage. The scope of the Statistical Business Register may be broader, covering the whole economy, and allowing to describe eventual links between units belonging to the market sector (merchant - or market oriented - units) and non-market sector (non-merchant units) (see 4.2.2.1.3). Some units may combine market and non-market activities. To easily delineate those two sectors, it is recommended to add the ‘market or non-market’ characteristic of the producer in a specific variable relative to the unit (see chap.5).

4.2.1.2.3 Enterprise in practice

It is recognised that the Enterprise unit, as defined in the current European SU Regulation, *may not yet be available in statistical business registers in all countries*. The general understanding is that in the absence of data at the enterprise level, demographic data can be produced starting from legal units, or other statistical units (see 4.2.2). However, it is *recommended that countries aim to introduce the enterprise concept into their statistical business registers at the earliest opportunity*.

That is not to say however that indicators based on other definitions of businesses units are not useful.

For example, as stated in the guidelines for building Statistical Business Registers in Africa, legal units and enterprises are defined *to be in one-to-one correspondence* in the sense that there is one and only one legal unit per enterprise. This is simple and easy to operationalize. It is also consistent with the SNA, which defines an institutional unit in its capacity as economic producer as an enterprise.

In almost every country in *Africa*, whatever model is chosen, the number of enterprises that are sufficiently large and complex to require partitioning into smaller statistical units and/or grouping into enterprise groups, is likely to be quite small. In other words, *for the vast majority of enterprises, the enterprise comprises a single establishment* and is the only member of the enterprise group to which it belongs.

However, although small in number, large, complex enterprises may jointly account for a significant proportion of overall economic activity and employment, and this justifies their partitioning.

A major difference between the new definition and the former definition of Enterprise is that implementation rules will come along with the definition. “EssNet *Profiling*” offers rules for the delineation of enterprises that belong to large and complex multinational enterprise groups. But they may be generalised to simpler cases, as domestic groups, or one-enterprise-groups (or ‘one-enterprise-truncated groups’).

The ‘top-down’ approach analyses globally the managerial, accounting and legal structure of an Enterprise Group in order to delineate Statistical Units such as Enterprises within that group, *and their links with Legal Units (or parts of them)*.

In practice, the associated Observation / Reporting Units (as Legal Unit...) are based upon the most efficient structures available for the collection of statistical data, at the most relevant geographic level.

In some cases, the Global Group Head and ‘head offices’ (*terminology to be agreed : Global Decision Centers? ex Ultimate Controlling Institutional unit*) are not in the same country. This situation should be taken into account when defining the business register structure and variables.

The delineation of the enterprises allows the delineation of two geographical levels of enterprises:

- the global enterprise (GEN) is defined irrespective of national boundaries
- and the truncated enterprise (TEN) is the national part of the global enterprise.

(see Annex 4.2.1.2.4 below, and A model of large and Complex Multi National Enterprises in Annex 4.2.3)

4.2.1.2.4 Annex

Annex 4.C: Link between the National/Global views: the Truncated Enterprise

In practice, enterprise groups may be *All-resident enterprise groups* (or ‘domestic groups’ or ‘national’ groups) or *Multinational enterprise groups* (MNEs: either domestically controlled MNEs or foreign controlled MNEs).

When dealing with a National Business Register, it is useful to define **the “Truncated enterprise”** of Multinational enterprise groups. The delineation of the enterprises allows the delineation of two geographical levels of enterprises: the global enterprise (GEN), defined irrespective of national boundaries, and the *truncated enter (TEN)*.

Definition

<p><i>The truncated enterprise (TEN) is the national part of the global enterprise.</i></p>

The truncated enterprise will be the basis of national business statistics, even if it does not necessarily fulfil the criteria of autonomy of decision-making and market orientation. It may be the case in multinational enterprise groups, where the autonomy of decision cannot be found in the restricted geographical area of a country, but at a higher level.

For domestic (*all-resident*) enterprise groups, *the truncated enterprise and global enterprise are the same unit.*

[BOX on double coding ? in chap 5 ?]

4.2.1.3 Establishment 24

Partitioning enterprises by economic activity and geography, the *establishment* combines both the kind-of-activity dimension and the locality dimension.

The establishment, in combination with ISIC and CPC, should be used for the analysis of transactions in goods and services and for the compilation of the production account (National Accounts, input-output analysis).

In many countries, these statistical units are not directly maintained in the register, but the related information is derived from local units and enterprises.

Establishment based data can play a role in practice, since policy makers interested in investigating regional (state, county, local area) differences will not of course be able to use business demography data based solely at the national level. In practice, the smaller the region the more likely that enterprises and establishments align.

4.2.1.3.1 The current definition of Establishment

Definition :

*The **establishment** is defined as an enterprise or part of an enterprise that is situated in a single location and in which only a single (non-ancillary) productive activity is carried out or in which the principal productive activity accounts for most of the value added.*

[from ISIC Rev. 4 Introduction: Statistical units in the System of National Accounts §80]

		Partition by Location	
		No	Yes
Partition by Economic Activity	No	Enterprise	Local Unit (*)
	Yes	Kind of Activity Unit	Establishment (**)

(*) more precisely : “local unit of enterprise” see annex 4.2.1.4.

(**) Establishments are sometimes referred to as *local kind-of activity units* (SNA 2008: 5.14).

National accounts define *industries* in terms of establishments. An industry consists of a group of establishments engaged in the same, or similar, kinds of activity. In national accounts production accounts and generation of income accounts are compiled for industries as well as institutional sectors.

In practice: the establishment and enterprise are often the same; and the breakdown of an enterprise by economic activity and/or location is only required for *large and complex enterprises*.

²⁴ or other terminology to be discussed, equivalent to ‘Local Kind of Activity Unit’ in actual European regulation. Establishment is the terminology used in SNA, as referred in ISIC Rev4 Statistical paper – UN 2008 (ST/ESA/STAT/SER.M/4/Rev.4)

The current definition of Local kind-of-activity unit in European regulation was published in 1993 [SU Regulation No 696/93 of 15 March 1993], and it needs to be updated ²⁵. In particular, it is still explicitly referring to Nace Rev1 classification. (consistent with ISIC Rev. 3). An updated definition is given in 2013 ESA regulation.²⁶, with the supplementary precision:

‘A local KAU may correspond to an institutional unit as producer; on the other hand, it can never belong to two different institutional units’.

