

European business profiling

RECOMMENDATIONS MANUAL

2020 edition



MANUALS AND
GUIDELINES

eurostat 

European business profiling

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2020 edition

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Foreword

Nowadays, all the National Statistical Institutes (NSIs) in Europe have an interest in profiling businesses. Profiling is a method to analyse the legal, operational and accounting structures of a business, at national and world level, in order to establish the statistical units within that business, their links, and the most efficient structures for the collection of statistical data. Within the European context, NSIs have successfully tested a method based on cross-border collaboration, the so-called “European Business Profiling”. Moreover, several NSIs have implemented regular activities for profiling groups located in their country on a national basis, the so-called “National Business Profiling”. The purpose of this manual is to serve as guidance for European Profiling and for profiling in general. The manual was drafted by Unit G1: “Business statistics — coordination and infrastructure development”. It was produced in close and continuous dialogue with experts from various domains working in the NSIs, and with other users of official statistics. The project was carried out under the supervision of a task force involving the NSIs listed below, and concluded by a broad consultation. Eurostat appreciates the contributions of all participants.

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Abstract

In official statistics, the enterprise has long been associated with its purely legal definition, the legal unit. With economic globalisation, large multinational enterprise groups (MNE groups) are more and more complex in terms of their legal organisation. This has led to a growing gap between the view of the productive system based on legal units and the economic reality.

To address this challenge, the National Statistical Institutes (NSIs) decided to go beyond the legal unit and to implement a new statistical unit, the enterprise. The implementation of the enterprise is done by business profiling.

In the last decade, Eurostat has encouraged European NSIs to cooperate in order to achieve a relevant and consistent cross-border view of MNE groups. This method is called “European Business Profiling”. It is carried out collaboratively by the profiling teams of the NSIs of the different countries where an enterprise group is located.

This manual provides recommendations on profiling MNE groups in the scope of European Business Profiling, and more generally guidance for business profiling.

The manual is structured into six chapters, following the logical order of the process. These chapters successively cover the following issues:

- the method of European Business Profiling, with a comprehensive explanation of the roles and responsibilities of the NSIs in the collaborative process;
- the key attributes of the group, such as the global decision centre, as well as the type of legal units collected in profiling;
- the method and the criteria to delineate enterprises within groups;
- the profiling process, regarding data collection, variables, and calendar;
- guidance and good practices to establish productive relationships with groups’ representatives;
- guidance and good practices to build a productive dialogue with other statistical experts and users across various domains.

Reference materials, examples of letters to groups’ representatives and a glossary are provided in the Annexes.

Keywords: *profiling, multinational enterprise group, legal unit, enterprise group, enterprise, interactive profiling tool, accounting variables*

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Recommendations

Executive summary



Executive summary

Profiling means going beyond the 'legal unit' to implement the 'enterprise' statistical unit

In official statistics, the enterprise has long been associated with its purely legal definition, the **legal unit** (LeU), in other words, a legal person or a natural person that performs a production function. However, economic globalisation, and changes in the way multinational groups organise themselves, have led to increasingly complex organisations. This has created a growing gap between the organisation's economic structure, and the organisation's structure when viewed in terms of LeUs.

This is why the national statistical institutes (NSIs) in Europe have decided to go beyond the LeU and to produce statistics on the unit with more economic relevance: the **enterprise** unit. Eurostat defines the enterprise as 'the smallest combination of LeUs that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources'.

Enterprise units are delineated by **profiling**. Eurostat defines profiling as 'a method to analyse and maintain 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'.

Profiling carried out by the NSI team within the national economy is referred to as **national profiling**. The profiling process is called **manual** when profilers analyse a group and delineate enterprises on an individual basis. Updating previous profiles is called **follow-up profiling**.

European profiling: a collaborative process to monitor large multinational groups

There are now many large businesses that operate across different countries. Statisticians call these large businesses **global enterprise groups** (GEGs).

European profiling is a manual and collaborative process between the profilers of several NSIs. The roles and responsibilities of the profiling teams depend on the country where the global decision centre (GDC) of the group is located. According to the Business Registers Recommendations Manual, 'the global decision centre (GDC) of a group is the unit where the enterprise group level's strategic decisions are taken'.

The profilers of the country where the GDC is located are called the **GDC profilers**. They initiate the profiling process. Among their responsibilities, they delineate the global enterprises (GENs), which is to say they delineate the enterprises without regard to national borders. The GDC profilers also delineate the enterprises (ENTs) for their national territory.

The profilers of the other countries where the group is located are called **partner profilers**. Among their responsibilities, the partner profilers delineate the enterprises for their national territory. The collaborative process of European profiling is carried out using a secure platform developed by Eurostat, the **Interactive Profiling Tool (IPT)**. The IPT automatically generates the national part of the GEN profile for each country. The profilers can keep this automatically generated profile or modify it to define the structure of the enterprises on their national territory.

Chapter 1 explains in more detail: (i) the concepts used in profiling; (ii) the benefits of profiling, (iii) the specifics of European profiling; (iv) the roles and responsibilities of GDC profilers; and (v) the roles and responsibilities of partner profilers.



Collaborative work in five steps

The European profiling is carried out in five steps, described below.

Step 1: Examining information to prepare or perform manual profiling by desk work

In all cases of manual profiling, profilers start by carrying out **desk work**. This consists in using currently available information to conduct the initial stages of profiling. For manual **intensive profiling** (which involves a meeting with the GEG's representatives, who are usually accountants) this initial desk profiling work should be completed before the meeting.

When there is no meeting with the GEG, the process is called **light profiling** and is entirely accomplished by desk work.

The information examined by profilers is of two types: (i) the sources commonly used in business statistics; and (ii) for manual profiling, the sources provided by the GEGs themselves (such as GEGs' websites, annual reports and financial statements).

Step 2: Validating the global decision centre (GDC)

During the desk work, the GDC is validated with the help of the EuroGroups register (EGR) and through initial exchanges between the profiling teams. The location of the GDC determines: (i) the GDC profilers, who are responsible for initiating the process; and (ii) the roles and responsibilities of all the profiling teams.

Step 3: Defining the perimeter of the GEG

The GDC profilers then collect data from the GEG and insert in the IPT the perimeter of the GEG, which may be corrected/updated by partner profilers for their country. The perimeter is based on the concept of control. This means that the perimeter of the GEG is the perimeter of the controlled LeUs. It may differ from the perimeter of the owned LeUs.

These three steps of desk work, validation of the GDC, and definition of the perimeter of the GEG are explained in **Chapter 2**.

Step 4: Delineating the enterprises

Once the GDC is identified and the perimeter of the GEG is defined, the next step is to delineate the relevant enterprises, both at global and at national level.

Groups can be organised in one or several enterprises, as a group may even consist of only one enterprise. A group can also represent a diversified conglomerate with several business segments having a 'certain degree of autonomy'. Thus, several enterprises may have to be delineated in the group.

This delineation of the GENs is done through a top-down approach. The top-down approach means that the delineation starts from a view of the GEG at the global level to delineate one or several GEN(s).

The criteria for delineating the GENs within the GEGs are explained in **Chapter 3**.

Step 5: Collecting the data and inserting them into the IPT

The last step is to collect the data and to insert them into the IPT. There are currently three variables that are collected for the units defined through European profiling: NACE, employment and turnover. The level of data collection and the attributes of the variables are harmonised to ensure consistency.

The GDC profilers and partner profilers must collaborate for the delineation of the GEN(s) and for the important decisions on the GEG perimeter or on the enterprises. Additional information for profiling may also be released during the course of a profiling cycle. This is why the logical order of this five-step process outlined above does not always coincide with the real-world chronological order. To coordinate the efficient work between the different teams of profilers, a calendar of the tasks to perform is published annually by Eurostat on the [wiki/Profiling/IPT](#).

The guidelines on the profiling process, data collection, variables, and calendar are discussed further in **Chapter 4**.

Dialogue with the GEG's representatives provides many benefits

A key principle of profiling is that quality and consistency are substantially improved by dialogue with the GEG's representatives. Intensive profiling is highly recommended. Among other benefits, a face-to-face meeting is often easier to conduct and more productive than exchanges via telephone or email.

However, whatever the kind of exchange, communication with a GEG's representatives must be carefully prepared and carried out.

Guidance and good practices to establish good relationships with a GEG's representatives are provided in **Chapter 5**.

Whatever the organisation of the NSI, profilers must conduct intensive and continuous exchanges with their colleagues/users

Profiling requires particular skills. It is also an innovative process, and some NSIs have only limited experience with it.

In recent years, some European NSIs have set up profiling teams. The models for these teams may differ in areas such as the place of the profiling team in the organisational structure of the NSI, the profiling team's role, or the profiling team's resources.

Regardless of the organisational model, intensive dialogue and coordination with colleagues/users are necessary for the success of profiling. Profilers need to know about the existing relationships between the NSI and the GEG (in other words, involvement in the surveys) and the other sources of information on the GEG. Profiling also changes the way statisticians view the productive structure. Depending on the strategy of the NSI, profiling may also bring major changes in data collection and data processing. This is why it is necessary to consult continuously with other colleagues involved in the creation of business statistics or other colleagues that use these statistics.

Thus, we elaborate on the profiling team's optimal skillset and the ways to build constructive relationships with colleagues/users in **Chapter 6**.

1

European profiling, units, process



Chapter 1 — European profiling, units, process

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This first chapter describes the purpose of this recommendations manual; the units and definitions used in profiling; and the general framework of European profiling.

