Welcome to the first profiling newsletter of the new ESSnet on the European System of Interoperable Statistical Business Registers, or ESBR as it has affectionately become known.

This will be the first in a series of regular newsletters produced for the purpose of keeping all partnering countries taking part in the profiling testing programme fully informed of developments and decisions relating to profiling and the related guidelines.

This newsletter concentrates on providing answers to the questions raised by the NSIs before and during the training seminar on profiling that took place in Luxembourg in September 2014. The answers included in this newsletter provide quick additional guidance to the guidelines documents for profiling already available, namely the Guidelines for International Profiling and the Guidelines for the Completion of Profiling Template. These two documents will be updated by the end of year based on the content of this newsletter.

This newsletter is separated into 5 parts:

Part 1 of the newsletter provides answers to questions that imply revision to the guidelines documents;

Part 2 lists the questions for which further discussions are needed and will be planned for the seminar in February 2015;

Part 3 presents the other answers for which no update of the guidelines is needed;

Part 4 presents a calendar of deadlines/events to be aware of.

Part 5 provides links to the ONS video on European profiling for your information.

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2-Guidelines to International Profiling-Completion of Profiling Template 12March 2014.
1. Clarifications to be included in the updated versions of the Guidelines

1.1. Preconditions to start a light profile: OFATS not mandatory

The Guidelines for International Profiling (p.14) state that there are two preconditions to starting a light profile. The second condition refers to the availability of OFATS data.

**Question:** Does this mean that NSIs which do not have an OFATS survey or have no access to this data, cannot select a light profiling case? Does this mean they will all be intensive or should this precondition be removed from the guidelines?

**Answer:** The guidelines will be updated/reworded to state that OFATS is a very useful source for light cases but should not be a mandatory requirement. Indeed, the NSIs need to weigh up all of the data available to ensure that there is enough data to carry out a successful light profile, that is to say to populate all requested variables both at GEN and TEN level. Training and experience should help in this decision making process. There are small to medium size GEGs which carry out activities through a limited number of foreign affiliates or/and in a limited number of countries. For these small to medium size GEGs it is sometimes possible to find all necessary information in the annual report to carry out a light profile. In such cases, it is not necessary to have access to OFATS data.

1.2. Rules of consolidation of GENs: flows between TEN of the GEG should not be netted, to the extent possible

**Question:** There is a conflicting conclusion in both guidelines documents according to the priority consolidation methods for GENs. On p.45 in the Guidelines for International profiling, GENs are required to be non-consolidated between each other, i.e. flows from one GEN to another should be shown in the account. On p.13 in the Guidelines for the Completion of Profiling Template, it is remarked that we “should use the GEG turnover as a benchmark and make sure that the sum of the GEN turnovers does not exceed the GEG global turnover.” This demands the GENs turnover to be netted from the intra GEN flows. Otherwise the sum of their assets will always exceed the GEG turnover.

**Answer:** The conflicting information will be solved in the revised version of the documents. Ideally the information collected at GEN/TEN level should only be netted from GEN/TEN intra flows and not from flows with the other GENs/TENs of the GEG. However when the T/O is collected directly from A/R, GEN T/O is usually netted from the other GEN intraflows. This is not the ideal information to be collected but it is better than no data.

As a general rule what seems important is to be clear for each profiling case which T/O has been collected at GEN/TEN level and whether the information is consolidated and on what basis has it been consolidated.

**Example:** Luxottica group.

This GEG can be described through two GEN 1 “Manufacturing and Wholesale Distribution” (design, manufacturing and wholesale distribution and marketing of frame glasses, sunglasses and optics
products) and GEN 2 “Retail sales” (optical stores network operations and franchise operations management). There are relations between these two GENs since GEN 1 sell a part of its products to GEN 2 for distribution. Ideally, we would like to collect T/O not netted from intra GEN flows but T/O displayed in the A/R corresponds to the net sales of the two GENs, which means sales toward the third party customers only.

In case the GEG cannot provide other information, it is important at least to be clear on what T/O we collect, here consolidated between the GENs.