4.2.1.3.2 Towards a new definition of Establishment

The current definition is under revision. In Europe, the 2008 BR regulation²⁷ states that the establishment unit is not to be directly maintained in the business register. In practice, when all the variables required to build national accounts at the detailed local and activity levels are not available, they should be estimated.

New definition [proposed by Essnet Consistency -WP1 final report]:

A local kind-of-activity unit ²⁸ *is an enterprise or part of an enterprise that – in ideal cases - is situated in a single geographical location and in which – in ideal cases - only a single productive activity, producing market output, is carried out or in which the principle productive activity accounts for most of the value added.*

The delineation of the activities should be based on the valid version of the NACE classification. The location should be based on the local unit. The enterprise’s information system must be capable of indicating or calculating for each LKAU at least the value of production, intermediate consumption (except overhead costs), manpower costs and employment and gross fixed capital formation of buildings and structures, machinery and equipment.

²⁵ **The local kind-of-activity unit (local KAU)** is the part of a KAU which corresponds to a local unit.

The kind of activity unit (KAU) groups all the parts of an enterprise contributing to the performance of an activity at class level (four digits) of NACE Rev. 1 and corresponds to one or more operational subdivisions of the enterprise. The enterprise's information system must be capable of indicating or calculating for each KAU at least the value of production, intermediate consumption, manpower costs, the operating surplus and employment and gross fixed capital formation.

Explanatory notes

1. Each KAU must have at least one local KAU; however, the KAU *can be made up of a grouping of parts of one or more local units*. On the other hand, a local unit may in certain circumstances comprise solely a group of ancillary activities. In this instance, a supplementary classification of the local unit is possible. *Furthermore, each enterprise should have at least one local KAU.*

2. The local KAU corresponds to the operational definition of the establishment as given in paragraph 106 of the introduction to ISIC Rev. 3.

²⁶ REGULATION (EC) N° 549/2013 of 21 May 2013 § 2.144

²⁷ REGULATION (EC) No 177/2008 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 February 2008

²⁸ = ‘establishment’

In cases that not all of these variables are directly available in the enterprises' book-keeping, cost accounting or other information systems, they may also be estimated either by the respondents themselves or by the statistical experts in the national statistical offices.

This provisional European definition should be adapted to non EU countries (replace NACE by ISIC; change LKAU terminology (establishment))...

4.2.1.3.3 Establishment in practice

Some recommendation are issued from ISIC Rev. 4 [Introduction: Statistical units in the System of National Accounts]

81. ISIC is designed for grouping units engaged in similar activities for the purpose of analysing production and compiling production statistics. Although it is possible to classify enterprises according to their principal activity using ISIC and to group them into industries, some of the resulting industries are likely to be very heterogeneous when enterprises have secondary activities that are very different from their principal activities. *It therefore becomes necessary to partition large and complex enterprises into more homogeneous units, for which production data can be compiled.* This is particularly important for enterprises that account for a large proportion of the value added of particular industries or the economy as a whole.

82. Although the definition of an establishment allows for the possibility that there may be one or more secondary activities carried out, they should be small in magnitude compared with the principal activity. If a secondary activity within an establishment is as important, or nearly as important, as the principal activity, then the unit is more like a local unit (see paras. 86 and 87 below). It should be subdivided so that the secondary activity is treated as taking place within an establishment separate from that in which the principal activity takes place.

83. *In the case of most small and medium-sized businesses, the enterprise and the establishment will be identical.* Large and complex enterprises that are engaged in many economic activities belonging to different ISIC industries will be composed of more than one establishment, provided that smaller, more homogeneous production units can be identified for which production data can be compiled.

In practice : The statistical unit 'Establishment' is based on Local Units of Legal Units (Local Legal Units), which are usually maintained in the administrative (or inter-administrative) business register(s) (see 4.2.2.2). They are often in a one-to-one relationship, in particular in small or medium-sized businesses, but not always.

In case of some large and complex units, the Enterprise (or Truncated Enterprise, for Multi National Enterprises) may register several local units of legal units *at the same place (same address)*. Some grouped declarations (for example, social security, etc.) may occur. These grouped observation units may be considered *as only one local unit from the enterprise point of view*, and for economic analysis. In this case, it has to be specifically identified in the Business Register (as a unit different from local units of legal units, see 4.2.2.2). The links between local units (of legal units - administrative units) and the corresponding enterprises and establishments must be maintained in the statistical register.

Case studies:

[Example from UN Guidelines on integrated economic statistics (white cover) § 6.21]

Case study 6.2 Adjustments to industry source data to improve consistency: the United States enterprise-establishment adjustment process

1. The unit of measurement for the United States industry accounts is the establishment. Many source-data providers in the U.S. statistical system do not collect all data on an establishment basis. The U.S. Census Bureau prepares quinquennial economic censuses, annual, and quarterly surveys primarily on an establishment basis. These Census statistics are used to construct measures of outputs, inputs, and expenditures in the U.S. input-output (I-O) accounts. The U.S. Department of the Treasury's Internal Revenue Service (IRS) collects consolidated tax return data on an enterprise basis. These data are used to construct Gross Domestic Income measures in the national income and product accounts (NIPAs) and to directly construct measure of value-added by industry in the annual I-O accounts.
2. More specifically in the annual industry accounts, several subcomponents of gross operating surplus—such as corporate profits before tax, corporate net interest, and corporate capital consumption allowance—are based on corporate tax return data from the IRS. Because these enterprise- or company-based data may account for activities by several establishments classified in different industries, the U.S. Bureau of Economic Analysis (BEA) must convert them to *an establishment, or plant, basis*. The conversion is based on employment data for establishments from the quinquennial economic census that is cross-classified by enterprise; this matrix breaks out the consolidated tax return data separately for each corporate component of gross operating surplus. Corporate business income on an establishment basis is then combined with establishment-based data on outputs, inputs, and expenditures within the I-O framework. Inconsistencies that remain between these datasets are reconciled and harmonized through balancing the I-O “use” table.

.../...

4.2.1.4 Annex: Other statistical units (if needed)

The current definition of ‘establishment’ derives from a partition of the enterprise by location and economic activity. The partition by location or by economic activity is defining two subsequent statistical units : Kind of activity unit and Local unit (of enterprise), as follows. Not all of these are to be maintained in the business register. Some adjustment processes may be defined to assess industry accounts or regional accounts.