- This manual is directed mainly at profiling staff in the NSIs. It provides guidance on the implementation of European profiling. It complies with other official documents, in particular with the *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*. This important reference is shown in the annex. The definitions and guidance also comply with official manuals on business registers (BRs), such as those published by Eurostat (last version in 2010) or UNECE (last version in 2015).
- Thus, the units and definitions commonly used in business statistics and profiling are explained. The benefits of profiling are also explained.
- The methodology and the framework of European profiling are then elaborated upon. The methodology was updated in 2017, aiming at better linking European and national needs. We present the main units and definitions. We also present the roles and responsibilities of the different profiling teams. We also explain the additional benefits of European profiling compared to profiling in general.
- Within European profiling, it was decided to focus on the non-financial groups. We outline the reasons for this below. However, non-financial groups may have financial activities, and this manual explains how to treat these financial activities. In the same way, non-European groups may have a very large economic presence in EU-EFTA countries. We also present a method to treat these groups.

1.A — Introduction: the purpose of this recommendations manual

The aim of this recommendations manual is to provide the NSIs with guidelines and a description of the process for profiling large and complex international groups at the European level. This document will also provide a description of how to delineate the statistical-unit structure at the global and national level, including the main features of the statistical units.

This document is directed mainly at profiling staff in the NSIs. It offers practical guidance on how, where, when, and by whom the European profiling process should be carried out. It describes: (i) the operational process to be used by the involved enterprise; (ii) the profiling itself; (iii) the actors; and (iv) how the process should lead to agreement between the concerned NSIs and the group itself.

This document takes into account the updates endorsed in 2017 by the Business Statistics Directors Group for better linking European and national needs. It includes the knowledge accumulated in the previous documents drafted by the ESSnet group on profiling large and complex groups, which are the *Methodology for Manual European Profiling* (deliverable No A1.1 WP3, April 2016) and *Guidelines for Manual European Profiling* (deliverable No A1.2 [2a] WP3, September 2016). This document also complies with the *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 *Notice* is a very important reference and is shown in Annex 1.

1.B — Units and definitions commonly used in business statistics and profiling

European profiling starts from the units commonly used in business statistics to create units specially dedicated to its methodology.

The units and definitions commonly used in business statistics are officially defined in European regulations, such as Council Regulation (EC) No 696/93, which defines the LeU, the enterprise group and the enterprise delineated by profiling. Recommendations to implement these units are regularly clarified or updated in official manuals on BRs such as those published by Eurostat (last version in 2010) or UNECE (last version in 2015). The following definitions are those given in Council Regulation (EC) No 696/93.

1.B.1 WHAT ARE THE LEGAL UNITS (LeUs)?

According to Council Regulation (EC) No 696/93, **legal units (LeUs)** include:

- legal persons whose existence is recognised by law independently of the individuals or institutions which may own them or are members of them;
- natural persons who are engaged in an economic activity in their own right (EC No 696/93, Section II, A).

1.B.2 WHAT IS AN ENTERPRISE GROUP?

'An **enterprise group** is an association of enterprises bound together by legal and/or financial links. A group of enterprises may have more than one decision-making centre, especially for policy on production, sales and profits. It may centralise 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' (EC No 696/93, Section III(C)).

As an enterprise is a combination of LeUs (see 1.B.5), the definition is also valid with 'LeUs' instead of 'enterprises'.

The perimeter of the group is defined by the criteria of controlled LeUs, not by the criteria of owned LeUs (see Chapter 2).

1.B.3 WHAT IS A GLOBAL GROUP HEAD?

A **global group head (GGH)** is a parent LeU which is not controlled either directly or indirectly by any other LeU. The subsidiary enterprises of a subsidiary enterprise are considered to be subsidiaries of the parent enterprise (Council Regulation (EC) No 696/93, Section III(3), explanatory note 4).

1.B.4 WHAT IS A GLOBAL DECISION CENTRE (GDC)?

According to the *Business Registers Recommendations Manual*, the **global decision centre (GDC)** of an enterprise group is the unit where the strategic decisions at enterprise-group level are taken (pp. 292). A group may have several decision-making centres or several units dedicated to a particular internal function (such as accounting or human resources). Nevertheless, 'only in the GDC decisions about the group are made' (*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*). The GDC may be the GGH or another LeU under the GGH.

It is important to distinguish the GDC and the GGH. Indeed, the country in which the GDC is located determines the **nationality** of the group. It also determines the NSI which has the responsibility for starting the profiling activity of the group (see point 3).

1.B.5 WHAT IS AN ENTERPRISE?

'The **enterprise** is the smallest combination of legal units that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources' (Council Regulation (EC) No 696/93, Section III(3)).

When an LeU is not controlled by a group, it forms an enterprise by itself, provided it is active as a productive unit.

The criterion for deciding if an enterprise is active or not has been defined in the *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 of June 2015*. The criterion is that: 'an enterprise is deemed as active in a certain period if it generates turnover, employs staff ⁽¹⁾ or makes investments in the period'.

This criterion for determining active LeUs does not apply to active LeUs controlled by the group, since these active units controlled by the group may have an economic activity even without turnover. Indeed, within the groups, sometimes we have to associate several LeUs in a combination to form an enterprise. In practice, many groups' LeUs are units that lack autonomy. And sometimes these LeUs even lack substance. These LeUs may have been formed as a result of takeovers or for internal reasons or strictly management-related objectives. The only significance of such LeUs lies in their interaction with other LeUs of the group. Examples include LeUs that perform specific tasks of the production process or that are set up to manage an enterprise group's entire workforce. Other units may report production activity even though they have no employees. These LeUs should be combined together to form an enterprise, as an integral part of the organisational production process of the group to which they report.

The groups can be organised into one or several enterprises. Some groups contain only one enterprise; whereas other groups are diversified conglomerates with several business segments, where each business segment has a 'certain degree of autonomy', so several enterprises have to be delineated within the group.

Recommendations on how to delineate enterprises within groups, while also upholding the principle of 'a certain degree of autonomy in decision-making' are provided in Chapter 3.

1.B.6 WHAT IS PROFILING?

The definition of profiling is provided by the Eurostat *Business Registers Recommendations Manual*:

'**Profiling** is a method to analyse and maintain 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' (paragraph 19.9, pp. 165).

⁽¹⁾ Employment is linked to the earning of wages for employees, the earning of revenues for sole entrepreneurs, or any other transaction proving that there is an economic activity (purchase of supplies, other payments and so on). This condition aims to exclude from the field of active enterprises the natural persons registered as sole entrepreneurs in the business registers but who perform any economic activity in reality.

With respect to the previous definitions, profiling helps to delineate the ‘enterprise’ unit on a geographic perimeter (national, European, global) within the groups. The collection of business register information and structural business statistics (SBS) on this perimeter at the level of enterprise is also included in profiling.

1.B.7 WHAT ARE MANUAL AND AUTOMATIC PROFILING?

The profiling process is called **manual** when profilers analyse available information on a group and then delineate enterprise(s) within this group on an individual basis. This method is costly in time and resources, and requires specific skills from the profilers. For this reason, this method is usually applied to the largest, most significant groups. When there is a comprehensive dialogue and a meeting between the profiling team and the group’s representatives (generally consolidators or accountants), we talk of **intensive manual profiling**. When there is an analysis of the group without contact with its representatives, or when there is contact only by email and conference calls with a group’s representatives on very general aspects regarding GEN/ENT delineation, we usually talk of **light manual profiling** (see Chapter 5). Large groups frequently reorganise their internal structure, altering the LeUs or enterprises. These changes must be regularly recorded by updating the previous profiles. This activity is called **follow-up profiling**. Like the previous profiling, the follow-up profiling is conducted as a manual process, which may be intensive or light.

Nevertheless, almost all groups in all countries are now small and medium-sized. For reasons of resource constraints, it is recommended that these groups be profiled through algorithms. This method is called **automatic profiling**.

In the present manual, we deal only with manual profiling. Manual profiling is very important because it includes an individual approach to the group, and for European profiling, collaboration between European NSIs and Eurostat is needed.

1.B.8 GENERAL REASONS FOR PROFILING

The five general reasons for profiling are detailed below.

1. Getting a better picture of the economic structure of the groups and the functioning of the enterprises

Economic globalisation, and changes in the way multinational groups organise themselves, have led to increasingly complex organisations. This has created a growing gap between the organisation’s economic structure, and the organisation’s structure when viewed in terms of LeUs. Indeed, in recent decades, some large groups have greatly restructured their legal organisation by creating new LeUs. When the enterprise is systematically equated with the LeU, this no longer describes the true situation of the productive structure. Indeed, many LeUs controlled by groups are likely to have little, if any, decision-making autonomy. Using the definition of ‘enterprise’ produces a better picture of the economic structure and activity of the groups.

2. Getting a better picture of: (i) the economic concentration; (ii) activities in the economy; and (iii) more relevant economic data

Large manufacturing groups have traditionally created many LeUs within their core businesses. Additionally, these manufacturing groups often set up separate LeUs to perform sales/marketing or support functions (and these separate LeUs can therefore be classified as belonging to the service sector). The inclusion of these units in the manufacturing sector provides a better picture of the share of different activities in the different sectors of the economy. A good example is foreign trade. Many large manufacturing groups created LeUs dedicated to the task of billing their sales, including their export sales. These LeUs are then classified as being engaged in the wholesale sector. As a consequence, the weight of the wholesale sector in exports measured by LeUs increased, and this weight is overestimated because these exports are in fact carried out by manufacturing groups. The refocusing on manufacturing is also visible for certain aggregates that are particularly affected by spin-offs to LeUs such as net assets. Most groups have LeUs classified under real estate services, specialised activities (scientific and technical) or administrative and support services (including head offices in particular). As a consequence, the weight of services in the economic structure measured by using the LeUs gives a greater significance to this sector to the detriment of manufacturing.

Profiling makes it easier to understand the economic concentration of groups by size class, giving a clear picture of the true size of the delineated enterprises. As explained above, the enterprise group may be organised in small LeUs that are specialised. For example, a large enterprise group can create small LeUs without any autonomy of decision-making to export its products or to locate its fixed assets. When basing the size-class data on LeUs, the data of these

LeUs are included among the small and medium-sized enterprises (SMEs), but using the enterprise units they are correctly accounted for among the large enterprises.

