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Guidelines for Manual European Profiling

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ESSnet on a European System of Interoperable Statistical Business Registers (ESBRs) – Phase 1

Work Package 3, Block 2: Stabilising Profiling

Guidelines for Manual European Profiling

Version 7¹

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Guidelines for manual European profiling — Version of September 2016

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References

The following documents are used as main sources for these guidelines:

1. The preliminary methodological report 2011 of the Work Package B of the ESSnet profiling, February 2012
2. Peter Struijs: Top down profiling in The Netherlands, April 2005
3. Various documents developed for the Work Package D of the ESSNet Profiling of large and complex Multinational Enterprise Groups, Specific Multiple Beneficiary Grant Agreement No 30621.2009.001-2011.508.a.o. the profiling report (PR) and profiling template (PT) developed for tests as well as the Profiling Template guidelines.
5. ESSnet ESBR Profiling Newsletter No1, November 2014. Newsletters can be found on CIRCABC > BRnet > Library > ESBRs > Grants 2014 > Topic 3 to 7 (Profiling related)
6. ESSnet ESBR Profiling Newsletter No2, April 2015.
7. Methodological Report to Treat Domestic Enterprise Group, September 2015, Deliverable A3.4 WP 2 ESSNet on ESBRs

Disclaimer

It may happen that experts refer to different wording to define similar concepts and/or methods. Revising these Guidelines, the ESSnet has done its best to harmonize the wording in the text. The wording used by the ESSnet in these Guidelines is:

- **Manual European Profiling** for International/Global profiling since we are working under the supervision of Eurostat on EU-EFTA zone
- **Auxiliary activities** for all support activities instead of ancillary activities.
- **Global Decision Center (GDC)** instead of Ultimate Controlling Institute (UCI)
- **Global Enterprise Group (GEG)** instead of MNE (MultiNational Enterprise).

However, it may happen that some wording inconsistencies remain in some schemes or in the text because it comes from other sources than can or may not be altered.

According to the Grant agreement ESSnet on ESBRs WP 3, the guidelines on profiling and methodology document are to be updated if applicable. Since it is still the current methodology which is under testing the Methodology document is not altered or amended.

The Guidelines are updated on request of testing countries for more explanation on specific topics, amended with insights from testing and also the latest development, among which the adoption of the “Notice of intention of the BSDG and the DMES on the consistent implementation of Council Regulation (EC) No 696/93 on statistical units. This adoption of the Statistical units did change the context of the ESSnet programme and does affect the current profiling methodology since the profiling units GEN and TEN were not assigned a statistical unit function. For the future, meaningful concepts in the context of a system of ‘global accounts’ need to be defined and clarity and transparency is needed on the statistical objects and their roles in the ESBRs system - by defining the statistical objects with their characteristics to be included in the ESBRs frames.

For now Chapter 2 “Units model” and Chapter 3 “Units to be used during profiling” are amended as far as possible considering the changed context.
1. Introduction

The aim of this document is to provide National Statistical Institutes NSIs (or National Statistical Authorities) guidelines and a description of the process to profile internationally large and complex Global Enterprise Groups (GEG’s). The document will also provide a description how to delineate the (statistical) unit structure at the global and national level, including the main features of the units. The guidelines are in accordance with the proposals of the ESSnet on profiling large and complex enterprise groups that are detailed in the Profiling Methodology and takes into account the recently adopted “Notice of intention of the Business Statistics Directors Group and the Directors of Macroeconomic Statistics on the consistent implementation of Council Regulation (EC) No 696/93 on statistical units as agreed by the Directors meetings on June 25-26 2015.

This document is directed mainly to profiling staff and offers practical indications and solutions on how, where and when the profiling process should be undertaken. It describes the operational process used by the involved actors and how the process should lead to agreement between the concerned NSIs and the Global Enterprise Group (GEG) itself.

These guidelines are described in a way that they give space for national adaptations for specific situations and for more detailed instructions for instance regarding the use of the profiling Template and Report. Examples coming from tests illustrate some of the technical issues raised.

The ultimate goal is the use of the results of profiling in economic statistics compilation by the statisticians as users in each NSI. The users of the results and the GEG are evident partners in the process.

In order to integrate this new profiling approach, the ESSnet profiling needed to propose a new units model taking into account the global dimension of the economic activity.

The present guidelines are meant to contribute to a standard for carrying out manual European profiling.

1.1. What is profiling?

The ESSnet profiling uses the definition of profiling already given in the Eurostat Business Registers Recommendations Manual:

“Profiling is a method to analyse the legal, operational and accounting structure of an enterprise group at national and world level, in order to establish the statistical units within that group, their links, and the most efficient structures for the collection of statistical data” (annex 3.1, paragraph 19.9).

This definition has been neither changed nor challenged in the proposals of the ESSnet and during the preparation of these Guidelines, except for the first level (starting point) used for analysis that is always at the global level.

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2 Previously also known under the term “Multi-National Enterprise Groups (MNE’s)”.
4 The final version can as well be found in CIRABC under /CircaBC/ESTAT/bsdg/Library/BSDG public/Links to relevant working groups and task forces/Task Force Statistical Units/Joint notice of intention by BSDG and DMES URL: https://circabc.europa.eu/w/browse/77baec33-ccf3-409c-a552-9253bd6a9806
5 Where applicable the revisions of the PT and PR template (d.d. 15-040215) are taken into account.
1.2. What does International profiling mean?

“Global and/or International profiling” refers to the global top-down method which can be applied to treat all Enterprise Groups and by any NSI. However, from now on in these Guidelines the ESSNet refers to manual European profiling since the ESSNet is working under the supervision of Eurostat and its focus is particularly on EU-EFTA countries, with the involvement of EU-EFTA NSIs only. Manual European profiling of GEGs differs from profiling large and complex groups from a national point of view in a way that its starting point is to analyze the GEGs regardless borders, with a top-down approach resulting in Global Enterprises (GENs) as first results. These GENs have pure national parts, which are named Truncated Enterprises (TENs).

In national profiling the national part of an enterprise group (truncated group) usually is the starting point. Manual European profiling of GEG’s may lead to different results compared with national profiling, not only because of a different approach in the different countries, but also because of the difference in the point of view: splitting the global group in globally economically significant parts of the Group instead of splitting the truncated group in national parts as considered relevant for national statistics within this scope. The ESSNet has nevertheless aimed for a proposed methodology and process that, without any problem, can be applied for pure domestic enterprise groups (all-resident Enterprise groups).

The most important goal of manual European profiling is to reach improved international consistency in economic statistics and thus improved quality. In this way contributing to the ESS Vision 2020\(^6\), the strategic orientation of European Business Statistics as is laid out in the Riga Memorandum\(^7\); “it is acknowledged that better understanding of the structure of enterprise groups and the change over time is necessary for the quality of business statistics. The access of NSIs to micro-data on individual enterprises from different statistical domains is essential in this respect. Enhanced cross-country collaboration and the exchange of enterprise micro-data in certain specific cases like the EuroGroups Register and data on international transactions, while strictly respecting the principles of statistical confidentiality, subsidiarity and proportionality might offer potential to improve the measurement of globalisation activities;”.

1.3. What does profiling include?

The main objectives of profiling are the establishment of the Enterprise statistical units within the Enterprise group and the testing of their statistical abilities (see also §4).

The collection of Business Register information (national and Euro-Groups Register, EGR) is included in profiling. Profiling will also include testing the availability of collecting “core” variables such as Structural Business Statistics (SBS) data and the willingness of the GEG to provide such data. The question regarding the collection of such data through surveys or administrative data is an important consideration which is still under review.

The role of profilers is to: identify the most appropriate (statistical) structure of the GEG and to analyse and test the feasibility of its use for statistics compilation and data collection.

The responsibility of the profiling team does not stop at the collection of information, but goes to the point that they should ensure that the delineated enterprise structural units are suitable for statistical purposes. Therefore profilers, in close cooperation with statistical users, will confirm

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\(^6\) ESS Vision 2020 – a common strategic response of the European Statistical System (ESS) to the challenges that official statistics is facing. Adopted by the ESS Committee (ESSC) in May 2014. (Update of COM(2009)404.).

\(^7\) Riga Memorandum – Towards better measurement of the globalised economy. Adopted by ESSC in September 2014.
if the data can be used for statistical purposes and ultimately for producing statistical figures adequate for publication and compilation. These guidelines will describe the way to delineate the structure of a GEG into global and truncated enterprises, including the analysis of the suitability of these units for statistical purposes. Especially new in relation to national profiling is the communication and agreement process of the NSI of the Global Decision Centre (GDC) country that proposes the profile with the NSIs of the “partnering countries” in which the GEG also has activities, in order to reach a full consistent international structure and infrastructure for comparable statistics compilation.

1.4. Reasons for profiling

There are several reasons and benefits for profiling:

The most important economic actors in the EU as well as in the EU/EFTA Member States mainly belong to GEGs and are integrated in the global structures of the GEGs. The delineation of enterprises should reflect this global organisation in order to make it simpler for the GEG to provide data and to improve the quality for the (National) business statistics based on these enterprises. It will also improve consistency with the business statistics of the other Member States and in consequence it allows the calculation of improved EU+EFTA business statistics.

The legal and administrative organisation of the GEG deviates from the operational organisation and structure. The latter is of primary importance for the delineation of Enterprise units which are defined as an economic entity.

A GEG consists of a large number (from less than one hundred to thousands according to the size and complexity of the GEGs) of legal units. It is nearly impossible then to establish the economic role of each single legal unit and to collect meaningful statistical data.

It is important that enterprise delineations reflect the way the GEG sees itself, in order to obtain its cooperation for answering and assessing the quality of answers. The opposite case in which the GEG does not recognise itself in the defined enterprises is detrimental to good quality statistical observation and response.

The outline of the guidelines is in accordance with the main steps in international (global) profiling, but is starting with a short recapitulation of the basic model (§2), the definitions of the units (§3), the main objectives of the profiling process (§4) and the main sources for profiling (§5).
2. The general units model for manual European profiling of a GEG: a top down approach

The ESSnet profiling proposes to implement the global profiling of GEGs according to the following conceptual model:

In using this model, profiling proceeds according to a top down approach that:
- Starts from the GEG as a whole, including the check of its perimeter of controlled Legal Units (LeU’s) in all countries in which it operates,
- Analyses its activities at a global level, resulting in the delineation of the GENs and then,
- Goes down to the national level, defining the truncated enterprises purely as the national parts of the global enterprises.
- Should be in line with the economic vision the group has of itself and its organisation.

According to this model, there will be, per country, only one truncated enterprise (TEN) belonging to one global enterprise (GEN).

**Context update; on the units model**

The GEN and TEN terminology was introduced in the Methodology of profiling report (January 2014) and used in the preparation of a new definition for the statistical unit “Enterprise” in the preparation phase of FRIBS. It was broadly discussed amongst both statistical users (SBS/STS statisticians, National Accountants), Business Register staff and Eurostat delegates whether the GEN could have more than one TEN per country, if the TEN could have a different NACE code than the GEN and if the TEN is the (one) national Enterprise belonging to the subsequent GEN.

In December 2014, the BSDG agreed that rather than developing a new definition, it was preferred to continue working on implementing the current definition of Regulation No 696/1993. This work is supported by complementing the definition with the operational rules

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8 CIRCABC; minutes of the Steering group ESSnet ESBRs, December 11th 2015.
that will make an unambiguous implementation of the definition of enterprise possible and thus increase comparability among Member States. See Annex 1 for the “Notice of intention of the BSDG and DMES on the consistent implementation of Council Regulation No 696/93 on statistical units.

From now on, it is decided to identify three enterprise units that can be analysed in the profiling work process namely the ENT, the GEN and the TEN. Their definition and status is specified in Chapter 3.

The basic assumption is that in most cases ENT and TEN will be identical. In practice it may happen that the ENT and TEN are not the same. There are two main reasons however why there is a need for a given GEG to be able to identify two separate kind of units within the national borders (namely ENT and TEN) in the profiling work process:

The Task force acknowledged that in exceptional cases a GEN could have more than one enterprise units identified in one country which is not fully consistent with the way TEN is currently described in the Methodology Report. It may also happen that in some cases, NSIs can define one Enterprise which can be part of more than one GEN. Some countries have already identified ENT’s according to the definition of Regulation No 696/1993 (i.e. profiled the national part of some GEGs) while the GEG itself has not yet been profiled by the GDC country (no TEN identified).

The major consequence of identifying the three above enterprise units in the work process is that the definition of the TEN as defined in Chapter 3 can be strictly applied, meaning that the delineation of the TEN will straightforward be derived from the GEN and that the NACE code of the TEN and GEN will be similar.

Opposite to what was proposed in the Methodology Report, there is no need for dual coding of NACE anymore.

During the ESSnet on ESBRs – Phase 1 (2014-2016) and the subsequent Grant actions the unit TEN provided by the GDC NSI can be seen as a proposal for the partnering country for its ENT. The TEN is used in the process as a unit representing the proposal from the GDC country as derived from the GEN. The partnering country will discuss the TEN with the lead country. At the end of the process it will be up to the partnering country to decide whether the ENT used for the purpose of producing its national statistics will be the TEN or not. Ideally, in order to ensure consistency across countries, the ENT as determined by the partnering country should also be used for FATS statistics.

Context Update; How to relate the profiling units to the Statistical Units?

The units GEN and TEN are NOT statistical units according to the Council Regulation No 696/93 on statistical units in National Statistical Authorities (NSAs) for business registers and business statistics. These are restricted to the following types of statistical units:

- Enterprise group
- Enterprise
- Kind of activity unit
- Local unit
- Local kind of activity unit

9 The importance of a correct delineation of the LKAU has to be emphasised for National Accounts, in particular for units which are vertically integrated.
The GEN and TEN definitions were introduced in the preparation of a new definition for the statistical unit Enterprise in the preparation phase of FRIBS. However, in December 2014, the BSDG agreed that rather than developing a new definition, it was preferred to continue working on implementing the current definition of Regulation No 696/1993. The compliance with Council Regulation (EEC) No 696/93 is a necessary condition for meeting the increasing need for consistent data on cross-border aspects of the statistical system in the European Union, including those on global value chains, as described in the Riga Memorandum *Towards better measurement of the globalised economy*, adopted by the ESSC on 26 September 2014.

Improving coherence of business statistics and National accounts and related statistics is a key objective for the ESS for the future.

**Statistical units are not necessarily directly observed** and statistical information on these units is then constructed using data from input units which can serve multiple purposes and are not necessarily identical to the output units\(^{10}\).

The term *statistical unit applies to the unit referred to in the output of business statistics*. These can be distinguished from those units from which the data are actually collected in the process of producing the output.

In their joined notice of intention: The European Statistical System Business Statistics Directors Group (BSDG) and the Directors of Macroeconomic Statistics (DMES) encourage the on-going efforts in the context of the EuroGroups Register (EGR) and the national Statistical Business Registers to improve coordination and consistency across Member States for situations where enterprise groups operate across borders, thereby ensuring an accurate description of the activities of the enterprise group in the EU without double counting or omissions and consistent with the methodology of National Accounts and Balance of Payments.

In the case of multi-national enterprise groups the statistical units have to be determined in a coordinated and consistent way across the Member States underlining the importance and need for European Profiling.

**The legal units** play an important role in the model since they are:

- The elementary units of the cluster of control of the global enterprise group: they must be exhaustively listed.
- The previous statistical units in most of the countries: for overall consistency, it is necessary to remove them from the statistical part of the register, at the same time you introduce the new enterprise-type units. LeU’s then remain important for purposes of identification.

Legal units or administrative units are also fundamental for identification in the definition of the perimeter of the global and truncated enterprises\(^{11}\). However, with this top-down approach, conceptually, a legal unit may be split into several GENs or TENs.

For SNCF ("Société Nationale des Chemins de Fer": National railways company), the parent company SNCF is a legal unit belonging to the GEG perimeter which is in charge of support services (especially human resources) for all the GEG. According to the model this legal unit has to be split between the 6 GENs defined for this GEG.

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10 "Notice of intention of the BSDG and DMES on the consistent implementation of Council Regulation No 696/93 on statistical units.

11 This could be represented in the diagram with a relationship between the (truncated) enterprise and the legal/administrative units using a broken line.
In practice, the profilers should try to express the (truncated) enterprises in terms of legal/administrative units as much as possible. There may be examples where the relationships between (truncated) enterprises and legal/administrative units are too complex to establish and request to discuss with the GEG another delineation more suitable for statisticians.

**BOX 1: How to deal with branches (permanent establishments), franchises and SPEs in the model?**

Branches, also called “permanent establishments” are units located in another country than the country of the legal unit they legally belong to. They can carry out economic activity (turnover, employees…) or not.

**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 country 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.

Branches cannot always be identified in National Business Registers. Therefore it is important to discuss this issue with the GEG. 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 and 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. Some groups provide details about their branches in their annual reports. In some annual reports the consolidation perimeter makes the distinction between registration country and activity country when they differ.

**Branches need to be included in the perimeter of the TEN of the country in which they carry economic activity.**
**The figures of the branches have to be consolidated in this TEN and not in the TEN where the legal unit the branches legally belong to, is included.**

**Example:**

**MOL (Hungarian Oil company)**

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.
Franchises are a form of organisation in which a business which already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other businesses (franchisees) operating under the franchisor's trade name and usually with the franchisor's guidance, in exchange for a fee.

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

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

In case a GEG is IFRS compliant, we can refer to IFRS 10 which focuses on control definition and makes clear if a franchise has to be considered under or out of control of a GEG according to the terms of the franchise contract.

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*

Special attention is paid to the **Special Purpose Entities (SPEs)** that make the legal structure of a group more complex and could blur the economic analysis of the group. For this reason, the SPEs have also to be discussed with the GEG.
3. The units to be used during the profiling process

Global Enterprise Group (GEG):
Definition: The global 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.
The GEG is primarily defined in the basic EGR process; it is checked and eventually updated in the profiling process.
A global enterprise group is to be constituted regardless of national borders.

Global Enterprise (GEN):
Definition: The global enterprise is a single legal unit (including a natural person), an enterprise group as a set of legal units under common control, if the group includes no autonomous parts or a part of an enterprise group, producing goods or services, benefiting from a certain degree of autonomy in decision-making, especially for the allocation of its current resources.
The global enterprise will often appear as an organisational unit that can provide meaningful data for statistics. The GEN is to be considered as an actual (trans)actor in the process of production in the economy.

From the definition it appears that the global enterprise can be either:
A single legal unit (including a natural person) if this LeU is “independent” or sufficiently autonomous within the enterprise group or;
• The whole of an enterprise group as a set of legal units under common control if the group is managed globally and not more autonomous segments can be distinguished or;
An “autonomous” part of an enterprise group, producing goods or services.

Truncated Enterprise (TEN):
Definition: The truncated enterprise is the national part of the global enterprise.
It is important to mention here that national parts of GENs are not necessarily autonomous.

A GEN is an autonomous unit by definition but irrespective of the national boundaries.
A TEN can but must not be (significant) autonomous within the national boundaries.
4. The main objectives in manual European profiling

The countries which will undertake manual European profiling should bear in mind that they should have, from the beginning, an international and Top Down approach. The units (§3) resulting from profiling are the basis for statistics compiled to describe the international production process. The Structural Business Statistics (SBS) and Foreign Affiliates Statistics (FATS) are the most important ones for this. Key element in manual European profiling is the involvement of the NSI of the GDC country, of the NSIs of the partnering countries and of the GEG in as a cooperative way as possible.

The 4 main objectives of the profiling process can be summarized as follows:

1. Deriving and classifying GENs at the global level as a proposal (including identification);
   - Analyse the operational structure of the GEG.
   - Prepare a proposal for the GEN structure.
   - List the legal units for each GEN.

2. Deriving and classifying TENs at the national level (including identification);
   - List the legal units for each TEN.

Objective 2 and/or 3 imply contacts with representatives of the GEG who are in charge of operations at the global level to get their agreement on the analysis of the structure, the delineation of the GENs/TENs, their links with the affiliate Legal Units and their ability to produce the necessary “core” variables. It is strongly recommended to consult statistical users and partnering countries for their opinion before contacting the GEG.

3. Agreement with the partnering NSI’s on the TENs (and legal units).
   - List of TENs (and the list of legal units) to the partnering countries for confirmation and feedback.

For objective 3, contact with national (local) officers of the concerned GEG is needed in order to confirm their ability to provide the “core variables” at the country level and thus indirectly confirm agreement on the TENs; such a contact is usually announced by the NSI of the GDC during its visit at the global group level. This agreement should preferably be formalised and approved by a contract, a formal letter from the GEG or an official approval of the Minutes of meetings, to be drafted and sent by the NSI.

4. Adoption of the GEG profile, updating the EGR and use of the ENT/dissemination unit as supplied in national business register for data collection.

To meet objective 4 the results of profiling should be centrally made available to the users. Thus, the information concerning the updated GEG perimeter, and characteristics, the delineated GENs and TENs, their characteristics and their links to Legal Units will be made available to users. During the testing period the result of profiling must therefore be reported in two documents:
   - The profiling report (PR) that gives a full documented\textsuperscript{12} vision on how the profiling was done, on the main points of discussion and on the choices made.
   - The profiling template (PT) that gives the statistical results of the profile.

\textsuperscript{12} The documentation benefits from a short description of the GEG, its production, history, brands etc. which allows to understand what profiling is “on”.
In the future, PR and PT will be integrated in the Interactive Profiling Tool (IPT) and the profiler’s network will complete them directly in the IPT.

To achieve these objectives a profiling process is designed which exists of 4 main steps:
- Desk profiling
- Discussion with the statistical users
- Contact with the GEG
- Cooperation between GDC NSI and partnering NSI’s

Before describing these main steps in more detail (§9) the next paragraphs will first deal with the sources in the profiling process (§5), the selection of the groups to be profiled (§6), the difference between intense and light profiling (§7) and the collaborative process (§8).
5. The main sources for profiling

During the profiling process all sorts of information about the GEG is needed to come to a proposal on its structure in terms of its units, its constituent legal units, its activities and its ability to provide some economic core variables. The main sources which can be useful in the profiling process are:

a. EGR (Euro Groups Register):

This register, used for statistical purposes in Member States, focuses on GEGs operating on the EU+EFTA territory. In order to provide GEG information, Eurostat buys commercial data which will be complemented by data coming from the NSIs. Once all the data is integrated, algorithm and rules for authentic stores are applied. After the consolidation and validation process of the data, the register contains the global structure of the enterprise group. The scope of the EGR will be extended to cover all relevant GEGs acting in Europe.

The following units of a GEG and their characteristics are yet in the EGR:

**Legal units:** identity, demographic characteristics, control and ownership characteristics (mainly financial links from/with natural persons and other legal units), activity code (NACE), number of persons employed. Data on turnover for legal units of GEGs may no longer be available in the EGR. LeU turnover is thus a non-mandatory variable, however NSI can provide it when it is available.

**Enterprises:** identity and demographic characteristics, activity code (NACE), number of persons employed, turnover, institutional sector. The enterprises presently in the EGR are in accordance with national implementations of the Enterprise definition, this may be either in accordance with Council Regulation (EEC) No696/93 or not (yet)

**Enterprise groups:** identity, demographic characteristics, the structure of the group, the global group head, the global decision centre (GDC) and its country, activity code (NACE), consolidated employment and turnover of the group.

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**The EGR is used as a starting point in the desk profiling process to complement the template. This source gives us the first scope of the group in terms of LeU’s by countries, provided with a unique identification number. Profiling results will serve as input for updating the EGR.**

b. Financial annual report

Listed companies have to report several times by year, to their investors and shareholders, the main useful economic and financial figures and information in order to shed light on their activities. A financial statement (or financial report) is a formal record of the financial activities of a business, person or other entity. For a business enterprise, all the relevant financial information presented in a structured manner and in a form easy to understand, is called the financial statements.

---

13 Full Authentic Store; An NSI being a full authentic store means that there are no other possible sources permitted in the EGR. An NSI can be authentic store for resident legal units and/or resident relationships.
Financial statements usually include four basic statements, accompanied by a management discussion and analysis:

1 Statement of Financial Position, also referred to as a balance sheet: reports on a company's assets, liabilities, and ownership equity at a given point in time.

2 Statement of Comprehensive Income, usually split between a Profit and Loss statement ("P&L") or Income Statement, and a Statement of Other Comprehensive Income (OCI). The P&L reports on a company's income, expenses, and profits over a period of time. These include sales and the various expenses incurred during the processing state. The P&L can be presented by main functions (R&D, administration, sales...) or by nature of the expenses (purchases, personal cost, ...).

The OCI statement reports mainly on unrealized gains/losses during the reference period.

3 Statement of Changes in Equity: explains the changes of the company's equity throughout the reporting period

4 Statement of cash flows: reports on a company's cash flow activities, resulting from its operating, investing and financing activities.

For large corporations, these statements are often complex and may include an extensive set of notes to the financial statements and explanation of financial policies and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements.

In case, we can access the Financial Annual Report, this source coming directly from the group is very useful in the desk profiling process. First of all it gives a detailed presentation of the group business and provides useful information to understand the group structure, perimeter and activities. The annual report represents by definition the way the GEG recognises itself.

The main tables and parts of annual financial reports which are important to focus on in the frame of desk profiling process are:

For worldwide (global) perimeter delineation (and for checking the GEG perimeter as available from the EGR):
1. Legal structure of the group (this description gives useful details about the main holdings of the group).
2. Consolidation perimeter (often only main affiliates are published).
3. Table of main affiliates and participations of the parent companies.

For the derivation of the GENs and TENs:
   In the frame of profiling, it’s very important to check that the group produces consolidated P&L by nature and not by function.
   P&L by nature means that profit and losses are reported according to the cost components (purchases, personnel costs, depreciation and so on).
   P&L by function means that expenses are classified according to their role in the determination of net income. Cost of sales, distribution, marketing and administrative expenses are the most current categories described in the "by function" standard. P&L by function is more and more a current approach. More (operating) “activity based”
segments may be distinguished, e.g. in accordance with IFRS8, but this is not necessary. A geographical segmentation is also frequently used. In case the variables from the P&L are by function, it’s not possible to derivate directly National Accounts indicators from them.

Example: P&L by nature (source: Bouygues A/R for reference year 2012)
Example: P&L by function (source: L’Oreal A/R for reference year 2012)

### 4.1. Compared consolidated income statements

<table>
<thead>
<tr>
<th>Notes</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>3</td>
<td>22,462.7</td>
<td>20,343.1</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>-6,587.7</td>
<td>-5,815.5</td>
<td>-5,696.5</td>
</tr>
<tr>
<td>Gross profit</td>
<td>18,875.0</td>
<td>14,543.6</td>
<td>13,799.3</td>
</tr>
<tr>
<td>Research and development</td>
<td>790.5</td>
<td>720.5</td>
<td>664.7</td>
</tr>
<tr>
<td>Advertising and promotion</td>
<td>-6,776.3</td>
<td>-6,291.6</td>
<td>-6,029.1</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>-4,610.9</td>
<td>-4,186.9</td>
<td>-4,048.6</td>
</tr>
<tr>
<td>Operating profit</td>
<td>3</td>
<td>3,697.3</td>
<td>3,292.6</td>
</tr>
<tr>
<td>Other income and expenses</td>
<td>7</td>
<td>123.8</td>
<td>96.3</td>
</tr>
<tr>
<td><strong>Total profit</strong></td>
<td>2,870.4</td>
<td>2,440.9</td>
<td>2,242.0</td>
</tr>
<tr>
<td><strong>attributable to:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>owners of the company</td>
<td></td>
<td>2,867.7</td>
<td>2,438.4</td>
</tr>
<tr>
<td>non-controlling interests</td>
<td></td>
<td>2.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Earnings per share attributable to owners of the company (euros)</td>
<td>10</td>
<td>4.79</td>
<td>4.11</td>
</tr>
<tr>
<td>Diluted earnings per share attributable to owners of the company (euros)</td>
<td>10</td>
<td>4.74</td>
<td>4.08</td>
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<tr>
<td>Earnings per share attributable to owners of the company excluding non-recurring items (euros)</td>
<td>10</td>
<td>4.97</td>
<td>4.36</td>
</tr>
<tr>
<td>Diluted earnings per share attributable to owners of the company excluding non-recurring items (euros)</td>
<td>10</td>
<td>4.91</td>
<td>4.32</td>
</tr>
</tbody>
</table>

2. Notes to the consolidated financial accounts: consolidation norms used currency, definition and details about the segments.

This information is very useful for complementing the Profiling report and also to derivate GENs and TENs and to prepare contacts and a visit to the GEG.

It’s also important to check if there are major or minor intra-flows between the different segments of the group. GEGs do not publish all necessary information but will have it available in their internal information systems. During the contacts and the visits this can be discussed and checked.

c. Business Registers

National business registers which contain the list of national LeUs and their main characteristics (ID code, name, address, number of employees…) are also very useful in the profiling process: they enable to check the details of all the LeUs of the perimeter of the Group to be profiled. NSI of the GDC or partnering countries have both to use this source in order to check and update the information coming from the EGR or from the group itself.

As no single identification code for LeUs exists, it’s important that each NSI tries to find the appropriate National ID code for the LeUs of its national scope in its national business register. The new legal units should be identified according to the LEU_ID number. An identification service will be available (EGR-IS) and search will be allowed for one legal unit or for a list of legal units.
For optimizing the match in the EGR IS it is highly recommended for profilers to provide the maximum of details concerning the legal unit. Name and country code is the minimum set of information to provide. National, BvD or DUNs Ids and town improve the identification into the EGR IS.

If the GEG records an internal ID number, it is highly recommended to include this in the profiling documentation.

d. O-FATS surveys

**Outward Foreign Affiliates Statistics survey** (O-FATS survey) can be very helpful to complement perimeter of the group or to provide consolidated turnover or employment by TENs.

Statistical data and information collected through the O-FATS Survey provide an accurate description and assessment of how GEGs are expanding internationally.

The survey contains data on the resident UCI of the GEG and on the identity of related foreign affiliates as well as information on the mandatory variables:
- Turnover,
- Number of affiliates,
- Number of employees,

Optional variables are (if available):
- Employees expenses,
- Investment,

The data can be displayed by the UCI at the affiliate level (case 1) or when there are too many affiliates at NACE code (2 digits) by country level (case 2), with information of the number of affiliates by box.