<table>
<thead>
<tr>
<th>(thousands of Euro)</th>
<th>Manufacturing and Wholesale Distribution</th>
<th>Retail Distribution</th>
<th>Inter segment transactions and corporate adjustments</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2,773,073</td>
<td>4,313,069</td>
<td></td>
<td>7,066,142</td>
</tr>
</tbody>
</table>

1.3. Branches (Permanent Establishments) : should be included in the group perimeter

**Question** - should branches in a given NSI be included in the group structure perimeter when they are not legal units active in that particular NSI. What about the situation when an enterprise group only has branch units as representatives in one foreign country. Should that foreign country be identified and should it participate on partnering profiling tasks?

**Answer** – Branches need to be recognised by the NSIs for which this unit carries out activity. If the lead NSI recognises that there are branches active in another NSIs called A then country A should participate in the profiling tasks. If a large part of the activity of a GEG is performed in country A through a branch it is necessary to involve A as a partner even if no affiliate for that GEG are registered in country A.

The existence and location of branches is one topic that has to be discussed with the GEG during the visit. When requesting about global/GEN/TEN perimeter, it is important to stress that National/European statisticians want to know where the activity is effectively carried out and not only where the affiliate is registered; and that statisticians need to know when the location is not the same.

In some annual reports the consolidation perimeter makes the distinction between registration country and activity country when they differ.

**Example** : In its Annual Report the Hungarian oil group MOL distinguishes in its consolidation perimeter the country of registration from the country of activity when they differ (see column 2 “Country Incorporation/branch”). For example, the affiliate called „Hawasina GmbH“ is registered in Switzerland and operates in Oman.
1.4. “ADMIN” and “OTHERS” segments

The Guidelines for International profiling on p.22 and p.34 refer to a distinction between the segments ‘admin’ and ‘other’ which can be built in certain profiling cases. Internal and transversal activities can be stuck into the segment “admin” or can be allocated onto the economical segments. All non consolidated activities should be included in the segment “other”.

1.4.1. ADMIN and OTHERS: not mandatory for GEN

**Question:** In the Guidelines, page 34 it is said “Each GEG should contain only one GEN “ADM” and one GEN “OTH””. Is it obligatory for GEG to have GEN “ADM” or “OTH”, or is it only a possibility?

**Answer:** The guidelines need to be updated to be made it clearer. There is no requirement at all to have a GEN Other or/and Admin, just a possibility. If a GEG contains only one GEN, there is no need to consider a GEN “ADMIN” or/and “OTHERS”. In particular, for the GEN “OTHERS”: there are many profiling tests where it is possible to allocate each affiliate to one GEN/TEN and for which this category is unnecessary. This category is only an option, for treating large GEGs with more than one hundred affiliates, among them some are not consolidated and for which our contact cannot allocate it to a specific GEN. This category can also be used by instance to classify some affiliates which belong to sub consolidation levels and for which we have no clue to which GEN it belongs to.
1.4.2. Auxiliary activities in the ADMIN segment: clarification to come

Question:

1) In case there is no clear information about internal activities is there a tool to separate the legal units?

2) What is considered as auxiliary activities?

3) Can we have more guidelines on treatment of R&D Activity?

Answer:

1) For intensive profile, it is an important issue to discuss with our contact. The way to treat it will depend on the GEG organisation and of the specific role of each affiliate.

When units only carry out an auxiliary activity for one GEN, it is possible to classify it in this GEN.

When affiliates are carrying out auxiliary activities for more than one GEN, GEGs usually classify these units in their segment “Corporate and others” to avoid splitting a legal unit between many GENs. This GEN usually gathers the parent company, holdings and in addition auxiliary affiliates carrying out internal services for many GENs or some activities which are not core for the GEG. It can also happen that GEGs split the auxiliary affiliates between GENs.

Note - generally speaking it is better to avoid splitting legal units between GENs. In case the GEG wants to split Legal units it should be discussed carefully with them, in particular when there are a lot of auxiliary units split in several segments.

2) The ESSnet will work on defining a clear and understandable list of Auxiliary classifications which could be used to determine if a unit carries out internal activities or not.