The groups may contain a lot of LeUs which are very specialised (for instance one LeU which contains all the assets, and another LeU responsible for all the employment). For this reason, a lot of economic data become irrelevant at the LeU level but recover their significance at the enterprise level.

3. Avoiding double counting of the non-additive variables between groups' LeUs

Going further than LeUs and delineating enterprises according to their economic significance also makes it easier to follow-up on SBS variables. In most countries, the NSIs follow the LeUs by surveys and administrative sources, in particular tax declarations. However, when the groups create new LeUs, these LeUs now file separate financial accounts or tax declarations and they start billing financial flows between themselves, sometimes using transfer prices fixed only for purposes that are purely internal to the group. Although these flows did not appear when they took place within the same LeU, they are now identified as market flows between different LeUs, and they are therefore recorded in administrative sources and followed by statistical surveys. These changes in the juridical organisation of the groups have no impact for the additive values, in particular employment and value added. However, they give rise to double counting and breaks in series for non-additive variables such as turnover; purchases and sales; assets and debts; and dividends. By delineating enterprises according to their economic significance, the statisticians can correct these apparent changes resulting from the legal reorganisation of the groups. Profiling can neutralise these internal flows within the enterprises by consolidating these flows into a single statistical unit. Thanks to profiling, the only flows recorded are the market flows between the enterprise and its external counterparts, in other words, customers, suppliers, banks, shareholders, and public administrations.

4. Defining observation units within the group

During the profiling process, the availability of data within the group will be matched with required data for statistics. An effort has to be made to combine the best possible statistical information with the lowest administrative burden for the group. This is why profilers and group representatives identify together the best observation units to collect data. According to the Eurostat *Business Registers Recommendations Manual*, an observation unit represents an identifiable entity about which data can be obtained. Deciding on what observation units to use can help to produce a clear picture of the group and its activities.

5. Getting a consistent cross-domain picture of the groups

In each profiling process, profilers must consult with their colleagues within the NSI who are also concerned with: (i) the structure of the group; and (ii) the data to be collected. In all cases of profiling, the analysis of the information from statistical sources available in the NSI is a key part of building a relevant picture of the group, as explained in Chapter 2. Close working relationships between profilers and colleagues in other domains of business statistics and national accounts (NA) allows for the emergence of a consistent cross-domain picture of the group. The advantages of this dialogue and the ways to establish it are discussed further in Chapter 6.



Box 1: Principles for a balance between quality and resources in profiling

The principles for achieving a balance between quality and resources in profiling is explained in the *Notice of intention of the Business Statistics Director Groups and the Directors of Macroeconomic Statistics on the consistent implementation of Council Regulation (EC) No 696/93* (Eurostat, TF SU/25-26 June 2015).

'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).'

Table: Application of A, B and C methods for profiling Enterprise Groups

	Manual intensive profiling	Manual light profiling	Automatic profiling
Large and complex ⁽²⁾	A	B	C
Large and simple	A	A	C
Small and complex	A	A	B
Small and simple	A	A	A

⁽²⁾ Large: significant impact in the NACE classes in question.

Small: negligible impact in the NACE classes in question.

Complex: for example, many legal units with many different activities and delivery-relations between the units.

Simple: for example, one activity in all legal units and ancillary activities).

1.C — Units and definitions introduced and used in European profiling

1.C.1 WHAT IS EUROPEAN PROFILING?

There are now many large groups that have legal units in different countries. It is for this reason that statisticians call such groups '**global enterprise groups**' (GEG).

For this reason, cooperation between European NSIs and Eurostat is necessary to understand the business and structure of multinational groups. To organise this cross-country collaboration, Eurostat has encouraged the European NSIs to work together to profile large groups located in Europe.

European profiling is manual profiling carried out collaboratively by the NSIs of the countries where a group is located in Europe. The European profiling methodology uses a few additional units to those commonly used in business statistics. These units guide and support the process of European profiling. The units are created, exchanged, shared and stored by NSIs participating in the collaborative process. The collaborative profiling process is carried out with the **Interactive Profiling Tool (IPT)**, which is the secure platform developed by Eurostat and used by NSIs' profiling teams.

1.C.2 WHAT IS A GLOBAL ENTERPRISE (GEN)?

A **global enterprise (GEN)** is defined at the global level, which is to say without regard to national borders. The GEN can be either:

- a single LeU (including natural persons);
- a GEG as a set of LeUs under common control if the group includes no autonomous parts;
- a part of an enterprise group, producing goods and services, benefiting from a certain degree of autonomy in decision-making, especially for the allocation of its current process.

The GEN is to be considered as an actor in the process of production in the economy (see Chapter 3).

The GEN will often appear as an organisational unit that can provide meaningful data for statistics.

1.C.3 WHAT IS A TEMPORARY ENTERPRISE (TENT)?

A **temporary enterprise (TENT)** is a combination of LeUs (or a single LeU) automatically generated through the IPT during European profiling, as a result of the GEN breakdown by country.

The TENT is the national part of a GEN. This means that all the LeUs from the given country which belong to the GEN compose the TENT. It is generated automatically by the IPT. The TENT is not necessarily autonomous, nor does it necessarily correspond to the needs of national profiling. It is a technical, temporary and informative unit ⁽³⁾.

As a technical unit, the TENT represents the proposal of the GDC country of what the national enterprise(s) could look like. Partner profilers can either amend the TENT as needed to define the final correct enterprise within their country, or they can validate the TENT as their national enterprise.

It is generally agreed that the best and simplest solution would be for a national enterprise to be linked to one TENT only. Nevertheless, in the scope of the updated methodology, certain national situations may require exceptions to this general rule (see point 3).

⁽³⁾ Before the updating of the European profiling methodology, profilers used the acronym TEN, short for 'Truncated ENterprise'. Like the TENT, the TEN was automatically generated through IPT during profiling, as a result of the GEN breakdown by country. Partner profilers could not modify the TEN. They could not change the activity coding of the unit, split it into several units (enterprises), nor reflect the national enterprise picture. This could lead to a lack of alignment between European and national needs. For instance, in the case of a manufacturing GEG, partnering countries were obliged to consider the TEN as also being engaged in manufacturing, even though in some cases the GEG only had wholesale or retail trade truncated enterprises in a lot of countries.

1.C.4 WHAT IS A NATIONAL ENTERPRISE (ENT)?

A **national enterprise (ENT)** is the enterprise defined by the national profiling team of a NSI in its national territory, as the most relevant set of LeUs forming the 'enterprise' unit. It is a valid question whether, at the national level, the enterprise 'benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources'. This point is discussed in Chapter 3, which addresses practical recommendations to delineate enterprises and the criterion of 'a certain degree of autonomy'. Regardless of whether or not they benefit from this 'certain degree of autonomy', the ENTs are the units on which structural business statistics should be based. Moreover, there is no doubt that ENTs are far more relevant than LeUs for understanding the productive structure of a country (see Chapter 1.8).

1.C.5 THE REASONS FOR EUROPEAN PROFILING

Besides the advantages of profiling in general (see Chapter 1.8), there are two other advantages to cross-country collaboration between European NSIs and Eurostat for profiling multinational groups. These two other advantages are outlined below.

1. Greater consistency and quality of the data on multinational groups

These improvements in consistency and quality arise from an improved understanding of the multinational GEGs' activities. This improved understanding comes from: (i) the study of annual reports; (ii) discussions with the group's representatives; and (iii) the exchanges between the profiling teams of different countries. Besides, within each NSI, profiling paves the way for discussions between the profiling team and their colleagues/users (such as business registers, foreign affiliates statistics (FATS), SBS, national accounts and so on).

The main improvements in consistency and quality are the following:

- consistency between the countries on the following four attributes of multinational groups across national borders: (i) agreement on how to delineate the perimeter in terms of LeUs; (ii) agreement on the distinction between owned and controlled LeUs; (iii) agreement about the GDC (which determines the nationality of the group); and (iv) agreement about the GGH;
- avoiding missing links of control across countries;
- improvement of the EGR statistical frames;
- agreement on the nationality of some large multinational groups for the consistency of FATS populations across countries;
- consistency between the countries in the process of data collection – the variables to be collected are clearly defined and European profilers collect these variables in a harmonised way;
- improved consistency on particular legal forms or units, such as special-purpose entities, branches, and franchises.

All these improvements enable the NSIs involved in the process to update and improve the quality of their national registers and statistics.

In the same way, European profiling improves the quality of the **EuroGroups register (EGR)**. One of the ways it does this is by providing updated information on the GDC country and on the perimeter of the multinational enterprise group. The EGR is a statistical BR managed by Eurostat and focused on multinational groups. According to the Eurostat *Business Registers Recommendations Manual*, a multinational enterprise group is defined as a group comprising at least two LeUs or enterprises located in different countries (pp. 309). The EGR's first reference year was 2008. Since then, the register has been constantly improving in coverage and quality.

2. Reaching a common understanding of the structure of multinational groups

European profiling provides a better insight into industries and multinational enterprise groups. This may be very useful for users dealing with issues such as sectoral analysis on globalisation and global value chains; FATS production; and so on.

In several industries, European profiling revealed that the same organisational models are shared by a large majority of the groups. This is justified by managerial, economic or production reasons. Some examples of this are provided in Chapter 3.

In several industries, profiling can shed light on the important distinction between affiliates and franchisees, which is a key issue for BRs and for other users. Affiliates are LeUs controlled by the groups. But 'franchisees are independent LeUs which sign a contract with another LeU, the franchiser, to engage in an activity making use of trademarks, trading styles, and marketing support provided by the franchiser usually for a fee or a share of the profits' ⁽⁴⁾. As a consequence, distinguishing affiliates and franchisees may be a key matter for business statistics, in particular to understand financial flows between countries.