In case 1, it provides the outward perimeter of the GEG, which can help to complement or to update the perimeter coming from the EGR.

In case 2, there is often a good consistency between “NACE code per Country” unit and TEN concept (most of the time in these cases, the GEG has used its information by ”operating segments” completed by a NACE code – the basis for the GEN/TEN analysis -, to answer to the O-FATS survey, which means that the GEG has worked in line with the GEN and TEN proposals), it’s possible to use consolidated figures coming from OFATS (employment and turnover) to complement the Template.

In case 2, we do not have the detailed outward perimeter of the GEG but it is possible to compare the outward number of affiliates in the EGR and the outward number of affiliates in O-FATS to assess the gap between these two sources. When these figures differ strongly, it is possible to focus on the affiliate’s number by country to identify more precisely where it is important to complement our perimeter.

Note: The FATS regulation refers to the UCI concept and not to GDC as we do in Manual European profiling methodology (see page 33).

e. SBS surveys

Structural Business Statistics (SBS) surveys can also provide useful economic figures about the LeUs of the perimeter of the GEG. Non-consolidated data coming from this national source can be used when there is no way to get consolidated figures by TENs. They can also be helpful to
check the relevance of consolidated figures by TEN for partnering countries. By instance, it can help to identify permanent establishment in case the cumulated turnover or employment of all the legal units of a TEN is inferior to the consolidated figures provided by the group or OFATS on the same scope.

f. Results of other surveys

In some countries other sources (surveys or administrative sources) from the NSI or other institution can help to delineate the perimeter of the GEG, to get consolidated figures or additional information about the GEGs.
6. Selection of the groups to be profiled

The groups to be profiled should be the ones which impact the most the national statistics because of their global organisation.

Eurostat proposes a segmentation of the EGR GEGs’ population into 3 categories:
- Large GEGs for intensive manual European profiling
- Medium GEGs for light manual European profiling
- Small GEGs that preferably (for reasons of cost efficiency) should be automatically profiled.

Three main criteria can be taken into account to delineate these 3 categories:
- the size of the group (global employment, number of subsidiaries, size of the group in the EU)
- its complexity in terms of number of performed activities (number of operating segments)
- the geographical scope of the group (part of the EU employment outside the country of the GDC and number of EU countries where the GEG is acting)

Two of these criteria (the size and the scope) are subjective and depend on the size of the country where the group has its GDC. Indeed, a GEG of 3,000 employees will be considered as a large GEG in a small country where it will have a big impact on national statistics and as a small GEG in a large country where its impact on statistics will be less significant.

The detailed criteria of the segmentation are exposed in the WPB report § 20 (see ref. 1).

The following graphs show that the criteria allow delineating 3 sub-populations with differentiated characteristics.

Only the GEGs that are in the top sub-population deserve intensive profiling.

The NSIs will select the cases where the Group Decision Centre (GDC) is present in their country.

The treatment of non EU-GEGs differs from profiling EU-EFTA GEGs since the global decision centres (GDC) of these groups are not located in EU-EFTA countries. This specific paragraph addresses the main issues on non-EU groups: What groups to choose and who should be in charge of conducting these profiling cases?
What are the non EU-GEGs to be profiled in a coordinated way?
Looking at the EGR 2012 Eurostat identified a list of 202 Non-EU groups. The list is available in an Excel file available in the following folder: CIRCABC > BRnet > Library > ESBRs > Grants 2014 > Topic 3 to 7 (Profiling related). These groups are active in 16 European countries on average; 138 have their GDC in the United States and 27 in Japan. It is expected that the largest of these groups are profiled manually as part of individual grants financed by Eurostat.

Who should be the leader NSI and be in charge of filling in the templates?
The proposed ESSnet and Eurostat rule is that the lead NSI depends on the organisation of the GEGs. Some GEGs have European headquarters located in Europe from where they are managing European activities (European centralised organisation). Some other GEGs managed all activities from the global decision centre of the GEG (European decentralised organisation). For the larger Non EU GEG, there are mixed situations according the operating activities performed. Some GENs can be centralised in Europe (with a specific European headquarters) and other decentralised (managed directly from the GDC of the GEG). According to the organisation of the GEG, the GDC NSI may be different:

1. If there is a European Headquarter for the GEG or for the GEN, the NSI country should be the one where the European headquarter of the GEG or of the GEN is located. It may happen for very complex GEGs that European headquarters for each operating segments of the GEG are located in different countries. In this case, a pool of lead NSIs may be involved.
2. The GEG has no headquarter in Europe (decentralised). In this case the main profiler NSI could be the country NSI with highest employee number in Europe.

Note: Applying this rule might mean that only a very restricted number of countries could be eligible for profiling non-EU groups. Based on the Eurostat analysis the main eligible countries would be UK, DE, FR and NL. Other criteria to nominate the main profiler may be in place therefore, for the sake of practicability, this is left open for the NSI’s involved to choose.
Eurostat had a first look at the largest Non-EU GEGs to identify when headquarter of the GEG exists, making use of information from website and annual reports. See Excel file available in the following folder: CIRCABC > BRnet > Library > ESBRs > Grants 2014 > Topic 3 to 7 (Profiling related).

Note: Profilers have to collect information worldwide so that it will allow getting the whole picture of the GEG/GENs and TENs. However, if this information is not available, better focus on EU-EFTA country TENs.

INSEE experience
Generally non EU GEGs which belong to the list defined by Eurostat are large and complex GEGs. Most of them are listed and it is possible to access information in their annual report or on their corporate website.
For the GEGs which are US GAAP compliant, one can find in the annual report the same kind of information than for groups IFRS compliant: main economic variables at GEG level, list of segments, basic variables at segment level and consolidated main affiliates. So the desk part of the work is unchanged.
INSEE experience of treating non EU GEGs reveals that it is possible to treat such cases at national level but that it is difficult to achieve manual European profiling sticking to the same process than the one defined for EU-EFTA GEGs.
From GE (General Electric) and Mc Donald's profiling experience, European headquarter does not play the same role than a GEG GDC and cannot provide data at GEG/GEN/TEN level.
These European Headquarters host operational and strategic functions but not financial/reporting Department for Europe. Financial/reporting Department remain centralized at GEG GDC. The implication is that EU EFTA NSIs can only collect data for their national level and not for the EU part of the GEG for confidentiality reasons. Both national contacts at GE and Mc Donald's have suggested to analyse the GEG with the collaboration of some NSIs located in EU-EFTA countries where the GEG has the main affiliates. Thus, the manual European profiling process should be less centralised: instead of a unilateral first proposal by GDC NSI, it is suggested to set a pool proposal. A pool proposal means that the first proposal should be a pool agreement. All pool's NSIs should participate in desk analysis, national visits in the main countries, GEG delineation and GENs/TENs definition.

Roles and responsibilities should be defined between the pool's NSIs: Who should fill the PT/PR? Who should send the pool proposal to the partnering NSIs? Who should finalize the PT/PR?

**ONS experience**

The challenge of profiling non EU GEGs for the first time in 2014/15 began with problems trying to recruit GEGs to participate in the project (see para 3). Once the three non EU GEGs were on board with the project, visits were arranged with two GEGs but these did not take place until August 2015. This meant that profilers had a maximum of 6-8 weeks to complete the profile and send to partnering countries (deadline 30 Sept 2015).

A visit could not be arranged with the third non EU GEG (Gazprom) and it was necessary to complete the profile as a light case. As previously described light profiling can be a difficult process unless the structure is straightforward and for Gazprom there was a considerable EGR perimeter of almost 700 LeUs and eight GENs delineated. There was a reasonable amount of administrative data available to assist in the completion of the profile template and report but could not replicate the level of data usually made available after a profiling visit.

The experiences of profiling the other two GEGs were very different. For Tata Steel the process was as good an experience as of any of the intensive profiles completed. This was due to the cooperation of the GEG contact and the availability of a full perimeter plus employment and turnover variables for all EU member states. With EU level consolidation taking place and complied by a UK based legal unit there was an excellent amount of data available for profiling which Tata Steel was happy to supply for profiling purposes. The experience of profiling Caterpillar Inc. was very different as whilst we received good cooperation from the GEG no EU or UK consolidation takes place. All consolidation takes place at the GEG level and is carried out in the US.

There are a number of lessons to be learned for future non EU profiling. The recruitment and selection process for non EU GEGs needs to allow additional time as gaining agreement to profile from the GEG was considerably more difficult, with non EU. In the cases of Caterpillar and Gazprom there was an increased amount of desk research required due to the limited amount of data available and in the case of Caterpillar a large number of subsidiaries in the UK. Investigation of the annual accounts also took longer than usual due to using non IFRS standard accounts (US GAAP etc.).

To conclude, the experience of non EU profiling is mixed. There were some positives and also some negatives. Profiling a non EU case is achievable but for the future more time is needed to recruit these GEGs and it would be advisable to work closely with the other NSI’s where the GEG has a large presence to be able to complete profiling more effectively.
Guidance on how to treat Domestic Enterprise Groups [ref 7]

This box provides some guidance on manually profiling another group of large and complex Enterprise Groups, the so called “Domestic Enterprise Groups (DEGs)”. These are Enterprise groups which consist of only domestic Legal Units (all economic activity is carried out within a national boundary) also called “All Resident” Enterprise Groups. This paragraph aims to aid those NSIs who would like to apply the current methodology for profiling large and complex “Global Enterprises Groups” (GEGs) that is promoted now at EU level on DEGs. See also ref [7].

Selection of cases, prioritisation and organisational set up

For the EU profiling initiative, Eurostat has defined a selection of top 600 GEGs that are candidates for manual profiling based on their significance to EU statistics. The criteria used for the selection are detailed in a paper presented by Eurostat at the Wiesbaden Group Meeting September 2014 Vienna (D. Francoz; Automatic profiling of small groups in the EGR and compilation of national statistics based on enterprises). For the National profiling initiative, NSIs have to define a selection of Enterprise Groups carrying out activities in their country to be profiled manually. The Business Registers Recommendation Manual 2010 Edition provides some guidance on how criteria and thresholds could be applied to select profiling cases (see Sections 19.13 to 19.15 and 19.18). As stated in the manual no common thresholds or criteria could apply to all NSIs. This is mainly due to the differing situations, priorities and national requirements within NSIs. To the extent possible however and for efficiency reasons it is suggested that NSIs could define the population of Enterprise Groups to be profiled manually taking into consideration both the relevance for EU and national results.

Delineation of Enterprises

Experience from the EU profiling initiatives can conclude that the method for delineating the Enterprise for DEGs should be the same as the one applied to profile a GEG. This is, analysing the group from a “Top Down” view in order to fully understand the legal and organisational view of the Enterprise Group. When the group is listed, the starting point should be the analysis of Annual Reports. The Enterprises should be delineated in line with the Enterprise Groups’ organisational financial reporting which is autonomous in terms of the production of goods and services. The same as for the EU profiling methodology, these Enterprises need to be suitable for the collection of data for the internal users of data (statistical results areas such as SBS, STS, Prodcom etc.). The sources of data will be similar as those of the European Profiling Initiative, with the exception of the EGR. The EGR only contains groups where there are legal units in more than one country. Therefore the EGR cannot be used as a source of data for profiling DEGs.

Potential Challenges When Profiling Domestic Enterprise Groups

As explained above, some aspects of the manual process that is tested to EU profiling could be applied to Domestic Enterprise Groups. However, there are challenges to be faced.

1. Data Availability

For EU profiling, a great deal of emphasis is placed on the information contained in Consolidated Financial Statements within Annual Reports (For example, the International Financial Reporting Standards (IFRS)). However, as only those groups which are listed on Public Stock Exchanges are required to apply these standards, then it is likely that for some DEGs, IFRS will not apply and operational segments will not be listed in Annual Reports or Consolidated Financial Statements.

2. Inconsistencies between data sources

Annual reports and financial statements for the largest Global Enterprise Groups are now produced based on IFRS standards. However, at a national level, they may be produced based
on national standards known as GAAP2, Generally Accepted Accounting Principles. The IFRS standards have proved very useful for profiling as the data published under these standards aligns with the information that is required to be collected for profiling. However GAAP standards differ and therefore if profiling a DEG which applies GAAP accounts, there may not be sufficient information available to help define segments and collect the appropriate data. More desk work and collaboration with the respondents maybe required.

3. Burden for Profilers

In the existing European Profiling Programme, only three basic economic variables are collected from the GEGs (namely Employment, Turnover and NACE). For some NSIs, all the data variables required for National Accounts purposes is currently sourced through administrative sources at a Legal Unit level. To meet national data requirements, a wider range of variables may need to be collected at Enterprise level. Therefore if the role of a NSI’s profiling team will cover the collection of data for the largest and complex of groups (as applied through the Account management approach of INSEE and CBS) then the data collection burden will be placed on the profiling teams.

For both Domestic and Global Enterprise Groups the aim of profiling is the same; to maintain the correct structure for the collection of statistical data for the most important Enterprise Groups. For both domestic and global groups, the profilers are responsible for the delineation of Enterprise, maintaining and correcting all the relevant administrative and Statistical Units on National Business Registers.
7. Intensive vs. light profiling

When profiling GEGs, a distinction can be made regarding their intensities, from “Intensive” to “Light” profiling. Intensive and light profiling do not differ in terms of results, but in terms of routine/procedure. A minimum set of information still needs to be made available: delineation of GENs and TENs in terms of legal units, GENs and TENs economic information (employment, turnover and NACE). The distinction mainly depends on the type of contact established with the GEG, including visits or other direct contact with the GEG. In addition another determining factor can be how much the partnering countries have been involved in the derivation of the GENs and TENs.

- In “intensive” profiling the group should be fully involved in negotiation of the GEN or TEN structures. Plus there may be situations were feedback from the NSIs of the profiling country and the GEG may differ and therefore they may need the opportunity to “negotiate” the statistical unit’s structure.

- In “light” profiling the GENs will be derived purely as a result of desk research. Experience confirms that it is very rare that published information is sufficient for providing all necessary information required for profiling; thus data coming from other sources is required\(^\text{14}\).

**O-FATS** data could be in a lot of cases used as a helpful source however it’s not a mandatory requirement. O-FATS can help to determine the GENs, including eventually further use of its statistical results (e.g. on employment or turnover). However, it must be noted that some contact with the group will be required in order to verify or confirm the proposed GENs and TENs.

There are small to medium size GEGs which carry out activities through a limited number of affiliates or/and in a limited number of countries. For these GEGs, it is sometimes possible to find out all necessary information to achieve successfully a “Light profiling” case in the Annual report. It should be stressed that the light profiling method should only be applied to the smallest or simplest GEGs defined in the TOP target of Eurostat.

Light profiling does not require the TENs and the GENs to be confirmed by the partnering countries to the same extent. Partnering countries will be informed with the possibility to comment but this will be more a passive comment than active involvement as requested for “Intensive” profile.

In the case that a GEG is selected for intensive profiling, it is possible that the profiling cannot fully be finished, e.g. because of lack of cooperation by the GEG. These cases can be classified as “Incomplete Intensive Profiled” ones. The results can be considered as similar to light profiling, although undesired.

The following diagrams/schemes show the differences between light and intensive profiling.

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\(^{14}\) See also deliverable A3.5 of the ESSnet ESBRs WP3- Report on the Development of a light survey for profiling.
**Intensive profiling:**

<table>
<thead>
<tr>
<th>1st step</th>
<th>2nd step</th>
<th>3rd step</th>
<th>4th step</th>
<th>5th step</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who?</td>
<td>NSI-UCI</td>
<td>NSI-UCI</td>
<td>NSI-UCI</td>
<td>NSI-UCI</td>
</tr>
<tr>
<td>What?</td>
<td>investigates the GEG and its UCI</td>
<td>derives and classifies the GENs and TENs</td>
<td>derives and classifies the GENs and TENs</td>
<td>confirms the proposed TENs / counter proposes TENs</td>
</tr>
<tr>
<td>How?</td>
<td>based on desk work</td>
<td>based on desk work</td>
<td>based on direct contacts</td>
<td>based on desk work and/or direct contacts</td>
</tr>
<tr>
<td>Outcome?</td>
<td>the basic understanding of the GEG</td>
<td>a top down GEN – TEN profile in terms of legal units</td>
<td>a GEN – TEN profile agreed by the NSI-UCI and GEG</td>
<td>a GEN – TEN profile agreed by the partnering NSIs and the NSI-UCI</td>
</tr>
</tbody>
</table>

Note; where UCI is written in the figure read GDC

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**Light profiling:**

<table>
<thead>
<tr>
<th>1st step</th>
<th>2nd step</th>
<th>(3rd step)</th>
<th>(4th step)</th>
<th>5th step</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who?</td>
<td>NSI-UCI</td>
<td>NSI-UCI</td>
<td>NSI-UCI &amp; GEG</td>
<td>NSI-UCI</td>
</tr>
<tr>
<td>What?</td>
<td>investigates the GEG and its UCI</td>
<td>derives and classifies the GENs and TENs</td>
<td>derives and classifies the GENs and TENs</td>
<td>ensures that all parties agree on the GEN – TEN profile; delivers the profile to the EGR</td>
</tr>
<tr>
<td>How?</td>
<td>based on desk work</td>
<td>based on desk work</td>
<td>based on direct contacts</td>
<td>based on desk work and/or direct contacts</td>
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<td>Outcome?</td>
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<td>a GEN – TEN profile agreed by the partnering NSIs and the NSI-UCI</td>
</tr>
</tbody>
</table>

Note; where UCI is written in the figure read GDC

The criteria presented in §6. (Selection of the groups to be profiled) allow selecting GEGs for intensive or light profiling.
In addition some practical criteria should apply to assess if a group is suitable for light or intensive profiling. In particular, light profiling requires a higher availability of public data than intensive profiling, where an additional part of the information can be provided by the GEG itself. Experience from profiling tests suggests that light profiling cases are medium GEGs which have generally only one operating segment. In case, not all necessary information for profiling is available in public sources, NSIs could carry out a light survey to complement information (Deliverable "Report on the Development of a Survey of Light Profiling").

Before starting to lightly profile a GEG, the GDC profiler should check the availability of the information for populating all the mandatory variables for profiling (GEN/TEN definition and delineation in terms of legal units, NACE code, T/O and employees number for both GENs and TENs).

In case, it is not possible to find out all these mandatory variables, light profiling cannot be achieved.

To find out the information on the variables, profilers can refer to

- **Consolidated annual accounts**
  - ✓ With segment information by activity or only by geographical zone (or by countries)
  - ✓ With the delineation of segments in terms of legal units

- **O-FATS data**
  - ✓ That allows to delineate the GEG perimeter (when outward list of affiliates is provided)
  - ✓ That allows to delineate the GENs and TENs (when NACE2 per country close to TEN concept)
  - ✓ That allows to derive economic information on GEN (and TEN)

- **Or all other internal sources which could provide these information**
  - ✓ Private data base
  - ✓ …

Does this mean that NSI’s who do not have an OFATS survey or have no access to this data, cannot select a light profiling case? And that subsequently they will all be intensive?

The answer is no. O-FATS is a very useful source for light cases but to start a light profile O-FATS is not mandatory. The NSI undertaking profiling needs 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 O-FATS data.

If the mandatory information cannot be completed, the GDC profiler may take the decision to contact the GEG to complete the profiling. In that case, it will become an intensively profiled GEG.

At the opposite, if a profiling has been started as intensive but the GEG does not accept to collaborate, it **cannot automatically** become a light profile. In order to transform it into a light profiled GEG, the mandatory information needs to be available.
8. Manual European profiling – A Collaborative Process with NSIs, Users and GEGs

Communication with Statistical Users, other NSIs and GEG’s are all vital parts of the process required to succeed in carrying out an international profile.

Manual European profiling is not a solo activity of one country as results can affect statistics of all countries in which a GEG operates. Therefore two categories of countries must be distinguished:

1. The country that is responsible for the first profile proposal. This is the country of residence of the Global Decision Centre of the GEG. This country has the lead to come to the desired results. The country of the GDC is indicated in the EGR, which provides the initial information for manual European profiling. The GDC profilers should analyse all sources available on the GEG especially and in particular the Annual Report. This allows the profiler to get an overview of the GEG structure, to understand business model, to get information about the consolidated perimeter and to understand the description of the operating segments including corresponding data for each segment.

If the profiling case is an Intensive one, then the GDC profiler should request for visit (either via letter or by telephoning an official in the group). When visiting the group, the GDC profiler should explain the process in the simplest way possible, including discussing the interactions needed with the other countries. The GDC profiler will need to ask the Group to explain the organisation of the GEG and consolidating process (centralized or with sub level consolidation), business model and all relevant information in order to fully understand the GEG.

Using all the available sources of information including discussions with the GEG and statistical users within the NSIs (SBS, STS Prodcom etc.) the GDC profiler should propose a first delineation of the Global Enterprises (GENs) in LEU’s. All information collected needs to be accurately and clearly documented on the Profiling Template and Reports. This information will need to be passed via E damis to all the partnering NSIs.

2. The “partnering” countries are the non-GDC-countries in which the GEG carries out activities. These countries have the task to confirm the proposals of the GDC-country according a defined confirmation process. This confirmation process includes checking, commenting and approving. If not approving, the partnering countries are asked to make counter-proposals. The partnering NSIs will need to review the proposals received from the GDC NSIs to ensure that the Enterprise structure proposed is also suitable to their National needs and ensure that the GEG is able to provide data based on this structure. If there are differences between the Enterprise structure required nationally and that proposed at a global level, then the profiler will need to explain the reasons for the difference but still aim to have consistent Enterprises. In some cases, the partnering NSI will require to contact the GEG to discuss the proposed TEN structures or to validate some data. The partnering NSIS will then need to fully document their results on the Profiling Template and Report and feed this back to the Lead GDC NSI.

The GEG itself also needs to be considered an important partner in the profiling process. Good intensive profiling will fail without the cooperation of the GEG. In light profiling, in which there is less involvement during the profiling process, cooperation is needed in the stage of data collection when applicable, for statistics afterwards. In intensive profiling cooperation is essential in the delineation of the units’ structure already. Profilers should create optimal
conditions for co-operation. In § 9.3 “Direct contact with the group”, this subject will be addressed in more detail.

It is the aim to have an agreement between all involved parties (countries, users and GEG) on the unit’s structure of the GEG. This will lie at the basis for consistent national business statistics, which will then be internationally comparable.

**A close cooperation between partners is one of the key factors of success for the profiling.** This implies to speak the same language, to avoid sources of misunderstanding and to clarify potential unavoidable inconsistencies. It also requires defining rules on how to run the process.

The partnership does not exclusively mean that statisticians accept directly the assessment of the GEG, but that they try to create the conditions for eventual negotiations if the first state of proposal does not satisfy the comparability and consistency requirements.

The next chapter will also provide more detail about when and how to communicate with all these stakeholders.
9. The detailed process

The following section details more specific guidelines for internationally profiling large GEGs. The objectives of profiling described in § 4 are here considered according to the dimension: **Desk profiling, Discussion with the statistical users, Contact with the group and Cooperation between GDC NSI and partnering NSI’s**, finally resulting in the **Conclusion of the profiling process**.

The following remarks on these steps can be made:
- Both GDC and partnering NSIs have to go through these steps (according to the intensity of profiling defined in § 7).
- Every profile starts with a Desk profile.
- The order of the steps to follow is not per se a sequential scheme. This depends on the specific situation regarding the GEG and each case may have its own priority.
  - for groups that are internationally highly integrated => multi-NSIs teams first;
  - for specific business model of the GEG => statistics compilers first;
  - when perimeter is pregnant => agreement with GEG first
  - other cases are possible
- Some of the steps described in the paragraph can be undertaken in parallel.

The next timetable gives a schematic overview of these steps and how they may take place along the year (indicative). The timetable is only indicative. It may differ from what has happened in the testing phases under the Eurostat individual grants. One important moment of the profiling process is the release of the GEG’s annual report. It mostly takes place in March-April for the GEGs that end their fiscal year in December. Actions that don’t require the annual report can start before that time.

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End of the yearly process
9.1. Desk profiling

9.1.1. Checking the GDC

The first task in profiling is achieved at the desk and requires identification of the GEG to profile. The criteria to be applied have been defined in §6.

The second step is the confirmation of the GDC. It is very important information since it will allocate the responsibility of manual European profiling to an NSI. The GDC is supposed to be defined by the EGR. In the most cases, the GDC corresponds to the highest level of consolidation (global group head). But it also can be another institutional unit. According to the Business Registers Recommendations manual (2010), p 53, the country of GDC is defined as follows:

*Purpose:* To allocate the enterprise group to the country where decisions on its global strategy are actually taken. Foreign affiliate statistics use the resident country of the ultimate controlling institutional unit (see FATS Regulation 716/2007), which is equivalent to the country of Global Decision Centre. To use the GDC in a consistent way in various statistics related to economic globalization would ensure their coherent production.

*Definition:* Country where the strategic decisions referring to an enterprise group are taken.

*Proxies:* In most of the cases the GDC equals to the Global Group Head (GGH), the decisions referring to the group are taken by the group head. In these cases the country of GDC is the country where the GGH is located. In special cases the GGH is not able to act as a decision center for the whole group. Units without substantial physical presence, significant economic activities, employment are not able to been engaged in decisions. In these cases the GDC should be appointed at the next level downwards in the enterprise group tree structure where the global decisions of the enterprise group are taken (for description of special cases and recommendations see 21.59 in Chapter 21).

*Sources:* Administrative and commercial sources; statistical surveys. The EuroGroups register provides standardized information on the decision center of GEGs covered.

*Comments:* The country where the decision-making center is located is often referred to as the ‘nationality of the group’, although nationality can be understood in other ways, for instance to refer to the nationality of the owner. The roles of the group head and decision center may vary a great deal. This cannot be taken into account in an operational rule, but can be proved in profiling. To gain further knowledge about how the group operates the group could be further analyzed. Factors to be considered include where the main production activity is located, where value added is created, and where research and development, which defines the future strategy of the group takes place.

The profilers should check whether the GDC in the EGR corresponds to their own perception. For the GDC determination, apply the “Recommendations Manual - Definition of GDC in the Euro Groups Register” and the “EGR Guidelines on GDC” documents also to test the applicability of the principles established in the EGR. In practical terms it is suggested to try and find the GDC first and foremost on the website of the GEG (in other words try to find the legal unit preparing the consolidated financial statements) and then to confirm these findings with the EGR.
Practical experience in profiling:
For most groups, GGH and GDC is the same unit which concretely means that the main strategic decisions of the group are taken at the parent company which also gathers the main operational departments of the group (Financial, Legal, Human Resources, Operations...). However, it can happen that GGH and GDC are different units. They can be also located in different countries. In more complex GEGs, GDC can also correspond to many units (the legal department can be hosted in one legal unit and the financial department in another unit).

What matters in profiling is not the country of the GGH, which is in some cases only a pure holding which holds the equities of the GEG, but the country of the GDC. More practically, GDC is in the majority of the cases the place where the financial department (consolidation & reporting) is located, the reason why it determines which country will be the “lead NSI”.

When profiling, in the desk phase, it is part of the work to identify GGH and GDC and to find out where the Financial Department (and most especially “consolidation & reporting” unit) is located.

This information can be found in the annual report or on the corporate website of GEG but also by making searches on internet by entering on Google “name of the group + consolidation” or “name of the group + financial department”.

Note; It should be underlined that as part of the work on the EGR (WP3 - Block 1) of the ESSnet on ESBRs the ESSnet partners have identified a need to clarify the GDC and UCI concepts because there appeared conflicting sentences in the Eurostat manuals which are misleading in the EGR context and beyond. One of the consequences is that while the GDC concept is actually implemented in the EGR 2.0 version, several documents refer to it as the UCI, assuming wrongly that UCI and GDC are exact similar concepts whereas there are actually some differences.

It’s important to identify and distinguish different kinds of “relevant” legal units in the group that have different roles — Global Group Head, Ultimate Controlling Unit, Global Decision Centre:

<table>
<thead>
<tr>
<th>Global Group Head (GGH) is the unit on the top of the control chain of the group (source: Glossary of the BR Recommendations Manual). This definition has an administrative aspect and is defined by the legal structure of the enterprise groups.</th>
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<tr>
<td>Global Decision Centre (GDC) of an enterprise group is the unit where for the enterprise group level strategic decisions are taken (source: Glossary of the BR Recommendations Manual).</td>
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<tr>
<td>Ultimate Controlling Institutional unit (UCI) is defined in the FATS Regulation. The UCI is an institutional unit, proceeding up a foreign affiliate’s chain of control, which is not controlled by another institutional unit (source: FATS Regulation, Article 2 (h)).</td>
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The concept of control applied in EGR is equal to the concept of FATS statistics. Enterprises group structures are built by using control relationship (more than 50% of ownership) between two legal units. Indirect control relationships and minority ownership relations (more than 10% of ownership) are registered as well. Enterprise groups are compiled by subsidiary – linked with direct or indirect control relationship.

In a few cases, it is difficult to attribute the GDC to a single country (for example when the GEG is equally owned by two legal units in different countries with dual control of the group i.e. Joint Ventures). In these cases, the two NSIs of the two countries involved in the management of the group may consider to undertake the profiling jointly though this is not necessarily. From an accounting point view there can be 2 cases:
- If IFRS is used, the JV will be equity-accounted, meaning the JV will not be consolidated into any statements of those entities which control it jointly;
- If other standards are used, the most common is for every controlling entity to partially consolidate (only those parts which according to the JV agreement belong to it) → the JV will be split into the consolidated statements of those groups which control it → every NSI profiling the GEG which has a part of the JV in it, will report on that part only.

Either way, closer than usual communication of the involved NSIs on such a case is necessary!

If it appears that the GDC is in another country than indicated and firstly assigned, then the GEG should be handed over for profiling to the NSI of the current GDC country.