[from ISIC Rev. 4 Introduction: Statistical units in the System of National Accounts]

3. Other statistical units

84. The concept of the establishment combines both a kind-of-activity dimension and a locality dimension. The concept is based on the assumption that the aim of the statistical programme is to compile data that is classified both by activity and by geographical region. In circumstances in which precision in either the geographic or the activity dimension is not required, there are other units that may be used as statistical units for the compilation of production or production-related statistics.

(a) ***Kind-of-activity unit***

85. A kind-of-activity unit is an enterprise or part of an enterprise that engages in only one kind of productive activity or in which the principal productive activity accounts for most of the value added. Compared with the establishment, in the case of such a unit, there is no restriction on the geographic area in which the activity is carried out but it is characterized by homogeneity of activity.

(b) ***Local unit***

86. Enterprises often engage in productive activity at more than one location, and for some purposes it may be useful to partition them accordingly. Thus, a local unit is defined as an enterprise or a part of an enterprise (for example, a workshop, factory, warehouse, office, mine or depot) which engages in productive activity at or from one location. The definition has only one dimension, in that it does not refer to the kind of activity that is carried out.

87. *When the criterion of kind-of-activity unit and the local unit are combined, the resulting concept corresponds to the operational definition of the establishment.*

Note : the statistical unit ‘Local Unit’ above is in fact a Local Unit of Enterprise. In some cases, it may be distinct from the administrative Local Unit (of Legal Unit) or ‘Local Legal Unit’ usually identified as observation/ reporting unit in the business register, and maintained with its corresponding Legal Unit (see 4.2.2.2).

In addition, the current (1993) European definition of (statistical) local unit is more precise about location and employment²⁹ :

The local unit (of enterprise) is an enterprise or part thereof (e. g. a workshop, factory, warehouse, office, mine or depot) situated in a geographically identified place. At or from this place economic activity is carried out for which — save for certain exceptions — one or more persons work (even if only part-time) for one and the same enterprise.

Explanatory notes:

1. If a person works in more than one place (maintenance or surveillance) or at home, the local unit is taken to be the place from which instructions emanate, from where the work is organized³⁰. It must be possible to specify the employment attached to any local unit³¹.

However, all legal units that serve *as the legal basis* for an enterprise or a part thereof must have a local unit which is *the registered office, even if nobody works there*³². Moreover, such a local unit can comprise only ancillary activities.

2. A geographically identified place must be interpreted on a strict basis: two units belonging to the same enterprise at different locations (even within the smallest administrative unit of the Member State) must be regarded as two local units.

²⁹ SU Regulation EEC No 696/93

³⁰ or in which the person monitors the production

³¹ if it is accepted that the workers might be under contract and not legally employed by the legal unit at the local unit location

³² (see 4.2.2.2)

However, a single local unit may be spread over several adjacent administrative areas, in which case, by convention, the postal address is the determining factor.

3. The boundaries of the unit are determined by the boundaries of the site, which means for example that a public highway running through does not interrupt the continuity of the boundaries. The definition is similar to the one in paragraph 101 of the introduction to ISIC Rev. 3 in that it concerns localization in the strict sense of the term, but differs from the definition in paragraph 102 in that this strict sense may not vary according to the statistics under consideration. In addition, the criterion of persons working in the unit is normally applied.

4. The ESA-REG (the regional application of the ESA) uses the same definition of local unit for regional accounts purposes.

In practice, the ‘strict basis’ of the geographically identified place is used in particular for regional accounts. Whereas the local unit of legal unit is identified with its precise address, the statistical units ‘local unit’ and/or the ‘local KAU’ (or establishment) in some countries have only a local level area code in the statistical business register. The same European S.U. regulation also defines the smallest ‘local level’ to register in local units (of enterprise):

The **local level** here means the territory corresponding to the ‘smallest administrative area’: the ‘commune/gemeente’ in Belgium; the ‘kommune’ in Denmark; the ‘Gemeinde’ in Germany; the ‘demos’ or ‘koinotis’ in Greece; the ‘municipio’ in Spain; the ‘commune’ in France; the ‘DED/ward’ in Ireland; the ‘comune’ in Italy; the ‘commune’ in Luxembourg; the ‘gemeente’ in the Netherlands; the ‘Gemeinde’ in Austria; the ‘concelho’ in Portugal; the ‘kunta— kommun’ in Finland; the ‘primärkommun’ in Sweden and the ‘ward’ in the United Kingdom.

4.2.2 Observation / Reporting Units

For operational purposes, a distinction must be made between Observation and Reporting units. The *Observation Unit* (that could be named ‘*reported*’ unit) is the unit *about which data can be obtained*. Observation Units are those entities for which information is collected by means of questionnaires or interviews. A *Reporting Unit*³³ is the *contact unit that reports information* for each of the Observation Units.

In the case of a complex operating structure, for example, the unit at the highest level of the operating structure may make a separate return for units at a lower level of the structure. The links between these levels should be maintained in the statistical business register when relevant (if Reporting Units and Observation Units differ).

The Reporting Units are not further described in this chapter.

³³ The reporting unit terminology should be discussed and validated. In some documents, the term ‘reporting unit’ is used for ‘observation’ unit (‘reported’ unit); it is a source of misunderstanding

4.2.2.1 Legal unit

The enterprise unit should not be confused with the entity “legal unit”. While legal units are independent in a legal sense, they may not necessarily constitute independent economic entities with decision-making autonomy for their productive activities..../...Data from legal units without decision-making autonomy may not be comparable with data from enterprises³⁴.

But administrative data on economic operators are mainly available by legal unit. Legal units are often the reporting unit for the Enterprises for which information is collected by means of questionnaires (i.e. contact and address information should be always available). The link between the legal units and the enterprise units should be always maintained in the statistical business register.

4.2.2.1.1 The current definitions of Legal Unit

Legal units are usually the building blocks used in defining businesses but legal units are not themselves comparable across countries since they reflect national administrative and legal requirements that will differ across countries.

Definition³⁵ :

Most societies provide for the legal recognition of economic entities, under laws that enable them to define and register themselves as legal entities.

***Legal entities** are recognized by law or society, independently of the persons or institutions that own them³⁶.*

The characteristics of a legal entity are: they own goods or assets, they incur liabilities and they enter into contracts. The legal unit always forms, either by itself or sometimes in combination with other legal units, the legal basis for the statistical unit.

In complement, the European definition states that³⁷:

Legal units include:

- **legal persons** whose existence is recognized by law independently of the individuals or institutions which may own them or are members of them,
- **natural persons** who are engaged in an economic activity in their own right.