Finally, European profiling improves the quality of the attributes of a relevant profiled group. This means greater likelihood of attributing the correct main activity to a group, and more accurate data for the possible share of employment and turnover by countries. These results have been arrived at through intensive dialogue with the national accountants and with the group's representatives.

As business becomes more globalised, and as multinational enterprise groups engage in activities of increasing complexity, the expertise of profiling teams is increasingly needed and recognised. The need to understand the structure of large multinational groups, as well as their activities in the different countries, have resulted in both statisticians and users taking an increasing interest in profiling.

1.D — Roles and responsibilities in European profiling

1.D.1 ROLES OF THE GDC AND PARTNERING COUNTRIES

The profilers of the country where the GDC of the GEG is located are called the **GDC-country** profilers. They are responsible for:

- ascertaining ⁽⁵⁾ the perimeter of the group in terms of LeUs;
- delineating the group's GEN(s) within the GEG;
- assigning the LeUs to GEN(s) (for the resident LeUs and, as much as possible, for the non-resident legal units);
- collecting data at GEN level (consolidated turnover, employment and NACE activity);
- collecting data for their resident ENT (consolidated turnover, employment and NACE activity);
- collecting data for the ENT's resident legal units (turnover, employment and NACE activity).

The delineation of the countries where the group has LeUs automatically defines the TENT.

Collecting data by the GDC country at the level of the TENT is conditional. This means that it must be done only if data are available and can be easily collected; otherwise is not compulsory. The GDC country is required to provide data on its national ENTs.

The other (non-GDC) European countries, where groups have LeUs, are called **partnering countries**.

Each partnering country is responsible for the following five tasks.

- (i) They must confirm or update the national LeU perimeter (through consultations with the GDC country). Resident LeUs that are missing can be added, provided they are controlled by the group, active in the reference year, and part of the ENT. Resident LeUs proposed by the GDC country but which are not controlled — or are no longer controlled — must be deleted. These changes must be flagged in the IPT comment box in the course of the profiling process ⁽⁶⁾. The partnering country is responsible for confirming or updating data on the resident LeUs.
- (ii) They must decide on the structure of the ENTs, and delineate the ENTs during the profiling process.
- (iii) They must link the ENTs to the group GENs in the way that best reflects national needs and national circumstances.
- (iv) They must collect data for their resident ENT (on consolidated turnover, employment and NACE activity).
- (v) They must collect data for their resident LeUs (on turnover, employment and NACE activity).

⁽⁴⁾ See Eurostat, Business Registers Recommendations Manual pp. 291.

⁽⁵⁾ For all the other tasks for which the GDC profilers are responsible, the collection of data may be conducted through intensive or light manual profiling. The process also includes filling the IPT. Full explanations and guidance on data collection are provided in Chapter 4.

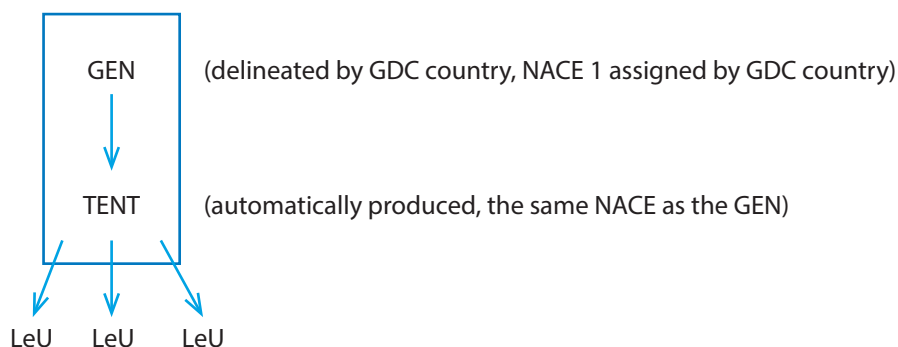
⁽⁶⁾ Until the middle of 2019, such comments can be written in the 'Comments' tag of the IPT. To respond to a request from the profilers, a change request form is being developed in the IPT. It will allow flagging directly a legal unit to an ENT.

1.D.2 THE CONNECTION BETWEEN NATIONAL AND EUROPEAN PROFILING

The updated model for profiling units actively brings the national-enterprise perspective into the profiling process.

As explained before, the European profiling starts as follows: the GDC-country profiling team first delineates the GEN(s) (in cooperation with the Multinational Enterprise (MNE) group), assigns them a NACE, and links the LeUs to each GEN. A TENT is then automatically produced by the IPT on the perimeter of the partnering country. This initial step is sketched in the picture below.

Initial state: Result of the initial profiling by the GDC country



The TENT is a technical, informative unit. It brings the group perspective to the partnering country, and will serve to inform profilers of what their ENT could look like.

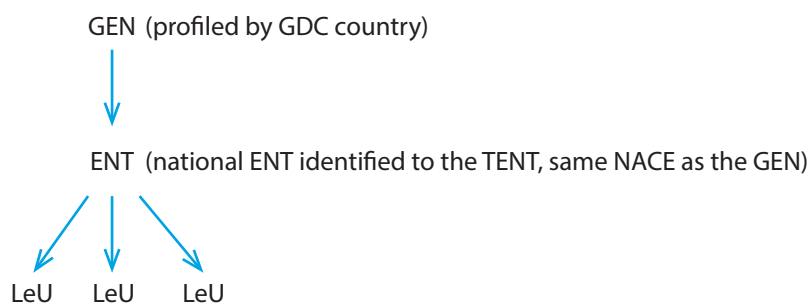
The following four features are available in the IPT's collaborative platform to improve the connection between European and national needs.

1. A partnering country can validate the TENT as its ENT

In this case, the final result in the national territory of the partnering country is sketched below in Figure A.

Figure A: A TENT is validated as an ENT

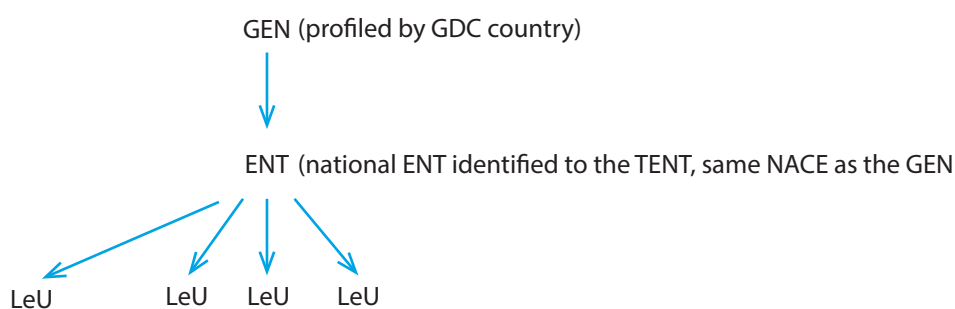
Final state: Result after the update by the partnering country on its national territory



2. And/or a partnering country can add legal units at national level if it has definitive information that these legal units are: (i) active; (ii) controlled by the national-level enterprise; and (iii) part of the national-level enterprise ⁽⁷⁾. In this case, these legal units are added and must be flagged in a comment box.

In this case, the final result in the national territory of the partnering country is sketched below in Figure B.

Figure B: The partnering country adds controlled, active, flagged LeUs in its country
Final state: Result after the update by the partnering country on its national territory



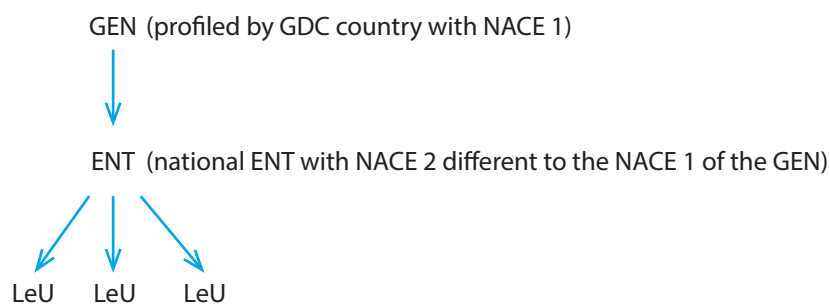
a new LeU that is controlled, active, and not autonomous is added by the partnering country and will be flagged in a comment box)

3. And/or a country can assign to an ENT a NACE different to the NACE of the GEN.

This solves in particular the typical problem of a manufacturing GEN which controls in a country an ENT that performs only trade (wholesale or retail trade).

In this case, the final result in the national territory of the country is sketched below in Figure C.

Figure C: The country assigns to the ENT a NACE different to that of the GEN
Final state: Result after the update by the partnering country on its national territory

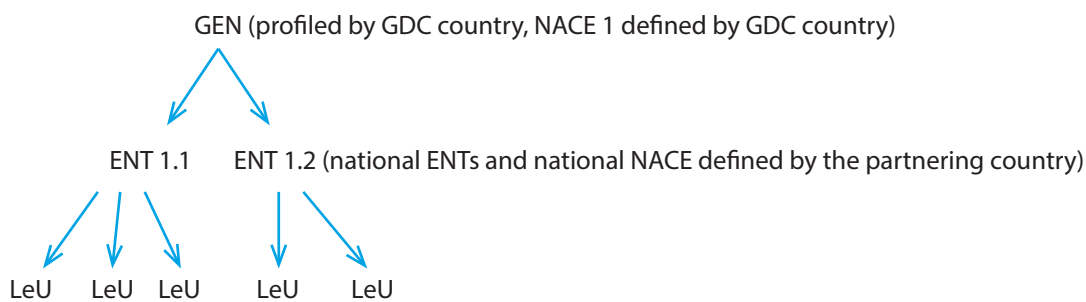


⁽⁷⁾ This means that this legal unit does not benefit from 'a certain degree of autonomy'. If not, it will be added as another national ENT (see case 4, Figure D).