There are two cases:
- You are the country of the former GDC: you can directly propose a change of the GDC, via the EGR staff in your country
- You are the country of the current GDC: you cannot propose a change of the GDC. In that case, you can contact the other GDC country, negotiate the change of the GDC and ask them to make the change. If you don’t find an agreement with the other GDC country, you need to contact Eurostat central EGR who will proceed to the change after discussing with the former GDC country.

The profiling can start only when the appropriate GDC has been agreed between all the partners (former GDC country, current GDC country and Eurostat). The access to a GEG in the IPT will be conditioned to rights that will be different for the GDC and the partnering countries. So it is important that the appropriate GDC is introduced in the EGR.

9.1.2. Analysing the available consolidated information on the GEG

After defining the GDC, which determines the responsibility for the profiling of the GEG, the GDC country prepares the Desk profiling by first collecting information on the legal structure of the GEG by using the EGR data (see §5). The EGR gives the first scope of the group in terms of legal units and the countries in which the group operates. At this stage the Profiling Report and Profiling Template can be populated with the EGR data and variables

15. In order to obtain the most up to date legal perimeter the information coming from the EGR has to be checked and updated using the national Business Register as a source. The next step in desk profiling will be collecting and analysing the information available on the GEG.

The data to be collected at this stage concerns first and foremost the detailed economic description of the GEG, i.e. its breakdown in one or several GENs and then the breakdown of these GENs in TENs which are purely the national parts of these GENs.

For each large and complex GEG we need a global description of the worldwide activities but the priority is to get the best description of these activities in EU-EFTA countries and more especially in the countries of the ESSnet Profiling members, during the testing period.

When the group is listed, part of this information is disseminated in the financial report, but when possible, it is better to interview directly the group asking if its segments can be easily used for European profiling or not (see § 9.3 Direct contact with the group).

Analysis should be carried out focusing on the relationship between the legal structure and the operational structure. If these are not clear, then priority should be given to the operational structure. The operational structure shows the processes of a company as these actually are carried out and the legal structure focuses on the legal units and their ranking within the GEG. The legal structure represents the formal organisational structure with a national decomposition

15 On how to fill out the Profiling Template a reference is made to a separate document: “Guidelines to manual European profiling – Completion of Profiling template”.
according national legislations. The relationship between the operational structure and the legal structure can vary from very strong to very weak.

After this analysis firstly collection of information that is already available at the NSI (from business registers, private sourced data or survey data) should be carried out.

Annual Reports will be investigated to identify the legal and organisational structure of the group. Preference should be given to those businesses that are using International Financial Reporting Standards (IFRS) with Operational segments (by activity), i.e. IFRS 8.

GEGs which do not use IFRS could be profiled as well. For those referring to US GAAP (Generally Accepted Accountancy Principles), there is also a description of the main segments used to present the financial information. Moreover, there is a trend for convergence between IFRS and US GAAP which is useful for profiling since concepts and methods tend to be closer.

If a GEG is neither IFRS nor US GAAP compliant, it remains possible to carry out a profile. Profilers have to indicate which is the accounting standard used by the GEG to display its financial accounts and to find out clear definitions of the requested variables for profiling in the sources used. In case of intensive profiling, it is important to ask these questions during the visit. The most important aspect is to define and explain the concept of the variables we want to collect to understand what we collect. If the reporting standards used show major inconsistencies with IFRS, having clear definition should help to treat it. In such cases, investigating the activities of (combinations of) legal units and then creating GEN and TENs will be a more difficult task to complete.

Thus for GEGs that are non IFRS compliant profiling is possible but there is a need for clear definitions (from the profilers on what is wanted and from the GEG on what is provided);

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. Steps that can be undertaken when no IFRS is present are described in the next paragraph 9.1.3.

Though the availability of IFRS is preferred, it should be stated that the description of the GEG segments (IFRS 8) is (just) a starting point in the process of profiling. Negotiation with the GEG and users (such as SBS, STS, N/A, FATS…) is also as important in the GEN delineation.

Summarizing, data sources to be used in this step (see also the previous chapter 5):

- Information from the EGR to define the perimeter of the group and to have first data on legal units and “national enterprises” as these are used within the NSIs.
- The registry available on the website of ESMA (http://www.esma.europa.eu/page/oams) with links to MS level databases on financial information submitted by publicly traded companies within the EU.
- Financial reports of the GEG and annual accounts especially. Depending on the used accounting system used (e.g. IFRS, US GAAP, another national GAAP), more or less information on the operational structure and the related available data can be found.
- Information from the national Business Register and from SBS and FATS surveys.
- Institutional information from the group on their website.
- Wikipedia, although this is not to be considered as a formal official source. All information from this source has to be checked with a formal source. Still this source can give indication on important information.
- US SEC EDGAR database
- JP FSA EDINET database
- CROS Portal AdminData ESSnet Deliverable 1.2 Excel file

The result of this step 1 is a good preparation of the profiling activities: the initial perimeter of the group, a list of belonging legal units and collected available information from relevant sources. At this stage the first part of the profiling report can be completed.

High level overview of the desk work:

![Diagram showing desk work steps]

**9.1.3. Derive and classify the GENs and TENs; first proposal**

This action consists firstly in defining the GENs according to a top down approach and by attributing them an activity code (NACE code), and then to delineate them in terms of legal units. The TENs can be derived from the allocation of the GENs by country where they are active. This is a first proposal. In case of intensive profiling, this action will be performed firstly at the desk and secondly by contacting the statistical users and the group.

*It is important to stress that while the Enterprise is a unit for provision of statistics to Eurostat, the GEN does not have yet a direct counterpart in current regulations. Thus at the national level, profiling implies to define a coherent set of national parts of these GENs for use in data collection by national statistical institutes.*

The data to be collected here concern first and foremost the detailed economic description of the GEG, i.e. its breakdown in one or several GENs and then the breakdown of these GENs in TENs which are purely the national parts of these GENs.

Firstly, using the Company Consolidated Annual Accounts, it should be identified and noted if the business uses IFRS and preferably is IFRS 8 compliant (where the GEG lists, describes its Segments (by activity or geographical zone) and provides some financial information for these segments). A note of their activities should be listed and if available a note of all the countries in which the GEG operates. Also a search in the annual report should be done to identify all the financial data variables that are available at the Group or segmental level, with geographical specifications (European or countries). If Intra group flows are listed then these should also be noted in the profiling report.
Box 2: IFRS and annual reports

The IFRS 8 introduces the concept of group operational segments or divisions of the group annual reports. These segments of a global group often have some elements of homogeneity relative to NACE, which is not a criterion in the definition of the enterprise. The segments may cross national boundaries. The core IFRS principle is “disclosing information to enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the groups are engaged and the economic environments in which they operates” (Core principle of IFRS 8 - International Accounting Standards Committee Foundation IASCF).

An operating segment is defined as: “A component of an entity:
- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- Whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance,
- For which discrete financial information is available (IASCF paragraph 5).”

The use of these standards is compulsory only for listed companies (stock or bond-traded). The main limits are about the relevance for the disclosure of the operating segments that are strictly linked to quantitative thresholds.

Global operating segments are not statistical units but may be a good basis or starting point in delineating the statistical units for profiling. They have limitations in that they provide often consolidated data that may cross national boundaries because intra-group flows are suppressed. Consolidated data will not be sufficient for (national) statistical purposes. IFRS 8 stipulates that the figures presented for the reportable operating segments have to be valued in the way in which the Chief Operating Decision Maker (CODM) reviews them (i.e. to allow investors to see the situation “as through the eyes of management”) This will lead to situations in which the data presented for the segments is in fact not consolidated at all (if that is the way the CODM wanted them, for instance). If this is the case, the standard requires that a “reconciliation” between the non-consolidated segment information and the consolidated figures of the financial statements is done, which means that the differences between the consolidated and non-consolidated figures have to be listed in detail. Altogether this means that there may be a need for more information coming from the accounting information systems, such as information on intra-group flows.” In practice, it will be necessary to go further than the desk approach by organising visits or other contacts with groups.

Other relevant standards

IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, outlines how to account for non-current assets held for sale (or for distribution to owners). In general, assets (or disposal groups) held for sale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position. Specific disclosures are also required for discontinued operations and disposals of non-current assets.

IFRS 5 was issued in March 2004 and applies to annual periods beginning on or January 2005. Profilers should have a look to IFRS 5 during their desk work since discontinued operations provide a clue of GENs/TENs which won’t be any more part of the GEG. The group sets them apart of the perimeter and consolidated accounts. Thus, this standard could be important in anticipating main changes concerning the GEG and to give inputs to decide how to treat the profile later on when a follow-up profile is conducted. However, it should be noted, that the
(expected) loss of control over a subsidiary might imply it being classified as a discontinued operation and not the other way around.


IFRS and IAS – Consolidation package

A package of five new and revised standards have recently clarified the notion of control and specified which entities should be part of the consolidation perimeter (namely IFRS 10, 11, 12 + IAS 27, 28 rev).

**IFRS 10** Consolidated Financial Statements; outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.

**IFRS 11** Joint Arrangements; outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractually agreed sharing of control and arrangements subject to joint control are classified as either a joint venture (representing a share of net assets and equity accounted) or a joint operation (representing rights to assets and obligations for liabilities, accounted for accordingly).

* Joint venture (JV): is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement.

** Joint operation (JO): is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities, relating to the arrangement.

Numerous examples of joint arrangements can be found in industries which require major investments and imply high risks (real estate, construction, telecommunication, military...). A major impact is the new treatment of joint ventures. Under IFRS, up to reference year 2012 Global Enterprise Groups had a choice in applying one of the two methods to account for their joint ventures: they could choose either the Proportionate Consolidation (PC) or the Equity Method (EM). Starting the 1st of January 2013, only the latter is permitted. As practical consequences for profiling joint ventures are now always out of scope of the GEG perimeter.

**IFRS 12** Disclosure of Interests in Other Entities; is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives.

**IFRS 10-12** clarifies the notion of control and thus the delineation of consolidation perimeter which corresponds to the profiling perimeter.

Profilers should have a look to IFRS 10-12 during their desk work when they are working on the profiling perimeter of the GEG/GEN/TEN. Details about these rules help to delineate the profiling perimeter.

www.iasplus.com/en/standards/ifrs/10
www.iasplus.com/en/standards/ifrs/11
www.iasplus.com/en/standards/ifrs/12
Summary of the main accounting standards and methods, for periods beginning on or after 1 January 2013

<table>
<thead>
<tr>
<th>Type of participation</th>
<th>Type of entity/arrangement</th>
<th>IFRS accounting method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control (IFRS 10)</td>
<td>Subsidiary</td>
<td>Full consolidation (FC)</td>
</tr>
<tr>
<td>Significant influence (IAS 28)</td>
<td>Associate</td>
<td>Equity Method (EM)</td>
</tr>
<tr>
<td>Joint control (IFRS 11, IAS28)</td>
<td>Joint venture</td>
<td>Equity Method (EM)</td>
</tr>
<tr>
<td>Joint control (IFRS 11)</td>
<td>Joint operation</td>
<td>Accounts for assets, liabilities, revenues and expenses relating to the joint operation, in accordance with the standards applicable to the particular assets, liabilities, revenues and expenses.</td>
</tr>
</tbody>
</table>

As previously stated, the listed companies must apply the IFRS to display information to their share- or bond-holders. This means that if the GDC Company is listed, it has to comply with IFRS and the wished information is available. However, not all large and complex groups are concerned. Which are the non IFRS-compliant enterprise groups and how to obtain information for GEGs that do not apply IFRS?

The non IFRS-compliant groups mostly concern two kinds of groups which are not listed: family-owned groups, with only loans from banks (and no issuing of bonds); groups mostly owned by private capital funds. Publicly-owned groups could be outside the scope of IFRS, but generally the government services want them to apply the IFRS on a voluntary basis.

Is there a general way to collect the information on autonomous operating segments of such groups? The answer is clearly negative, the situation depending on national laws. Therefore different cases are to be looked at:

- being large structures, they are usually compliant with the National GAAPS of their GDC country: these GAAPS might provide standards similar to IFRS8 and thus you are able to resume the profiling as in the IFRS case;
- their banks might ask them to comply to IFRS on a voluntary and not public way, information being restricted to the financiers: you get back to the usual case, if the enterprise group accepts to share the resulting data;
- in other cases the process has to be organised on an analytic base: finding in the publicly available information whether the enterprise groups describes itself as the gathering of several autonomous businesses gives a direct clue; using other sources than the Annual report can also provide the answer: for example several lines of production in the OFATS survey is an interesting indication; observing that affiliates engage themselves in apparently very different activities (from the inputs, the process, the outputs or the clients sides) gives useful information that has to be checked with the group etc.

Is it more difficult to obtain information from these groups than from the listed ones? The answer is not straightforward, since the main criterion is the cooperation accepted by the enterprise group with the statisticians among which are the profilers; of course confidence is also concerned. At this stage, there is no proof of any difference in the process of profiling related to the accounting standards to which the business is submitted.

If a list of affiliates is available in the annual accounts, make a first delineation of the GENs to be proposed to the GEG. Note that the list of affiliates published in the annual accounts is not always a complete list. If a list of affiliates is not available then an estimate of the segments is
achieved by using a mixture of the name of the business and of the NACE code. The opposite may also occur; for some groups which provide accounts according to IFRS 8, many segments are described, sometimes with the same NACE code. In this case it is possible to consider only one GEN and not to stick to the IFRS segments to derive GENs/TENs. However, before making this final decision it is needed that both the users and the GEG agree with this proposal. The GEG should be able to provide all the necessary information on the identified units.

A Microsoft Visio graphical presentation or other kind of schematic diagram showing the visual structure of the new TEN and GEN structure could be produced in order to assist during the visit to the business or the discussion with the statistical users.

For each of the TENs, the NSI of the country of the GDC has to compile the most exhaustive list as possible of the legal units with name, ID code, and precise address, mode of integration in the consolidation perimeter percentage of control and percentage of ownership. Making use of the information available at partnering countries concerning the legal units, especially if the NSI is marked as authentic store, is highly recommended.

The top down approach in profiling may lead to legal units which are split into more than one GEN/TEN. For example holding companies legal units which provide shared services for all the GENs of the group (R&D, HR or marketing services).

The profiling template takes this scenario into consideration, although it is acknowledged that for practical reasons it should be avoided to the extent possible. Additionally, splitting of LEU’s is possible in the GEN/TEN definition however the 1993 regulation on ENT does not refer to splitting of LEUs. Therefore it’s here considered solely as a solution for European profiling and not common practice in national BR’s. If the GEG confirms that there are LeU’s which are accounted for in more than one GEN, then the first option is to confirm with the GEG how it apportions these out for the consolidation of the segments. Experiences show that they often can provide this figure. If they could provide a percentage figure which indicates how they apportioned both turnover and employment, then the profiling template has a variable which should be completed. The profiler must list the LeU’s that are operating in more than one TEN and ensure an extra line is added to account for every GEN/TEN that the LEU belongs to. If a legal unit has to be split into more than one GEN, this legal unit should be added in the template in the several GENs/TENs to which it belongs. Then the variable which is called "LEU_PARTICIP for lead NSI and LEU_PARTICIP_NAT for Partnering NSI " should be completed with the percentage provided to indicate how the figures (turnover employment) of this legal unit should be consolidated in each GEN/TEN in which it appears. The sum of the variable LEU_PARTICIP (or LEU_PARTICIP_NAT) for a same legal unit split should be equal to 100%. For example, if a subsidiary is split into 2 TENs, there should be two lines in the profiling template added.

The LEU_PARTICIP variable will be used only for consolidating GEN/TEN employees and turnover. However, the individual details of the legal unit split (Name, ID codes, NACE, turnover and employee number) have to be repeated the same in each GEN/TEN when it is included.

If the GEG cannot provide a percentage split, then profilers must ensure that the sum of the numbers indicated in the variable LEU_PARTICIP is equal to 100 per cent. These should be apportioned out based on the number of TENs. For example if you have 1 LeU split over 4 TENs then there should be 4 lines in the profiling template (for the LeU) each showing 25 per cent in the LEU_PARTICIP variable.

16 A useful freeware tool can be found at www.graphviz.org
Box 3: Treatment of auxiliary activities within the group

Preliminary remark: International methodology refers to different wordings when referring to specific shared activities inside a group among which “auxiliary activities” and “ancillary activities”. GEGs usually refer to “support activities” or “corporate activities”.

In the frame of the ESSNET ESBRs, it has been decided to refer only to auxiliary activities.

Definition of Auxiliary Activities

According to the 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, an activity must be regarded as ancillary if it satisfies all the following conditions:
(a) it serves only the unit referred to, i.e. goods or services produced must not be sold on the market;
(b) a comparable activity on a similar scale is performed in similar production units;
(c) it produces services or, in exceptional cases, non-durable goods which do not form part of the unit's end product (e.g. small implements or scaffolding);
(d) it contributes to the current costs of the unit itself, i.e. does not generate gross fixed capital formation.

The distinction between ancillary, principal and secondary activity can be illustrated by a few examples, as follows:
- production of small implements for the unit's use is an ancillary activity (in accordance with all criteria);
- own-account transport is normally an ancillary activity (in accordance with all criteria);
- sales of own products are an ancillary activity because, as a general rule, it is not possible to produce without sales.

The general rule is that, since production processes are not usually viable without the support of ancillary activities, these ancillary activities should not be isolated to form distinct entities, even if they are carried out by a distinct legal entity or at a distinct place, and even if separate accounts are kept. Furthermore, the ancillary activity is not taken into account when classifying the activity of the entity by which the ancillary activities are carried out. The best example of an entity carrying out ancillary activities is the central administrative department of registered office.

Likewise the following activities are NOT to be regarded as auxiliary activities:
(a). production of goods and services that are part of capital formation; for example, construction work for own account, which would be classified separately from construction if data are available, and software production;
(b). production of outputs, a significant part of which is sold on the market, even if part of it is consumed in connection with the principal activities;
(c). production of goods or services which subsequently become an integral part of the output of the principal or secondary activity (e.g. production of boxes by a department of an enterprise for packing its products);
(d). production of energy (an integrated power station or coking plant), even if the whole output is consumed by the parent unit;
(e). purchase of goods for resale in an unaltered state;
(f). research and development, as these activities do not provide a service that is consumed in the course of current production."
A list of examples of Auxiliary Activities are:  

**Distribution and logistics**

*Trade services of own products*
- Freight transport services
- Cargo handling services
- Storage and warehousing services
- Freight transport agency services and other freight transport services
- Postal and courier services

*Marketing, sales- and after sales services including help desks and call centres*
- Marketing management consulting services
- Advertising services and provision of advertising space or time
- Market research and public opinion polling services
- Advertising and related photography services
- Telephone call centre services
- Trade show assistance and organization services

**ICT services**
- Information technology (IT) consulting and support services
- Hosting and information technology (IT) infrastructure provisioning services
- IT infrastructure and network management services
- Telephony and other telecommunications services
- Internet telecommunications services

**Administrative and management functions**
- Legal and accounting services
- Management consulting and management services
- Business consulting services
- Other management services, except construction project management services
- Combined office administrative services
- Specialized office support services

### How to handle auxiliary activities in profiling method?

Points to be taken into account:

1. Within a GEG, it is possible that Operating segments exist, which are not externally oriented and that provide goods/services to an autonomous GEN/TEN. They may provide an intermediate product which is processed further by the autonomous GEN/TEN or which may form part of the product of the GEN/TEN (so-called partial activities).

Allocation of partial units has to be achieved, if an Operating segment supplies its products >= 50% to another Operating segment which, in turn, supplies its products >= 50% to an autonomous GEN/TEN. These units should then be combined.

2. In attempt to translate the SNA guidelines into the profiling approach, SNA allows auxiliary activity units to be treated as nationally truncated parts of GENs where GEN represents the principal activity and auxiliary activity units form a TEN. Auxiliary activities may not constitute a GEN, but could form a TEN.

3. The activities such as head office, transport, trading, computing activities, owning land, building, equipment or being nominal employer and all other auxiliary activities may be treated as distinct by the GEG in their annual report, if these activities concern all operational segments.

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Guidance to treat these activities:

General rules:
1. If there is only one GEN defined for a GEG, auxiliary activities will be allocated in this GEG and affiliates performing this kind of goods/services will be part of the GEG/GEN perimeter.
2. If there is more than one operating segments (GENs) defined inside a GEG and:
   (a) If auxiliary activities (affiliates) serve only one specific GEN, then they will be part of this GEN perimeter.
   (b) If auxiliary activities (affiliates) serve more than one GEN, then two options will be possible
      2.2.1 Include the auxiliary activities (affiliates) in a specific GEN named “ADMIN”. This GEN is similar to the one commonly called “Other” “Support activities” or “Corporate and holdings” by the GEGs.
      Pros: enable an easy management of the legal units in the BR and enable to isolate the ancillary activities serving all the parts of the GEG.
      Cons: Not easy to produce relevant statistics for this GEN and the NACE code of this GEN can be difficult to allocate when this GEN gather many different activities such as holding activities, transportation, logistics, accounting...
      2.2.2 Split the auxiliary activities (affiliates) among the GENs of the GEG taking into account the percentage of turnover oriented toward each GEN.
      Pros: avoid to define a non market oriented GEN.
      Cons: difficult to manage the split of LEUs among GENs and the management of these legal structure into the NBR and EGR. The GEG cannot always provide the details about how to take into account these units among the different GENs. Additionally splitting of LEU’s is possible in the GEN/TEN definition however the 1993 regulation on ENT does not refer to splitting of LEUs.
   (c) If auxiliary activities are mainly concentrated in some countries where the GEG does not perform its principal activity at all, TEN NACE can differ from GEN NACE.

Intensive profiling versus light profiling

For Intensive profiling cases (both new cases and follow up cases), profilers have to discuss during the visit the issue of auxiliary activities. They should ask the GEG to identify these units in the perimeter and discuss the better option to treat it according to the reporting system of the GEG.

In the majority of the cases, profilers will adapt to the internal reporting of the GEG and the way these units are treated.

For light profiling cases, it can be more complex, since all information has to be found in the A/R or in the available sources about the GEG.

In case, there is not enough information about auxiliary activities in A/R and related sources on the GEG, and profilers has to define more than one GEN, a light contact with the group by mail or by phone can help to identify these auxiliary affiliates and determine how to treat it.

How to treat R&D Activity?

It is important to note that when referring to R&D in the following context, R&D activities are exclusively for the use of the GEG in question. In cases where the GEG is producing R&D activities for the market, these should be treated as a separate GEN.

R&D activities can be seen as similar to those of auxiliary activities since they can concern only one part or all the parts of a GEG. The only difference is that auxiliary activities are limited in scope to the type of service functions that virtually all GEGs need to some extent. R&D, instead, does not concern all enterprises.
Definition of Research & Development (R&D) activities:
The European System of Accounts 2010 defines R&D as:
"Creative work undertaken on a systematic basis to increase the stock of knowledge, and
the use of this stock of knowledge for the purposes of discovering or developing new products,
including improved versions or qualities of existing products, or
discovering or developing new or more efficient processes of production." (ESA 2010, para
3.82).
According to SNA;
1. *Research and development is not an ancillary activity.* It is recommended to distinguish
   a separate LKAU (if possible).
2. The output of R&D should be valued at market prices or at the sum of total production
costs plus an appropriate mark-up. Moreover, the output of R&D should be capitalized
as intellectual property products.

SNA does not discuss whether an affiliate carrying out R&D activity is to be interpreted as an
LKAU or as an affiliate which is treated as a separate TEN.
In an attempt to translate the SNA guidelines into the profiling approach, SNA doesn’t give an
answer on the question, whether R&D affiliates should form a GEN/TEN. But: SNA
recommends R&D to be interpreted as LKAU. That means in profiling terminology that a
national R&D unit should be included in the GEN which manages this R&D unit.

How to tackle R&D activities in profiling?

R&D units are treated in profiling methodology the same way than auxiliary activities.

*General rules:*
1. R&D units should be either part of a specific operating GEN whose R&D units are carrying
   activity only for this GEN, or in a specialised R&D GEN serving the other operating
   GENs. R&D units can be also part of GEN “ADMIN” when the GEG itself includes
   these units providing R&D activities for all the operating GENs in the remaining GEN
   called “Corporate and other activities”.
2. If R&D activities are mainly concentrated in some countries where the GEG does not carry
   out its principal activity at all, TEN NACE can differ from GEN NACE.
3. When R&D is crucial for a GEG, R&D organisation it is often clearly described in the A/R.

*Example: R&D activities for Sanofi*
*Source: Financial report 2014*
“B.5.1 Research & Development Organization
Over recent years, we have moved from a pure pharmaceutical organization to a global and
integrated R&D organization where forces are combined to meet a diversity of health needs.
Our R&D activities are organized into three major segments: Sanofi Pharma R&D, which is
dedicated to the discovery and development of human medicines. Sanofi Pasteur R&D, which is
responsible for all new approaches and technological discoveries in vaccines against infectious
diseases. Merial R&D, which aims to deliver and support effective, innovative, safe and cost-effective animal health products...Our R&D operations are concentrated in 4 major hubs: North America, Germany, France and Asia.”.

For this pharmaceutical GEG, in accordance with IFRS 8, 4 operating segments are defined
“Pharmaceuticals”, “Human Vaccine”, “Animal Health” and “Other”. R&D units are
dedicated to each operating segments.
Sanofi Aventis Recherche et Development which is a French consolidated affiliate of the GEG and carry out R&D activity is part of “Pharmaceutical” operating segment (Nace code : 7219 “Other research and development”).

R&D activity of Merial is carried out by 3 establishments (i.e Local Kind of Activity Units (LKAUs) in France. This R&D activity is part of “Animal Health” operating segment.

Intensive versus light profiling case

For intensive profiling case, R&D activities should be discussed such as for auxiliary activities in order to identify these units and to understand how the GEG treat them.

For Light profiling case, information about R&D should be part of the single GEN, if there is only one GEN and for GEGS with more than two operating segments, profilers should do a careful analysis of the A/R and all related public sources concerning the GEG to find reliable clues how to treat R&D units.

What level of the operational structure has to be described? This depends on the purpose of profiling: the delineation of enterprises, which are used for the description of the process of production. Therefore, the level of description is the level on which, essentially, decisions are taken concerning the production process. In case of doubt it is better to choose a lower rather than a higher level. (During the partnering exercise and before adopting the final GEG profile there is the possibility for a correction if the level was too low; correction of a too high level is not possible.) It is important that all activities and all related production factors, including persons occupied, are covered by the operational entities that are identified into GENs. Special Purpose Entities (SPEs) and Special Purpose Vehicles (SPVs), not being operational entities, must be distinguished in GENs, separately or in combination.  

The autonomy criterion is the qualifying one in the definition of the GEN. See the Annex 2 for a detailed explanation of this (autonomy in the sense of self-governance related to the process of production).

For each operating activity it is checked whether accounts are kept recording turnover, persons occupied, operating surplus and investments.

The steps described here will be finished by updating the profiling reports with the information of the desk research. If the GEG is in light profiling these profiling reports (the profiling template and profiling report) are then ready to be used for confirmation and complementation by partnering countries and for updating the EGR thereafter. For intensive profiling direct contact of the GDC with the group takes place and also direct contact of the partnering country with the national group may be needed to finally agree on the GEN-TEN profile.

The priority for the grants provided by Eurostat is to apply the methodology to the top largest and more complex GEGs in the EU in a coordinated, consistent and efficient way, and to make use of the information in the European Group Register. Only in the longer term the central collection of data will be targeted. (See minutes of the ESBRs Steering Group meeting on the 2nd of March 2015). The priorities set up have impact on the work performed by NSI’s. In

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18 SPEs may already be known from the EGR. How to identify these and how to treat is dealt with in the methodological report of the work package B of the ESSnet on profiling. The same is for ancillary units.
particular, the requirements on the list of variables to be collected and filled in the template are changed.

**Role of the GDC NSI: a bigger focus on the delineation:**
- Collect information on the perimeter of the GEGs
- Identify the GENs and TENs and allocate the legal units to the GENs and TENs
- Collect information on NACE, employment and consolidated turnover on GENs; this information should be easy to collect and will give an overall description of the enterprises at the global level that is useful to share among NSIs to get the global picture.
- Fill in the template with information on NACE, employment and consolidated turnover on TENs if easily available (for instance through OFATs). There is no requirement to ask for this information when visiting the group as central collection is not the priority. However if the information is easily available the lead NSI is asked to fill in the template with these information so that it can benefit to partnering countries. Indeed, one purpose of the profiling activities is also to upgrade the quality of business registers across Europe. Sharing information on TEN can be useful in this respect.

Note: the collection of other economic variables, called “core variables” in the guidelines, for GENs and TENs is not anymore a priority and then considered out of scope of the grant activities.

**Role of partnering country (see also § 9.5):**
- Check the information on TEN (study the annual report to see whether the delineation makes sense, check the existence and the attributes of the legal units in the National Business Register; check whether some legal units are not missing).
- Consider whether the TEN delineation could be used to delineate the ENT (to be used for official statistics).

Note: the GDC NSI has the final decision on the delineation of GEN and TENs in the templates. The unit kept in the profiling templates are the GEN and TEN checked and validated on the delineation (existence and attributes of the legal units); the profiling report should mention whether the partners choose to use the TEN delineation for their ENT or not and if not why.

9.1.4. Preparing the profiling documents for confirmation and complement by partnering countries

The profiling report gives a full documented vision on how the profiling was done and contains three worksheets. The first worksheet called “Information from the EGR” is completed by the NSI of the GDC and should show all the information taken from the EGR. This can be completed or updated at desk and taken with you when you meet the business.

The second worksheet called “Information from the GDC” is completed by the NSI of the GDC country. This needs to be completed as the GDC country works through the profile and will show the results and all the main issues (points of discussion and choices made) highlighted.

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19 At the follow-up meeting it was mentioned that there may be the possibility for NSIs to agree on whether the lead NSI could collect data on TEN knowing that some countries are interested. This option is not anymore considered here as it is agreed that central collection is not a short or medium term priority.
The third worksheet is called “Information from the partnering” and this should be completed by the partnering countries to who are sent the report for completion. It will show the reasons why the structure was accepted or rejected. It will furthermore note the intra group flows between the TENs.