3) Regarding R&D there is no specific guidelines. R&D is considered as auxiliary activities and treated as explained above (point 2)

1.5. Reference Date: defined in the initial phase of the profiling action

It is proposed under topic (3) of the individual grant that the reference year of the profiles should refer to the completion date of the profiling case, e.g. a case completed in 2014 refers to reference year 2013, and a case completed in 2015 refers to reference year 2014.

Question – From the view of the initial profiler it can be hardly foreseen when a case can actually be finished. The description should therefore refer to a reference date during the initial phase of the profiling action.

Answer – It is agreed that the reference year should be defined during the initial phase. It is expected that the lead NSIs starting their profiling action before March 2015 (period when annual reports are released in most European countries) will refer to 2013 data; and that lead NSIs starting their profiling action after March 2015 will refer to 2014 data.
1.6. Legal Unit Turnover: not an end requirement

**Question** - Data on turnover for legal units of GEGs is no longer available in the EGR. If data on turnover is missing (or is no longer requested) can we assume that not all NSIs have it (for example due to sample surveys, thresholds) and that we cannot expect it neither in the partnering exchange? And, if we can expect the data from the partnering exchange, who should provide data on turnover for the countries not included in this profiling project?

**Answer** – Legal Unit turnover is helpful to use as a guide or a means to assess lead NSI profiling information but is not an end requirement as profiling requires TEN Turnover which is consolidated. Therefore, if you have access to legal unit turnover data, it is useful to provide. But what is crucial is to collect consolidated TEN turnover and share it with other NSIs. If a Lead NSI has Legal Unit turnover available (i.e. if the business have supplied it) for other Non Profiling NSIs then this could be included but is not a requirement.

1.7. Franchises: do not belong to the GEG/GEN perimeter

**Question**: Should franchises be included in the GEG perimeter?

**Answer**: Franchises are independent companies which operates through a franchise contract with a GEG. They do not belong to the GEG/GEN perimeter.

Example: McDonald’s corporation operates worldwide through its own controlled and managed restaurants which belong to the GEG/GEN perimeter and also through franchisees which are independent companies (restaurants) outside the perimeter of Mc Donald’s corporation.

1.8. Turnover (T/O) – T/O by origin should be collected, to the extent possible

**Question**: There is a distinction between the destination T/O and the T/O by origin. Which one should be collected?

**Answer**: It is very important for profiling (both for Intensive or light cases) to be clear on the nature of T/O we collect. For profiling, the request is to collect for GEN and TEN consolidated T/O by origin that is to say T/O carried out by the affiliates or branches of the GEG in one country.

Some GEGs use for their own needs another concept which is consolidated T/O by destination, which represents for one country the sum of the T/O by the local affiliates and the exports toward this country.

Note that it is very difficult to rely on IFRS 8 to derive GENs/TENs when the segments are defined by destination (geographical segments). In any case, if the T/O by origin is not available it is crucial to have a clear definition of the T/O variable collected.

Example: Differences between sales by destination versus origin presented in the Annual Report of Stora Enso, a Finish GEG specialized in wood products, paper and packaging
1.9. GEGS non IFRS compliant – profiling possible but need for clear definitions (from the profilers on what is wanted and from the GEG on what is provided)

**Question**: How to deal with GEGs non IFRS compliant?

**Answer**: We assume that in the European Union most of the large and listed GEGs are IFRS compliant. This situation helps to refer to a consistent standard to collect statistical data in all the EU-EFTA countries. However, it is possible to profile GEGs referring to other type of reporting standards, such as US GAAP. The most important aspect is to define the concept of the variables we want to collect and the concepts of the variables that are actually collected. If the reporting standards show major inconsistencies with IFRS having clear definitions should help to treat it.

1.10. Statistical Burden for MNES: additional mention to be added in the guidelines

**1.10.1. MNES: burden may increase if data were coming from administrative sources**

**Question**: In structural business statistics some countries use administrative sources for compiling of most of the requested economic variables. With profiling and the new units we will have to request additional data from the enterprises. The reporting burden will increase which is difficult to justify.
Answer: Although for most NSIs, profiling would lead to a decrease in burden, for those that use solely administrative data, burden would likely increase. This will be highlighted in the methodological documents and main conclusions reports.