4. And/or a country can restructure the TENT to form its ENT(s)

One GEN can be linked to national ENTs in a 'one-to-many' relationship, to allow profilers flexibility when defining their national ENTs. This is illustrated in Figure D below. The national ENTs should always be defined in compliance with the operational rules adopted by the Business Statistics Directors Group (BSDG) and the Directors of Macroeconomic Statistics (DMES) (see Chapter 3). Profilers can create and link more than one ENT to a GEN. Attention must be paid to the fulfilment of the condition of 'sufficient degree of autonomy' in defining both the GEN and the national ENTs.

Figure D: One GEN can be linked to national ENTs in a 'one-to-many' relationship
Final state: Result after the update by the partnering country on its national territory



The partnering country can combine the three updates previously described. For instance, the partnering country can create several national ENTs instead of one TENT, with NACE that are different to those of the initial TENT. The partnering country can also add new controlled active and flagged LeUs.

Nevertheless, the three following conditions must be met:

- each LeU of the TENT must be linked to a national ENT;
- each national ENT must be linked to a GEN;
- national ENTs, just like GENs, must fulfil the criteria of a 'certain degree of autonomy' (see Chapter 3).

Note that these adaptations of national ENTs may be done by the partnering countries, but also by the GDC country for its own national territory. This solves the typical problem of a manufacturing GEG or GEN existing at global level, but having a headquarters or a wholesale ENT in the GDC country.

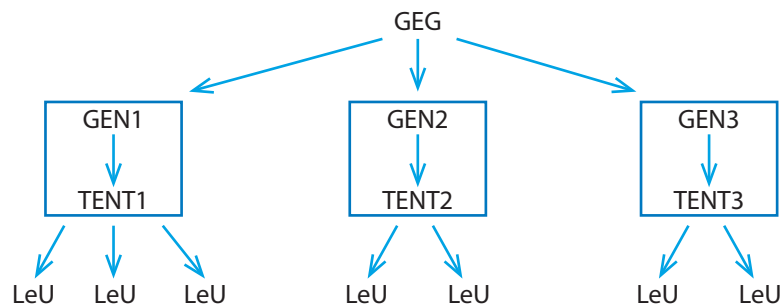
Box 2: Future projects to be implemented in the IPT

An update to IPT is expected which will make it possible to implement the exception of linking one ENT to several GENs (or one ENT to the GEN which has the same or the closest NACE, even if the group has been delineated in several GENs). The partnering country should then flag and explain on what basis they consider their national situation to constitute an exception (in other words, to avoid splitting an LeU or a too-small ENT at national level or an ENT without a 'certain degree of autonomy' at national level).

Figure E(i): One ENT linked to several GENs (exceptional case to be implemented in the IPT after 2019)

In this case, the initial step resulting from the GDC country would be as outlined in the first figure below.

Initial state: result of the initial profiling by the GDC country



Final state: Result after the update by the partnering country on its national territory

A first solution could be to link the national ENT to the different GENs, possibly using a distribution key. This solution has the advantage of showing that the ENT is really linked to the different GENs. This solution can reflect the case of diversified conglomerates that undoubtedly have several GENs at global level, but that control in a country just one LeU and/or one local unit producing all their goods or services with the same employees. This distribution key would necessarily be a proxy for some variables. For instance, if a statistical survey at national level monitors the distribution of turnover between different activities (which is usually the case), the partnering country would have to make the assumption that the distribution of employment is the same as it is for turnover.

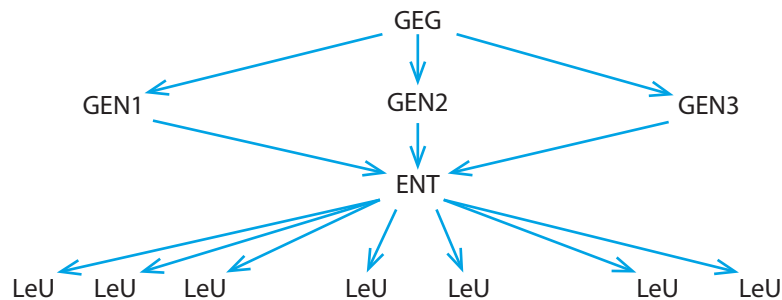
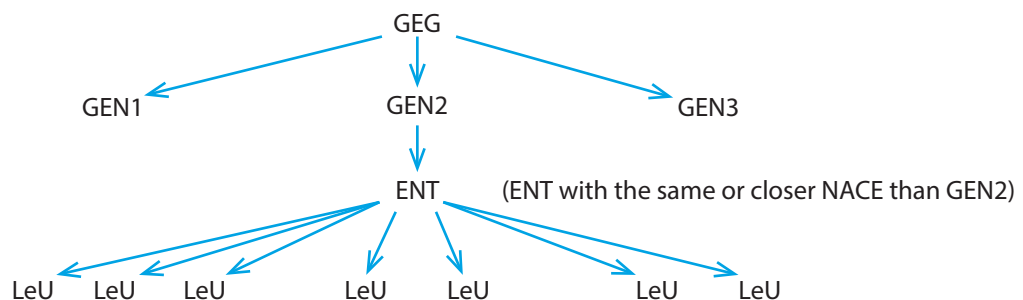


Figure E(ii): One ENT linked to the GEN of the same NACE (exceptional case to be implemented in the IPT after 2019)



A second solution, which is perhaps easier, would be to link the national ENT only to the GEN which has the same (or the closest) NACE. From a conceptual point of view, this solution is the same as the previous one, when the ENT is linked with a 100 % distribution key to one GEN, and 0 % to the others.



1.E — The focus on non-financial groups

It is possible to apply the profiling process to all types of GEGs, including those which participate in the financial system (in other words, GEGs that engage in ‘financial intermediation’ such as banks, insurance companies, or financial auxiliaries such as investment funds). However, after discussions at the Profiling Task Force, it was decided to remain focussed on the non-financial groups in European profiling. The reasons for this were explained in the 2016 *Methodology*. The three most important reasons are set out below.

- The financial system is highly regulated, and the main activities in this system must be approved by the regulatory authorities before anyone can engage in them. Even when these authorities have given permission for an activity, they continue to supervise the activities to set conditions for how the activities should be managed and structured. This means that the perimeter of the regulated activities is largely in the hands of specific governmental bodies.
- This perimeter does not evidently fit with the enterprise-group structure: there is the need for deep insight into: (a) how best to define the perimeter of the cluster of control; and (b) how to delineate the GEG. This insight is not yet sufficiently available.
- According to the SNA 2008 and to the ESA 2010, the classification for activities in financial intermediation is combined with their institutional-sector classification. This is different to the classification for the institutional sector of other private businesses. Once more, the way the institutional-sector classification and the GEG analysis fit with each other will be elaborated upon further in the future.

For all these reasons, in the current stage of European profiling, it was decided to remain focussed on the private non-financial GEGs. But non-financial GEGs may have a financial aspect to their activities. In contrast, there are also financial GEGs with a non-financial aspect to their activities. The method for dealing with these cases is explained in Chapter 3 (see 3.C.4).

1.F — European profiling of non-European GDC groups

Some groups with a GDC located outside Europe have a very large economic presence in EU-EFTA countries. They may also have a very complex organisation with significant flows of turnover, licence fees, and intangible assets (such as intellectual property products) flowing through different countries.

For these reasons, it is important to monitor the presence of such non-European GDC groups and decide which ones to analyse with profiling. As the GDC resides outside of Europe, the analysis will have to be conducted by the European country or by the countries where the economic impact of the group’s affiliates is most significant.

Annual financial reports are an essential source for profiling non-European groups.

In the EU, groups listed on an EU-based stock exchange are obliged to publish a financial report according to the International Financial Reporting Standards (IFRS). In the US, groups listed on a US stock exchange are obliged to publish a financial report according to the standard US GAAP. These two accounting standards provide a lot of financial information, in particular about the operating segments that are used as the starting point to delineate the GEN(s) (see Chapter 3). It is therefore the case that listed groups are in general easier to profile than non-listed groups, especially if the GDC is not in the EU.

If a non-European group has a headquarters in Europe, the NSI that plays the role of the GDC is the **country in which this headquarters is located**. If the location of the headquarters is in doubt, coordination between European profiling teams is of course necessary to decide which NSI plays the role of the GDC. For instance, European profiling with the support of the country where the European headquarters is located may be instrumental in determining the LeUs in all the participating countries.

If a non-European group does not have a headquarters in Europe, the NSI that plays the role of the GDC country should be the country in which the group has the greatest economic weight. In this case, light profiling would probably be more appropriate than intensive profiling (see Chapter 5).

1.G — Summary of Chapter 1

Profiling means going beyond the legal unit to implement the ‘enterprise’ statistical unit

As explained in the executive summary, profiling means going beyond the Legal Unit (LeU) to implement the more relevant ‘enterprise’ unit. Eurostat defines the enterprise as ‘the smallest combination of LeUs that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources’.

When an LeU is not controlled by a group, it forms an enterprise by itself, provided that it is active, in other words, that it generates turnover, employs staff or makes investments. Groups can be organised in one or several enterprises.

Profiling carried out by the NSI team within the national economy is referred to as **national profiling**. The profiling process is called **manual** when profilers analyse a group and delineate enterprises on an individual basis. Updating previous profiles is called **follow-up profiling**.

Profiling improves the relevance and the quality of business statistics (see 1.B.8).

European profiling: a collaborative process to monitor large multinational groups

There are now many large businesses that operate across different countries. Statisticians call these large businesses **global enterprise groups (GEGs)**. **European profiling** is a manual and collaborative process carried out by profilers of several NSIs.

In addition to the general benefits of profiling, European profiling: (i) improves the quality and cross-country consistency of the data; and (ii) provides a common understanding of the structure of GEGs (see 1.C.5).

The roles and responsibilities of the profiling teams depend on the country where the **global decision centre (GDC)** of the group is located. The GDC of a group is the unit where the strategic decisions at enterprise-group level are taken.