The profiling template is initialised with EGR data. It contains all the legal units that belong to the GEG (in the last EGR file) and gives an initial view of national enterprises as delivered by NSIs in the EGR. It finally includes the statistical results of the profile and the delineation of global and truncated enterprises in terms of legal units. It should be completed by the GDC country and the partnering countries where a legal unit can be found.

The profiling report and the profiling template are the standards for the reporting of the profiling process and of the profiling results. § 9.5 will provide more detail on how to fill these documents and what information should be included.

Once the GDC country has completed all the appropriate sections both the report and the sharing templates need to be sent to the partnering NSIs (only to those partners who have affiliates in the GEG within their country) via E-Damis. An email to the contact for each country also needs to be sent to them in order to notify them to download the file for completion.

The GEG and all the belonging units in the EGR are to be flagged so it is very clear to EGR users that a unit is under profiling. This is agreed within the EGR protocols.

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**Box 4: Profiling and the EGR**

**Treatment of the legal units during the profiling process**

For each of the TENs, the NSI of the country of the GDC has to collect the most exhaustive list possible of the legal units with name, ID code, precise address, mode of integration in the consolidation perimeter and % of control.

In order to get consistency between EGR and profiling, a good practice to get this comprehensive picture of the group would be to confront the EGR list to the group perimeter for checking and completing.

According to the group organisation and its affiliates' number and to the complexity of the EGR tree, 2 options are possible:

**Option 1:** if the EGR tree is not too complex and the number of worldwide affiliates does not exceed a certain number (approx. 150), the NSI of the GDC, can ask the group to check and complete it, confronting this list with its own consolidation perimeter (and better with its own complete list of affiliates).

**Option 2:** for the largest and more complex groups, with hundreds of affiliates, it can be a better option that the NSI has a cautious look first at the EGR list and then sets it out carefully (sorting the tree, removing the multiple counts etc.) and keep in charge the confrontation of the EGR list and the perimeter of the group.

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20 The templates of the profiling report (PR) and the profiling template (PT) are available at the Eurostat profiling website.
The choice between these two options results from the direct contact between the GDC of the group and the NSI. In some cases, the GEG will express clearly its preference for option 1 or 2.

**Consistency between EGR, consolidation perimeter and comprehensive list of affiliates**

At this point of the profiling process, it could be possible to ask the GEG about the remaining units (i.e. units that are present in the EGR tree and not in the consolidation perimeter) and about their status.

An important point is the possible difference between the comprehensive list of the affiliates of the GEG and the list of consolidated affiliates. Many reasons can explain this gap:
- The group consolidates only its mains affiliates (very frequent situation).
- Sometimes the group argues that it did not receive the accounts of minor affiliates in time.
- Some subsidiaries which do not have a productive activity but serve financial purposes are not always displayed in the profiling perimeter (SPEs). These units should be treated according to the recommendations given in Box 1.
- Because of sub-consolidation levels inside the groups, the GDC does not collect all the detailed information and can ignore some local affiliates.

However, in the end all legal units are to be included in a GEN/TEN with an indicator of the type of consolidation they are submitted to, which can be: FC= full consolidation, PC= proportionate consolidation or NC= not consolidated.

NB: in Profiling, “Equity method” (EM) which is the process of treating equity investments, in associate companies is not considered as a consolidating method. In this process, the investor keeps such equities as an asset. The investor's proportional share of the associate company's net income increases the investment (and a net loss decreases the investment), and proportional payment of dividends decreases it. In the investor’s income statement, the proportional share of the investee’s net income or net loss is reported as a single-line item.

Within IFRS there is no anymore possibility to apply proportionate consolidation for joint-ventures, beginning with financial statements prepared for 2013 and onwards [IFRS 11].

If the profiler is unable to affect properly a legal unit to any GEN, i.e. this legal unit is active, included in EGR but in no list of affiliates from the GEG, and no assumption can be done using the name or the NACE code of the legal unit to affect it to one specific GEN, then this LeU will be included in a GEN called “OTHER”. This GEN “OTHER” is different from the GEN “ADMIN” that usually includes the parent company, holdings and auxiliary activities.

Note: Neither the GEN “OTHER” or “ADMIN” are mandatory GENs to be created. There are some profiles where there is no GEN “ADMIN”, for instance when the parent company and auxiliary activities have been split between many GENs. When it is possible to allocate all legal units to operating GENs/TENs there is no need at all to create GEN “OTHER”.

In practice, GEN “OTHER” was created to deal with the very large and complex GEGs with hundreds to thousands of affiliates where there are always some active LeUs from EGR which are difficult to allocate. See also §9.4, page 54.

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21 In IFRS 11, joint-ventures, which give the parties rights over the net assets, must be accounted for using the equity method, the proportionate consolidation method being no longer permitted. However, in the case of joint operations, which give each party direct rights over the assets and obligations for the liabilities, the assets and liabilities (revenue and expenses) of the joint operation must be accounted for in accordance with the interests held in the joint operation. In the consolidation perimeter of the groups, only joint operations can be treated according to the proportionate consolidated method (“PC”).
### Profiling and the EGR

The profilers should play an important role in updating the EGR. The profiling tests undertaken in 2011-2012 demonstrated that information collected on legal units during the profiling exercise is the most up-to-date information available and is of great interest for the EGR. An analysis on 10 GEGs profiled in the testing thus far show how profiling can help to update EGR. The following table gives an overview of the number of legal units that could be updated through profiling. It is based on the comparison of 2010 information. At the time of the profiling, the GEG usually gave a situation at the end of 2011. So, among the legal units that profiling proposes to add, it has been checked which were already added in EGR 2011.

<table>
<thead>
<tr>
<th>Analysis of 10 GEG tested in profiling</th>
</tr>
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<tbody>
<tr>
<td>Number of added LeU</td>
</tr>
<tr>
<td>incl. LeU that are not in EGR 2011</td>
</tr>
<tr>
<td>Number of LeU flagged removed, inactive or liquidated in profiling</td>
</tr>
<tr>
<td>incl. LeU that are still active in EGR 2011</td>
</tr>
<tr>
<td>Number of LeU active in EGR 2011</td>
</tr>
<tr>
<td>Number of LeU active in profiling</td>
</tr>
<tr>
<td>Missing LeU in % of profiling frame</td>
</tr>
<tr>
<td>LeU too many in % of EGR 2011</td>
</tr>
</tbody>
</table>

It would be logically to expect that the perimeter of the groups treated in profiling (maybe in future using an interactive profile tool) should be identical in the EGR and the profiling database. However, the profiling practise showed that there are good reasons why both perimeters could differ at this moment. Generally the profiling perimeter corresponds to the consolidation perimeter and does not include some units which do not perform any economic activity. On the other hand, some units which are not in the EGR perimeter because they are not controlled more than 50% can be in the profiling perimeter as soon as they are fully integrated in the consolidation of the group.

*The common units in the EGR and on the IPT should be identified with the same ID number. It will be the LEID number for the legal unit and the group ID number for the group.

### New legal units identification

In case of new legal units, the information available is generally the name of the legal unit, the country and the town of residence. In order to be included in the EGR, these legal units need to be identified. Two numbers can be accepted: the EU_LEU_ID if the legal unit is already in the EGR (but maybe not in the right group) or the NSA_ID or the BVD_ID if the legal unit is not in the EGR. After identification, the Legal units can be introduced in the group by proposing a relationship with a parent legal unit of the group. As much as possible, it is recommended this unit to be the direct parent. However, in case this information is not available, by default, the GDC or GGH should be indicated as (indirect) parent.

In the current process, the process could be the following:

1) The GDC NSI detects new legal units both in the country of the GDC and partnering countries and introduces all the new legal units in the "template transmission data" by identifying them only with their name, country code and town (both in the country of the GDC and partnering countries).
2) The GDC and the partnering NSIs identify the new legal units settled down in their own country by searching:
   * In the EGR (collect and populate the variable EU_LEU_ID)
   * In the national business register (collect the NSA_ID_NAT, the DUNS number or the BVD_ID). In that case, the variables to be populated are: NSA_ID_NAT, DUNS_NUMBER_NAT or BVD_ID_NAT

3) The GDC and partnering exercise prepare the introduction of the new legal unit in the EGR by identifying its parent company. Three variables should be populated: P_NAME_LEGAL_UNIT_NAT (name of the parent company) and P_EU_LEU_ID_NAT (EU_LEU_ID of the parent company) and KIND_OF_CONTROL_NAT. As much as possible, the direct parent company will be indicated. By default, the GGH (or GDC) should be indicated as parent company. The variable KIND_OF_CONTROL_NAT should be equal to “D” in case of direct control and “I” in case of indirect control.

The information on the parent company and kind of control may be introduced by the GDC NSI for all the new legal units (even for legal units in partnering countries) or, by the partnering countries if the information is not known from the GDC NSI.

4) The partnering countries may also, if needed, introduce new legal units, but only with identification number according agreed standards.

NB: both GDC and partnering use the same variables to introduce information on the new legal units. All these variables contain the mention _NAT in their name in order to differentiate them from the initial data coming from EGR. Only the EU_LEU_ID (initial variable from EGR) should be used because there is a need to have a single ID number for the legal units in the profiling template.

The profiling will update the EGR at the conclusion of the profiling of one group. However, it is recommended to the profilers who identify new legal units to collaborate with national EGR staff and to require them to update EGR with the new information.

Using the EGR-Identification Service (EGR-IS)

The new legal units should be identified according to the LEU_ID number. An identification service will be available and search will be allowed for one legal unit or for a list of legal units.

9.2. Discussions with the statistical users

9.2.1. When should the discussion with statistical users take place?

The discussions with the statistical users (e.g. National Accounts, SBS, STS, FATS, FDI and BoP) in both GDC (and partnering country when it concerns an intensive profile) are a key element to the manual European profiling process since they will use the newly created enterprises to base their statistics on. All will need to be consulted in order to agree the proposed Enterprise structure that profiling has defined and ensure usage in their process. They should be informed and consulted at all of the different steps of the profiling process:
• At the starting point after selection of the GEG to be profiled, in order to know that they may have changes in the statistical units they are following,
• After the first proposals for the establishment of the GEN and TEN, whether there are any outstanding issues with the proposal of the GEN and TEN delineation in order to ensure whether in profiling adapted and changed statistical units are adequate and acceptable for their needs,
• After consultation from partnering NSIs (when profiling template and report has been returned) in order to discuss feedback on proposal,
• After the new enterprise structure has been agreed with the GEG itself.

Before visiting the business, there must be confidence that first proposals for a new GEN and TEN structures will be acceptable to the national statistical users of the NSI of the GDC and of NSIs of partnering countries in which the GEG carries out activities on a large scale. For example, for those GEGs where there are many diverse activities but the operating segments do not reflect this activity, it is important to look at the possibility of creating more (and more detailed) GENs and TENs, within the restrictions of the autonomy of the GEN. Therefore discussions should take place with the users in order to ensure a new units’ structure will be appropriate. Keep in mind that manual European profiling from a top down approach (inevitably) may lead to changes in the national profile. In some cases it also may be necessary to contact the partners to check if they have any issues with the GENs as they stand. This first statistical user consultation will not guarantee that the economic structure initially designed will be accepted by the GEG. This exercise should be re-processed both in GDC NSI and partnering NSI after designing the second version of the GEN and TEN in agreement with the GEG.

The partnering statistical users need to be consulted during the partnering exercise since they should be the users of the new TEN units. Therefore profilers of the partnering countries are recommended to discuss with their users the impact of the new TEN on the national statistics. The statistical users (with a priority to National Accounts and the SBS statisticians) and the profilers should assess the way of collecting data on these new statistical units and the proposal of the partnering country to the country of the GDC should also reflect the users’ position.

9.2.2. Arguments to be developed during the discussions with statistical users

Convincing statistical users to accept the new methodology of profiling and in particular the proposed changes to the definition of Enterprise, is not an easy task. Foremost it should be outlined that also in the short term, profiling of the most important GEGs in the economy can result in immediate improvements to quality of outputs. Profilers should explain the aims of the project and potential benefits to the collection of better quality data from large international GEGs. A global “Top Down” approach could result in the elimination of duplication, omissions and inconsistencies which are currently experienced in collecting data from complex GEGs. Therefore, in contact with the statistical users, profilers could enquire which GEGs are the most important to them and if it meets the manual European profiling criteria to use these as a test case.

It should also be explained that manual European profiling will improve the quality of units on the EuroGroups Register (EGR) which will directly affect the Outward Foreign Affiliates Statistics (OFATS) and Foreign Direct Investment (FDI) surveys. It should also be noted to users that there will also be an increase in the level of quality for their customers who include Central Governments, Treasuries and the Central Banks.
If any data analysis could be provided to users showing the impact or data improvements then these should be shown to them.

There are many benefits to meeting with users face to face and on a regular basis. Presentations with practical case examples which clearly define the aims, the methodology and the issues with profiling can be very helpful. Examples of test cases illustrating both the positives and outstanding issues can be shown including the progress made on the on-going cases. It is advised to document all main points and take them forward with partnering NSIs and the GEG.

9.3. Direct contact with the group

As well as a good interaction with statistical users a good contact with the GEG is very important for a successful profile. When planning and preparing contact with a group it is essential to bear in mind some basic principles:
- be well prepared beforehand from desk analysis,
- be well known with already existing contacts (e.g. involvement in surveys),
- try to find the right contact at the right level,
- use the right instrument to contact,
- use the right arguments why profiling also has (can have) advantages for the business,
- speak (also) the language of the business instead of the (only) language of the statistician,
- come to clear agreements, which avoid misunderstandings.

9.3.1. Make an early first contact with the group

At the same time the desk profiling is started (§9.1), it is highly recommended to initially contact the business. This is to introduce the profiling and ensure that they will co-operate before carrying out resource intensive work. This ensures that no work will be lost if they do not comply.

Preferably a letter is sent to the Chief Executive Officer (CEO), to the Chief Financial Officer (CFO) or to the Group Chief Accountant (controller) at the GEG. This letter is signed at a high level within the NSI, e.g. by the Director General or Division Director. The letter highlights to the GEG the importance of the project.

In countries that have a well-developed account management with large GEGs, the method of contact can be based on the already existing experiences with the GEG. The account manager can do a lot of preparatory work here too, but a formal agreement to co-operate is important. To find the appropriate person to who an initial official introductory letter should be addressed, a contact with the OFATS or FDI respondents can be very useful.

Alongside the letter, a background note on confidentiality should be sent and an agreement has to be found on the way confidentiality is managed between the GEG and the involved NSIs. This can be obtained through any legal means including a signed agreement or a specific item in the minutes of the meeting GEG / NSI of the GDC etc. See annex 1 for:
- a: Examples of templates of letters to GEGs to introduce profiling.
- b: Introductory and explanatory notes to the GEG.
- c Declaration of endorsement and commitment.
9.3.2. Visit to the group

After a preliminary GEN and TEN structure has been produced at the desk there are many benefits in meeting with the contacts at the GEG face to face. It is not always possible but some of the benefits to visiting the business include:

- Easier to build up a strong relationship with the business if meeting up in person.
- Enforces trust between NSIs and the Business.
- Raises the profile of NSIs.
- Much easier to discuss complex subjects on a face to face business.
- Visual tools could be used to make the subject much easier to get the message across.

For GEGs which act predominantly in more than one NSI, it is also proven to be very advantageous to carry out a dual visit where more than one NSI can meet up the business. This has been extremely useful in several testing cases.

Some interesting arguments for the manual European profiling approach can be discussed with the group:
- After initial investment of profiling it is expected that the global administrative burden for statistics will be reduced. This is because the number of statistical questionnaires to be completed will drastically decrease and because there will be less differences in language used. The argument of burden reduction is more convincing for the countries where statistics are produced mainly or at least partly through statistical surveys. For the countries where administrative data are intensively used, the reduction is not less relevant.
- For statistics the quality will increase because of the use of units and variables that are recognised in practice and because there will be much higher international consistency in statistics.

The NSI of the GDC could present to the GEG, the EGR cluster and tree. This could be an excel file with a list of the LeU of the group and a limited set of variables taken from the EGR (if possible, updated to the latest date). The following variables could be included:

- Name of LeU,
- National ID code,
- Other ID codes that the Group may know (D&B, BvD) + EGR_IDs for future use (time consistency),
- Country code,
- Classification
- Precise address, at least city
- Number of employees.

The version and date of the EGR cluster and tree used must be specified in this file.

The results of the desk research are checked. During the visit the following questions could be asked:

1) a. Does the GEG operate like the proposal of the desk analysis of segments?
   b. Are they able to report data at this level?
2) Which legal unit is seen as the Global Decision Centre (GDC) for the group?
3) a. Could they provide a complete list of legal units/affiliates for the group?
   b. Can they report figures for these LeUs.
4) Is there much trade between the segments within the group? Can they provide data on the intra-group and intra-group sales between the segments/between countries.
5) If Profilers created statistical units based on the segment breakdown, are they able to report the core variables in this way for each country? All core variables as defined in the profiling report are to be checked. Some important ones are:
   a) Employment
   b) Turnover
   c) Gross Value Added (= Turnover + Closing Stock – (Employment Costs + Purchases + Taxes + Opening Stock)
   d) Cost of Energy, Goods Materials and Services
   e) Capital Expenditure (acquisitions and disposals)
   f) Monthly Wages and Salaries
   g) Assets (Tangible and Intangible), although availability of assets is desired but not necessary to be autonomous at enterprise level.

6) How autonomous is each segment? E.g. how much decision making power does each segment have on costs, purchases, investments etc.?

7) What are the main economic activities of the GENs and TENs (for classifying)

8) How are the (combination of) legal units treated that are auxiliary to the business in terms of the segments (e.g. transport, advertising, holding companies, R&D, head office activity etc.)?

9) How are they reported within each segment? Are the auxiliary activities reported in the other list segments or are they reported separately?

10) Which accountancy software is being used to consolidate the accounts?

11) How are Joint Ventures and Associates treated in the consolidation? Are they Fully, Proportionately consolidated or by the equity method?

During the visit, NSI will request the business to supply turnover and employment information for the TEN. In some cases, GEGs have a centralised accounting system and can provide truncated data for every country globally so this should be collected if possible. This represents Option E of the process (Feasibility Study, Work Package A).

The reporting structure in data collection for statistics may deviate from the statistical unit’s structure. Data on quantities may be collected at other places than financial data. The reporting structure needs to be discussed during the visit too.

9.3.3. Hints and techniques to encourage cooperation

Collecting International data in this way is not currently covered by an European Regulation, there is no legal framework and therefore cooperation from the GEGs is completely voluntary, in fact: mentioning legal requirement may be seen as a threat and be detrimental to a relationship. Therefore the following section may provide some helpful hints and techniques that could be used to encourage GEGs to co-operate:

What is in it for the GEG?

NSI’s can and often do, place a large amount of administrative and statistical burden on the largest of GEGs.

Therefore, the main motivator for responding to a data request is the possibility (now in the future) of a reduction in this burden.

Profilers could explain that one of the long term goals of this ESSnet is to test the possibility of collecting data at a higher level than which is done currently (i.e. Global Enterprise and Truncated Enterprise level rather than at an LeU level) as well as that all data could be collected once by the NSI GDC.
However, the issue of response burden needs to be treated with caution. This project is still only in a testing phase and therefore profilers should not promise the GEGs that cooperation will lead to a reduction in response burden in the short run. For some NSIs, where SBS information is produced using administrative with profiling and the new units additional data may be requested from the enterprises. The reporting burden will increase in that situation which is difficult to justify. Another convincing argument to encourage the groups to cooperate is that profiling enables them to better control the reliability and consistency of the information displayed for the GEG.

**Reciprocation with GEGs**

One small favour to the GEG can often provide a sense of obligation to return it with a large favour at a later date. Reciprocation can work both ways. Respondents may already feel obliged to help if in the past the NSI has helped them on a previous matter. Plus if a reward can also be given in advance then the business may feel obliged to help as they may have received something for nothing. Examples of reciprocating techniques that can be applied could include providing the GEGs with information about particular business surveys and the likely timings of receiving national questionnaires. Profilers could also offer to be point of contact for any queries that the business may have with any of the surveys.

One of the biggest incentives for GEG participation in the project is the offer to examine the GEGs current national reporting structure and to investigate if there is any opportunity to reduce the number of survey questionnaires they receive.

**Being Liked by GEGs**

For many NSIs, it may be difficult to be liked by businesses especially for the largest GEGs where NSIs often place large administrative burden on them. However, for this project, this difficulty could be used as an advantage. Listening to the respondent’s issues regarding burden, and then if possible take these issues forward, can result in a more positive image of the NSI. Profilers could show empathy with the GEG in relation to the amount of burden placed on them and how complex some of the NSIs data requests are.

It is also valuable to find something in common with the business to use as a starting point when attempting to build a relationship For example it would be advantageous to understand their business as much as possible especially if you are due to telephone the business or are planning a visit. Profilers could ask questions about the GEGs structure and main operations and based upon experience, contacts often thrive when talking about their own businesses. Showing how much you understand about the business can really help start a good relationship.

It is very important to also communicate to the GEGs that NSIs like and appreciate the customer i.e. how valued they are as a customer and how important their help is in the success of the project. A profiler could refer to the outputs that the GEG are generating for the NSI and they are one of a select few businesses that have been targeted for the testing process.

**Inter-Personal Skills.**

Profilers require a variety of skills in order to build up sustainable relationships with all customers. For example, a profiler needs to be friendly, polite and professional but also needs to balance this with being clear and direct on their ambitions. Often the language used in statistics is very different to the accountancy terminology used by the contacts at the business. Therefore it is essential that profilers try to use business language and try to keep the terminology as simple as possible. It is also important to avoid acronyms and terms only applicable to NSIs. As far as possible, the profilers should also avoid to use the terminology related to profiling (GEG/GEN/TEN and core variables) and rather explain the concepts they are interested in, finding the closer term used by the business (example : “operational segment” for “GEN”,

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national part of operational segments for “TEN” and main financial consolidated figures for “core variables”).

The main aims and objectives should be clearly explained to the GEG. It should also be made clear what is expected from the business at an early stage. For example, a profiler would indicate another meeting may be required and how much information would be required from the business. This could be checking of the legal unit perimeter of the global group or the provision of employment and turnover data from the business.

**Verbal or Written Commitments from GEGs**

People think that it is right or morally correct to follow up on a commitment. Therefore it may be productive to seek a verbal or written commitment from a GEG to help at the beginning of the process. A date for a visit to the GEG could be arranged months in advance as this is only the suitable time that both parties are able to meet. A few weeks before the meeting is due to take place the profiler could contact the business again to confirm the arrangements for the meeting are still suitable.

If the GEG have already agreed to help with the project, ensure you have at least a verbal understanding from them and that there is an expectation that the business will have to carry out some administrative (desk) work.

**Conveying Roles and Responsibilities of NSIs**

It is acknowledged that that people respond to and respect authority. It should be emphasised that GEGs are dealing with a legitimate and trustworthy organisation. The main roles and responsibilities of NSIs should be conveyed to the GEG and include how they contribute to the data that is used by Central Governments.

**Security of Data**

It is also important to explain that the data collected is treated with the upmost of security. The data collected is confidential and there are strict processes in place to keep the data secure. There is also a need to explain the process involved in how the data is securely transferred from NSI to NSI.

**Consistency**

It will also help relationships with GEGs to involve the same profilers or personnel which will allow for the building of more effective relationships with all involved parties. It is also very important that if there has been an agreement with the GEG for the NSI to provide something, then profilers must ensure that it is done.

**Federations**

For some NSI’s Business Federations can heavily influence cooperation from the large Multi-National. For example in Belgium, The Federation of Enterprises is the “voice” for over 80% of the workforce in the private sector, representing more than 50,000 businesses. Therefore for some NSIs it may be vital to meet up with business federations in order to get their support, approval and understanding of the project in order to help get buy in from GEGs.

**Limited Opportunity**

Profilers can use the very limited opportunity to be involved in the testing phase of the project. For example to inform the GEG that they are one of a few valued GEGs involved in the project with only 40 of the most significant GEGs across Europe involved. Larger companies may understand to a certain extent how important their contributions are to both national and global statistics but this could be reiterated to them.
Timing of Contact

An additional practice which eases a successful relationship with businesses is the timing of the initial contact with them. Evidence from the initial testing phases of profiling has shown that initial contact should be made with the business after the release of their Annual Consolidated Accounts. This is for several reasons;

i. the most likely contacts required for profiling are often at the group accounts level and are usually very busy during the period running up to the publishing of Annual consolidated accounts.

ii. Once their accounts have been published there is far less data sensitivity and more likely to be prepared to share their data.

9.4. Completing the profiling documents (template and report)

After the visit with the group, the (excel) profiling report and the (excel) profiling template will be updated. For a more detailed description and guidance on filling out the Profiling Template profilers refer to a separate document: “Guidelines to manual European profiling – Completion of Profiling template”.

The GEG and all the belonging units in the EGR are to be flagged so it is very clear to EGR users that a unit is under profiling. This is agreed within the EGR protocols.

Box 5: Some reflexions on terms related to units:

It is necessary to have a common understanding on terms to avoid confusion or misunderstanding. This applies also the discussion on units. Therefore the next definitions or descriptions are proposed:

1. Statistical units: these are the units to which statistical output (figures) relate.

2. Observation units: These are units for which data are or can be collected. These are not necessarily equal to the statistical unit. If a statistical unit is established as a combination of two legal units and data can only be collected at legal unit level, then the legal units are the observation units. The NSI has the task then to transform the collected legal units data in the statistical units data (e.g by adding or consolidation).

3. Reporting units: These are the units which are doing the concrete reporting. It can be the statistical unit itself, but it may be a different person, e.g. the accountant of the company. According to the GEG organisation, it is possible to have one or more contacts inside the GEG. When consolidation is a centralised process at GDC level, only one contact at the Financial Department (consolidation & reporting service) is sufficient for profiling request. However for GEGs with sub consolidation levels, more than only one contact can be necessary to collect the requested information for GENs/TENs. For such organisations, it can be useful to ask for a coordinator inside the GEG. Usually, it can be the responsible for global consolidation at GDC level, which makes the consolidation of all sub-levels of the GEG. For Bouygues, INSEE experienced this kind of organisation. Profilers collect the information from 6 different contacts (for the 6 operational segments defined) and one of them who provided them with information for the segment “Corporate and others” at GDC level plays the coordinator role. Nominating a coordinator in charge of the overall action will always depend on the organisation of GEG and if there is a central point of coordination available within the GEG. A coordinator within the GEG can appear useful to make communication a little easier.
If the company is selected and returning OFATS data using the same segregation (operating segments) then employment and turnover can be used to pick up all the foreign truncated data. It is to be noted that the OFATS survey differs slightly between NSIs and therefore the detail of available data may differ. However, in the future, if we can be sure that the concepts of OFATS and profiling are close enough (NACE CODE x country = TEN) the European profiling process can be done to collect both OFATS and profiling variables at the same time. Thus, it would enable to reduce the statistical burden of the largest groups.

The **profiling report** will be updated with the results and conclusions of the process step concerning direct contact with the GEG. Units are classified according to the normal and usual rules for classification.

The **profiling report** should assess the information that the group will be able/willing to transmit to the NSI on a regular annual basis; these variables should be the following:

- List of legal units in the GEG: the GEG could be asked to give its list of affiliates or to check and update the list of affiliates provided by the profiling NSI
- Definition of GEN(s) in terms of legal units
- List the economic variables that can be provided at both the GEN and TEN levels with a minimum information required (employment, turnover)
- The intra-group flows data for each legal unit or restricted to the GEN/TENs level or adopting (and describing) a different approach useful to obtain the results of the following points.
- Ask for turnover and employment values:
  - For each EU-EFTA Country
  - Total EU+EFTA
  - Data for Extra EU-EFTA Country to support/complete/compare OFATS results.
  These values need to be produced consolidating the intra-group flows (that means excluding the values):
  - Within each EU-EFTA Country
  - Within the EU-EFTA territory

In order to check the adequacy of the TENs’ values for the other business statistics domains, only for the profiling country collect more data for the TENs (e.g. staff costs, purchases of goods and services, investments).

Evaluate if the minimum set of data collected is useful to estimate all the other variables (for example for SBS requirements).

The **profiling template** should be filled first by the GDC NSI then by each partnering country.

It should include the following information:

- Each legal unit should be included in a GEN (and thus a TEN)(GDC NSI)
- 3 types of GEN can be distinguished:
  1) The operational GEN that result from the profiling activity
  2) The administrative GEN (it should be called ADM) that brings together all the auxiliary and internal GEG activities
  3) The GEN “others” (it should be called OTH) that contains all the legal units without activity or with a non-significant activity like SPEs.

When applicable, each GEG should contain only **one** GEN “ADM” and **one** GEN “OTH”.
**Box 6: Exchanges of data between NSIs**

Data transmission process consists of the following steps:

- **a)** GDC Country sends the files with the GENs and the TENs proposals to the partners via e-Damis;
- **b)** The partners check the proposals in order to confirm and accept the TENs (see below);
- **c)** The partners send the “truncated” files to the GDC Country via e-Damis;
- **d)** (Eventual) According to the partners answers the GDC Country could ask the GEG to reconsider the GENs delineation in order to obtain a structure more adequate for TEN users. In that situation the process becomes an iterative one and the steps a-c need to be at least partially done again.

The agreed method for sharing data between NSIs is e-Damis. All the files should transit through Eurostat which will receive the files and dispatch them to the appropriate correspondent. In order the exchange process to be as fluent as possible, some conventions have to be followed:

- When data are sent to Eurostat, you should use the following naming convention:  
  
  EGR_PROFILE_N_GB_2009_0001_BOOT.csv

  N: Periodicity is a mandatory field. N indicates that there is no particular periodicity.
  GB: sending country
  2009: reference year
  0001: sequence number (version1)
  BOOT: 4 characters identifying the group to which the data relate to csv: the type of file you send (csv files which can be read in excel)

  This naming suits sending both by the country of the GDC and the partnering countries

- When a file is sent from EU ROSTAT to Member States it will have the following naming convention:
  
  EGROUT_PROFILE_N_GB_2009_0001_BOOT.csv.