1.10.2. MNES: appointing a coordinator may help

Question: Should every GEG nominate a co-ordinator in charge of the overall action?

Answer: This will always depend on the organisation of GEG and if there is a central point of coordination within the GEG. A coordinator within the GEG can appear useful however we can have many different contacts inside the GEG. We will recommend that this be added to the guidelines as something to make communication a little easier. **Timetable: clarification on the timetable to be added in the guidelines**

Question: Timetable regarding availability of basic information regarding the profiling process is rather unclear to some extent. Therefore it is appreciated that a timetable with e.g. information like availability of EGR for a certain period, update of the EGR, dates at which profiling lists will be provided, timetable for the profiling process of a certain reference period, use of the profiled groups in different statistics, time lags etc. should be elaborated.

Answer: More information about timings will be included in the guidelines.

1.11. Introducing examples in the documentation

Question: Could we have more practical examples on GEGs profiling in the documents?

Answer: Examples of profiled GEGs will be added in the Guidelines to illustrate guidances. Whenever possible visual diagrams and tables will be added.

2. Questions for which further discussions are needed and will be planned for the seminar in February 2015

2.1. Consolidation methods for joint venture units: clarification to come.

In the Guidelines for International Profiling (p.25) it is stated that “Proportionate Consolidation” (PC) is not an option for reporting on IFRS standards anymore, and furthermore that the “Equity Method” (EM) is not a consolidation. In the Guidelines for the Completion of Profiling Template it is still possible to use both consolidation methods (PC, EM).

Question - How should we proceed when we have to deal with joint venture units? How should we proceed if a unit is consolidated with less than 50% ownership meaning this unit maybe independent or a part of a different group?
2.2. NACE Classification for Non Residential Units: proposal for a coordinated coding to be endorsed by the ESBRs group

**Question:** We often notice that the registered main activity codes (NACE) of the legal units do not correspond to the actual main activity of the legal units. In profiling actions the non-residential TENs activity codes will be initialised with the GEN activity code. Wouldn’t it be prudent that, for the cases when this information is available either directly or indirectly from the GEGs, the lead NSI would first propose the activity code for the non-residential TENs and then gives the possibility to the partnering NSI to ask for change of the NACE code?

2.3. Collection of SBS Data through profiling: will be one topic discussed at the next meeting

**Question:** How will data be gathered in the future for SBS, especially financial data variables?

Further discussions of points 2.1, 2.2, 2.3 will be planned for the Paris Workshop in February 2015.

3. Other questions with no impact on the update of the guidelines

3.1. Reference Date: lead and partnering countries work on the same year, to the extent possible

It is expected that profiling cases will refer to 2013 or 2014 data depending on when the profiling action starts (see 1.1.). Leading countries and partnering countries should work on the same year.

**Question:** An inclusion of SBS data on building the partnering responses cannot be made to reference year 2014 for some NSIs as this data is not available until July 2016 (T+18) – after the finalisation of the project. For reference year 2013 SBS data is available at the earliest in July 2015 which is quite late in the process of the project period. It should be discussed how to proceed with early partnering responses received before July 2015. Should SBS data from the previous year (2012) be used in the partnering exercise or should they be dropped from the perspective. Can we have a harmonized profile where every countries data refer to the same year instead of trying to be most updated? For example can we stick on a common reference year 2013 for all profiles. This would mean that information from annual financial report should also stick to reference year 2013?

**Answer** – To the extent possible all NSIs should try to apply a consistent reference year.

Knowing that A/R cover at least two years data for the current perimeter the guidance is as follows:

For intensive profiling - To the extent possible the lead country should ask the GEG to provide the current perimeter for the most updated year (2013 or 2014) and variables for this perimeter on a year for which partner countries have SBS data (i.e. 2012 data prior to July 2015, or 2013 after July 2015). If the GEG doesn’t agree and wants to provide variables on the most updated year only then partnering countries and lead countries will work on different reference years. The information from the partnering countries will then only have a role of assessment of the data provided by the GEG, to check the overall consistency of the information provided by the profiling NSI at TEN level. If
partnering countries and lead countries work on different years it is crucial that the information exchanged between NSIS include information on the year.