Thus defined, a legal unit is equivalent to the SNA 2008 notion of *institutional unit*, except that the latter includes households containing natural persons rather than

³⁴ source: Oslo Manual §233

³⁵ ISIC Rev.4 § 71

³⁶ SNA 2008 formulation § 4.6 is slightly broader: “A legal or social entity is one whose existence is recognized by **law or society** independently of the persons, or other entities, that may **own or control it**”.

³⁷ COUNCIL REGULATION (EEC) No 696/93

individual natural persons. It is also close to the ESS Units Regulation, that makes explicit that the only natural persons of interest are those with economic production.

Legal units are the core concept in the model in the sense that they:

- create the organizational units by which they manage themselves;
- register administrative units in response to administrative requirements; and
- have production activities that are modelled in terms of standard statistical units in the SBR.

Scope of the legal units to maintain in the business register:

A ‘business’ is defined as a legal unit engaged in commercial economic production. The focus of the SBR is typically businesses, *but it may include other legal units*. For example, ‘institutional unit’ defined in SNA 2008 include ‘*a legal or social entity that engages in economic activities and transactions in its own right, such as a corporation, non-profit institution (NPI) or government unit.*’ (see also 4.2.2.1.3)

4.2.2.1.2 Towards a new definition of Legal Unit

The UN proposal [draft WP on Statistical Business registers §2.1] is similar to the current definition:

Legal units are recognized by law or by society, independently of the persons or institutions that own them. The characteristics of a legal unit are the following: they own assets, they incur liabilities and they enter into transactions with other entities.

In Europe, the legal criterion are used to define the statistical units, but the current definition of a legal unit [regulation 696/93] does not seem to be more realistic for two specific elements.

The first is connected to the concrete and actual practices of the NSIs in setting up and maintenance of their statistical business registers: the majority of the MS use fiscal and social security sources that collect administrative information on the “administrative entity”. These units can or cannot correspond to the legal one defined by laws.

The new definition proposed by Eurostat (provisional) is *more operational*:

A legal unit is a legal entity according to public or private law. This legal entity can be:

- *A legal entity, whose existence is recognized by the law independently of the persons or institutions which possess it or are members;*
- *A natural person, who, as independent, can exercise an economic activity.*

It must be declared to the competent administrative bodies (court registries, social security, tax office, etc.) in order to exist. The existence of this sort of unit depends on the choice of the owners (for organisational, legal or fiscal reasons).

Thus a legal unit is not primarily identified for statistical purposes. It can correspond to the entities collected in legal, fiscal and other administrative sources,

which has obligations and rights defined by laws. The law can define obligations and rights that govern the relationships between the entity and the State and/or between the natural or legal persons that are the owners of the entity

A legal unit can be a “single” entity, controlled or not controlled by any other entity, or a “group” of entities under common control (Enterprise Group).

4.2.2.1.3 Legal Unit in practice

The definition of units covered in administrative sources often does not align well with the definition used in the statistical system. The *legal entity* is often the concept used by administrative authorities. Entities can be identified differently in the various administrative databases. Consequently, one of the prerequisites in using administrative data is to establish rigorous mappings between the various structures of entities maintained by administrative departments and the statistical agencies. This mapping is necessary to ensure that there is no duplication in coverage and that it will be possible to match up information from various sources.

For operational reasons, *a unique identifier should be assigned to each entity in the central register*. Ideally, this identifier should be selected taking into consideration the business number used by the administrative authorities to ensure that administrative data are correctly applied to the various entities on the register in its creation and maintenance. The legal units are thus mainly defined by their identifier and their legal form (also known as legal status).

In countries where a unique identifier is used by all administrative authorities to identify a firm, the use of this unique identifier will greatly facilitate the integration of the administrative records into the statistical system³⁸.

Active legal units

In the simplified model recommended in the guidelines for Building Statistical Business Registers in Africa (see 4.2.1), and from the perspective of economic production and the SBR, the legal units of interest – termed active legal units – are those that:

- are conducting economic production activities; or
- have indicated an intention to conduct economic production activities; or
- have recently conducted economic production activities.

Legal units are the core concept in the model in the sense that they:

- create the organizational units by which they manage themselves;
- register administrative units in response to administrative requirements; and
- have production activities that are modelled in terms of standard statistical units in the SBR.

Link between legal unit and legal form: BR recommendation ³⁹:

Legal form

³⁸ Eurostat - OECD Manual on Business Demography Statistics - 2007 Edition, Introduction

³⁹ take into account the globalisation of the economy

Purpose: The legal form (also known as legal status) is useful for eliminating ambiguity in identification searches and as the possible criterion for selection or stratification for surveys. It is also used for defining the institutional sector.

Proxies: The character of *legal* or *natural person* is decisive in fiscal terms, because the tax regime applicable to the unit depends on this. It means that any statistical register fed with fiscal records will have that information.

For the monitoring of the internal market, there is also an interest at European level in being able to distinguish *publicly traded* and *incorporated companies*. A recommendable breakdown of legal forms is given in ESA95 in Table 2.3.

This table 2.3 is updated in the EU Regulation 549/2013 of 21 May 2013 on the European system of national and regional accounts in the European Union (§ 2.143)

Legal form, market and non-market units and sector classification

The legal form of a body is not a (sufficient) guide to its sector classification. For example, some legally constituted public sector corporations may be non-market units and hence classified to general government rather than as public corporations. On reverse, all classified ‘producer units’ in national accounts are not necessarily *recognised* as independent legal entities. In this case, the corresponding statistical unit of the register contributes to the (national, regional) accounts, but it will not be identified as a the legal unit.

Sector classification of producer units for main standard legal forms of ownership⁴⁰

(default list = classification in corporations: S11 -non-financial or S12- Financial)

- *Private and public corporations* (+ market producers)
- *Cooperatives and partnerships which are recognised* as independent legal entities (+ market producers)
- *Public producers* which by virtue of special legislation are *recognised* as independent legal entities (+ market producers)
- *Public producers which are not recognised* as independent legal entities (+ market producers)
 - (a) If they are quasi-corporations
 - (b) If they are not quasi-corporations: in sector S.13 (general government), as they remain an integral part of the units which control them.
- *Non-profit institutions* (associations and foundations) *recognised* as independent legal entities ((a) and (b) = market producers)
 - (c) those which are *non-market producers*: in sector S.13 (general government) or in sector S.15 (non-profit institutions serving households), if they are private producers.
- *Sole proprietorships and partnerships which are not recognised* as independent legal entities (market producers)
 - (a) If they are quasi-corporations:
 - (b) If they are not quasi-corporations, they are classified in sector S.14 (households).
- *Head offices; Holding companies*

⁴⁰ (extract from § 2.135 to 2.142, EU 549/2013 regulation on national and regional accounts):

Thus, the market-non-market quality of the unit, and its legal form (or quasi- legal form, if not recognised as independent legal entity) are needed to classify the unit in the relevant statistical unit.