However, the name of the files is changed during the e-damis process and especially the characters that identify the GEG, for which the sent data refer to, are lost and replaced by a code like V00012.

A dedicated resource within Eurostat will take responsibility for forwarding the files on to the correct profiling contact within the NSI.

Each time Eurostat sends a file to a NSI, the e-damis correspondent in the NSI receives a notification in which the real name of the file is indicated. So, you can make a link between the name attributed by e-damis and the name given by the country which sends you the data.

In case the profiling team is not e-damis correspondent, it is possible to be, on request, the recipient of the e-damis notification.

Moreover, to facilitate the transmission of files by Eurostat, it is recommended to the sender to send a message to Eurostat and to the recipients of the files in which it is clearly indicated which countries these files should be forwarded to.
Example: ONS sent via e-Damis to Eurostat the following file:
EGR_PROFILE_N_GB_2010_0001_PIREGB
When received by EGR team, the name of the file was transformed into:
EGR_PROFILE_N_GB_2010_0001_V0012_R.GPG
Notification e-mail which allows making a link between the original file name and the e-damis name:

--- Original Message ---

From: estat-support-edamis@ec.europa.eu [mailto:estat-support-edamis@ec.europa.eu]
Sent: Friday, October 12, 2012 3:14 PM
To: ESTAT SUPPORT EDAMIS; ESTAT EGR
Subject: e-DAMIS-152 - EGR_PROFILE_N_UK_2010_0001_V0013_R.GPG delivered at 19/10/2012 15:10

Importance: High

EDAMIS/STADLMIV - Advance Notification of Data Transfer (C)

Dataset: EGR_PROFILE_N
Transmission Direction: INCOMING
From: UK
To: EU
Collect date: 19/10/2012 15:10
Action: R
Period: /2010
Sequence: EGR_PROFILE_N_GB_2010_0001_PIREGB
Data file destination:
/pc/mac/app/standards/STADLMIV/served/standards_data/GB/EGR_PROFILE_N/UK_ONS_EGR/0001.0001.0006.97534

Note: There is no requirement to have a GEN “ADM” and/or “OTH”, just a possibility. If a GEG contains only one GEN, there is no need to consider a GEN “ADM” or/and “OTH”. In particular, for the GEN “OTH”: 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 particularly an option for treating large GEGs with more than a hundred affiliates, among which some are not consolidated and for which your contact cannot allocate it to a specific GEN. This category can also be used for instance to classify some affiliates which belong to sub-consolidation levels and for which we have no clue to which GEN it belongs to. See also Box 3.
The legal units that are in fine not included in a GEN should be justified by filling the variable LEU_STATUS_NAT (GDC NSI and partnering NSIs).

The name and ID number of the GEN and TENs (all the TENs) should be filled (GDC NSI).

The economic variables for the GENs (number of employees, turnover, NACE code) should be filled (GDC NSI).

The economic variables for the TENs (number of employees, turnover, NACE code) should be initialised by the GDC NSI.

The economic variables for the TENs (number of employees, turnover, NACE code) should be reviewed or confirmed by the partnering NSI.

For each economic variable, reference year, concept and currency should be provided to improve comparability.

9.5. Cooperation between the GDC NSI and the partnering NSIs

The manual European profiling process relies heavily on the co-operation between NSIs. GEGs have to be analysed by multiple partners and data shared amongst EU NSIs. Without collaboration of all NSIs involved in the GEG, then it cannot result in a successful international profile.

If a GEG operates in more countries substantially, the NSI of the GDC is advised to propose close co-operation with the “partnering NSI” from the beginning. At the start of the profiling, the NSIs which will be involved in the profiling need to be informed on the initiative. They can then expect to receive a proposal for comments later on.

Once the NSI of the country of the GDC will have defined the GEN with their constituent legal units (LeU), the TENs will be generated as national parts of the GEN. This information will be transmitted to the partnering NSIs of the countries involved in the GEN, and it will be of their responsibility to confirm the TENs, their identification (e.g. in terms of the constituent legal units) in their country and their ability to produce “core variables”; consequently they will jointly confirm the GENs.

The confirmation of the TEN will have to examine the delineation of the reporting and observation structure of the GEG and its TENs; especially the partnering NSIs should test:
- The effect of the reduction in terms of number of enterprises;
- The main effects in terms of NACE structure on the business statistics;
- The potential reduction in terms of surveys questionnaires;
- The presence of a reporting unit useful as a common data entry point;
- The ability to produce adequate data and the acceptance by the local officers.

9.5.1. How to define the type of treatment (automatic vs. manual) to be operated to confirm the TENs

The GEG chosen for profiling is generally "large and complex" and may be acting in a lot of countries. In that case, it would be very difficult to reach an agreement with all the countries involved in such a GEG. The following decision tree proposes to adopt automatic treatment for the countries where the group has a limited activity (for the GEG and for the country).
Proposal to make a distinction between large and small TENs:

- Size of the TEN in number of employees and number of legal units
- Impact of the LeU within the TEN on the national economy (are they in the census part of the SBS or STS surveys?)
- Complexity in terms of activity of the LeU involved and their relationships (are there some intra-TEN flows?)

The automatic treatment could consist of using administrative data related to the LeU involved in the TEN and aggregating them (it supposes that there are no intra-TEN flows between the LeU). Further recommendations should be given on that topic in 2014.

9.5.2. Description of the manual treatment

In the case a manual treatment is necessary, the scheme below proposes a process for the countries involved in a given GEG to adopt the truncated enterprises that would have been defined by the country of the GDC. It supposes the existence of an interactive tool for profiling (IPT) that will be the place for all the partnering countries involved in a profiled GEG and the NSI of the GDC country to exchange information on this GEG. A feedback to the interactive tool is equivalent to a feedback to the NSI which initiated the profiling.
Note: where UCI is written in the figure read GDC

The TENs' confirmation includes 2 main steps:
1. The checking of the legal units proposed by the country of the GDC. This checking should follow the same pattern as the one operated by the country of the GDC on its own legal units and should lead to eliminate doubles, correct administrative and economic information, flag ceased legal units, identify (with a national ID number) the legal units introduced by the country of the GDC and eventually add new legal units (with an identification number). A more detailed process is proposed in Box 6.

2. The checking of the TENs. This checking requires, as the initial profiling, a desk step, a contact with the group in the partnering country and a discussion with the NA/SBS/STS/FATS/BoP statisticians (with a priority given to the SBS statisticians).

The elements to take into account in the acceptance process of the TENs could be classified into 3 main categories:

1. To test the relevance of the defined TEN (do the TENs give a good picture of the GEG activity in the country? Will information be lost by using the TENs?)
2. To test the usability of the TEN and collectability of data related to the defined TEN
3. To test the potential use of administrative data on the LeU involved in the TEN

The manual treatment should be defined by answering the question: how will the data on this TEN be collected?

a. By surveying the TEN as a whole (needs to find a LeU representing the TEN)
b. By surveying the parts of the TEN and consolidating the answers according to rules (needs to define the minimal necessary information to proceed on such way: for example, percentage of intra-TEN flows or all intra-TEN flows like in Italy consolidated accounts.)
c. By using administrative data related to the parts of the TEN and consolidating them according to rules (see above)
d. By mixing solutions b and c

In order to make an assessment, the following elements can be checked:
- Can the TEN be considered as a whole?
- Do the LeU’s composing the TEN have relationships?
- Is there a LeU that can represent the TEN and be contacted for survey purposes (it means that this unit has information for all the others included in the TEN and can be considered as the reporting unit for the TEN)?

To answer these questions, internal action in the NSI is important, but it is also recommended to search for a national representative of the GEG and define whether or not this unit could provide information at the level of the TEN (or for all the TENs in the country). The level of information that this national representative is willing or able to provide needs to be defined. The previous list of questions can be a starting point of discussion with the national representative of the GEG.
Box 7: Further recommendations for the partnering exercise: a proposal

Profiling also includes monitoring the main economic variables. Ideally the TENs would be the units for statistical surveys, but they need to be able to provide the full set of accounts and at the same time respect national boundaries.

It is possible that the TENs themselves comprise separate parts within the country which have the ability to provide accounting data for statistical purposes. In this case consolidation at national level is necessary. The separate parts are then observation units and the TEN is the statistical unit (see box on units)

A possible set of questions to test the impact on the main economic variables can be:

1. Asking the group about the availability of the intra-group flows data to and from each observation unit, that ensure the ability to national TEN-consolidation. Then adopting (and describing) one of the two following approaches:
   - Managing the intra-group flows inside the NSI (for NSI’s: more work and the need of appropriate skills; for Groups: necessary to open their system to NSI’s).
   - Obtaining the values from the Group (new job for the groups: a “quasi” survey; risks for response burden).

2. List the economic variables that can be provided at the TENs’ level:
   Are for example, for SBS, STS, FATS, all data immediately useful? Or is a phase of data analyses (estimations) sufficient in a first stage?

3. At one time the leading profiling NSI will have to check turnover and employment values:
   - For each EU-EFTA Country
   - Total EU EFTA
   - Data for Extra EU EFTA Country to support/complete/compare with OFATS results.

4. The turnover values need to be produced without intra-group flows:
   - For each EU-EFTA Country “intra” means from the same country (national consolidated).
   - For the EU-EFTA level “intra” means from each EU Country (EU consolidated).

5. In order to check the adequacy of the TENs’ values for the other business statistics domains, collect in the first stage only for the profiling country more data for the TENs than strictly necessary for profiling purposes (e.g. staff costs, purchases of goods and services, investments).

6. Evaluate if the minimum set of data collected is useful to estimate all the other variables (for example for SBS requirements)?

7. Describe how and when the double coding system for NACE (global vs. local) was used.

8. For Option E, describe how to apportion GEN’s values to the national level; however for this ESSnet the agreement was to use Option D in the main.

Checking the information sent by the NSI of the GDC on the GENs and the TENs can be done as internal desk analysis and can be considered as partnering desk profiling. Many sources can be used:

Comparing the last version of the EGR tree with the NSI data.

Comparing the data with the perimeter of the group coming from other statistical or private sources from NSI (for example LIFI contents in France by instance).

Comparing the data with the information coming from the financial report of the group.

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22 From WPA Report: 13.11 Profiling Option D requires the acceptance by all NSI’s of the revised TEN structures to underpin the statistical outputs. As the data collection process remains the responsibility of each NSI, some feedback to the NSI that produced the profile would be essential to ensure coherence of outputs. This would include monitoring the main economic variables as specified in the BR Regulation. Feedback is also important as a trigger to update profiles. It is also a requirement that NSI’s would discontinue national profiling for the GEGs in scope of central (global) profiling.
Identifying each of the LeU in the national business register and checking the individual information (name, ID code, NACE code, address) including the latest available information.

Comparing the sub-consolidated figures of the TENs (employee number and sub-consolidated turnover at national level) with national sources or information (for example: structural business surveys results).

Once the TENs are checked from a BR point of view, a discussion is needed with the statistical users to find out how to gather information on the new TENs and to ensure that these new TENs will be used in the statistics.

There are several ways of collecting information on the new TENs, from the most to the less integrated way, depending on different factors:
- Data on TENs collected at the global level of the group: this option is possible if there is an agreement with the GEG (at the moment on its request) that the GEG delivers the necessary variables (mainly the core variables) for all the TENs.23
- Data on TENs collected by surveying the national representative of the GEG. It means that a national representative has been found and is able to deliver information for all the TENs in the given country. This is the best option.
- Data on TENs gathered by using surveys on the legal units belonging to the TENs
- Data on the TENs gathered by using administrative data on the legal units belonging to the TENs.

These two last options require consolidating data on legal units. The method of consolidation is not completely established yet and requires intra-TEN flows information to be efficient.

Once the countries have completed their action they will then upload the file to e-Damis for the GDC country to populate their national figures onto the worksheet “template transmission data” and the worksheet ‘Information from the partnering’ from the profiling report. This part describes what has been done by the partner, stressing the points that lead to proposed changes in the profile or to conflicts between TENs and GENs

9.6. The conclusion of the profiling process

The profiling process will be finished and concluded with the adoption of the GEG statistical unit’s profile by the NSI of the GDC and of the partnering countries. If not all countries agree, then at the end there will only be a partly agreed result.

Part of the conclusion is also the commitment and formal agreement of the GEG that the profile will be the basis for the statistical data reporting24. Except the statistical units that are distinguished also the data collection procedures are part of the agreement. In these the observation units and reporting units are defined if they deviate from the statistical units. A letter for confirmation of the agreement needs to be sent to the GEG with a copy to all NSIs involved. In the EGR should be made a reference to this letter.

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23 The frequency of this option is a topic for testing.
24 This is after approval of the new approach and the decision on the implementation, so not in the testing phase.
The results of the profiling will be introduced in the EGR according to EGR procedures, including the necessary time stamps. Special attention must be devoted to legal units which belong to the GEG but are not in the EGR (cf. Box1).

*The profile will need a regular follow up for update.* The frequency and intensity depend on the kind of changes that occur. Signals of changes appear from the EGR but for large GEGs signals also come from press publications for instance. The first profiling will be the largest investment for the GEG and for the NSIs. A good follow up strategy will lead to benefits for a long time.

An important issue in profiling is the **reference date of the profile**. This should be as current as possible. It is very difficult to do a historical profile and to reach co-operation to do with the GEG. Nevertheless, we have to work with information that is available and this can be less current than desired, e.g. annual reports or data of the business register (incl. EGR).

It is proposed 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. 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: *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.*

Moreover profilers should fill a reference year for all economic variables (NACE, turnover, and employee’s number) collected for GENS/TENs and LeUs.

Important is the **profiling measurement date**. This is the date on which the profiling activities are declared closed or finished. If, during profiling, knowledge is obtained on imminent changes, it is still the actual situation that is described, not the future situation. However, expected changes have to be mentioned in the profiling report. And a provisional new profile is necessary for the short-term statistics.

All steps are documented in the profiling report, which is the leading instrument in the manual European profiling. At the end the **profiling report** will be the final documentation. It will be again a source document if the profile needs to be updated.

The step 5 needs some treatment and explanation in more detail. The step takes place mainly in the partnering countries which are involved in a given GEG.
10. Summary of the main results obtained at each step

The next scheme summarises the results of profiling: which units and variables in which step.

<table>
<thead>
<tr>
<th></th>
<th>desk profiling</th>
<th>contact with the group</th>
<th>partnering exercise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GEN</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GENs delineation in terms of legal units</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>NACE code</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment (+ reference year and concept)</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Turnover (+reference year, concept and currency)</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Identification of new legal units</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TEN</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TENs delineation (LeUs content)</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>NACE code</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employment (+reference year and concept)</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Turnover (+reference year, concept and currency)</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>LeU</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identification of new legal units</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Information about legal units</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>changes in the delineation of the TEN</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
11. Variables: specific sources of inconsistencies

The presentation of the profiling process states two kinds of responsibilities:
- “The collection of Business Register information (national and Euro-Groups Register, EGR) is included in profiling.” This topic includes mainly 3 variables (employment, turnover and main activity or NACE code), the consistency of which has to be assessed. We will present the main lines of this topic hereunder as a first step for the development of this §.

- “The data collection of the (core) variables of the units needs also high attention of profilers, but the responsibility of profiling teams does not go necessarily up to the collection of information”. Their responsibility goes at least to the point that the profiling team should ensure that the delineated enterprise statistical units are suitable for statistical purposes”. We will have in the future to extend the consistency assessment to all the concerned “core” variables; to do so, it is necessary to have previously agreed with the users on the terms of the assessment, which was not possible for the writing of the present report.

**Employment**

The examination of the data found in the Annual Reports shows the following issues:
- Reference date or period of the measure; it can be:
  - The last day of the accounting period (notion of stock)
  - The average of the period, as a proxy of the “flow of work services” (most of the time, the accounting year: the average can be on a monthly or a quarterly basis, mean of last day of the year and of the previous year etc.);
- Counting of people; the number can be:
  - On a “headcount” basis, each employee being counted as 1;
  - On an “FTE” basis (full time equivalent), in which only the usual work time is taken into account for FTE(no reference to extra-time); depending on the countries, the standards for blue and white collars might be different;
  - Except in “social reports”, the work time in hours is very rare.
- Type of contract with the employer; the employment can be based:
  - Only on legally employed workforce
  - Including also temporary workers
  - Including also (non temporary) contract-workers.

Concerning employment, no “generally accepted standard” has been found until now, even if the largest number refers to the bold categories. The type of variable must be made clear in the “profiling report”. There is a close conceptual relation with the “wages and salaries” and more generally to the “benefit of the workforce” that is to be found either in the “by nature” P&L or in an note annexed to the Annual Report: in practice, the information coming from different services of the GEG, the consistency of this relation has to be checked.

**Turnover**

It is a very difficult topic:
as it has to be distinguished from “revenues” including non-turnover data (fees on patents, licenses, brands; sales of old machines etc.); more and more often the revenues appear in the IFRS instead “pure turnover” (in the Financial Statements, a note usually describes all the components of the revenue taking into account aside “pure turnover”).

as turnover or revenue (according to what the GEG can display) can be by origin (country, zone etc. of invoice) or by destination (country of buyer); Origin refers to the turnover carried out by the affiliates in one country. Turnover by destination refers to the sales in one country whoever performs these sales (from local affiliates or outward affiliates). Since 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 derivate 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 of Stora Enso, a Finish GEG specialized in wood products, paper and packaging.**

<table>
<thead>
<tr>
<th>External Sales by Destination and Origin</th>
<th>Year Ended 31 December</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales by Destination</td>
</tr>
<tr>
<td>Austria</td>
<td>263.3</td>
</tr>
<tr>
<td>Baltic States</td>
<td>198.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>157.8</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>169.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>182.0</td>
</tr>
<tr>
<td>Finland</td>
<td>784.7</td>
</tr>
<tr>
<td>France</td>
<td>627.5</td>
</tr>
<tr>
<td>Germany</td>
<td>1610.1</td>
</tr>
<tr>
<td>Italy</td>
<td>269.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>309.5</td>
</tr>
<tr>
<td>Poland</td>
<td>372.1</td>
</tr>
<tr>
<td>Russia</td>
<td>323.2</td>
</tr>
<tr>
<td>Spain</td>
<td>347.4</td>
</tr>
<tr>
<td>Sweden</td>
<td>1107.9</td>
</tr>
<tr>
<td>UK</td>
<td>984.0</td>
</tr>
<tr>
<td>Other Europe</td>
<td>865.5</td>
</tr>
<tr>
<td><strong>Total Europe</strong></td>
<td><strong>1699.9</strong></td>
</tr>
</tbody>
</table>

Reading note: For France, sales by origin (sales of local affiliates) amounts 187.6 million euros in 2012 against 627.6 million euros for sales by destination (sales of local affiliates + exports to France from non-French affiliates).
as turnover or revenue can be the contribution to the global consolidated turnover or revenue or includes the inter segment sales (if on an arm’s length basis) etc.

What is the turnover to be collected for GEN/TEN? There are many ways to calculate GEG/GEN/TEN consolidated turnover. Moreover this issue is also core when discussing with the GEG as profiling requirements on turnover differs from the GEG usual practices.

The common rule for consolidated turnover requested in profiling is consolidating turnover on the perimeter of the unit considered. For GEG consolidated turnover all the intra GEG transactions have to be netted. For GEN consolidated turnover only the intra GEN transactions have to be netted. For TEN consolidated turnover only the intra TEN transactions have to be netted.

These definitions differ from what GEGs usually calculate (what we call the contribution to the GEG or GEN consolidated turnover). It requires that we do not consolidate the intraflows with the other GENs or with the other TENs.

The consequence is that the sum of the consolidated GENs turnover can differ from GEG consolidated turnover and that the sum of the TEN consolidated turnover can differ from the GEN consolidated turnover. When some GENs/TENs are only containing one legal unit, consolidated turnover is equal to non-consolidated turnover i.e. turnover of the legal unit, since there are no other legal units to exchange with in the profiling unit considered.

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 1: Luxottica group (contribution to the global revenue).**

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 sells a part of its products to GEN 2 for distribution. We would like to collect revenue not netted from intra GEN flows; but the revenue displayed in the A/R corresponds to the net sales of the GENs, which means sales toward the third party customers only (these sales are contributions to the global – fully consolidated - revenue).

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.
**Example 2: Kapsch group**

For this GEG, all the detailed information is provided: total segment revenue not netted from other GEG flows, which corresponds to the information we want to collect preferably (first row of the table), the part of intra GEG flows concerning each segment (second row of the table) and the contribution to the global revenue of the GEG (third row of the table).

<table>
<thead>
<tr>
<th></th>
<th>Traffic</th>
<th>Carrier</th>
<th>Enterprise</th>
<th>Others</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total segment revenues</td>
<td>487.0</td>
<td>179.2</td>
<td>309.5</td>
<td>16.2</td>
<td>982.9</td>
</tr>
<tr>
<td>Inter-segment revenues</td>
<td>-18.3</td>
<td>-2.2</td>
<td>-29.9</td>
<td>-12.2</td>
<td>-59.0</td>
</tr>
<tr>
<td>Revenue from external customers</td>
<td>408.7</td>
<td>108.1</td>
<td>292.6</td>
<td>4.0</td>
<td>929.3</td>
</tr>
<tr>
<td>Operating result</td>
<td>20.3</td>
<td>0.4</td>
<td>2.5</td>
<td>2.1</td>
<td>25.2</td>
</tr>
</tbody>
</table>

The information we prefer is:

1/ pure turnover 
2/ by origin 
3/ non-consolidated between GENs. 
4/ with a sub-consolidation inside each country / inside each TEN 
5/ non-consolidated between TENs of different countries

This type of data do often exist including the 1/ to 3/ characteristics; the introduction of the characteristics 4/ and 5/ needs cooperation from the GEG, even if the consolidation tables are most of the time produced in the consolidation process and might be used for that: but they need specific IT developments with 2 possible tracks (for bottom-up or for top-down procedures). Experts’ remark: You should realize that preference 4/ (depending on how the profiler has delineated the GENs, depending on the complexities of the GEG, depending on the accounting standards and accounting software used, etc.) could range anywhere from a difficult exercise to something quite impossible. For a big GEG this would be, in the best of all circumstances and if possible at all, a burdensome thing to do. If the delineation is something more extravagant, you should expect a reasonably negative answer.

Anyway, the produced data have to be very carefully documented as well when working with the GEG as when exchanging data with partnering data.

**Main activity**

As to the NACE code, the main question relates to:

- The determination of the whole bunch of activities performed by the GEG/GEN/TEN (application of the classification rules)
- The treatment of the non-marketed activities (headquarter and support activities, etc.)
- The treatment of vertical integration
- The double coding
- Etc.

The decisions taken have to be well detailed in the profiling report.
12. Skills

Profiling both at National and European level is a complex task requiring a high level of skill from staff. Some of the skills required for profiling can only be acquired through the real experience gained from carrying out the profiling activities. These skills take time to build and as noted previously even five years after the EU profiling is initiated, experienced profilers still find new challenges and scenarios they have not come across before. A professional profiler should be an overall professional, well known with both the statistical world, broader than the business register, and the business world.

For both National and EU profiling programme, the following essential skills and experience have been identified as being essential in order to carry out profiling effectively and to a high quality. As profiling requires a multitude of skill and experiences, it would be sufficient for these skills to be shared amongst a group of profilers. These can then be drawn upon when required and therefore are not required by every individual.

12.1 Communication and negotiation skills

Excellent communication skill both verbal and written is key to the profiling task. A profiler needs to be able to use their own initiative and have good negotiating and influencing skills. Profilers need to negotiate with the GEGs and internal customers in order to delineate the most appropriate structures on NBRS to facilitate the collection of high quality data which will suit all parties. There may be a need to negotiate a compromise. Good experience of Business Registers and all of the Regulations that guide them is essential. When involved in EU profiling program there is also a need to discuss and negotiate between NSIs.

12.2 Knowledge of businesses

The business world is continually changing and adapting to global markets and therefore profilers need to understand the drivers behind why businesses structure in this way. Profilers need to put themselves “in the shoes” of the businesses. They need to be empathetic to the burden or potential burden that is placed by NSIs on them and try to put themselves in the same position as the group. There is benefit in profilers becoming experts within certain sectors of the economy as the testing of EU profiling suggested that certain sectors and industries organise themselves and their financial structure in a similar and consistent way.

12.3 Knowledge in business accounting

Moreover the profiler must have basic knowledge and understanding of accounting and bookkeeping systems and other information systems used in business organisations.

12.4 Knowledge in statistics

It is important to understand that the requirements for compilation of economic statistics are sometimes different to the accountancy reporting in place in the business world. Therefore, a profiling team will also need to have a good understanding of the statistical data required including the understanding the differences between the different definitions of variables.

The introduction of European profiling will lead to additional necessary skills, in particular speaking and writing good English.
13. Organisational Models for Profiling

The aim of this section is to provide NSIs who are considering profiling for the future, an idea of what is currently available in terms of an organisation model and the pros and cons of the different options available. It also covers lessons learned from the latest research available, completed through the Profiling ESSnet projects over the last five years.

Before looking at potential models, it is important to reflect on the principles of introducing a model and start by providing an explanation on what we mean by organisation model. An organisation model defines a process through its framework including lines of authority, communication, duties and resource allocations. The ideal model will depend on the nature of the work and the challenges it faces. A model should also determine the resources required and the required skills needed to carry out their responsibilities. All such elements need to be taken into consideration when proposing a model for profiling, taking into account the challenges of globalisation on the collection, analysis and output of statistical data.

This section reflects on the existing roles and organisation of the few national profiling programmes that have been in place. It will then explain the existing organisation within the ESBR Profiling work and the Mono Beneficiary Profiling Grants. Using the experiences gained and understanding the main requirements of an EU profiling programme, this report will make some suggestions on what a profiling model could look like.

It is also important to note, that there is not one ideal organisational model which will be appropriate to all NSIs. It must be acknowledged that the organisation of the National Business Registers (NBRs) teams and the economic survey areas differ heavily between NSIs. In some cases external bodies are involved in the collection and analysis of economic data (e.g. the involvement of Central Banks). Therefore a model for profiling within NSIs needs to be carefully considered, especially in terms of the impact that it would have on the NSI.

13.1 Organisational Models implemented at National level

During the last few years, a few European NSIs have introduced profiling teams whose aim is to accurately record and maintain large and complex Enterprise Groups on National Business Registers and to correctly delineate the Enterprise which is used for Statistical data collection. The following sections describe the profiling programmes that have been organised in three NSIs, ONS UK, CBS Netherlands and INSEE France. They provide a summary of their organisation and roles and also importantly reflect on the strengths and weaknesses of each model.

13.1.1. Office for National Statistics (ONS) UK

The ONS profiling team are situated within the Business Register (BR) department and consist of 16 full time equivalent profiling staff. They are responsible for ensuring reporting structure, employment, turnover and classification is accurately recorded for the Top 2,500 groups. Data collection, validation and analysis are carried out outside the department. The strengths of this organisation are that the profilers are all very experienced business register staff. Although situated within the BR, they maintain good relationships with all internal statistical users. The team that process the data to supply to the EuroGroups Register (EGR) are the same Business Profiling team and therefore this allows for full coordination between the two processes. This smaller profiling team enables close working relationships between profilers. Communication is strong and all are kept informed of development, changes to processes. This makes it easier to ensure consistency in profiling methodology.
One of the limitations identified by the profiling team is that as data collection, validation, analysis and results is carried out in a separate structure, no one area fully understands the whole view of the Global Enterprise Group. Most changes that trigger profiles are reactive to data changes highlighted by the enterprise through ONS surveys. It is often the case that inconsistencies are often only identified once they have entered the results area. It is also the case that as the results areas are separate from the data collection areas, their main focus is to ensure comparable data and often the true economic picture of a Global group is not as important. The UK profile resources only allow for groups to be profiled every 4 years and evidence concludes that for the largest of groups, this is not a frequent as it needs to be.

### 13.1.2. Central Bureau Statistics (CBS) Netherlands

As the largest businesses in a country have the most influence on statistical data, it is wise to put most of the effort in compiling good quality profiles for the largest enterprise groups. Back in 2005, CBS defined a population of the largest, most influential and complex enterprise groups in The Netherlands. These are called the Top-X groups. These Top-1900 enterprise groups included also enterprise groups consisting of only one Enterprise.

The Top-1900 enterprise groups, which are profiled at least biannual, are split in two subsets:

- One subset contains the 300 statistically most important enterprise groups, the so called ConGO groups. ConGO is an abbreviation for Consistentie Grote Ondernemingen (Coherence between Large Enterprise groups). For these units coherence checks are carried out. The ConGO unit is part of a statistical department.

- The other subset contains the rest of the Top-1900 enterprise groups. Those groups are also regularly profiled, but for these groups coherence checks are not carried out. Those groups are maintained by the BR department.

All the other enterprise groups in the Dutch BR outside the Top-1900 are not regularly profiled. The BR algorithm derives the structure of these groups. Only at the end of each month, when a new statistical frame is produced, significant changes which are detected by macro analysis are checked manually by profilers.

The ConGO profilers are placed in the ConGO unit, because they have direct communication lines with the data analysts and account managers. Currently four profilers work for the ConGO unit supported by editors and validators and with qualified accountants. The non-ConGO profilers (i.e. the profilers working on the other Top-1900 groups and reactive non-Top-1900 groups) are part of the BR department. Currently eight profilers work for the other Top-1900 groups and four profilers for non-Top-1900 groups. Not all of the twelve BR profilers work full-time.

An Account Management Approach inside the ConGO unit was established in 2010. Around 300 of the largest non-financial truncated enterprise groups are profiled which accounts for 50% of Total Value Added for the Netherlands. This is 40% of total turnover and 55% of balance sheet data. Account managers are responsible for ensuring consistent data are delivered by the 350 groups. They aim to visit groups at least once a year. The strength of an account management approach to profiling is that it solves inconsistencies largely before the publication of data.

Until this method was adopted and account managers were established, incoherence between statistics only showed up at compilation stage. Evidence concluded that incoherence’s once resolved do not reoccur and the quality of the business statistics and national accounts has improved. The accounts team has good knowledge of large groups and strong relationships with them have improved the data. The perceived and actual response burden decreased as fewer
recognised enterprises are established. The team also takes responsibility for facilitating the introduction of new surveys and concepts, i.e. some of the changes to the new ESA2010 (European System of Accounts).