The profilers of the country where the GDC is located are called the **GDC profilers**. The profilers of the other countries are called the **partner profilers**. GDC profilers and partner profilers have clear roles and responsibilities (see 1.D). The collaborative process is done with a secure platform called the **Interactive Profiling Tool (IPT)**.

The GDC profilers initiate the profiling process. In particular, they delineate the **global enterprises (GENs)** without regard to national borders within the GEGs. The IPT automatically generates a national part of the GEN, which is called the **temporary enterprise (TENT)**.

The GDC profilers and partner profilers must then delineate the enterprises (ENTs) on their national territories. To better connect European and national needs, profilers have the following possibilities:

- they can validate a TENT as an ENT;
- they can add active LeUs or delete non-active LeUs (these changes must be flagged in the IPT);
- they can assign to the ENT a NACE different to that of the GEN;
- they can link several ENTs to one GEN;
- and they will soon have the possibility of linking one ENT to several GENs in the IPT.

The GDC profilers and partner profilers must insert in the IPT three variables for the GENs, ENTs and LeUs. These three variables are NACE code, employment, and consolidated turnover. The GDC profilers and partner profilers must also collaborate for the delineation of the GEN(s) and for important decisions on the GEG perimeter or on the enterprises.

2

Defining the perimeter of the global enterprise group



Chapter 2 — Defining the perimeter of the global enterprise group

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From a global perspective, the objective of profiling is to produce, on the basis of information coming from various sources, a consistent, top-down picture on the global economic structure of the group. This picture results in the delineation of one or several global Enterprises (GENs) within the global enterprise group (GEG).

From a national perspective, the objective of profiling is to produce, again on the basis of information coming from various sources, an accurate picture of the national enterprise(s) (ENTs) that is as consistent and observable as possible with the global picture (GENs).

The following chapter will describe the process for defining the GEG perimeter and for checking the correct GDC which should be used in manual profiling.

The manual profiling process is made up of an initial desk analysis, a data collection phase, and a final validation of the characteristics of the statistical units. This chapter will describe the first step of the desk analysis, including the verification of the correct GEG perimeter and the correct GDC country.



2.A — What is the ‘desk work’ in manual profiling?

In all cases of manual profiling, profilers carry out a task called **desk profiling work**. This consists in using currently available information to conduct the initial stages of profiling. Analysing the information held on the group is important for getting an accurate picture of the GEG and high-quality data on the group’s attributes.

The objective of the desk profiling work is to support the profiling process in producing the following significant outcomes:

- defining the perimeter of legal units belonging to the GEG;
- identifying the GDC of the GEG;
- delineating the enterprises (GEN(s) and ENTs)) and defining their perimeter in LeUs;
- providing data at enterprise level: consolidated turnover, employment and NACE activity (see Chapter 1).

In all cases of manual profiling (initial or follow-up profiling), the analysis of the information held on the group is the key input for building an accurate picture of the group and for obtaining high-quality data on the group’s attributes.

For **manual intensive profiling**, this initial desk profiling work should be completed before the meeting with the group’s representatives to prepare the questions that will be asked during the meeting itself. Attentive and intensive preparation of the meeting through desk profiling work is essential for the success of the meeting (see Chapter 5).

For **light profiling**, the entire profiling process is accomplished through desk profiling work.

Desk profiling work is also useful to partner profilers when validating or modifying the TENTs proposed by a GDC country to create their ENTs.

2.B — Information sources used in manual profiling

The main information sources which can be useful in the profiling process are listed below. They can be grouped into two main categories: statistical sources, and sources provided by groups. Note that these sources are used for comparison or to give an initial overview of the group. In manual profiling, it is up to profilers to decide which data should be used to produce the best quality profile.

2.B.1 STATISTICAL SOURCES

The following five sources are commonly used in business statistics.

(i) EuroGroups register (EGR)

This register, used for statistical purposes in Member States, focuses on multinational enterprise groups operating on EU and EFTA territory. Data on the GEGs is supplied by the NSIs and complemented by data from commercial providers. After the data are consolidated and validated, the register contains the global structure of the enterprise group. The scope of the EGR is continuously being extended to cover all relevant multinational GEGs acting in Europe.

The following three units of a GEG and their characteristics can be found in the EGR.

LeUs: identity; demographic characteristics; control and ownership characteristics (mainly financial links and other LeUs); activity code (NACE); number of persons employed; and (sometimes) LeU turnover.

ENTs: identity; demographic characteristics; activity code (NACE); number of persons employed; turnover; institutional sector. The enterprises currently in the EGR are defined at national level, according to the different methodologies of national profiling implemented by the NSIs, to produce SBS variables at the level of enterprises. For this reason, they may differ from a consistent picture which would result from harmonised European profiling.

GEGs: identity; demographic characteristics; the structure of the group, the GGH; the GDC and its country; activity code (NACE); consolidated employment; and turnover of the group.

For the largest or most complex groups, one objective of the profiling process is to improve the EGR group structure. A process of harmonisation of the variables is currently under way. In the near future, the European profiling results will be integrated in the EGR as explained in Box 3. This will add more value to European profiling, and will improve the quality and availability of the output from both European profiling and EGR.

(ii) Outward-foreign-affiliates statistics surveys (OFATS surveys):

OFATS surveys can be very helpful to provide consolidated turnover by country. Information collected through the OFATS survey provides an accurate description of how the GEG has expanded internationally.

The survey contains information at aggregated level by country on certain variables such as turnover, number of LeUs, number of employees and investment.

Box 3: Integration of European profiling and EGR

The EGR provides the complete structure of: (i) the multinational groups in the EU; (ii) the control relationships; and (iii) the core economic variables. Together with the national statistical business registers (NSBRs) and European profiling, the EGR forms the main reference infrastructure of multinational groups in the European system of business registers (ESBRs).

The results obtained from the European profiling activity should be systematically integrated into the EGR and then provided to the various statistical users, thus fulfilling the so-called backbone or coordination role. At present (2019), there is no automatic feedback of the results of European profiling into the EGR; some NSIs may integrate the results into the national business registers (NBRs), but it is not done systematically by all NSIs.

By 2020, the European profiling results will be integrated into the EGR as part of the ESBRs project. This integration will follow the basic EGR principles (including the authentic store principle) and will not substantially change the current EGR production process. European profiling will be the data source for the EGR with the highest priority. The profiling taskforce is also discussing a long-term integration solution (for after 2020) that could involve more significant changes to the processes and business models used by European profiling and EGR.

The integration of the European profiling process into the EGR will make it possible for statistical users to retrieve the information compiled on the profiled multinational groups in the EGR, and this will help improve the quality and availability of the output of both sources.

(iii) National business registers

National business registers (NBRs) contain a list of national LeUs and enterprises and their main characteristics (in other words, ID code, name, address, number of employees, turnover, and economic activity). These NBRs are also very useful in the profiling process as they may allow profilers (from the GDC or partner country) to update the LeUs with more recent data than the data held in the EGR. The NSIs of all countries participating with LeUs in the GEG may use this source to check and update the information coming from the EGR.

Often the NBR contains information about the national perimeter of the enterprise groups. This information is very useful for validating the perimeter of the TENTS.

(iv) SBS surveys

SBS surveys can also provide useful economic figures about the GEG's enterprises or LeUs. In cases where it is impossible to obtain consolidated data by country, this source can provide unconsolidated data by country. The SBS surveys can also be helpful for checking the relevance of consolidated figures by country for partnering countries. For instance, SBS surveys can help identify missing LeUs or branches (see section 2.E below) if the accumulated employment of all the LeUs within a country is inferior to the consolidated figures provided by the group or by OFATS.

(v) Results of other surveys or administrative sources

In some countries, other sources (surveys or administrative sources) from the NSI or other institutions can help to: (i) delineate the perimeter of the GEG, or (ii) get consolidated figures or additional information about the GEGs. An example of such a source is the country-by-country report that needs to be prepared by the group and provided to the national tax authority. Some other form of transfer prices may be reported.



2.B.2 SOURCES PROVIDED BY GROUPS

Manual profiling is special because it is performed on an individual basis. This means that profilers also use sources provided by the groups themselves. These sources include the websites and reports produced by the group. In the two sections below, we look at both of these sources in more detail.

Groups' websites:

In addition to EGR, profilers also check the groups' websites in manual profiling. Even for groups not listed on stock exchanges the websites can provide useful information on the structure of the groups and the business segments they use for their operations. In particular, profilers should look for sections such as 'overview', 'about us', 'key figures', 'activities', 'corporate', 'investors', or 'governance'.

Through these sections, the groups present themselves to third parties and sometimes offer very detailed information on their organisation, products, worldwide presence, production sites, and economic activities by country. Listed groups also provide financial reports and corporate presentations necessary for profiling.

The groups' websites may be of use in identifying the GDC country, because most groups present themselves as having a 'nationality', and give information on their decision centre(s).

Groups' reports:

Groups provide a brief presentation of their activity and disclose their consolidated accounts to third parties through their **annual reports**. In some cases, to have a clearer vision of the structure and main activities of the group, it would also be useful to consult the **sustainability report**, which provides information on the activities of the group in terms of environment protection, working conditions, ethics, and stakeholder engagement. This report may be investigated to collect information on production sites, employment and business sectors.

Generally, annual reports may be found in the corporate website (the 'investors' section) of groups which are listed on a stock exchange. Annual reports aim to provide investors and shareholders with the main financial figures and information underlying the group's activities, results and future plans. As a first step, it is important to study the consolidated annual report of: (i) the LeU at the highest level of consolidation in the group; and (ii) the main sub-holdings. In a second step, it is possible to analyse the companies' annual reports to better understand the main activities carried out and the main internal financial flows and transactions.

Annual reports contain different sections with different types of information. The profiling activity needs a set of information and data that may be derived from the **financial statements report**. Increasingly, this report is called a **registration document**. In this recommendations manual, we will also use the term **financial statements** for simplicity.