*Description of main legal forms*⁴¹:

The following legal forms can be found in most Member States:

- *Sole proprietorship*: Enterprise owned exclusively by one natural person.
- *Partnership*: Association of persons who conduct a business under a collective name. It can take the form of a *limited partnership*.
- *Limited liability companies*: Enterprises comprising *joint-stock companies*, *limited partnerships* with share capital and *private limited company*. Harmonised rules at European level governing the publication of accounts for these types of companies are laid down by the Fourth Council Directive.
- *Co-operative societies*: These are bodies set down by law in each country. They observe a number of general principles, for example they may only be entitled to provide their services to members, profits are often distributed in proportion to members' dealings with the society, etc.
- *Non-profit making bodies*.
- Enterprises with *other forms of legal constitution*: This group includes nationalised industries, publicly-owned enterprises and state or local authority monopolies.

Note on terminology: the word 'Enterprise' used in the above description may refer to company/legal unit (and not to Enterprise 'Statistical Unit', as defined in 4.2.1.2)

*Quasi-corporations*⁴²:

Some unincorporated enterprises belonging to households or government units may behave in much the same way as corporations, and such enterprises are treated as quasi-corporations when they have complete sets of accounts.
(but they are not 'legal units' *stricto sensu*)

Links of control between legal units

For legal units which are part of an enterprise group the control (at least 50 % of the voting power) links in the national territory and at least to the first foreign parent, the foreign subsidiary and the group head are needed to establish the group structure. The group structure is necessary for the delineation of enterprises within the group. Therefore, the identity numbers of those units should be recorded for the legal unit⁴³.

4.2.2.2 Local unit (of legal unit, or 'Local legal unit')

⁴¹ Eurostat - OECD Manual on Business Demography Statistics - 2007 Edition-glossary

⁴² reg EU 549/2013 of 21 may 2013

⁴³ UN draft WP on Statistical Business Registers § 3.1

The generic ‘Local Unit’ terminology may be understood in different ways. One can define different kinds of local units, according to the user needs in the geographic dimension (precise localisation, for societal/environmental considerations for example, or geographic zone for harmonised statistics, or administrative geographic delineations...) and the conceptual type of unit it belongs to. For example, we should precise if the local unit is the local view relative to the enterprise group, to the enterprise (see 4.2.1.4), eventually to the establishment (if different geographic levels are under review) or to another administrative or legal entity (local unit of legal unit).

In the present chapter 4, different concepts are listed even if, in practice, one type of local unit in the business register will be sufficient to build statistical units in many countries. The default understanding is local unit of legal unit (as elementary local observation unit). In most cases, when there is only one local unit in the enterprise that controls it, the local unit of enterprise and the local unit of legal unit are the same. But in some cases, a different statistical concept of local unit may be needed (see 4.2.1.4).

4.2.2.2.1 Local unit (of legal unit) current definition

Definition :

*A **local unit** (of legal unit) is defined as a legal unit, or a part of a legal unit (for example, a workshop, factory, warehouse, office, mine or depot), that engages in productive activity at or from one location. There is no restriction imposed on the activity which is carried out at the location.*

4.2.2.2.2 Towards a new definition of Local unit (of legal unit)

The ‘Local’ terminology may be ambiguous, either referring to the local unit of Legal Unit (with a precise address) or to a ‘Local’ unit of Enterprise (4.2.1.4) that may be in practice a set of local (legal) units within some geographical area (see 4.2.4).

Usually, the Local Unit of legal unit is maintained in the register, in particular when a unique inter-administrative ID number is attributed, within the legal unit. As for legal units, it is country dependant, depending of the local legislation.

In some rare cases, as for legal units, a (legal) local unit may be shared between different enterprises.

< no proposed definition so far>....

4.2.2.2.3 Local unit (of legal unit) in practice

The following European recommendations for ‘local unit’ (of enterprise) may apply to local units of legal units, since they refer to ‘official names of the local units’

(issued from the administrative world). Just replace ‘enterprise’ by ‘legal unit’ in first §.

Recommendations ⁴⁴

The official name of the local unit is generally the same as the enterprise that controls it, with some additional part specifying usually location or activity. If there is only one local unit in the enterprise, a separate name may not exist.

The local unit must be linked with the enterprise to which it belongs. This link can be included in the register by adding the identity number of the enterprise to the local unit file (and vice versa). Other ways are conceivable, for example when the enterprise consists of one local unit only, another (simple) arrangement of the business register is possible.

It is proposed to distinguish *ancillary local units*, when the activity carried out in the local unit constitutes an ancillary activity of the enterprise to which it belongs. This characteristic enables statistical analyses to reallocate the cost of ancillary activities to the activities for the benefit of which they are pursued. If the local unit has clearly been identified as a non-ancillary unit it should also be indicated. The absence of any mark should be interpreted as ‘no knowledge’ about this characteristic

Ancillary local units are proposed to be distinguished (as observation units), but they are consolidated with other statistical units in the statistical view (see 4.4.2)

For Local Unit of Enterprise: see 4.2.1.4

4.2.2.3 Other Units (if needed)

4.2.2.3.1 Local unit of enterprise group

In case of some large and complex units, the Enterprise Group (or Truncated Enterprise Group, if multinational) may register several local units of one or more legal units at the same place. Some grouped declarations (for example, social security, etc;) may occur. This reporting unit may be considered as one local unit from the group perspective, and for economic analysis based on groups. In this case, it has to be specifically identified in the Business Register.

Note: A Local Unit of an Enterprise Group may combine several Local Units of Enterprises.

Conversely, some ‘branches’ of multinational groups may not always have the moral personality, but have to be considered as ‘quasi-enterprises’, for example, for balance of payments purpose, if they have a permanent address.