13.1.3. INSEE FRANCE
For the largest 50 non-financial GEGs, a Business Register approach and an account management approach has been applied.

The profiling team was set up in 2010 and is located in the Department in charge of both national Business Register, EuroGroups Register and Structural business statistics (SBS):
- The national Statistical Business Register (called SIRUS) makes the connection between three registers: the administrative register which enables to manage all legal units (SIRENE), the enterprise group data base (LIFI) and the national enterprises data base (BCE)
- Structural business statistics (SBS) includes both legal unit accounts and enterprises accounts for the largest non-financial groups.

Profilers are responsible for enterprise delineation data collection used as products for SBS. National profilers are also in charge of coordinated profiling activities under the supervision of Eurostat. It is important to note that the OFATS survey is also monitored by the profiling team. This is mainly due to the fact that contacts for profiling are often the same as for the OFATS survey. Moreover, the reporting unit in OFATS (NACE code per country) is often a proxy of the enterprise unit.

There are eight staff members within the profiling team and their strength is that they have direct links with National Accounts. Another advantage is that competences are shared amongst the profilers. For example, knowledge of accounting and practices, financial expertise business statistics expertise and IT competencies are shared around the team members. A profiling seminar is organised five to six times by year. The aim is to present profiling cases or a specific methodological point to users from the National Central Bank, SBS data, National Accounts, STS data. Moreover, INSEE departments involved in profiling received the minutes of the visit of the group.

From 2013, the approach has been become mandatory at national level. This helps a great deal since it gives more weight to our request and deadline to collect the data. INSEE have noted that there was too much focus on the top 100 groups at first and this “big bang” which was requested by users, was not possible in reality. As a result only the Top 50 were profiled during the first years using the account management approach.

The goal of INSEE team is to profile all GEGs with specific methodology according their size: for the largest groups the profiling is carried out by profilers as the result of a face to face profiling approach (“Target 1”), for small or simple groups by automatic algorithm (“Target 2”) and by semi-automatic algorithm for medium size groups (“Target 3”). Targets 2 and 3 will be implemented soon.

The profiling approach will reduce the operational cost in the medium term.

13.1.4. Summary of Models table
The table below summarises the different models applied by ONS, CBS and INSEE:
As one can see, the existing models differ between NSIs such as in their roles, organisational set up and also in resources applied. The profiling teams have been organised in order to meet the needs of the National customers within each NSI. For example the criteria and selection of cases has been tailored to suit the needs of National Accounts.

### 13.2 ESBR Profiling Model

As part of the current ESBR VIP project (Work Package 3, Block 2, 2014/2015), the ESBR profiling Model is set up with 4 main actors. Eurostat and a Lead NSI co-ordinator (at present this is INSEE) co-ordinate an ESSnet which is made up 4 coaching NSIs. (Presently ONS UK, CBS Netherlands, INSEE France and Statistics Finland). These all have experience in previous profiling projects and support those NSIs who are either less experienced or new to profiling. NSIs carrying out the testing of EU profiling do so under individual Mono-beneficiary funded by Eurostat. Deliverables and tasks such as the number of cases to be profiled are set out in individual contracts. Within these tasks, NSIs may apply to profile Intensive, Light, Follow Up and Non-European cases and either as a Lead NSI, a Partnering NSI or both (described below).

### 13.2.1. Roles and Responsibilities; Responsibilities of the ESSnet Coaches

These NSIs are mainly responsible for stabilising the tested methodology, build tools for data sharing. Four coaching NSIs are also responsible for providing coaching support to those NSIs which are new to the EU profiling process (trainee NSIs). The following lists all of the responsibilities of the coaching NSIs:

<table>
<thead>
<tr>
<th>Scope</th>
<th>ONS</th>
<th>CBS</th>
<th>INSEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>GEGs responsibility</td>
<td>Top 2500</td>
<td>Top 1900 (incl. 350 ConGO)</td>
<td>All GEGs (around 40 000)</td>
</tr>
<tr>
<td>Selection criteria</td>
<td>Triggered by issues with data inconsistencies</td>
<td>Impact on NA</td>
<td>Impact on NA</td>
</tr>
<tr>
<td>Treated per year manually</td>
<td>Average 270</td>
<td>Average 950</td>
<td>50 GEGS</td>
</tr>
<tr>
<td>Frequency</td>
<td>Of profiling large GEG</td>
<td>Every 4 years</td>
<td>Bi annual</td>
</tr>
<tr>
<td>Model</td>
<td>BR maintenance approach or Account Management</td>
<td>BR maintenance approach</td>
<td>BR maintenance approach and Account management</td>
</tr>
<tr>
<td>Team</td>
<td>Number of staff (FTE)</td>
<td>16</td>
<td>9 (approx 30 in ConGO)</td>
</tr>
<tr>
<td>Location</td>
<td>In BR</td>
<td>In BR and statistical department</td>
<td>In BR and SBS</td>
</tr>
<tr>
<td>Goals</td>
<td>Maintaining the correct structure</td>
<td>Delineation of Enterprise and Maintenance</td>
<td>Delineation of Enterprise and Maintenance CONGO team: also coherence, analysis and results</td>
</tr>
</tbody>
</table>
a. Organising and delivering training workshops detailing the entire profiling process from start to finish. These workshops have been organised to encourage interactive participation referring to real examples and activities which NSIs have been heavily involved with.

b. Coaching NSIs have produced detailed and understandable guidelines and methodological documents and are continually updating them through feedback from the trainee NSIs.

c. Coaches have provided regular newsletters that covered any new developments as well as technical paper detailing some specific issues and explaining how to treat it.

d. Coaches have organised face to face coaching sessions where questions have been asked and on-going cases worked through. Coaches have shared their experiences and encouraged feedback to ensure consistency in treatment of certain cases. This is particularly important as some of the issues and questions raised by trainee NSIs are newly identified even to the NSIs that have over 5 years of experience on EU profiling. This is mainly due to the differences in situation and experience between NSIs, i.e. different registers, different legal limitations, and different relationships with the groups etc.

e. Coaching NSIs have created different tools to allow for sharing and storing the information such as the Profiling Template and Reports. In order to ensure that the profiling tools are aligned with EGR, profiling staff have worked alongside the EGR development team. An example of this is ensuring that all the variables listed on the documents are in line with the EGR Frame.

f. Coaching NSIs have organised “Helpdesk” e-mail groups so that trainee NSIs can send questions to coaches to answer effectively.

g. More recently, coaches have started to develop and test an internet forum where Question and Answers may be shared to many NSIs ensuring consistency in treatment of the methodology.

h. In a few occasions, coaching NSIs have accompanied trainee NSIs to profiling visits to the Global Enterprise Groups (GEGs) in order to support them in this challenging part of the process.

Please refer to Chapter 8 which details the role of the Global Decision Centre (GDC) NSIs and Partnering NSIs.

13.3 Essential Relationships to Profiling

13.3.1. Profilers and Business Registers (NBR and EGR)
For those NSIs with existing profiling teams, the models show that they all sit very closely to the Business Register Unit which brings many benefits to correctly maintaining the real economic views of GEGs. The most obvious one is access to the National Business Registers (NBRs) which is a fundamental element of profiling. NBRs are accurately updated and maintained with information sourced from profiling both for domestic only and international Groups.

13.3.2. Relationship with EGR
EU Profiling is directly linked to the EuroGroups Register (EGR). One of the main aims of profiling ESSnet is to not only maintain the correct legal structure of Global Enterprise Groups (GEGs) for statistical outputs but also the economic dimension of the EGR. For profiling, EGR is the starting point in terms of acquiring a first view of the Legal unit perimeter. Profiling compares this list with the structure provided by the GEG (directly from the group or by published data in the annual reports). The list available from the EGR also provides an
identification number for the Legal Units. In the short term, an Interactive Profiling Tool (IPT) is being developed which will support the interaction between profiling and the EGR. IPT will enable to improve and update EGR perimeter for the largest and more complex GEGs. Taking into consideration this direct relationship, EGR and profiling staff need to have a close working relationship. EGR are responsible for ensuring the maintenance and quality of all enterprises with a cross border relationships. In some of the larger NSIs this will involve thousands of GEGs and tens of thousands of Legal Units. Profilers responsibilities will only stretch to manage the largest and most complex of groups and therefore roles are different. However, for profilers with EGR methodology knowledge including metadata, definitions and processes is highly beneficial. A better understanding of the EGR Version 2.0 and all associated process will allow for the understanding and identification of anomalies on the EGR and on the NBRs. The two areas need to be highly interlinked with common IT systems, software and databases. The optimum model would be that both EGR and profiling staff would be situated in the same department and be geographically located next to each other. For some of the small NSIs where there are few enterprise groups to be managed on the EGR, it could be feasible for profilers and EGR staff to be part of the same team.

In terms of communication, regular meetings should be held involving both parties in order to discuss particular GEGs or data anomalies.

13.3.3. European and National Profilers

During the testing phase of the project, for those NSIs with established profiling programmes, European profilers sit alongside the national profilers. In INSEE’s case, National and European profilers carry out the same top down methodology to carry out national profiling and European profiling. CBS profilers allocate profiling time across both International and National profiling. Within ONS there are two distinct profiling teams for international and national requirements. If profiling uses a “Top Down” methodological approach and the new proposed definition of an “Enterprise” is adopted at some point in the future and if governed in a new EU regulation, both domestic groups and global enterprise groups will be treated with the same methodology. Therefore, theoretically, there may be no distinction between the two types of profiling.

13.3.4. Relationships with NSIs and Sharing of Data

There are examples of test cases which demonstrate the benefits of sharing data with NSIs. ONS have several cases where improvements to the NBRs have been made including changes to classification of Legal Unit and the addition of missing information as a consequence of receiving data from other NSIs. The new profiling methodology relies upon the actions of all partnering NSIs involved in the GEG profiled (i.e. collected data) in order to achieve a successful result. Therefore it is imperative that European profiling involved all EU NSIs. Profiling of large and complex groups is a difficult task and therefore it is also very important that NSIs learn from each other and share best practice. Guidelines for profiling have been produced in collaboration with all 23 NSIs who have been involved in any of the profiling ESSnet projects and have evolved as a result of the testing exercise. Experiences show that all NSIs face common difficulties in collecting accurate national data from large global groups and therefore it is necessary to drawn upon the experiences and lessons learnt from others in order to identify common solutions. The Profiling ESSnet has also highlighted differences in the treatment of data on NBRs and there are many areas where there is continuing need for detailed discussions in order to have greater standardisation and consistency.

It is important to note that this network is very dependent on the individual grants that are supplied by Eurostat through both the ESBR Project and Individual Mono-Beneficiaries. Without these Grants there would be no face to face meeting resulting in no sharing of common practices, lessons learnt and overcoming common profiling challenges. Experiences conclude
that this is vitally important for regular face to face communication between NSIs in order to ensure consistency and harmonisation in the application of profiling.

13.4 Desirable Relationships for Successful Profiling

These are important recommendations for the profiling process but may be difficult for some NSIs to implement. It is important to note that communication with the statistical results areas within NSIs is carried out at all stages of a profile. This is to ensure that the final Enterprise delineation is suitable to be used to collect the right data for National results.

13.4.1 Relationships with Outward Foreign Affiliates Statistics (OFATS)

Experience from the testing phase has determined that the OFATS data is extremely useful as a source of information for profiling. OFATS differs in its set up between NSIs. For the majority, the OFATs survey requests aggregated data by country and by three digit NACE code and provides Employment and Turnover data. It appears that operating segments are used as a starting point in a similar way to the ones profilers use for the delineation of profiling proposed Enterprises.

In some cases, GEGs supply a full list of non-consolidated data for every Legal Unit. Therefore OFATs can provide a list to compare against EGR data. In addition to this benefit, the contact at the GEG who completes the OFATs questionnaire (normally situated in the GEGs Group Accounts Department) is the person that manual European profiling targets for acquiring information about the global structure.

In an ideal world, the OFATS survey would be more standardised across NSIs. The ESSnet has discussed the possibility of potentially expanding the survey to bring it in line with the criteria for profiling. It could then become the main source of employment and turnover data for profiling (especially where light profiling is applied and there is less contact with the GEG).

Due to its importance as a source of data for profiling, the relationship between both areas needs to be strong. It could also be argued that given OFATS is the main customer of the EGR then having profilers, EGR staff and OFATs staff contained within the same team and same geographic department would be efficient and effective.

Again, the organisation of the OFATs surveys differs between NSIs. In INSEE, profilers are responsible for the OFATS survey but in ONS and CBS the survey is run externally to the business register and profilers. In many NSIs such as DESTATIS, Germany, the situation is very different as the OFATS survey is produced by the National Central Bank.

Given such close links between profilers, the EGR and OFATS, the ideal model would be that profilers would take responsibility for managing the OFATs survey. However, depending on the current organisation, for some NSIs this would be a very costly exercise. For example the re-training of staff, IT costs for moving a survey from one area to another could be high.

If it is not feasible for OFATS to be managed within the profiling team, (for example for those NSIs where the OFATS survey is produced externally to the NSI by the Central Banks) then the next best option would be to build an excellent working relationship between the two areas. Regular meetings could be held with the OFATS team where cases are discussed and inconsistencies identified and resolved. If possible access to OFATS data should be made available to profilers to use to correctly define the structure of the enterprise group. It is also a two way benefit as the results of OFATS could be improved as a result of information collected via intensively profiling a GEG.

13.4.2 Relationship with Other International Trade Statistics

As the International Trade statistics surveys such as Foreign Direct Investment (FDI) and IT IS (International Trade in Services) rely on data at the global level, their relationships between EU profiling, the EGR and the NBR is an essential one.

As the EGR currently only shows those relationships between Legal units whose share ownership is greater than 50 percent of controlling shares, this does not currently satisfy the
needs of the International surveys such as FDI who require all relationships with greater than 10 percent of controlling shares. However, EU profiling is testing the collection of data based on all consolidated Legal Units including those that are minority shareholdings. This information collected by profiling can significantly help quality assure data for these survey users. Going forward, it is vitally important that the methodology and scope of the profiling work, the EGR and NBRs needs to align and integrate.

As with OFATs, the organisation of this survey differs between NSIs. For ONS, the FDI survey is organised in the same division as the OFATs survey but separate to the business register department. For many NSIs (like CBS), it is organised in the Central Bank. For INSEE FDI data is maintained outside the Business Registers Units and is organised in the same department as the OFATS survey.

13.4.3. Relationships with Structural Business Survey (SBS) and Short Term Statistical (STS)
SBS is the main source of financial data for National Accounts and for European statistics. Therefore it is important that the new profiling methodology and organisation supports the collection of this data. It is part of profilers’ responsibilities to work with SBS to ensure that the appropriate Enterprises are delineated. As previously stated it is important to discuss the profile with statistical results areas at the very start of the process and to continue to meet up and discuss progress throughout.

13.5. Physical Location of Profiling Teams within NSIs
It is commonly accepted by the business world that “relationships between colleagues who work side by side in an physical environment will build up a better working relationship than those who are geographically separated be it within the same building, different sites or in different regions of a country”. Communication with people in an organisation is known to be much more effective on a face to face basis than communication with colleagues through e-mail and telephone.

For the work carried out in the economic statistical divisions of NSIs, the physical location of personnel is even more important due to the fact that often communication surrounds both complex and sensitive economic data and processes which support this information. It is often much easier to discuss such issues on a face to face basis.

It is also recognised that grouping employees in the same physical environment encourages the formation of strong, collaborative teams that work well together, engage in planning and decision-making together, and understand each other's personalities and work styles. An added advantage of this close working proximity is the ability of the team to adapt quickly to change due to differing demands.

In terms of profiling, adapting to continuous change and coping well with challenging responsibilities resulting from the economic globalization is of significant importance. The importance of having a team of individuals who work in the same environment, to the same challenging goals and adapting to continuous change collaboratively should not be underestimated.

13.6. Moving from National to manual European profiling
On the surface, there seems to be many similarities between the two approaches in terms of the actions carried out at the National and EU level. For example, both approaches are responsible for maintaining the correct structure for the collection of the statistical data for the most important Enterprise Groups. Both at an EU and National level, profilers are responsible for the delineation of Enterprise, maintaining and correcting all the relevant administrative and Statistical Units on National Business Registers. They also take responsibility for communicating directly with the Global Enterprise Groups (GEGs) to gain a better understanding of their organisation and financial reporting structure.
However, the differences lie within the overall goals and wider perspective of both approaches.

a) Harmonisation across countries:
The main difference being that the European Profiling Program aims at delineating consistent data collection units (Enterprises) across all European NSIs and therefore there are extra steps in the process which aim to help bring consistency. The delineation of the consistent Enterprises for the same Global Group is a key goal of European profiling. At a National level, there is only a need to consider the impact on National customers when delineating the Enterprises. Collaboration and discussion with partnering NSIs to try to negotiate a consistent Enterprise delineation is not a requirement. As a result, in some cases, NSIs delineating through National profiling, may have delineated different Enterprises for the same group.

b) The unit on which the analysis is mainly focused:
National profiling analyses the GEG but also focuses on the Truncated Enterprise Group level and aims to maintain units that fall within this level. European Profiling takes as analytical focus the entire group and Enterprises delineated at a Global Level. All Legal Units in the Groups consolidation perimeter is examined and updated if needed. For the ONS and CBS the legal units examined by national profilers within the Global Enterprise Group are different to those investigated at the European Level. At the National level, only units that fall under a cluster of control are examined but for EU profiling, all legal units consolidated within the financial statements are included. It is also worth noting that no data is currently shared between NSIs who are nationally profiling only.

c) Target of large group to be profiled
The process of prioritisation and selection of cases to be profiled is also different between the two approaches. National profiling focuses on prioritising the ones that have the most impact for National Accounts. Priorities might be different for EU statistics. For example, a case may be extremely important for National needs due to its size in a particular sector but at a European level, the impact might be lower as the sector on a European level can be very different. If the National and European Level Programmes were to align, then the selection and criteria and prioritisation of cases would need to be made consistent. Analysis carried out by Dominique Francoz (Eurostat Profiling Co-coordinator) which was presented at the 24th Meeting of the Wiesbaden Group on BR in Vienna in 2014, highlighted the differences in priorities between National and EU levels using Employment taken from the EGR Version 1. Going forward, it is the expectation of Eurostat that profiling will focus on the largest 600 European GEGs with an aim for 300 GEGs to be profiled by the end of 2017.

13.7 Account Management - A Potential Model for Profiling
INSEE and CBS have adopted an “Account Management model”. Many other global NSIs including Canada, New Zealand and Ireland have also opted for this approach. Account managers take responsibility for a portfolio of the largest and complex GEGs and will ensure that timely and accurate economic data are collected for statistical users. In additional to delineating the correct Enterprises and reporting structure on the National business registers, account managers also take responsibility for overseeing the collection of economic data and validation of this data by means of coherency checks. This model it is not yet applied on an EU level since the goals and scope of the projects so far did not include central collection of data.

13.7.1 Benefits of Account Management Model
The Account Management model brings many advantages to the collection of accurate, timely and fit for purpose economic data. Results from CBS who implemented this in 2010 show that they have resolved many data inconsistencies before reaching the data compilation stage.

Having profiling as part of an integrated account management unit within a NSI, who would be responsible for ensuring the collection of timely and accurate data at the very beginning of the
economic statistical production process, would result in the resolution of data inconsistencies and anomalies before it is processed by any of the statistical domains.

GEGs are continually changing and updating both their legal and organisational structures and the largest do this on an even more frequent basis. These structure updates (mergers, acquisitions and disposals of legal units) can have large consequences on the data collected and therefore impact on statistical outputs. Therefore, it seems logical that in order to maintain an up to date real economic situation for the most complicated of organisations, profilers need to establish close co-operation with representatives at the GEGs.

Account Management will build the trust and confidence that large businesses have in NSIs and also European Statistics. This is achieved through the development of collaborative relationships that meet the high standards of practice required by a NSI and the public sector. It is also important to promote the value and importance of official statistics, for both national accounts and Eurostat, to large businesses.

It proposes a model where regular contact (at least once a year for the largest of GEGs) would be maintained with representatives of the GEG. Profilers could be responsibility for a portfolio of groups, possible industry specific, which is made up of the key responders for National and European requirements. Each GEG could be closely monitored and this would allow for profilers to become experts in those groups and relevant industries. Profilers could be the central link between the business world and NSIs, explaining the importance of data to both National and European statistics.

There are increasing demands on economic statistical output areas for more frequent, detailed and accurate data. Profilers who are experienced in accounting systems, SBS and National Accounts could work alongside experienced business register staff in a centrally coordinated team. Changes in the business structures or data discrepancies could be understood, corrected if required and analysed before being processed by the statistical customer.

A centralised profiling team who would be responsible for data collection would result in more consistency in the treatment of both the structures of groups on National Registers and also the economic variables. For example, as the ESSnet on Consistency Project in 2013/14 highlighted, there are discrepancies in terminology of economic variables not only between NSIs but also between the statistical surveys such as those defined in the SBS and STS regulations. This is also highlighted in the results of CBS who noted that account management has resolved internal inconsistencies in definitions of variables and treatment of data.

An additional difficulty in ensuring consistency of data returned by the largest of groups is that the organisational and reporting structure of the largest GEGs can be very complex. For example different surveys will, more often than not, be sent to differing contacts within the GEG. For example the employment based surveys such as Wages and Salaries and Vacancies surveys will often be sent to the Human resources or the Payroll Department. The financial surveys such as SBS and STS are sent to the Accounts Department, which is often different to the collection of consolidated group data or international data such as OFATS, FDI and International Trade In Services (ITIS). These are normally completed by staff in the Group Accounts department. The collection of all economic survey data from these businesses from a central point within NSIs would enable data anomalies to be identified at the point that the data are received. Comparisons could be made analysing the data received from different surveys and the different contacts at the GEG and potential issues addressed at the first receipt of data.
EU profiling has also concluded through the testing process, that carrying out comparisons between industry specific enterprise groups brings many benefits in terms of identifying possible inconsistencies. For example, INSEE carried out a comparison of all the Oil and Gas Industry companies concluding that they all have a similar structure. Therefore, if profilers were responsible for a subset of groups within a specific industry and become in principle industry specific experts, then this would also support the collection of accurate statistical data. This method of collection would also greatly strengthen the relationships with the end users of the data, for example National Accounts.
## Glossary and List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tbody>
<tr>
<td>A&amp;L</td>
<td>Assets and Liabilities which are part of the balance sheet</td>
</tr>
<tr>
<td>Auxiliary activities</td>
<td>An auxiliary activity is an activity whose product is intended to be used within the enterprise. It is a support activity undertaken within an enterprise in order to allow the exercise of the principal or secondary activities of the units of local economic activities (Regulation (EU) No 549/2013 of the European Parliament and of the Council on the European System of Accounts).</td>
</tr>
<tr>
<td>BR</td>
<td>Business Register</td>
</tr>
<tr>
<td>BD4</td>
<td>The OECD Benchmark Definition of Foreign Direct Investment, 4th edition</td>
</tr>
<tr>
<td>BoP</td>
<td>Balance of Payments</td>
</tr>
<tr>
<td>Branch</td>
<td>Also call permanent establishment. They are units which operate in another country than the country of the legal unit to which they legally belong to. They can carry economic activity or not.</td>
</tr>
<tr>
<td>CBS</td>
<td>Centraal Bureau voor de Statistiek (Statistics Netherlands)</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>D&amp;B</td>
<td>Dun &amp; Bradstreet</td>
</tr>
<tr>
<td>ECB</td>
<td>European Central Bank</td>
</tr>
<tr>
<td>EFTA</td>
<td>European Free Trade Association: Liechtenstein, Iceland, Norway, and Switzerland</td>
</tr>
<tr>
<td>EG</td>
<td>Enterprise Group</td>
</tr>
<tr>
<td>EGR</td>
<td>Euro Group Register. European Register that includes the 10000 largest groups operating in the EU.</td>
</tr>
<tr>
<td>ENT</td>
<td>Enterprise as is in present practise in the NSIs for economic statistics</td>
</tr>
<tr>
<td>ESS</td>
<td>European Statistical System</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>European Countries</td>
<td>In these guidelines: EU member states + EFTA countries</td>
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<tr>
<td>FATS</td>
<td>Foreign Affiliates Statistics</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GAAPs</td>
<td>Generally Accepted Accounting Principles: US-GAAPS for the US</td>
</tr>
<tr>
<td>GDC</td>
<td>(Global) Group Decision Centre</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GEG</td>
<td>Global Enterprise Group</td>
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<tr>
<td>GEN</td>
<td>Global Enterprise</td>
</tr>
<tr>
<td>GGH</td>
<td>Global Group Head</td>
</tr>
<tr>
<td>GGNA</td>
<td>Expert Group on the impact of Globalization on the National Accounts</td>
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<tr>
<td>GNI</td>
<td>Gross National Income</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<tr>
<td>GOD</td>
<td>Group Operating Division</td>
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<tr>
<td>IDBR</td>
<td>UK Interdepartmental Business Register</td>
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<tr>
<td>IFATS</td>
<td>Inward Foreign Affiliates Statistics</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>INSEE</td>
<td>Institut National de la Statistique et des études économiques (French National Institute for Statistics and Economic Studies)</td>
</tr>
<tr>
<td>IPT</td>
<td>Interactive Profiling Tool. Tool created for the profilers to share information on</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>GEG</td>
<td>Global Enterprise Group. This corresponds to the multinational group</td>
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<tr>
<td>IPT-DB</td>
<td>Interactive Profiling Tool – Eurostat central database that includes the information on all the groups profiled or in the process of profiling</td>
</tr>
<tr>
<td>IS</td>
<td>Investment statistics</td>
</tr>
<tr>
<td>ISTAT</td>
<td>Istituto nazionale de statistica (Italian National Statistical Institute)</td>
</tr>
<tr>
<td>KAU</td>
<td>Kind of Activity Unit</td>
</tr>
<tr>
<td>LeU</td>
<td>Legal Unit</td>
</tr>
<tr>
<td>LIFI</td>
<td>Financial links survey which enable to delineate groups perimeter carried out by INSEE</td>
</tr>
<tr>
<td>LKAU</td>
<td>Local Kind of Activity Unit</td>
</tr>
<tr>
<td>MUNA</td>
<td>Multinationals in National Accounts</td>
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<tr>
<td>NA</td>
<td>National Accounts</td>
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<tr>
<td>NACE</td>
<td>Nomenclature statistique des Activités économiques dans la Communauté Européenne</td>
</tr>
<tr>
<td>NBR</td>
<td>National Business Registers</td>
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<tr>
<td>NSA</td>
<td>National Statistical Agency</td>
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<tr>
<td>NSI</td>
<td>National Statistical Institute</td>
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<tr>
<td>OCI</td>
<td>Other Comprehensive incomes</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OFATS</td>
<td>Outward Foreign Affiliates Statistics</td>
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<tr>
<td>ONS</td>
<td>Office for National Statistics (UK)</td>
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<tr>
<td>P&amp;L</td>
<td>Profit and Loss</td>
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<tr>
<td>Prodcom</td>
<td>Statistics by Products in the European Community</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>SBS</td>
<td>Structural Business Statistics</td>
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<tr>
<td>SNA</td>
<td>System of National Accounts (UN)</td>
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<tr>
<td>SPE / SPV</td>
<td>Special Purpose Entity (see also SPV)</td>
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<tr>
<td>SPV</td>
<td>Special Purpose Vehicle (see also SPE)</td>
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<tr>
<td>STATFIN</td>
<td>Statistics Finland</td>
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<tr>
<td>STS</td>
<td>Short Term Statistics</td>
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<tr>
<td>SU Regulation</td>
<td>Statistical Unit Regulation</td>
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<tr>
<td>TEN</td>
<td>Truncated Enterprise</td>
</tr>
<tr>
<td>UCI</td>
<td>Ultimate Controlling Institutional Unit</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNECE</td>
<td>United Nations Economic Commission for Europe</td>
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<tr>
<td>VA</td>
<td>Value Added</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>WPA</td>
<td>Work Package A of the ESSnet profiling</td>
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</tbody>
</table>
NOTICE OF INTENTION OF THE BSDG AND THE DMES on the consistent implementation of Council Regulation (EC) No 696/93 on statistical units

(draft)

Considering the background

- Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the statistical production system in the Community was and is meant to bridge the gap between the different administrative structures in the Member States of the ESS and harmonised statistical practices concerning statistical units. However, legal and administrative developments as well as changes in the structure of the economy since its adoption have widened the gap between the statistical units to be used in business statistics and those which are used as input for creating them. There is thus a need for guiding its operationalisation in order to promote business statistics’ relevance and comparability.

- Implementation of Council Regulation (EEC) No 696/93 is needed where and when it is invoked by other Regulations. In this respect Council Regulation (EEC) No 177/2008 on business registers for statistical purposes is of particular importance, since it underlies the system of business statistics and statistics that take business statistics as an input, such as National Accounts.

- It needs to be emphasised that Member States are obliged to follow the ESA 2010, Balance of Payments Regulation and other European statistical regulations beyond those regulations governing European business statistics. These Regulations may require different statistical units as the basis, for example the local kind-of-activity unit used in the National Accounts. These requirements go beyond the ones for European business statistics.

- The compliance with Council Regulation (EEC) No 696/93 is needed in order to achieve good quality business statistics, National Accounts and related statistics like Balance of Payments and Regional Accounts, in accordance with the European Statistics Code of Practice. This is needed for the users of statistics at the national level as well as the supra-national level, who request comparability and coherence across statistical domains and across the ESS of business statistics and statistics based on them.
Considering recent developments

- The compliance with Council Regulation (EEC) No 696/93 is a necessary condition for meeting the increasing need for consistent data on cross-border aspects of the statistical system in the European Union, including those on global value chains, as described in the Riga Memorandum *Towards better measurement of the globalised economy*, adopted by the ESSC on 26 September 2014.
- The compliance with Council Regulation (EEC) No 696/93 is implicit in the ESS Vision 2020 and the ESS business architecture, which is currently being developed. Improving coherence of business statistics and National accounts and related statistics is a key objective for the ESS for the future. Statistical units are not necessarily directly observed and statistical information on these units is then constructed using data from input units which can serve multiple purposes and are not necessarily identical to the output units.