For light profiling – Again, to the extent possible, all NSI should refer to a consistent year. NSI should work on the most updated perimeter available on the A/R (2013 or 2014). The variables from A/R and OFATS should refer to the same year 2012 or 2013. The partnering countries will work on SBS data for the same perimeter and variable reference years.

For automatic profiling – Only internal NSIs sources will be used. NSIs should refer to a consistent year both for perimeter and variable which will be the most updated common year available in all the sources used.

3.2. Poor quality of EGR 2012

Question - Many GEGs cannot be found in the recent version of the EGR (2012). The EGR for 2012 should be the frame for the selection of GEG to be profiled in the course of the action. This issue will make the selection profiling process difficult.

Answer: A selection of main GEGs using EGR 2011 and 2012 has been done by Eurostat to try to limit this problem.

3.3. Prefilled templates variables with EGR

Question: Is there a way to get the Profiling Report and Profiling Template prefilled with EGR-data? Having to manually transfer the information is not only inefficient but also a major source of errors.

Answer: The Excel PR and PT are only temporary support for data collection. The Interactive Profiling Tool will replace this process and will interact directly with the EGR meaning that variables will be automatically populated. To ease the burden a little in the meantime, formulas/Macros have been produced to automatically populate total fields.

3.4. ID Numbers in the EGR

Question: For those NSIs with little experience of profiling it is confusing that there are so many different ID’s and numbers for legal units and enterprise groups – the reduction of the number of different ID’s and a harmonisation is supported.

Answer: Profiling uses the EGR for most of the starting variables, including many IDs such as EU_LEU_ID, LEID, NSA_ID, NSI_ID etc. The LEID number will be the main identifier going forward. There will be a review of all of the IDs on the PT to ensure that they only contain the ones required. (Question: Who will do it? Zsolt?)

3.5. Q&A Forum

Question: To establish an efficient communication between the participants of the seminar and all those involved in profiling GEGs, we propose to open an internet forum for an easy and fast exchange of questions, answers and experiences. We believe, this could be an ideal basis for helping each other in case a problem occurs and also be a means to find unified pathways in solving them.
**Answer:** Yes, the ESBR will look to use a Internet Forum to share common questions and updates. We could potentially use the existing cros portal or a new area could be developed.

### 3.6. Free access to Private Data Sources (Dun and Bradstreet and BvD)

**Question:** Among potential data sources useful in profiling, private data sources such as Dun & Bradstreet and Bureau van Dijk are often mentioned. We believe these data sources would be very helpful in cross-checking and/or in absence of national or other countries’ data. Unfortunately we cannot afford them financially. Would Eurostat consider and examine the possibility to assure and finance the access to these sources also for the member states (e.g. one access per country)?

**Answer:** Eurostat cannot finance such accesses; there is no existing contract for this. The next data acquisition framework contract will be prepared in 2016 and at that time we can take into account this need. However such a “see all groups” access is quite expensive, instead of this NSIs can use the EGR. In EGR the legal units of the groups to be profiled are included as received from the commercial sources.

### 4. Dates for your Calendar

It has been around eight weeks since we all met in Luxembourg and in that time I hope you have made a start on the profiling path and begun to select and make contact with the selected Global Enterprise Groups (GEGs) that you wish to include in your profiling programme.

As you will now be aware we are due to meet again on **17-18 February 2015 in Paris** at the offices of the Institut National de la Statistique et des Etudes Economiques, (INSEE). All coaches and their respective partnering countries will be in attendance and it will be an opportunity to highlight progress made since September in your respective profiling cases and address any issues that may have arisen over the intervening months. An agenda and the main goals for the seminar will be distributed in the coming weeks and will also include details about your own contributions to the event.

### 5. For information: ONS video on profiling

The ONS video on European profiling is available on the CROS portal: [http://www.cros-portal.eu/content/video-european-profiling-ons](http://www.cros-portal.eu/content/video-european-profiling-ons)

…and also on BRnet > Library > ESBRs - European System of Interoperable Statistical Business Registers > Grants 2014 - Improvement of national business registers and testing of European profiling > Topic 3 to 7 (Profiling related)