⁴⁴ Eurostat BR Recommendations manual - Chapter 5 c

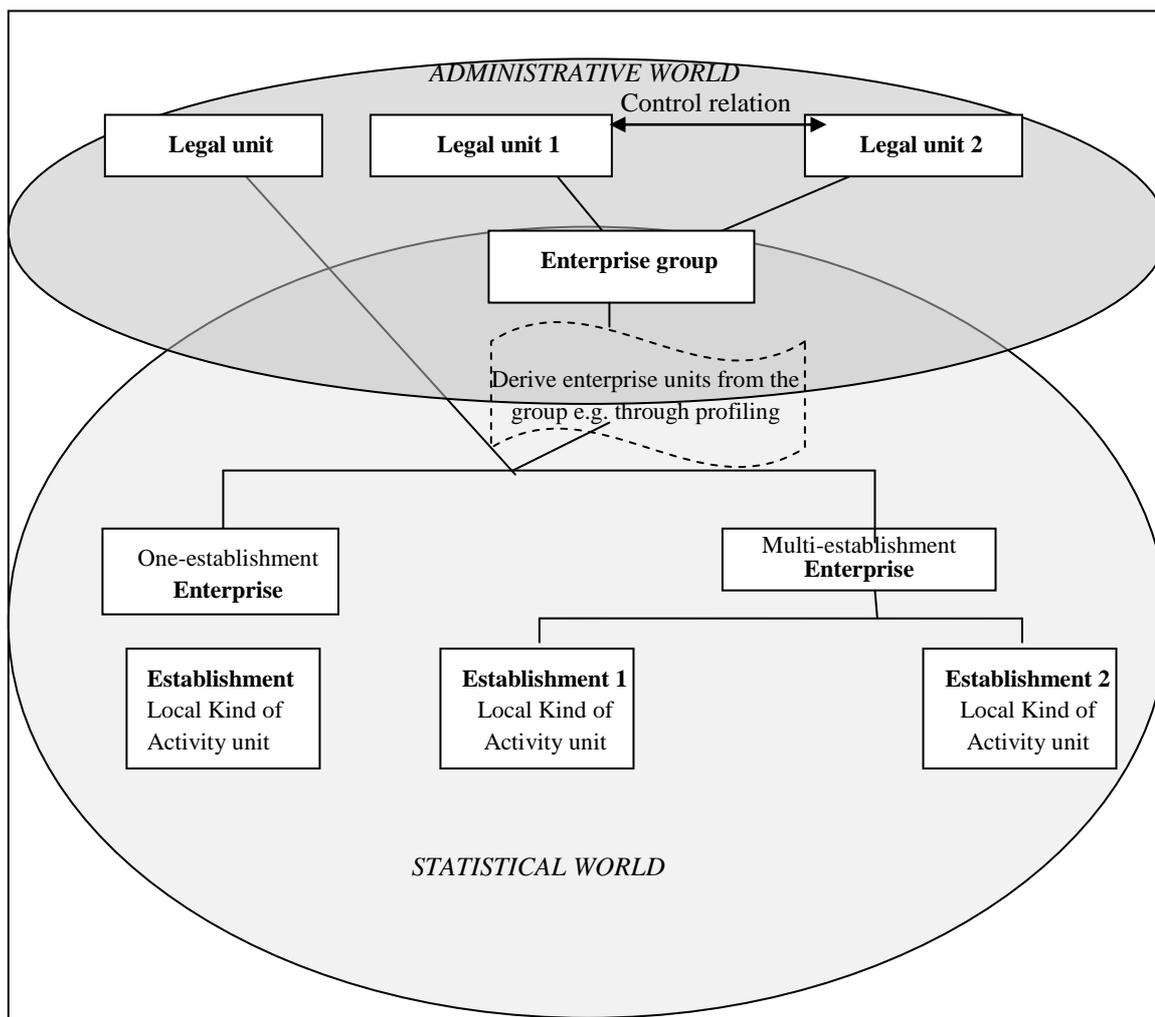
Rule: In this case, the unit must be registered for data collection and analysis s. From a statistical point of view, it will be treated as an enterprise (of one establishment). It is recommended to identify this kind of unit by a specific identifier and variable (it may be embedded in legal form, see chap. 5).

4.2.2.3.2 .../...

4.2.3 Annexes: Statistical unit models

Annex 4.D An Overview of the statistical unit model

[UN WP on statistical business registers]



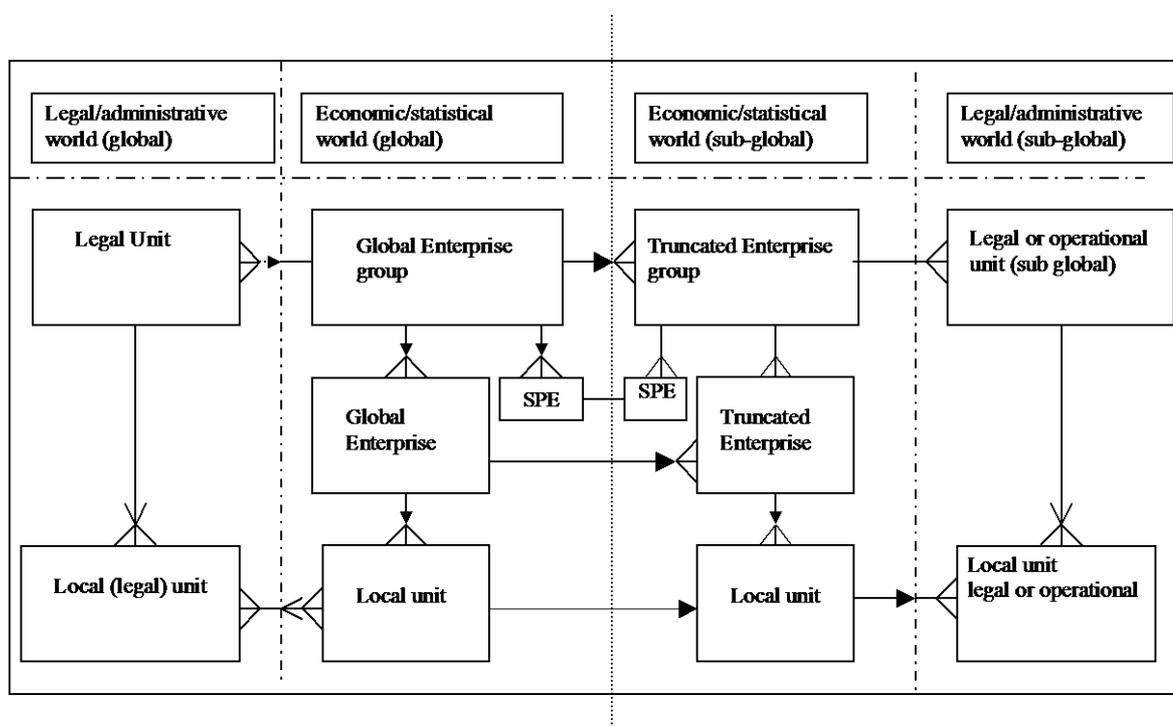
Annex 4.E A model of large and Complex Multi National Enterprises

A new statistical units model for Global Enterprise (GEN) and Truncated Enterprises (TEN) is proposed by ESSnet on profiling large and Complex MNEs⁴⁵

The statistical units model presented can be used for compiling statistics in which data of MNEs are included in a consistent way among countries. For these units the delineation of the Global Enterprise (GEN) is essential with its geographical (national) components: the Truncated Enterprises (TEN).