In the context of FRIBS, the decision was taken not to replace Council Regulation (EEC) No 696/93 with a new regulation but to focus on the proper implementation of the existing Regulation. However, the discussion leading to this decision showed that a more fundamental discussion on statistical units, separate from the Regulation 696/93, has to take place. In this respect, it is important to note that the Advisory Expert Group (AEG) on National Accounts already agreed to the creation of a Task Force on Statistical Units (TFSU) to take stock of the 2008 SNA recommendations on statistical units (including institutional units), and to reflect whether or not the recommendations on statistical units need to be adjusted in the future. At EU level this discussion will, from the beginning, involve also the ESCB. New or revised statistical units need to be coordinated on a global basis in order to avoid an increase in asymmetries.

Considering the work of the Eurostat Task Force on Statistical Units

- The Eurostat Task Force on Statistical Units, created on 22 April 2013 and extended on 2 December 2014 (henceforward called the Task Force), has drafted a set of Operational Rules for statistical units as defined in Council Regulation (EEC) No 696/93, taking into consideration ESA 2010 and BPM 6.
- The Task Force has also developed Guiding Principles for the implementation of the Operational Rules in statistical business registers and business statistics.
- The Task Force has taken note of the results of the ESSnet on Profiling and the ESSnet on Consistency as well as the on-going work on the EuroGroups Register and the national Statistical Business Registers.
- The Task Force has taken into account:
  - Administrative/legal changes, changes in the structure of the economy and the creation and development of the ESS that took place after the adoption of Council Regulation (EEC) No 696/93.
  - In particular, new legislation concerning business statistics, the evolution of international accounting standards, changes in the international statistical systems, and the development of business statistics with the enterprise unit at its centre.
- The Task Force also included international experts from National Accounts nominated by the European Statistical System Directors of Macroeconomic Statistics as well as from the ECB and the OECD to assist in bridging the links between business statistics and National Accounts, as well as other users such as Balance of Payments and Regional Accounts.

Considering the consultation of the European Statistical System and the European System of Central Banks

- The outcomes of a consultation process with the National Statistical Authorities and ESCB members have been taken into account by the Task Force.
- The principle of subsidiarity implies that Member States are free to organise data collection, processing and analysis for business statistics in a way that they deem optimal, taking into account their national administrative structure, provided that the quality requirements of ESS business statistics, National Accounts and related statistics like Balance of Payments and Regional Accounts are met.
- The further implementation of Council Regulation (EEC) No 696/93 is being supported throughout the European Statistical System.
Way forward through a joint notice of intention: The European Statistical System Business Statistics Directors Group (BSDG) and the Directors of Macroeconomic Statistics (DMES)

- Adopt the:
  - Operational Rules for statistical units (annexed to this notice of intention) as leading reference for the interpretation of Council Regulation No 696/93;
  - Guiding Principles for the implementation of the Operational Rules in statistical business registers and business statistics (annexed to this notice of intention). They can be used as background in order to enhance compliance with Council Regulation (EEC) No 696/93.

- Recognise that through this approach:
  - Fully meeting the ESS statistical business registers and business statistics quality requirements may involve costs and efforts for NSIs.
  - National conditions are taken into account by respecting the proportionality and subsidiarity principles, by which NSIs are allowed to organise data collection, processing and analysis in a way that they deem optimal, provided that the ESS quality requirements are met.
  - Guiding principles are available to help Member States if they so wish so that investments can focus on real and substantial benefits. This is intended to lead to greater compliance, and in turn improved comparability and relevance of European statistics.

- Encourage the on-going efforts in the context of the EuroGroups Register and the national Statistical Business Registers to improve coordination and consistency across Member States for situations where enterprise groups operate across borders, thereby ensuring an accurate description of the activities of the enterprise group in the EU without double counting or omissions and consistent with the methodology of National Accounts and Balance of Payments, improving the quality of the data at national level and providing the basis for meeting the increasing need for data on cross-border aspects of the statistical system in the European Union, including those data to better inform the work on global value chains.

- Call for the continuous sharing of knowledge and practices by ESS-members for statistical purposes, where needed, in order to implement Council Regulation (EEC) No 696/93 in a co-ordinated way.

- Call for the organisation of a more fundamental discussion on statistical units, separate from the Regulation 696/93. This would include reconsidering the choice of statistical units used in National Accounts, BoP and beyond. The Task Force on Statistical Units has reflected upon criteria\(^ {25} \), which can be used as a starting point.

Annexes attached cover:

- Operational Rules for statistical units as defined in Council Regulation (EEC) No 696/93
- Guiding Principles for the consistent implementation of the Operational Rules in statistical business registers and business statistics

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\(^ {25} \) See TF SU 18-19 March 2015 doc_8 Criteria for choosing the relevant statistical units
Path: /CircaBC/ESTAT/bsdg/Library/BSDG public/Links to relevant working groups and task forces/Task Force Statistical Units/Meetings/Task Force Statistical Units March 2015
URL: https://circabc.europa.eu/w/browse/c25dd6dc-1ddb-44b6-9f15d7bd414
1. Introduction

(a) This paper provides a set of guiding principles for the implementation of the Council Regulation No 696/93 on statistical units in National Statistical Authorities (NSAs) for business registers and business statistics and coordinated with National Accounts/Balance of Payments, combining both the producer and user perspective. These guiding principles should be considered alongside the Operational Rules supporting the Joint BSDG and DMES Notice of Intention.

(b) This paper is organised as follows:

- Terminology and scope
- Business registers and business statistics
- Methods to apply the operational rules
- Quality requirements
- Quality evaluation
- Coordinated implementation

2. Terminology and scope

(a) In this document, the guiding principles are shorthand for the main guidelines, criteria and principles to be applied for the implementation of the statistical units in business registers and business statistics. The guiding principles are restricted to the following types of statistical units:

- Enterprise group
- Enterprise
- Kind of activity unit
- Local unit
- Local kind of activity unit

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26 The importance of a correct delineation of the LKAU has to be emphasised for National Accounts, in particular for units which are vertically integrated.
(b) In the context of the guiding principles, the term statistical unit applies to the unit referred to in the output of business statistics. These can be distinguished from those units from which the data are actually collected in the process of producing the output.

(c) The operational rules cover these units.

(d) Although the focus in this document may be viewed as the enterprise, it is important to note that the same principles apply to the other units as appropriate.

(e) In the context of the guiding principles, the term business statistics does not comprise National Accounts but business statistics is an essential data source feeding into the production of the National Accounts.

3. Business registers and business statistics

(a) The types of statistical units (output units) to be included in business registers and used in business statistics are identified in the regulations governing those business statistics.

(b) It is important to recognise the role, and links, of the kinds of input unit(s) used to create statistical units in business registers and business statistics. These include:

- Administrative unit\(^{27}\) – this entity is defined for administrative purposes.
- Legal unit – this entity is recognised by law or society independently of the persons or institutions that own them (either legal person or natural person).
- Reporting unit\(^{28}\) – this entity is defined as the unit from which data about an observation unit are collected.

(c) At the national level, for several Member States the links to the administrative unit(s) are critical to generating and maintaining a high-quality business register.

There should also be clear conceptual and practical links between the different types of statistical units as well as the corresponding legal units. Input units are therefore not necessarily identical to the statistical (output) units. Statistical (output) units can be artefacts that need to be constructed and which are not directly observable.

(d) In the case of multi-national enterprise groups it is important that the statistical units are determined in a coordinated and consistent way across the Member States.

4. European Statistical System good practices to apply the operational rules

(a) For statistical units, the Task Force on Statistical Units has elaborated a set of operational rules. These operational rules were drafted in order to provide agreed solutions to problems of unit delineation for common situations that may be encountered by NSAs. For such situations, these solutions result in coordination across ESS Member States as well as across statistical domains.

(b) In some cases but certainly not all cases, these operational rules can be applied automatically. The results intended by operational rules can also be approximated by making use of nationally defined automated rules that operate on administrative units or legal units.

(c) Due to the complexity in delineating large and complex economic organisations, an alternative approach is to apply the operational rules manually (profiling)\(^{29}\). In this context, complex organisations tend to be large groups of legal units operating within a single nation or multi-national enterprise groups.

(d) Wherever appropriate, and possible, the recommendations from the ESSNets on ESBRs, Profiling and Consistency should be considered and applied.

5. Quality requirements (European Statistics Code of Practice, principles 12-15)

(a) It is up to NSAs to organise data collection for the business register and for business statistics in a way that they deem optimal, given their national

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\(^{27}\) An administrative unit does not necessarily need to be as well a legal unit. For example, a legal unit may own several local units in different municipalities. Each of these local units may be registered as an administrative unit, e.g. in the administration of the municipality or for labour-administration purposes. The legal unit is a subcase of the administrative unit.

\(^{28}\) Reporting units may be e.g. the administrative unit or the legal unit. The reporting unit may be identical to the statistical unit.

\(^{29}\) It should be noted that some of the operational rules are related to profiling. In business statistics, the term profiling is normally used for the activity of sending staff to the headquarters of a large business (group) to discuss the delineation of statistical and reporting units on the basis of the operating structure of the business. If no visit is carried out and just public information (annual reports, information from the website of the business, etc.) plus survey information is used, then this is called "light profiling" or "desk profiling". In both cases, it is a "manual" activity.
administrative systems, provided that the requirements for ESS business registers and business statistics are met.

(b) For enterprise groups and enterprises, NSAs are required to apply appropriate statistical units' delineation approaches, in line with the legal requirements for European statistics.

(c) In case a NSA discovers a specific situation that may not be explicitly covered in the set of operational rules, it still has to choose between the different methods of delineation (automated rules, manual delineation of statistical units and the use of administrative units) as proxies for statistical units. This is up to the NSAs, provided that the requirements for European statistics are met.

6. Quality evaluation

(a) Due to the range of legal, taxation and regional structural differences across Member States as well as the burden on business, resource and time limitations, it may not always be possible to implement best practice. Thus the different operational rules for the different types of units and associated guidance will be categorised as A, B and C quality-approaches, depending on the complexity and size of the enterprise group, where:

- **A methods**: most appropriate methods ("A" methods are deemed to meet recommended or best practice, for example, application of manual profiling to deal with all the large, difficult or complex cases of enterprise groups. In the case of multinational enterprise groups, the national delineation approaches need to take into account the complexity of the enterprise group and its global structure).

- **B methods**: those methods which can be used in case an A method cannot be applied ("B" is deemed to cover alternatives to recommended or best practice but which form good practice. For example, manual or automatic delineation approaches are applied to simple multi-national enterprise groups at the national level, with appropriate consideration of the global structure of the delineated national enterprises).

- **C methods**: those methods which shall not be used ("C" is deemed to recognise the application of the rules, for example in an uncoordinated way to simpler cases or to specific situations addressed without a rules based approach).

(b) NSAs must be able to demonstrate in a plausible way that the quality requirements for ESS business registers and business statistics are met. This means that they can convincingly justify the choice made for the threshold for applying the different methods and that the impact of any automated rules has been tested.

7. Organising a supported implementation

(a) NSAs that do not currently meet the quality requirements for ESS business registers and/or business statistics require an organised and agreed roadmap towards implementation of the changes that are needed. It is proposed that the NSAs focus in particular on the business registers. Naturally, this would most probably lead to a subsequent focus on business statistics, followed by the statistics further upstream (such as national accounts).

(b) Where significant differences occur between the old and new method of delineation of statistical units, their effect on statistics has to be quantified and coordinated with the users.

(c) For business statistics, a linked programme between the short-term statistics and the annual statistics is recommended. This may entail that for at least one period that SBS data will be established according to the old and new ways of producing the data. This will provide details of the scale of the discontinuities and allow users (like National Accounts, Regional Accounts, etc.) to plan for, and

<table>
<thead>
<tr>
<th>Large and complex</th>
<th>Manual intensive profiling</th>
<th>Manual Desktop profiling</th>
<th>Automatic methods</th>
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</thead>
<tbody>
<tr>
<td>Large and simple</td>
<td>A</td>
<td>A</td>
<td>A</td>
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<tr>
<td>Small and complex</td>
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<td>B</td>
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<tr>
<td>Small and simple</td>
<td>A</td>
<td>A</td>
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</table>

(b) Large: significant impact in the NACE classes in question
Small: negligible impact in the NACE classes in question
Complex: e.g. many legal units with many different activities and delivery-relations between the units
Simple: e.g. one activity in all legal units and ancillary activities)
address, the impact of the changes which may affect key short-term and annual aggregates. The same principle will apply to other statistical domains whereby at least a single period exists to develop the join between old and new and avoid discontinuities. More detail may be produced by the specific Working Groups upon request by Member States.

(d) Once the quality criteria for statistical business registers are met, it is recommended that business statistics implements the changes following an organised approach and timetable.

(e) After the business statistics have been produced, a natural likely next step would be to take the implementation of the data changes through the other domains concerned. Again, the same principles as above apply, in particular the avoidance of discontinuities.

(f) There is a key extension of the coordinated implementation within NSAs that should be considered. Where enterprise groups operate across borders, there will be a benefit from greater coordination and collaboration between and across Member States to ensure good quality structures and associated data which meet both national and ESS needs. This aspect is being addressed in the context of the EuroGroups Register and the ESS.VIP ESBRs as well as developing international profiling across the Member States.
Operational rules for the consistent implementation of statistical units as defined in Council Regulation 696/93

The Statistical Units Regulation (CR 696/93) was adopted one year after the implementation of the Single Market. Its purpose was to provide a basis for consistent and integrated European statistics with the quality and contents required for its management.

The establishment of the Single Market aimed at growing international activities of the enterprises, which resulted first in an increase of international trade but then also in a growing volume and number of direct investments in other countries. Enterprises originally operating only from their home country became more global and are today located in several countries. At the same time the legal complexity of the enterprises increased. Enterprises, which used to consist of one legal unit, split up their activities into a number of legal units in very different ways. This has its origins in tax-, liability-, tariff- and other reasons, not directly related to the economic purpose of the enterprise. Both tendencies also occur for a growing number of small and medium-sized enterprises.

In this changing economic world a mere equation of legal or administrative units with statistical units displays a more and more unrealistic picture of the economy. Moreover, legal and administrative units are designed for purposes which are not primarily connected to statistics and the legal and administrative systems of the Member States are not fully harmonised, so that units created by them may not be comparable.

In order to achieve a uniform interpretation and implementation of statistical units definitions, which makes it possible to compare the data of the different Member States, the ESSnet Consistency was launched in the framework of the MEETS programme and had proposed a reformulation of the definitions of the statistical units enterprise, enterprise group, kind of activity unit and local kind of activity unit complemented with operational rules. A second ESSnet established under the MEETS programme, the ESSnet profiling, concentrated on enterprise and enterprise group definitions and operational rules and developed practical guidance and methods for profiling with a focus on the tendencies towards globalisation and increasing complexity of enterprise structure. In both ESSnets several Member States
collaborated. Based on this work, a Eurostat Task Force has been established to develop a set of operational rules for the interpretation and implementation of Council Regulation 696/93.

The mandate of the Task Force Statistical Units was adopted by the European Statistical System Business Statistics Directors Group and supported by the Directors of Macroeconomic Statistics at their respective meetings in December 2014. The objective of the Task Force was to provide guidance on and ultimately to foster an improved and comparable implementation of statistical units as laid down in Council Regulation 696/93.

Emphasis was put on consistency with ESA 2010 (and SNA 2008), the BoP Regulation and other EU legislation. Therefore the Task Force comprised experts from business registers and business statistics, National Accounts, Balance of Payments and other statistical areas, coming from Member States, Eurostat, the ECB and the OECD.

The rules can be understood as a compromise and some Member States may consider them as second best solutions. However, from a users’ perspective, consistency and comparability across domains and countries should be given priority. The operational rules are meant to cover the vast majority of cases. In their application, all rules should be jointly considered rather than looked at an individual rule in isolation.

This document contains the set of operational rules developed by the Task Force Statistical Units. They were reviewed by the Working Group on Business Registers and Statistical Units, the National Accounts Working Group and the Balance of Payments Working Group. Further the CMFB and its dedicated subgroup on FRIBS and BoP/IIP were consulted. These operational rules were adopted by the Business Statistics Directors Group and the Directors of Macroeconomic Statistics at their parallel meetings 25-26 June 2015 in Luxembourg.

Operational rules have been developed for the following statistical units: enterprise, enterprise group, kind of activity unit, local unit, local kind of activity unit. In addition examples for ancillary activities are given. Each operational rule is preceded by the respective part of Council Regulation 696/1993. In some cases, further guidance has been added.

The Task Force did not develop operational rules for the institutional unit as it does - in general - not form part of the target population of Business Statistics. Further guidance on the application of the institutional unit may be found in Council Regulation 696/93 and in ESA.
Statistical Units

ENTERPRISE

Definition CR696/93
Operational Rules
Operational Rules for Head Offices, Holding Companies and Special Purpose Entities

EXPLANATORY NOTE

The 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.

OPERATIONAL RULES

(1) Operational rule: Characteristics of an enterprise

A unit is deemed to be an enterprise if it

a. operates the necessary factors of production (e.g., human resources, capital, technology, land, and in particular management)

b. accesses the necessary controlling systems, e.g., an integrated cost calculation, which covers the main, secondary, and ancillary activities of the unit deemed as enterprise and

c. has adequate managerial structures, i.e., managers that can decide about the production process and about the economic transactions.
(2) Operational rule: Activity of an enterprise
An enterprise is deemed as active in a certain period if it generates turnover, employs staff or makes investments in the period31.

(3) Operational rule: Identification of Enterprise in case of an Enterprise Group
In case of an enterprise group, the identification of the statistical unit enterprise should in principle be made on the basis of the structure and the perimeter of the enterprise group reflected in the national Statistical Business Registers and in the EGR.

Further guidance:
- It should be noted that some enterprise groups may decide to organise their activities in various so-called profit-centres or operating segments32.
- Each of these operating segments can be considered, for statistical purposes, as a starting point for the identification of an enterprise inside the enterprise group.
- Inside an operating segment there may be one or more legal units, or parts thereof, which are organisationally integrated with each other but not with the rest of the segment and have the factors of production at their disposal. Such units have to be considered as an enterprise, if they operate under an own management and do not carry out ancillary or vertically integrated activities33.
- The application of operational rule “Identification of Enterprise in case of an Enterprise Group” may result in an enterprise being equal to enterprise group. This is the case if an enterprise group performs its activities under a single management and operates as one organisational unit.

(4) Operational rule: Ancillary legal units34
If a legal unit performs one or more ancillary activities for other legal units within the same enterprise group, it has to be considered as an ancillary legal unit. In this case it is not considered an enterprise. The outputs of the ancillary legal unit have to be considered as inputs for the other units of the enterprise group and its data have to be consolidated within the enterprises which consume these outputs.
In case the output of the legal unit, which performs one or more ancillary activities, is only partly consumed by other legal units, and the legal unit sells to a third party on a regular basis, it may be treated as an enterprise.
A legal unit or part thereof located in one country may carry out exclusively ancillary activities inside an enterprise group and deliver its services to more than one enterprise of the enterprise group it belongs to. If the enterprises that receive the ancillary services have locations in one or more other countries the legal unit providing these services is by convention treated as an enterprise and is classified according to the activity it is performing.

(5) Operational rule: Vertically integrated legal units35
A vertically integrated enterprise is one in which different stages of production are carried out in succession by different parts of the same enterprise. The output of one stage becomes an input for the next stage, only the output from the final stage being actually sold on the market36.
A legal unit is vertically integrated, if its output is used as a pre-product in another legal unit of the same enterprise group. In this case, the vertically integrated legal unit or operating segment is merged inside the group with the legal unit using the output. The merged legal units have to be considered as one enterprise37.

(6) Operational rule: Enterprises active in more than one country
Application of the enterprise concept may lead to identifying enterprises active in more than one country. In such cases, there will be links of the national part of the unit with the EGR. For national statistics the national part of the unit is to be considered an enterprise. Such a resident unit is regarded an enterprise unit in the economic territory where it is located. However in some specific cases this may lead to more

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31 Holding assets and/or liabilities may also be considered to be an activity, in which case the operational rules for HO/HC/SPEs apply.
32 In general the profit centre equals the operating segment, but it can also be different. An operating segment as defined in IFRS is a component of an enterprise group that has discrete financial information available, and whose results are reviewed regularly by the entity’s chief operating decision maker for purposes of performance assessment and resource allocation. An operating segment manager is accountable to the chief operating decision maker for the results of the segment.
33 Vertical Integration: The output of one stage becomes an input for the next stage, only the output from the final stage being actually sold on the market (Source: SNA 2008 paragraph 5.23).
34 This operational rule may also apply to operating segments by analogy. It applies also to legal units managing only factors of production, such as land, buildings, equipment or staff for other legal units.
35 Source: SNA 2008 paragraph 5.23.
36 The rule should be seen in connection with the other rules, in case not all the output is absorbed by the other unit, it still has to be checked, whether the unit delivering the output has autonomy or not and forms an organisational unit with the unit using the output.
than one national enterprise. Techniques like European profiling will aid such consistency.

**Operational Rules for Head Offices, Holding Companies and Special Purpose Entities**

**Explanatory notes**

Head Offices (HOS), Holding Companies (HCs) and Special Purpose Entities (SPEs) have special characteristics:

- The activities of a HO include the overseeing and managing of other legal units of the enterprise, supporting their day-to-day operations.
- A HC is described as a legal unit that holds the assets of other legal units but does not undertake any management activities.
- SPEs, as identified in operational rule 4, often have only limited presence in the country where they are registered. In general, SPEs are not seen to have autonomy of decision and are combined with one or more legal units to an enterprise. An important question is whether a HO/HC/SPE has autonomy of decision, which has to be answered in order to be able to delineate the enterprise. For example, a legal unit wholly owned by a parent legal unit may just be created to avoid taxes. Generally, such legal units do not satisfy the definition of an enterprise because they lack the ability to act independently from their parent and their accounts have to be consolidated with those of the parent. Therefore, in the first place, the autonomy of decision of the legal unit has to be assessed.

The following rules are based on ESA and the final report by the Task Force on Head Offices, Holding Companies and Special Purpose Entities (SPEs). They regulate how to distinguish Head offices from Holdings and in which cases these entities are characterised as institutional units. The rules refer to Head offices and Holding companies of very large enterprise groups owning subsidiaries. A head office of a huge international enterprise group is clearly in the scope of these rules, whereas a legal unit, employing the chairman of a small or medium sized enterprise, which may have

moreover e.g. the purpose to reduce liability, does not fulfill the criteria of being an institutional unit; and is hence not in the scope of these rules.

**1) Operational rule: Identification of the enterprise characteristics**

To identify the enterprise characteristics of a HO/HC/SPE the following conditions apply:

a) A HO/HC/SPE owned by a non-resident parent is to be considered by convention as an enterprise.

b) A HO/HC/SPE owned by multiple owners, and not controlled by any other legal unit, should be considered as a separate enterprise.

c) For a HO/HC/SPE wholly owned by a single resident unit, having no employees and no compensation of employees are not sufficient criteria for lack of independence; in such cases, further investigation is needed.

d) HOs are always considered to have autonomy of decision.

e) Governments’ (and corporations’) use of SPEs is normally to raise finance. Such SPEs are not separate institutional units when resident. Non-resident SPEs of governments are recognized as separate institutional units. At the same time, all stocks and flows between general government and the non-resident SPE are recorded in the general government and SPEs accounts; including imputed transactions reflecting general governments borrowing from the non-resident SPE.

**2) Operational rule 2: Identification of Head Offices and Holding Companies**

HOS and HCs have relations to other entities, namely, their subsidiaries. Hence, information on the structure of their balance sheet is one tool to determine whether an entity is a HO, HC or another type of unit. In order to identify these entities the following practical rule should be applied:

- A legal unit having at least 50% of its assets consisting of investments in its subsidiaries can be considered to be of the type of HO or HC.

**3) Operational rule: Distinction between Head Offices and Holding Companies**

A HO may have noticeably fewer employees than the legal units it oversees and manages. However, having zero employment is a clear indication of not being a HO. On the other hand, HCs simply holding assets may do this with very few or without any employed personnel. Employment thresholds for the delineation between HOs and HCs should be determined taking into account national circumstances. In particular,
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 legal unit to being a HO.

(4) Operational rule: Identification of SPEs

In order to identify SPEs the following practical rules should be applied:

a) SPEs are always related to another legal unit, often as a subsidiary of that legal unit.
b) SPEs have large balance sheets; usually with no non-financial assets. Therefore, investment income and holding gains are major elements of their accounts.
c) SPEs have few or no employees.
d) The production of SPEs is very limited. Usually fees are charged from the parent company.
e) SPEs are often ultimately controlled by a non-resident parent, directly or indirectly.

Enterprise group

Definition CR696/93

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.

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. A number of exercises are underway but not finished concerning the concept of the group of enterprises. It is defined here starting from the concept of accounting group as given in the Seventh Council Directive 83/349/EEC (OJ No L 193, 18.7.1983, p. 1). This Directive came into force for the first time for consolidated accounts of the financial year which began in 1990. Directive 90/605/EEC (OJ No L 317, 16.11.1990, p. 60) extended the scope of application of the Seventh Directive.

2. Within the meaning of the Seventh Directive, a group is presumed to exist where 20% of the capital or voting rights are held or controlled by another enterprise. Provisions regarding the control of the power to appoint directors must be taken into account. Behind financial (majority) control, the aim is to take into account where the control really is.

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 Directive, i.e. difference in the type of activity or small relative size,
- 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.

Additional explanatory text
The explanatory notes formulated in Regulation 696/93 state that they have been formulated while some exercises concerning the concept of the group had been still underway. They also contain references which have become outdated in the 20 years following. Therefore clarifications and updating were necessary:

The Seventh Council Directive was repealed and replaced by Directive 2013/34/EU.

Naming conventions
The parent legal unit which is not controlled by any other unit and thus the head of the enterprise group, does not need to be subject to accounting obligations. This may e.g. be the case if the group head is a natural person or the government. Consequently, the unit at the highest consolidation level is not in every case identical with the group head. Moreover, the management of an enterprise group is not necessarily employed by the group head or in the unit at the highest consolidation level. As well there may be more than one decision centre. In this case the decision centre, which prepares the decisions that concern the whole group, needs to be identified.

For the purpose of clarity, the following terms should be used:

a. Controlling unit: Global Group Head (GGH)
b. Managing unit: Global Decision Centre (GDC)
c. Consolidating unit: Highest Level Consolidating Unit (HLC)

Clarification of the definition of an EG
An EG can be described as a cluster of legal units under the same control. This may imply that an enterprise group corresponds to only one enterprise.

Operational Rules

(1) Operational rule: Control
Control over a legal unit is defined as the ability to determine general corporate policy. It can be exercised by (a) owning more than half of the voting shares, (b) having the right to appoint or remove a majority of the members of the management, (c) having the right to exercise a dominant influence over the legal unit (d) controlling more than half of the shareholders’ voting power of another legal unit directly or indirectly, or otherwise (e) proving that there is de facto control exercised. Indirect control refers to controlling a legal unit via another legal unit. This includes also cumulative control, i.e. controlling two or more legal units that together own more than half of the voting shares of the legal unit in question.

An EG is controlled by its Global Group Head (GGH). The GGH is defined as the unit (legal or natural person) which controls all legal units of the group and is not controlled by any other legal unit.

(2) Operational rule: Management and Control
An enterprise group is always controlled by only one GGH. Typically one GGH controls one enterprise group, however it is possible for a GGH to control more than one enterprise group. One sign that the GGH controls several enterprise groups might be the consolidation of the accounts appearing on a level below the GGH and the existence of several consolidated accounts.

Also in enterprise groups which are purely domestic, i.e. they are located completely in one country, the terms Global Group Head and Global Decision Centre apply. The word “global” does not refer to global in the sense of “worldwide” but in the sense of “overarching” as there might be more than one decision centre within the group. If e.g. an enterprise group comprises more than one enterprise, these enterprises may also have decision centres. However, these decision centres do not make decisions about the enterprise group. Only in the Global Decision Centre decisions about the group are made.
The unit carrying out the actual management of the EG is named the Global Decision Centre and it is not necessarily identical with the GGH.

(3) Operational rule: Consolidation and Control

According to the Directive 2013/34/EU (Article 22) shares of affiliates’ undertakings have to be listed in the balance sheet of a company.

All the legal units consolidated in full in the EGs accounts form part of the EG. If the global group head is identical with the highest level consolidating unit, it is included in the accounts as well. Legal units not consolidated but controlled by the GGH form also part of the EG. If the difference between the consolidation perimeter and the legal perimeter concerns statistically non-significant legal units, the consolidation perimeter is relevant for statistical purposes.

If the GGH does not produce consolidated accounts and reports, the legal unit below the GGH which has to produce consolidated accounts and annual reports is called the Highest Level Consolidating Unit (HLC) and determines the consolidation perimeter of the enterprise group.

Kind-of-activity unit (KAU)

Definition CR696/93

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. The KAU was devised as an observation unit in order to improve the homogeneity of the results of statistical surveys by activity and hence the international comparability of these results, since at the level of the enterprise different types of horizontal and vertical integration can be observed at both national and international level. An entity which only carries out ancillary activities for the enterprise to which it belongs cannot be considered as a separate KAU. In fact the KAU corresponds to the operational definition given in paragraph 96 of the introduction to ISIC Rev. 3.

2. The KAUs falling within a particular heading in the NACE Rev. 1 classification system can produce products outside the homogeneous group, on account of secondary activities connected with them which cannot be separately identified from available accounting documents. Conversely, the KAUs classified under a particular heading in the classification system on the basis of a principal activity do not produce the entire output of homogeneous groups of specific products because the same products can be produced in secondary activities of KAUs falling under some other classification heading.

3. The internal accounts of enterprises (e.g. profit or cost centres) have often been developed according to criteria that are close: the activity concept. They enable the supply of data at KAU level, so that these can be observed.