The financial statements present the financial activities of the group during the reference year. For a group which is listed on a stock exchange, the financial statement presents all the relevant financial information in a structured manner according to the official accounting standards. For example, in the EU, groups listed on an EU-based stock exchange must publish a financial report according to the International Financial Reporting Standards (IFRS), while in the US, groups listed on a US stock exchange are obliged to publish a financial report according to the standards of the US GAAP.

The **financial statements** are very useful for desk profiling work. They provide useful information for understanding the group's structure, perimeter, activities and core financial variables.

Financial statements usually include four basic statements, accompanied by a management discussion and analysis. The four statements are set out below.

- (i) A statement of financial position, also referred to as a balance sheet: this is a report on a company's assets, liabilities, and ownership equity at a given point in time.
- (ii) The next statement is a 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. It includes sales figures and the various expenses incurred. The P&L can be presented by main functions (R&D, administration, sales...) or by nature of the expenses (purchases, personal cost, and so on).
 - The OCI statement reports mainly on unrealised gains/losses during the reference period.
- (iii) The statement of changes in equity. This explains the changes in the company's equity throughout the reporting period.
- (iv) The statement of cash flows. This reports on a company's cash flow activities resulting from its operating, investing and financing activities.

These financial statements often include an extensive set of **notes**; an explanation of financial policies; and management 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 and can be very useful from a profiling perspective.

The **main tables** and parts of the annual financial reports which are important to focus on in the desk profiling process are set out below

For identifying the global decision centre (GDC) of the GEG:

- information on governance and management of the group;
- simplified legal structure of the group in LeUs.

For defining the global perimeter of the GEG (information to be cross-referenced with findings from the group visit):

- the legal structure of the group (this part describes the main controlled LeUs of the group);
- the consolidation perimeter (often only the most relevant consolidated LeUs are published);
- the table of main LeUs and participations of the parent companies.

Under IFRS, some rules are highly useful for defining the global perimeter of the GEG and its expected changes (see Box 4). Thus, the profilers should check these rules in the financial statements.

For delineating the GENs

- Consolidated Financial Accounts (balance sheet and 'P&L').
Under IFRS as under US GAAP, the GEG listed on a stock exchange is obliged to produce financial information by segment. Profilers should investigate to what degree these segments are autonomous. This segmentation is the starting point for delineating the GEN(s) within the GEG (see Chapter 3).
- Notes to the consolidated financial accounts.
Notes are the main source for gathering information and reported data by segment. This information is very useful for delineating the GENs and for allowing profilers to prepare well for contacting and visiting the GEG. Internal financial flows between the different segments of the group are usually highlighted in this section. Generally, GEGs do not publish all necessary information in the financial statements, but more information is usually available in their internal information systems. This can be discussed and checked during the contacts and on-site visits.

Box 4: IFRS rules and their use in defining the global perimeter of the GEG

Under IFRS, some rules are very useful in defining the global perimeter of the GEG. This box looks at five of these rules: IFRS 5, IFRS 8, IFRS 10, IFRS 11, and IFRS 12.

IFRS 5: Non-current assets held for sale and discontinued operations

IFRS 5 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: (i) not depreciated; (ii) measured at the lower of either carrying amount and fair value less costs to sell; and (iii) presented separately in the statement of financial position. Specific disclosures are also required for discontinued operations and disposals of non-current assets.

Profilers should consider IFRS 5 during the desk profiling work since discontinued operations provide a clue about GENs which soon won't be part of the GEG. These assets held for sale are set apart from the perimeter and consolidated accounts. Thus, this standard could be important in anticipating changes to the GEG and in giving information on how to treat the profile subsequently when a follow-up profile is conducted.

www.iasplus.com/en/standards/ifrs/ifrs5

IFRS 10: Consolidated financial statements

IFRS 10 outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate the entities they control. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.

www.iasplus.com/en/standards/ifrs/ifrs10

IFRS 11: Joint arrangements

IFRS 11 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). The turnover of a joint operation (and only of a joint operation) must be integrated in the group in proportion to the interest held (see 2.D).

www.iasplus.com/en/standards/ifrs/ifrs11

IFRS 12: Disclosure of interests in other entities

IFRS 12 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.

www.iasplus.com/en/standards/ifrs/ifrs12

IFRS 8: Operating segments

The rule IFRS 8 is also very helpful. As it does not cover the perimeter of the GEG but its presentation 'Operating segments', we address it in Chapter 3, Box 6.

2.C — The validation of the global decision centre and the global group head

An important objective of manual profiling is to identify the global decision centre (GDC) and distinguish it, if needed, from the global group head (GGH). The GDC and the GGH may be the same, or the GDC can be located under the GGH (see Chapter 1).

Information useful for identifying both the GGH and the GDC may be found in the reports on the financial segments or in the 'governance' section on the group's website.

For some groups, the GGH may be determined based on the location where shareholders assemble. The GGH may also be the place where the group's board of directors meet. The board of directors can be responsible for a certain number of decisions (enumerated in the responsibilities of the governance bodies). The board can delegate the management of the group to a chief executive officer (CEO) supported by an executive committee.

The GDC can be determined based on the location where the decisions are taken by the CEO and the executive committee.

For some groups, the GDC may be located in a different country from the GGH. This may be the case when groups are the result of transnational mergers or acquisitions. In such cases, the GDC may remain located in one of the countries where one of the merged groups was based, while the GGH is created in another country. In these cases, the GDC will differ from the GGH.

In manual profiling, identifying the GDC is crucial for two particular reasons:

- defining the nationality of the group and the NSI which is responsible for initiating the profiling process;
- locating the unit where the decisions are taken, as well as the managers who could be contacted for a manual intensive profiling (for contacting, see Chapter 5).

In some cases, when the GEG is very complex and carries out a number of different activities with different sub-holdings in different countries, it may happen that profilers have difficulties in identifying the GDC.

When the group's GDC is outside the EU, if the group must be profiled at the EU level it is necessary to identify in the IPT a 'GDC' in the EU to define which country is responsible for initiating the profiling process (see 1.F).

2.D — The validation of the perimeter of the global enterprise groups and the definition of ‘control’

2.D.1 THE CONCEPT OF CONTROL

Chapter 21 of the *Business Registers Recommendations Manual* deals with enterprise groups. The content of Chapter 21 is very relevant for understanding the concept of control. Profilers can find the relevant chapter in the annex at the end of this chapter. As is the case in accounting standards, this manual states that the **concept of control** is the basic concept to be used for the delineation of an enterprise group. The enterprise groups are identified through the links of control between their LeUs (parent and its subsidiaries). Chapter 21 sets out the concept of control as follows.

Control over a corporation is defined as the ability to determine general corporate policy by choosing appropriate directors, if necessary.

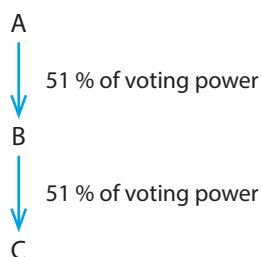
A single institutional unit (another corporation, a household or a government unit) secures control over a corporation by owning more than half the voting shares or otherwise controlling more than half the shareholders’ voting power. In addition, government can secure control over a corporation as a result of special legislation decree or regulation which empowers the government to determine corporate policy or to appoint the directors.

In order to control more than half the shareholders’ voting power, an institutional unit need not own any of the voting shares itself. A corporation C could be a subsidiary of another corporation B in which a third corporation A owns a majority of the voting shares.

Corporation C is said to be subsidiary of corporation B when: either corporation B controls more than half of the shareholders’ voting power in corporation C or corporation B is a shareholder in C with the right to appoint or remove a majority of the directors of C.

In the case outlined above, A controls C by the indirect control of the subsidiary B.

Figure F: Indirect control



In this example, A, B and C may be LeUs or sets of LeUs (‘corporations’ in a general meaning).

A controls C by the indirect control of B. Note that if B and C are, in legal form, common public limited companies (one share = one vote), A controls C although A does not own a majority of C shares.

2.D.2 RECOGNISING CONTROL: DIRECT VS INDIRECT CONTROL, AND CONSOLIDATION METHODS

Profiling work should be informed by the *Business Registers Recommendations Manual's* concrete guidance on defining the presence and the type of control within a GEG, set out below.

Control is a complex concept in economic terms. Statistical operational rules need to rely on observable criteria: Proof of control. Therefore it is sufficient that at least one of the following applies, in order to identify a link of direct or indirect control between two legal units:

1. A legal unit directly owns more than 50 % of the voting rights of another legal unit (direct control);
2. A legal unit indirectly owns more than 50 % of the voting rights of another legal unit, through subsidiaries (indirect control);
3. Existence of special legislation decree or regulation, which empowers the government to determine corporate policy or to appoint the directors of the legal unit;
4. A legal unit fully consolidates the accounts of another legal unit, according to the criteria of the Seventh Directive, and no other legal unit consolidates the same legal unit (control by virtue of full consolidation);
5. Administrative sources, collecting declarations in application of specific laws for market regulation, provide the information that a legal unit controls one or a set of legal units, even though it owns less or 50 % of its voting rights (effective minority control) and no other legal unit owns more.

Note: It may be possible that two rules, for example, both cases 1 and 4, could apply simultaneously. As one unit cannot be controlled by two different units, the de facto controlling unit should then be chosen. Case 4 can in general be considered as weaker than 1, because there can be consolidation situations with less than 50 % ownership and situations with over 50 % ownership without consolidation.

2.D.3 CONTROL DETERMINES CONSOLIDATION

The perimeter of the controlled legal units defines the perimeter of the consolidated accounts. IFRS 10 sets out principles for presenting and preparing consolidated financial statements when an entity controls one or more other entities (see Box 4).

IFRS 10:

- requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;
- defines the principle of control, and decides on control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

Consolidated financial statements are financial statements that present the assets, liabilities, equity, income, expenses and cash flows of a parent and its subsidiaries as those of a single economic entity.