The GENs are the result of the economic and statistical analysis of the structure of the Enterprise Group at a global level, and each Truncated Enterprise is viewed purely as the trace of the Global Enterprise *in a country* in which the GEN is present. In this top-down analysis, a **Global Enterprise cannot have more than one Truncated Enterprise in one country**, just like a global Enterprise Group (EG) can not have more than one Truncated Enterprise Group (TEG) in one and the same country⁴⁶.

Diagram: The model (global and sub-global views)



Note: The statistical unit 'establishment', as defined in 4.2.1.3, is not precisely developed in this diagram. In most cases, the local unit of the Truncated Enterprise Group are equivalent to the local unit of the Truncated Enterprise and to the local unit legal or operational. In practice, these units are used to derive the 'establishment', if links between the units are maintained in the register.

⁴⁵ A project funded by the European Union - Work package B: Conceptual framework, methodology, rules and standards; Preliminary report 2011

⁴⁶ but to meet some users needs, it is possible to define some more reporting/observation units, within the TEN defined in the register (optional)

4.3 Links to other chapters/issues in the report

This chapter is directly linked to chapter 5 which describes the characteristics of the statistical unit required in SBR. (chap 5 is the implementation scheme of this chap 4, more conceptual). This chapter is also linked with the chapter 3 which describes the coverage of the SBR.

4.4 Other issues

The units linked to informal sector in developing economies needs specific attention in order to allow a good description of the transition periods to more developed situation.

The case of Branches, Ancillary Units, and Special Purpose Entities (SPEs), Holding Companies (HCs) or Head Offices (HOs) should be generally treated, but the description of related variables would be done in the following chapter 5.

Coordination is needed with the joint ECB/Eurostat/OECD task force on the statistical treatment of these units.

Legal units outside the country?

4.4.1 Branches

Branches mean local units not constituting separate legal entities, which are dependent on foreign-controlled enterprises. They are treated as quasi-corporate enterprises within the meaning of point 3(f) of the Explanatory notes to Section III (B) of the Annex to Regulation (EEC) No 696/93. Only branches with permanent address should be covered for FATS statistics

The Outward FATS statistical units are the enterprises and all branches abroad that are collected by an institutional unit resident in the compiling economy.

4.4.2 Ancillary activities

Some legal units, in fact, perform activities exclusively for other legal units and their existence can only be explained by administrative factors (e. g. tax reasons), without them being of any economic significance. A large proportion of the legal units with no persons employed also belongs to this category. *In many cases, the activities of these legal units should be seen as ancillary activities of the parent legal unit they serve, to which they belong and to which they must be attached to form an enterprise used for economic analysis* ⁴⁷.

Some more recommendations are given in ISIC Rev.4 manual ⁴⁸, as follows.

⁴⁷ Source: COUNCIL REGULATION (EEC) No 696/93 of 15 March 1993 section III A Enterprise

⁴⁸ Introduction : Statistical units in the System of National Accounts

59. Principal and secondary activities cannot be carried out without the support of a number of *ancillary activities*, such as bookkeeping, transportation, storage, purchasing, sales promotion, cleaning, repair and maintenance, security etc. At least some of these activities are found in every economic entity. Thus, ancillary activities are those that are undertaken to support the main productive activities of an entity by *providing goods or services entirely or primarily for the use of that entity*.

.../...

62. If *an establishment undertaking ancillary activities* is statistically observable, in the sense that separate accounts for the production it undertakes are readily available, or if it is in a geographically different location from the establishments it serves, *it may be desirable and useful to consider it as a separate unit* and allocate it to the industrial classification corresponding to its principal activity. *However, it is recommended that statisticians not make extraordinary efforts to create separate establishments for these activities artificially in the absence of suitable basic data being available.*

63. Under the definition given in paragraph 59 above, the following activities *are not to be considered ancillary*:

(a) Producing goods or services as part of *fixed capital formation*. The type of units most affected are those doing construction work on the account of their parent unit. This approach is in accordance with the classification in ISIC of own account construction units for which data are available to the construction industry;

(b) Producing output which, although also used as intermediate consumption by the principal or secondary activity, is *for the greater part sold on the market*;

(c) Producing goods that become *a physical part of the output of the principal or secondary activity* (for example, the production of boxes, tin cans or the like by a department of an enterprise as packaging for its own products);

(d) *Research and development* activities, which are considered part of fixed capital formation in the context of SNA.

4.4.3 Special Purpose Entities (SPEs)

(draft ⁴⁹ - to be discuss with ECB/Eurostat/OECD Task Force on the statistical treatment of these units)

Special Purpose Entities is the name used in the SNA2008 for identifying a specific typology of special cases of corporations. In various manuals they are also known as Special Purpose Vehicles (SPVs), international business companies, financing subsidiaries, conduits, holding companies, shell companies, shelf companies, brassplate companies and so on.

SNA2008		BPM6		BD4	
Ref.	Characteristics	Ref.	Characteristics	Ref.	Characteristics
4.56	have no employees	4.50	have few or no employees	6.2 - 313	have little or no employment
4.56	have no non-financial assets	4.50	other parts of their balance sheets are claims on or liabilities to nonresidents		
4.56	they may have little physical presence	4.50	have little or no physical presence	6.2 - 313	have little physical presence in the jurisdiction
4.56	they are always related to another corporation, often as a subsidiary and are often resident in a territory other than the territory of residence of the related corporations	4.50	their owners are not residents of the territory of incorporation	6.2 - 313	their parent enterprises are typically located in other jurisdictions (economies)
4.57	Entities of this type are commonly managed by employees of another corporation which may or may not be a related one				
4.57	The unit pays fees for services rendered to it and in turn charges its parent or other related corporation a fee to cover these costs. This is the only production the unit is involved in.			6.2 - 313	They are often used as devices to raise capital or to hold assets and liabilities and usually do not undertake significant production
				6.2 - 313	no operations

SNA2008, BPM6 and BD4 agree on the fact that there is no internationally standard definition of an SPE. Thus, the identification of institutional units that may be described as special purpose entities should consider a number of characteristics summarized in the Box. 10.