4. All the costs of ancillary activities of an enterprise must be allocated to the principal and secondary activities and thus to the KAUs observed within the enterprise.

Additional explanatory text:

In the currently valid ISIC Rev. 4 the operational definition of the KAU is given in paragraph 85.

In all cases where NACE Rev. 1 is quoted in the definition of the KAU of CR 696/93, the rules of the currently valid NACE Rev. 2 are identical.

Operational Rules

(1) Operational rule: Thresholds

In the practical implementation, the delineation of KAU may be restricted to enterprises which because of their size (e.g. production value) have:

(i) a significant influence on the aggregated (national) data at NACE activity level, and

(ii) at the level of the individual enterprise, as guidance one secondary activity accounts for:

- more than 30% of its total production at the 4-digit (class) level of the valid NACE classification,
more than 20% of its total production at the 2-digit (division) level of the valid NACE classification.

(2) Operational rule: Other KAUs
In the case of enterprises which are not covered by rule 1, the KAU is considered to be equal to the enterprise.

(3) Operational rule: Estimates
In case that not all of the economic indicators are available from the respondents, they may also be estimated by the national statistical authorities.

Remarks:

(a) KAUs do not have to be delineated for all enterprises. The delineation of KAUs can be restricted to only those enterprises which – because of their size – are considered as relevant nationally. Possible criteria for relevance at national level are turnover or employment. This operational rule leaves the decision of how far to go with the delineation of individual enterprises, to the NSIs.

(b) The delineation of KAUs is relevant only for enterprises which are (i) heterogeneous, and (ii) the secondary activities of which are so important that not to delineate these enterprises into KAUs would have a significant negative impact on the accuracy of the measurement of national production, at the level of NACE activities. The number of KAUs to be delineated will thus depend, on the one hand, on the desired level of accuracy (of the indicator in question), and on the other hand, on the concrete economic structure, in a given country and at a given point in time, i.e. the number and size of the enterprises, their heterogeneity at activity level, and their organisation.

(c) The thresholds (of 30% and 20% respectively) quoted in operational rule (1) as guidance mean that NSIs may delineate more KAUs. Examples could be where one of the secondary activities of an enterprise is of little significance for the enterprise in question (i.e. it would contribute less than 30% or 20% to the enterprise’s total production) but where that particular secondary activity is of national significance (e.g. if the enterprise in question is the only national producer in that specific NACE activity).

Local unit

**Definition CR696/93**

The local unit 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 place from which instructions emanate or from where the work is organized. It must be possible to specify the employment attached to any local unit. 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. Moreover, 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. 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 or 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.
Additional explanatory text:
In the currently valid ISIC rev. 4 the operational definition of the Local unit is given in paragraph 86.

Operational Rules

(1) Operational rule: Identification
For the identification of a local unit the physical geographic location has to be identified. Such a single physical location is normally best approximated by the postal address. Several physical locations of the same enterprise within the same community or within the same region are to be treated as several local units of that enterprise.

(2) Operational rule: Physical geographic location
A physical location of a local unit may be found within a building, may correspond to one building or may comprise more than one building. In the latter case the various buildings do not form separate local units if they are physically close together and have a common postal address.

(3) Operational rule: Local unit without postal address
A local unit may not be situated in a building at all. If in that case the other criteria are fulfilled a separate local unit should be identified. In such a case a postal address may not exist; however, the geographical identification could be represented by geographical coordinates or other measures.

(4) Operational rule: Activities performed outside physical locations
Certain economic activities are performed outside the physical locations of the enterprise, for instance at the customer’s address, at fairs, door-to-door sales, etc. These types of location should not be considered to be local units, but instead the site from where the activity is organised should be considered to be the local unit. Such activities are treated as if they are carried out at the local unit from which they are organised. The same holds for activities in transportation where the real economic service is the transportation of goods and persons over the area.

(5) Operational rule: Activities performed at private residence
In case that the economic activities are performed at the private residence of the entrepreneur, this address is also the address of the local unit of the enterprise.

(6) Operational rule: Localities without staff
Local units should have one or more persons working (even if only part-time). However, in case of seasonal activities the unstaffed premises in a certain period of the year should be viewed as a local unit. In the cases of all other premises and installations, where no persons are working and the unit is not equivalent to the enterprise, these should not be treated as a separate local unit, but are incorporated in the local units from which they are operated and controlled.

(7) Operational rule: Activities of local units
At a local unit more than one activity of the enterprise may take place. A local unit may also comprise only ancillary activities.

(8) Operational rule: Local units of an enterprise
Each enterprise has at least one local unit, namely the location where the enterprise is registered as legal unit (e.g. in the trade register). In the case that the registered business address is at a separate location than the other local units of that enterprise, still that location forms a separate local unit, even if no one is working there.

Local kind-of-activity unit (local KAU)

Definition CR696/93

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

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.

H. Local unit of homogeneous production (local UHP)

The local unit of homogeneous production (local UHP) is the part of a unit of homogeneous production which corresponds to a local unit.
Additional explanatory text:
In the currently valid ISIC Rev. 4 the operational definition of the LKAU is given in paragraph 87.

Operational Rules

(1) Operational rule: Cases in which LKAU may be delineated
In case where in one location an activity is prevailing, which is not the main activity of any KAU of the enterprise, and this activity accounts on enterprise level for less than the threshold to form a KAU, an additional KAU may be delineated so that correct LKAUs can be formed.

(2) Operational rule: several local units in same NUTS region
It is not requested that the LKAUs strictly form part of a KAU corresponding to a single local unit. It is also acceptable when the LKAU comprises the sum of all respective activities performed within the lowest level of NUTS for which LKAUs are required.

(3) Operational rule: Ancillary activities
In case that in a local unit only ancillary activities are carried out, this unit is treated as a LKAU and classified according to the activity of the KAU (for national statistics) as well as of the ancillary activity (for regional statistics).

Ancillary activities

Definition CR696/93

1. An activity must be regarded as ancillary if it satisfies all the following conditions:

(a) it serves only the unit referred to: in other words, goods or services produced must not be sold on the market;

(b) a comparable activity on a similar scale is performed in similar production units;

(c) it produces services or, in exceptional cases, non-durable goods which do not form part of the unit's end product (e. g. small implements or scaffolding);

(d) it contributes to the current costs of the unit itself, i. e. does not generate gross fixed capital formation.

2. The distinction between ancillary, principal and secondary activity can be illustrated by a few examples, as follows:

- production of small implements for the unit's use is an ancillary activity (in accordance with all criteria),

- own-account transport is normally an ancillary activity (in accordance with all criteria),

- sales of own products are an ancillary activity because, as a general rule, it is not possible to produce without sales. However, if it is possible to identify a retail sales point within a production enterprise (direct sales to end-user) which may be, for example, a local unit, this sales point - exceptionally and for the purposes of certain analyses - may be regarded as a kind-of-activity unit. This observation unit then forms the subject of a twofold classification, i. e. in terms of the (principal or secondary) activity it performs within the enterprise and in terms of its own activity (retail sale).

3. Thus, the general rule is that, since production processes are not usually viable without the support of ancillary activities, these ancillary activities should not be isolated to form distinct entities, even if they are carried out by a distinct legal entity or at a distinct place, and even if separate accounts are kept. Furthermore, the ancillary activity is not taken into account when classifying the activity of the entity by which the ancillary activities are carried out. The best example of an entity carrying out ancillary activities is the central administrative department of registered office.

4. Having regard to the definition in point 1, the following activities must not be considered as ancillary activities:

(a) the production of goods or work carried out which forms part of fixed capital formation - in particular, construction work for own account. This is in line with the method used in NACE Rev. 1, where units carrying out construction work for own account are classified under the building industry if data are available;

(b) production, a significant part of which is sold commercially, even if much is used as consumption in connection with the principal or secondary activities;
(c) the production of goods which subsequently become an integral part of the output of the principal or secondary activity - e.g. production of boxes, containers, etc. by a department of an enterprise for use in packing its products;

(d) the production of energy (integrated power station or integrated coking plant), even where this is consumed in its entirety in the principal or secondary activity of the parent unit;

(e) the purchase of goods for resale in unaltered state;

(f) research and development. These activities are not very widespread and do not produce services which are used in current production.

In all these cases, if separate data are available for these activities, they should be regarded as distinct activities and subsequently recognized as KAUs.

5. If ancillary activities are carried out for the benefit of a single entity, these activities and the resources they use will constitute an integral part of the activities and resources of that unit. However, if the activities of the statistical unit and the corresponding ancillary activities are not carried out in the same geographical area (defined in terms of the zones delimited for the purposes of statistical surveys), it may be desirable to collect separate supplementary information on these units for the categories of data which have to be classified in terms of geographical areas, even if the units only carry out ancillary activities.

6. If ancillary activities are carried out basically for the benefit of two or more kind-of-activity units, the cost of these ancillary activities must be spread over all the kind-of-activity units which they support. If data are available on the proportion of the costs which can be assigned to each of these distinct activities, the costs should be broken down accordingly. However, should no information of this kind be available, the cost of the ancillary activity should be broken down over the principal and secondary activities proportionately to the value of output minus intermediate costs excluding the costs of the ancillary activities themselves. If this method proves too difficult in practice, the cost of the ancillary activity may simply be broken down proportionately to the value of output.

7. If ancillary activities are organized in such a way as to serve two or more entities of a multi-unit enterprise, they may constitute a group of ancillary activities at a distinct location. In this case, in the same way as it would be desirable to cover certain activities completely even if they are carried out independently or by entities which are engaged exclusively in ancillary activities (such as computer services), it could be useful to allow for supplementary classifications. For this purpose these ancillary entities could then be classified according to their own activities as well as being classified under the activity of the unit to which they belong.

8. It is possible that an activity starts out as ancillary but subsequently begins to provide services for sale to other entities. An activity of this kind may develop to the point where it ceases to be an ancillary activity and must therefore be regarded as one of the principal or secondary activities of an entity. The only way of deciding whether a given activity should be regarded as an ancillary activity or a principal or secondary activity is to assess the role it plays in the enterprise as a whole.

Additional explanatory text:
Points 4 (a)-(f) of the ancillary activities definition of CR 696/93 are in line with the method used in NACE Rev. 2 (Paragraph 53).

Operational Rules

1. Distribution and logistics
   Trade services of own products
   Freight transport services
   Cargo handling services
   Storage and warehousing services
   Freight transport agency services and other freight transport services
   Postal and courier services

2. Marketing, sales- and after sales services including help desks and call centres
   Marketing management consulting services
   Advertising services and provision of advertising space or time
   Market research and public opinion polling services
   Advertising and related photography services

Telephone call centre services
Trade show assistance and organization services

3. ICT services
Information technology (IT) consulting and support services
Hosting and information technology (IT) infrastructure provisioning services
IT infrastructure and network management services
Telephony and other telecommunications services
Internet telecommunications services

4. Administrative and management functions
Legal and accounting services
Management consulting and management services
Business consulting services
Other management services, except construction project management services
Combined office administrative services
Specialized office support services
ANNEX 2a: Examples of templates of letters to GEGs to introduce profiling

1. Letter template (UK/ONS)

Office for National Statistics
Government Buildings
Cardiff Road
Newport
South Wales
NP11 8XG

ESSnet International Profiling of Large and Complex Multinational Enterprise Groups

Dear Sir/Madam,

In the UK, the Office for National Statistics (ONS) is the executive office of the UK Statistics Authority, a non-ministerial department which reports directly to Parliament. The ONS has been tasked along with a number of other European countries to profile businesses internationally and is contacting your company for your co-operation in this project.

This is an exciting opportunity for the public and private sector to work together to develop a comprehensive European business register of multinational enterprises. The ultimate aims of this project are to reduce the burden of national statistical surveys and to improve the collection of statistical data globally.

This new process is being piloted with several other multinational enterprise groups across all industry sectors. We now wish to start a regular and personal dialogue with these large groups and would welcome your involvement.

Of course, the usual confidentiality rules would continue to apply, for data that we collect from your organisation, exactly in the same way as they apply presently for the legal units identified nationally.

I have attached a background note which gives more information on the project and I would now like to take this opportunity to obtain your agreement to participate. I would like to follow this up with a telephone from one of my senior staff to discuss your participation within the next week.

If you require any further assistance, please do not hesitate to contact myself on nr ........

Thank you very much in advance for your cooperation and understanding.

Yours sincerely,

Mrs ....................
Deputy Director Business Data Division

Further information about National Statistics can be found on our website at www.ons.gov.uk
2. Letter template (INSEE/Destatis):

Please answer to:
Pierre Teillet - Jean-Paul Dadu
Tel.: +33 (0)1 41 17 52 61
Tel.: +33 (0)1 41 17 69 64
2012
Email: DG75-E240@insee.fr
E240/PT-JPD

Subject : Profiling of Large and Complex Multinational Enterprise Groups

Mr President,

In France, INSEE is in charge of the execution of the whole official statistical programme. In Germany, the Federal Statistical Office (DESTATIS) is the executive and coordinating office of the German official statistics. The INSEE and DESTATIS have been tasked, along with a number of other European countries, to develop methods suited to “profile” businesses at the international level. This work is organised in a so-called ESSnet (European Statistical System network), sponsored mainly by the EU. We are contacting your company for your co-operation in this project.

This new approach is being piloted with several multinational enterprise groups across all industry sectors. It aims to collect data not from each company, subsidiary or legal unit, but from the operating segments defined by the group for its own internal information and for its financial reporting system. We now wish to start a regular and personal dialogue with these large groups. EEEE group, as the European leader and one of the world leaders in the A... and D... sectors, appears to be an excellent candidate for testing the European profiling, which would in your case be jointly carried out by DESTATIS and INSEE.

The ultimate aims of this project are to reduce the burden of national statistical surveys and to improve the quality of collected statistical data as well globally as at the national level. Of course, the usual confidentiality rules would continue to apply. For data that we would like to collect from your organisation, we would seek agreement all the way on how we could use them.

I attached a background note which gives more information on the project and I would now like to take this opportunity to obtain your agreement to take part in this exercise. I would be grateful if you could tell us the name(s) of the EEEE officer(s), from Finance or Accounting Division, designated to thorough examine the project with my staff. Your staff members can contact Mr Pierre Teillet, Manager of the project “Profiling of large and complex multinational enterprises” and co-ordinator of the European working group, or Mr Jean-Paul Dadu, in charge of your group in the Profiling project team, whose phone fax numbers and e-mail address are above-mentioned. For the German part of our team, they can contact Mr Roland Sturm (roland.sturm@destatis.de) or Mrs Natalie Rosenski (natalie.rosenski@destatis.de) of DESTATIS.

Thank you very much in advance for your help and understanding.

Yours faithfully,

Le Directeur Général de l’INSEE
Jean-Philippe Cotis

Paris, February 23, 2012
N° iii/DG75-E240/PT-JPD
ANNEX 2b: Introductory and explanatory notes to GEGs

International Profiling of Large and Complex Multinational Enterprise groups

*(ESSnet on International Profiling)*

With the advent of globalisation, economic activities undertaken by enterprises are now extending more and more beyond national borders. As a result, national and international statistical agencies are now faced with new challenges, particularly with respect to the need for increased statistical standardisation together with greater international co-operation. A number of Member States of the European Union and Switzerland have been tasked along to profile businesses internationally in the so called ESSnet project on profiling. This ESSnet is an initiative of the European Commission and from there the ESS, coordinated by Eurostat, that is the official statistical institute of the European Commission.

A 4 year partnership of 7 European Statistical System (ESS) members comprising of the following National Statistical Institutes (NSI’s):-

- France *(Institute National de la Statistique et des Etudes Economiques)* as co-ordinator,
- Finland *(Statistics Finland)*,
- Germany *(Statistisches Bundesamt)*,
- Italy *(Istituto Nazionale di Statistica)*,
- Netherlands *(Centraal Bureau voor de Statistiek)*,
- Switzerland *(Bundesamt für Statistik)* and
- United Kingdom *(Office for National Statistics)*,

has been established to carry out an International Profiling feasibility study. This study entails reviewing the system of statistical units and then to develop and test common profiling methods and procedures with a view to implementation in the future, in the entire European Statistical System.

*(The definition of profiling is to confirm (prove) which legal and administrative units are contained within an enterprise group by communicating with the business. Thus providing the most efficient structure for the collection of statistical data).*

The concept of an ESSnet project is that a few Member States interested in a specific domain, actively collaborate on the common task and disseminate the results to those not participating.

The aim of the ESSnet project is to identify areas where more standardised and coordinated approaches to measuring the activities of multinational enterprises could contribute to improved national and international economic statistics. The ESSnet on profiling is an experimental study which will be used to explore the concept of having multinational enterprises reporting in an integrated and consistent fashion to several NSI’s.

The developed methodology is being tested now. Some more EU countries have joined the ESSnet partners for this testing.
Each of the NSI’s involved in testing are inviting a few multinational enterprises to participate in the project. Enterprises that agree to take part will be asked to provide basic statistics on their business activity for all the ESS Countries in which they are operating. All the information requested from each enterprise will be gathered by the NSI that contacted it. This NSI will then provide the other NSI’s involved with the portion of the information that pertains to their respective countries. This data sharing will take place only with the enterprise’s written consent for its information to be shared with the other NSI’s.

The European Commission and the heads of the participating NSI’s fully endorse and support the project. In addition, these NSI’s are committed to maintaining the confidentiality of the information that is collected and shared as part of this project, and they agree to the following provisions:

Any information collected will be used only for statistical purposes within the scope of the ESSnet.

Any information provided will be stored in a secure environment.

Only employees working directly on the ESSnet in the participating NSI’s will have access to identifiable information, subject to the provisions below.

No shared information pertaining to an enterprise will be redistributed to any other organisations without the enterprise’s written consent.

If an enterprise does not provide its written consent, none of the information it provides to the contact NSI will be shared with the other NSI’s participating in the ESSnet, and none of the information will be redistributed to any other organisations.

It should be noted that while all NSI’s are strongly committed to the above-mentioned rules, such an agreement cannot override national legislation.
ANNEX 2c: Declaration of endorsement and commitment

DECLARATION OF ENDORSEMENT AND COMMITMENT TO PROTECTING THE CONFIDENTIALITY OF COLLECTED DATA
(Template, to be amended according to national practises)

ESSnet on profiling Multi-National Enterprise Groups

AUTHORISATION TO RELEASE DATA

I hereby give permission to the xxx(who?) to share the following information collected via the ESSnet Profiling of Large and Complex Multinational Enterprise groups for the duration of this action.

- Gross sales, revenues or turnover
- Sales or revenues between geographical segments (eliminated upon consolidation)
- Total net sales
- Operating earnings or losses (earnings before interest and taxes)
- Capitalised expenditures
- Number of employees
- Legal entities list
- …………………
- …………………

If permission is granted, the information will be shared with the following National Statistics Institutes (NSI’s):
- France (Institut National de la statistique et des études économiques (INSEE));
- Finland (Statistics Finland STATFIN);
- Germany (Statistisches Bundesamt DESTATIS);
- Italy (Istituto Nazionale di Statistica ISTAT);
- The Netherlands (Centraal Bureau voor de Statistiek CBS);
- Switzerland (Bundesamt für Statistik BFS);
- The United Kingdom (Office for National Statistics ONS)
- ………………………………………
- ………………………………………

If permission is not granted, the information will not be transmitted to the participating statistical agencies¹.

The following set of rules has been agreed to by all participating NSIs:

- The information collected will be used only for statistical purposes within the scope of the ESSnet.
- Only employees working directly on the ESSnet project in the participating NSI’s will have access to identifiable information.
- The information provided will be stored in secured environments.
- The information shared will not be redistributed to any other organisations without the prior consent of the participating multinational enterprise.
It is to be noted that while all NSI’s agree to adhere to the above-mentioned rules, such an agreement cannot override national legislation in the country of receipt that may require subsequent disclose or use of the data not described above. It is also understood that this permission may be rescinded at any time by telephoning the (Name) at xxx, followed by confirmation in writing.

This permission will continue to be in effect until such permission is withdrawn.

Signature: ______________________________________________
Name: ______________________________________________
Title: ______________________________________________
Organisation: ______________________________________________
Date: ______________________________________________

(1. In National Statistical Offices staff are bound by the strict confidentiality provisions lead down in National and European Statistical Laws)
ANNEX 3: Autonomy in international context, guidelines 42

Introduction

1. Autonomy is a crucial criterion in the delineation of the enterprise statistical unit. Autonomy can be applied at several levels, e.g. at the Enterprise Group level and at the Enterprise level.

**DEFINITION 1** - A person (physical or juridical) is defined as autonomous when he (or it) has the control of the use (it may not be the owner from a legal point of view) of the whole productive means, of the whole productive process, of the whole productive outputs of the economic activities in which it is engaged.

The best translation of the term autonomy is in the context it will be used here is: the power of self-government.

The concept of autonomy in the globalisation world

2. In the modern economic world the enterprises have increasingly chosen to organize and conduct their business operations in the form of a cluster of various separate corporations (legal units), rather than as a single corporate entity (legal unit)43. The largest enterprises typically evolve as a complex, large-scale business network, where the different parts of the business are allocated to a group of affiliated corporations (subsidiary corporations); global coordination is obtained through the submission of such “legally independent” parts to a common economic strategy. The management of the whole is exercised by headquarters.

“The globalisation describes a process by which regional economies, societies and cultures have become integrated through a global network of communication, transportation and trade of goods and services” (ESSnet on International profiling, WPA report 2010).

In case of multinational enterprise (or national enterprise group) the headquarters of the EG are the only decision centre that may take all types of decisions – strategic and current - in own will and free from external influences, because it has the control of the whole productive means, of the whole productive process, of the whole productive outputs and of the whole financial processes of the economic activities in which it is engaged.

Operational criteria and rules to identify autonomy

3. Two levels of autonomy (self-governance) can be distinguished, one for the Enterprise Group and one for the Enterprise. The group has full autonomy at the highest level and exercises this mainly and at least for strategic and long term decisions. The group head only needs to give account and to report for its decisions to the owners or to the board of shareholders of the group and in direct contact. A second and lower level of autonomy is that related to the allocation of current resources in the production processes. This is to be understood from a more operational view. If the Enterprise is a part of the Group the Enterprise management has to give account and to report to Group management.

In terms of statistics: for statistics related to large and strategic, mostly financial, decisions, the Enterprise Groups is the most eligible statistical unit and for statistics related to current production the Enterprise is the most eligible one.

42 Source: ESSnet on International profiling, work package B, February 2012
43 On this topic see also chapter 13 on basic organisational principles and appearances of large Multinational Enterprise Groups.
4. The main criteria to identify autonomy

On the levels in a (large and complex) organisation where the important decisions are taken, the following kinds of decisions are assumed to be relevant and could be considered to be criteria in checking.

For the Enterprise Group:
- mergers and de-concentrations, i.e. the authority to buy (stocks of) other Legal Units (being or not autonomous enterprises) or sell parts of the Group itself;
- income assessment, i.e. decisions on keeping reserve funds, large unexpected deprecations, etc.;
- income distribution, i.e. the allocation of the generated income, e.g. from production, to shareholders, investments or reservations;
- financing of new projects or termination of ongoing ones.

For the Enterprise:
- fixed capital investments within certain limits for the running production;
- recruitment or dismissal of personnel;
- raises in salaries and other remunerations;
- choice of the assortment of products;
- size of the production;
- provisions for doubtful debtors;
- pricing of the output/products;
- choice of the suppliers.

The Enterprise Group is market oriented by definition. For the Enterprise market orientation is also a requirement (with some exceptions for “Admin” or “Others”)

5. It is, of course, to be realised that none of the mentioned criteria are absolute. A production manager may be allowed to decide to invest in new machinery but he will not be permitted to build a whole new complex. Actual sales prices will, taking into account the market, be set by the sales department of the production unit, but the price policies may be made by the overall management of the production unit as a “strategic” issue. The board of directors of the Group probably has the authority to withhold large amounts of reserves but the shareholders may not like it, if they are not paid any dividends at all. So everything has to be seen in its perspective, which it is exactly what makes it so difficult to establish straightforward rules. Autonomy and the level of it mostly seem from management contract between the Enterprise management and the Group management. On the one hand we have mandated responsibilities, on the other duties to give account and to report on results and performances.

6. In order to be able to operate as an autonomous unit it is necessary to have available information systems to control and to report. From these systems meaningful economic figures can be provided, also for statistics. If information systems, maybe only for internal use, are lacking, then the existence of an autonomous unit is very doubtful. A first hold in the analysis of a large Enterprise Group into Enterprises is the existence of Group Operating Divisions (GODs). These can nearly almost be considered to be autonomous. But, dependent of the statistical needs, it can be necessary to explore the capability of GODs to be “Enterprises” or reversely Enterprises can be defined at a lower level within the GODs, keeping the basic principles for criteria to be autonomous. A good conclusion is only possible after consulting the Enterprise Groups and agreeing with it, but with the requirements from statistics in mind.
7. The analysis of multinational enterprise groups should start regardless the territorial boundaries. If territorial boundaries belong to the organisational criteria of the Enterprise Group, they still have to be analysed to check if they fit with requirements from statistics. It is often easier to judge that a potential unit is not an enterprise because it does not fulfil some basic requirements (negative approach) than to follow a positive approach to confirm it as adequate.

8. The BR recommendation manual (chapter 19) suggests three different operational criteria can be applied to identify an enterprise as autonomous actor in the economic world:
   - An enterprise has accounts at its disposal
   - The operations of an enterprise are managed in an integrated manner
   - The enterprise is market-oriented.

In some way these criterions summarise the more detailed previous treatment related to the aspect of autonomy. Also here the distinguished criteria must be considered in their combination and not solely.

9. Identification rules

The following operational rules meet mainly the need to identify autonomous statistical units. The aim is to produce statistical information consistent at EU level, and as close as possible to the economic reality.

**Identification rule 1** - A single legal unit not controlled by any other legal units is an autonomous enterprise.

**Identification rule 2** - An enterprise group (Multinational or National) is autonomous in itself; it will be equal to an Enterprise if there are no reasons to split it into more autonomous parts.

**Identification rule 3** - In case of a conglomerate group each sub-group, *if and only if it produces sub-consolidated accounts*, has at least to be treated as an independent Enterprise and the intra-flow transactions between the sub-groups are not take in consideration

Some (Multinational or National) enterprise groups (or sub-groups) may decide to organise their activities in different “Group Operating Segments” (“GODs”) or “business lines”.

**Identification rule 4** - If the GODs are observable (their existence are proved in the reporting system of the Group), they are the starting point to identify and delineate the “autonomous enterprises”.

Considering the market oriented criterion:

**Identification rule 5** - If one GOD inside a Group (or sub-group) represents a way on which the “group” itself performs a specific productive activity (it means that it contains all legal entities and their parts serving to this scope), it will be considered as a separate (autonomous) global enterprise.

**Identification rule 6** – If inside a GOD there are more (market oriented) autonomous parts for which meaningful statistical data can be provided, these have to be considered as autonomous units and should be proposed to be global enterprises.

**Identification rule 7** - If one GOD perform support activities (as auxiliary unit: administration, IT, wholesale, transport... or as artificial subsidiary corporation: own land, building, equipment or being nominal employer) for other GODs and the main part (more than 50%) of

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44 A conglomerate groups exists if the enterprise group is engaged in different activities that have no links except of shareholding with each other: no product, no process, no sales force, no brands etc in common.
its transactions is with other GODs it has to be considered as a serving GOD. In this case it is not considered an autonomous enterprise. The outputs of the serving GOD have to be considered as intermediate consumption for the other GODs and its accounting data have to be consolidated with the data of the autonomous enterprise (global or truncated) it serves, in principle. However, there can be exceptions, e.g. for R&D and for holding activities which are provided at market prices. Here it can be considered to define quasi enterprises, which are dealt with in statistics as enterprises, see rule 8.

Taking in consideration the NACE manual, the following rule is valid:

Identification rule 8 – The R&D activities, if separated business line inside the EG, have to be considered “autonomous” GEN and from there TEN.

Where possible the SNA and NACE manuals should be taken in consideration in the decisions on the establishment of the enterprise statistical unit

Autonomy at global and national level

10. The market orientation is an important criterion to identify the autonomous global enterprises. The question is then: in which market and for which market we need to define these units.

It is possible to speak in terms of local, regional, national, European, global market.

In particular, and for our purposes, autonomy at global and national level could not be considered in the same manner. The boundaries of the European country have to be taken into account and to be related to the concept of “residence” in the National Accounts.

An example can help:
A, B and C are three legal units controlled by the same GEG. A and B are manufacturing units; C is a wholesale unit. They are part of the same GOD. The combination of A, B and C has to be considered as one Global Enterprise.
A is resident in country X, B and C are resident in country Y.
If there are intra-flow transactions between B and C, C can be considered as ancillary unit and the Truncated Enterprise is the sum of B and C. The NACE TEN code = NACE GEN code.
If there are transactions between A and C (and not with B) this transactions are import/export activities and they are evaluated at arm’s length (for tax purposes). In this case we still have one GEN with one TEN in country X (legal unit A) and one TEN in country Y (combination of legal units B and C).

11. Autonomy at the global level is determining in the delineation of the Enterprise statistical unit GEN. The truncated national or geographical parts of this are not necessarily autonomous because these are under the operational leadership of the GEN management, even if this is under local legal conditions.

Autonomy in relation to the provision of meaningful statistical data

12. The provision of meaningful economic figures is the purpose of business economic statistics. The best way to comply with this purpose is to find a fit with the information that is compiled for management purposes within the GEG and for the operational management of it. Also information for shareholders and/or the board of commissioners reflects real information on the operations of the GEG. Managers of autonomous units will have meaningful and detailed information available from accounting systems and from other internal information systems. The best way to get meaningful data is to connect the need for statistical information to the

45NACE introduction guidelines, § 53
46System of National Accounts – 2008, 5.21-5.28
47NACE introduction guidelines, § 77
available accounting and information systems and to extract data from these in data collection. At the highest level and for the Groups Operating Divisions accounting systems are being standardised according to the IFRS, but more detailed information systems related to more detailed autonomous units may be available.