It is important to consider that a unit may be treated as an SPE even though it does not have all the features showed in Box. 10. In fact, the Task Force MUNA define as type of SPEs also the ownership of non-financial assets despite one of the characteristics stated in paragraph 4.56 (have no non-financial assets).

Different ways of treatment are expected in the BPM6 in which is stated: “Although there is no internationally standard definition of SPEs, *in economies in which they are important they may be identified separately*, according to either a national company law definition, or in terms of a functional definition, *possibly referring to their limited physical presence and ownership by non-residents* (4.87)”.

In fact, for the SNA2008 a unit defined as an SPE “is treated in the same way as any other institutional unit by being allocated to sector and industry according to its principal activity unless it falls into one of the three following categories:

⁴⁹ extracts from draft paper Deliverable 5.2 ESSnet on consistency

- a. Captive financial institutions,
- b. Artificial subsidiaries of corporations,
- c. Special purpose units of general government (4.58)".

Aware of the difficulty of finding a common international definition, different Task Forces tried to define decision trees to be used for allocating units between SPEs and normal units.

In particular, it is possible to consider the following 4 main groups:

- Ownership of financial assets (Captive financial institutions)
 - Holding companies (Nace Rev. 2 – 64.20)
 - Trusts, funds and similar financial entities (Nace Rev. 2 – 64.30)
 - Securitization companies (Nace Rev. 2 – 64.99)
 - Captive financial leasing companies (Nace Rev. 2 – 64.91)
 - Captive insurance and reinsurance companies (Nace Rev. 2 – 65.12, 65.20)
 - Invoicing companies (Nace Rev. 2 – 64.99)
- Ownership of non-financial tangible assets
 - Renting of mobile equipment (Nace Rev. 2 – 77.00)
 - Merchanting companies (Nace Rev. 2 – 46.00)
 - Trading companies (Nace Rev. 2 – 46.00)
- Ownership of non-financial intangible assets
 - Licensing and royalty companies (Nace Rev. 2 – 74.90)
- Others
 - Offices of airlines in airport hubs abroad (Nace Rev. 2 – 51.10)

And the following proposals ⁵⁰

According to the fact that SPEs currently may be identified in a national perspective the following proposals have to be considered to be further evaluated.

- Terminology: it should be necessary to clarify the meaning of different labels and to use the same wording for the same things.
- In terms of characteristics: a clear choice should be made among the words “no”, “few”, “little”, “often”. The narrowest definition of an SPE could be based on the following features:
 - No employees
 - No physical presence
 - No non-financial assets
 - Always related to another corporation and their owners are not residents in the territory of incorporation
 - No other subsidiaries in the Country.

A SPE operating in the same Country of another affiliates *should be combined* to form a single enterprise unless part of a different Global Enterprise (GEN) or out of the consolidation perimeter.

⁵⁰ From Essnet Consistency WPI final report

A SPE operating in a Country without other affiliates must be treated as an *institutional unit with its own characteristics* and recorded in the BR with flags useful to the other statistical domains.

4.4.4 Distinction between head offices (HOs) and holding companies (HCs)

“The statistical analysis of HOs and HCs and their delineation starts after the above institutional unit test⁵¹. Both types of units are often referred to as holding companies, because both of them have relations to other entities, their subsidiaries. However, the relationships are quite different: while a HO exercises managerial control over its subsidiaries, the HC does not undertake any management activities and its principal activity is simply owning a group of subsidiaries”⁵².

Holding companies are one of the 11 common types of SPEs identified by the ECB/Eurostat/OECD Task Force on Head Offices, Holding Companies and Special Purpose Entities (june 2013)⁵³.

From a conceptual point of view the distinction between HOs and HCs is clear. On the other hand, applying these concepts in practice is more complex. Holding companies and Head Offices have a common operational characteristic : “Entity having at least 50% of its assets consisting of equity vis-à-vis its subsidiaries can be considered as a practical indicator for identification of such entities.”

The discussion of the Task Force on practical rules for distinguishing between HOs and HCs showed that information on variables like management control or auxiliary units are available for large units or large groups only. Wherever available, such data is especially important in view of the large proportion of the aggregate balance sheet that can be explained by these units. For units where such information is not available, or only available at great cost in practice, the distinction between HOs and HCs will have to be mainly based on the employment criterion:

- Head offices (HOs) are actively engaged in production. They may have noticeably fewer employees, and more at a senior level, than its subsidiaries. But having zero employment is a clear indication of not being a Head Office.
- On the other hand, holding companies (HCs) simply holding assets may do this with very few or without any employed personnel. But HCs may have a limited number of employees for several reasons, as requirements set out by national legislation. For the delineation between HOs and HCs, national legislative requirements for the number of employees of HCs should be taken into account. In general, employment of three or more persons is a first indicator for a unit being a head office (= not being a Holding company).

⁵¹ 4 criteria; see (current) SNA 2008 Institutional Unit definition in 4.2.1.2.1

⁵² TF on head offices, holding companies and SPEs, final report, 14 june 2013 §4.

⁵³ Namely : Holding company; Shell company; Unit for holding and managing wealth of individuals and families; Securitisation company; Conduit; Royalty and licensing company; Captive leasing company (including mobile equipment renting company); Factoring and invoicing company; Captive insurance company; SPE carrying out other financial function; Merchanting company

4.4.5 Franchise

Franchise operators may or may not belong to the same enterprise group.

Franchisees are deemed to be separate enterprises because they consist of a complete combination of factors of production, and they run the full entrepreneurial risk. Moreover, the definition of the enterprise requires autonomy but allows for this autonomy to be somewhat restricted (“a certain degree of autonomy” is required), and full accounts tend to be available only at the level of the separate franchisees. The franchiser is also regarded as a separate enterprise.⁵⁴

⁵⁴ Source: Business Register Recommendations Manual, paragraphs 19.54-19.55