2.D.4 THE DIFFERENT METHODS OF CONSOLIDATION

The percentage of control exercised by a group over an entity (LeU/enterprise) determines the way this entity is consolidated in the group's accounts. These methods of consolidation are defined in packages of international accounting rules, by the International Accounting Standards (IAS) and IFRS standards (IAS 27, 28 rev; and IFRS 10, 11, 12). There are three consolidation methods, depending on the percentage of control: the full consolidation method, the equity method, and joint arrangements. These three methods are set out below.

Full consolidation method

Entities (LeUs/enterprises) over which a group exercises control are consolidated by the full consolidation method. This means that the group integrates all their value (100 % of P&L and 100 % of balance sheet) in its consolidated accounts (even if the percentage of control is lower than 100 %).

Equity method

Entities (LeUs/enterprises) over which a group exercises significant influence but no control are consolidated by the equity method.

In accounting standards, significant influence is presumed to exist when the group directly or indirectly holds at least 20 % of the entity's voting rights.

Under the equity method, the group begins as a baseline with the cost of its original investment in the entity in which it invested, and evaluates the value of the investment today. Then, the investor group records such investments as an asset on its balance sheet. The investor's proportional share of the associate company's net income increases the investment (and a net loss decreases the investment), and proportional payments of dividends decrease it. In the investor's income statement, the proportional share of the investor's net income or net loss is reported as a single line item ⁽⁶⁾.

Entities consolidated by the equity method are outside the perimeter of the group. Their values collected as part of European profiling (employment turnover) are not at all integrated. These entities are another group/enterprise.

Joint arrangements

A joint arrangement is a contractual arrangement in which two or more groups undertake an economic activity which is subject to joint control (two groups each hold half of the control, three groups each hold one third of the control, and so on). In this situation, as explained in Box 4, IFRS 11 distinguishes two cases depending on the obligations of the investor parties for the liabilities.

If each investor party (group) has direct rights over the assets and obligations for the liabilities, then the arrangement is called a 'joint operation'. The assets, liabilities, income and expenses of the joint operation are then accounted for according to the interests held in the joint operation. In European profiling, profilers integrate the share of the joint operation in the perimeter of the group according to the interests held. The turnover of the joint operation must be integrated in the group in proportion to the interest held. However, the employment must not be integrated, since the joint operation is outside the group. In the same way, the LeU(s) of the joint operation are totally outside the group perimeter.

If the investor party has rights over the net assets, without obligations for liabilities, then the arrangement is called a 'joint venture'. The joint venture is then totally outside the perimeter of the group, and accounted for using the equity method.

⁽⁶⁾ For instance, group A acquired a 30 % interest in enterprise B. In the most recent reporting period, B recognises USD 1 000 000 of net income. Under the requirements of the equity method, A records USD 300 000 of this net income amount as earnings on its investment (as reported on the A income statement), which also increases the amount of its investment (as reported on the A balance sheet).

2.E — Special-purpose entities (SPEs), branches, and franchises

The section explains how to treat three kinds of ‘special cases’ in the perimeter of the groups: special-purpose entities (SPEs), branches and franchises.

2.E.1 SPECIAL-PURPOSE ENTITIES

The terms ‘special-purpose entities’ (SPE) or ‘special-purpose vehicles’ (SPVs) have been defined in several pieces of official guidance: *SNA 2008*, the *Business Registers Recommendations Manual*, the *OECD Glossary of Statistical terms*, *ESA 2010*, and the *Balance of Payments and International Investment Manual (BPM6)*. There also operational rules in the *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 of June 2015*. This Notice is attached in the annex.

Without making a value judgement on these definitions, we quote the one provided by *ESA 2010*, which has the advantage of being both clear and general:

A special-purpose entity (SPE) or special-purpose vehicle (SPV) is usually a limited company or limited partnership, created to fulfil narrow, specific or temporary objectives and to isolate a financial risk, a specific taxation or a regulatory risk.

There is no common definition of an SPE, but the following characteristics are typical:

- (a) they have no employees and no non-financial assets;*
- (b) they have little physical presence beyond a ‘brass plate’ or sign confirming their place of registration;*
- (c) they are always related to another corporation, often as a subsidiary;*
- (d) they are resident in a different territory from the territory of residence of the related corporations. In the absence of any physical presence an enterprise’s residence is determined according to the economic territory under whose laws the enterprise is incorporated or registered;*
- (e) they are managed by employees of another corporation which may or may not be a related one. The SPE pays fees for services provided to it and in turn charges its parent or other related corporation a fee to cover those costs. This is the only production the SPE is involved in, although it will often incur liabilities on behalf of its owner and will usually receive investment income and holding gains on the assets it holds.*

SPEs are increasingly important in the global organisation of GEGs and in their extension to new geographic areas. This is particularly relevant, as SPEs are often located in countries offering tax advantages, and one of their main purposes is to generate cross-transactions between subsidiaries located in different countries. Therefore, SPEs create artificial cross-border financial flows.

Useful guidance on SPE-type entities has been prepared by the Task Force on Head Offices, Holding Companies and Special-Purpose Entities (SPEs), which produced a final report in 2013. The report is available at: http://ec.europa.eu/eurostat/documents/737960/738007/Final_Report_Task_Force_SPEs.pdf/9390b392-62d3-45b4-a4ee-fd9ed7a78da2.

In addition to the work of the Task Force on Head Offices, Holding Companies and Special-Purpose Entities (SPEs) mentioned above, two other international fora have been investigating the issue of SPEs, in particular with a view towards reaching a possible common definition:

- **the IMF Task Force on SPEs** — mandated by the IMF Balance of Payments Committee (BOPCOM) to prepare a report on SPEs in cross-border statistics (the final version, presented in October 2018, is available at: <https://www.imf.org/external/pubs/ft/bop/2018/pdf/18-03.pdf>);
- **the Joint ESCB/ESS Task Force on Foreign Direct Investment (FDI)** — dealing with specific FDI issues, among which are SPEs.

In manual profiling, all activities and all related production factors, including persons occupied, are identified into GENs. It is also very important to reflect the correct relationship and control links. Profilers must observe the following rules in the treatment of the SPEs:

- they must keep the SPE LeUs in the profiling perimeter;
- they must not miss the control links for which the SPE is an intermediate LeU;
- they must link the SPEs to the relevant GEN.

2.E.2 BRANCHES

According to the *Business Registers Recommendations Manual*, branches are defined as 'local units without separate legal entity, which are dependent on foreign enterprises, and classified as quasi-corporations according to ESA95 and SNA93 principles' which 'shall be treated as enterprises in the business registers'.

For the SNA 2008, a branch may be identified as an institutional unit 'when a non-resident unit has substantial operations over a significant period in an economic territory, but no separate legal entity' and 'this unit is identified for statistical purposes because the operations have a strong connection to the location of operations in all ways other than incorporation'.

In European profiling, these kinds of units belong to the perimeter of the GEG. Profilers must include branches in the perimeter of the group and consolidate them exactly like the ordinary controlled LeUs. This is compliant with the *Business Registers Recommendations Manual* and with the national accounts principles (ESA95 and SNA93) ^(*).

2.E.3 FRANCHISES

The definition of franchises and the method to treat them are also provided by the *Business Registers Recommendations Manual*.

The operation of a franchise network is a method of doing business that is popular in a number of service activities, especially hotels, restaurants, and retail sales. Franchisees are independent LeUs which sign a contract with another LeU, the franchiser, to engage in an activity making use of trademarks, trading styles and marketing support provided by the franchiser, usually in return for a fee or a share of the profits. A franchise contract typically includes a number of restrictive clauses limiting the franchisee's freedom of choice, for instance imposing standards as to the goods and services to be produced, their quality and their price. The franchisee may be compelled to obtain supplies from the franchiser and possibly must pay for access rights. The franchisee remains entirely responsible for his investment. The franchisee may also be obliged to make a contribution towards certain services organised by the franchiser that are common to the entire network. The franchiser, in turn, offers scale economies without completely taking away the autonomy of the franchisee, for example by taking care of collective marketing for the whole franchise network.

Franchise operators may or may not belong to the same enterprise group. Franchisees are deemed to be separate enterprises because they consist of a complete combination of factors of production, and they run the full entrepreneurial risk. Moreover, the definition of the enterprise requires autonomy but allows for this autonomy to be somewhat restricted ('a certain degree of autonomy' is required), and full accounts tend to be available only at the level of the separate franchisees. The franchiser is also regarded as a separate enterprise.

According to these guidelines, the franchisees must be excluded from the perimeter of the franchiser group.

^(*) However, to simplify the wording of this manual, we use the one word 'legal unit' as a generic term that may also refer to a branch.

ANNEX: THE BUSINESS REGISTERS RECOMMENDATION MANUAL 2010 (CHAPTER 21, POINTS FROM 21.31 TO 21.46)

21.31 For the definition of control in the BR Regulation, the definition given in point 2.26 of Annex A of Council Regulation (EC) No 2223/96 (the European System of Accounts ESA 1995) shall be used:

“Control over a corporation is defined as the ability to determine general corporate policy by choosing appropriate directors, if necessary.”

A single institutional unit (another corporation, a household or a government unit) secures control over a corporation by owning more than half the voting shares or otherwise controlling more than half the shareholders' voting power. In addition, government secures control over a corporation as a result of a special legislation decree or regulation which empowers the government to determine corporate policy or to appoint the directors.

In order to control more than half the shareholders' voting power, an institutional unit need not own any of the voting shares itself. A corporation C could be a subsidiary of another corporation B in which a third corporation A owns a majority of the voting shares.

Corporation C is said to be a subsidiary of corporation B when either corporation B controls more than half of the shareholders' voting power in corporation C or corporation B is a shareholder in C with the right to appoint or remove a majority of the directors of C.

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

21.33 It may not be a necessary condition because there may be situations in which a large relative shareholding with voting rights but without absolute majority is enough to take control. This can be due to:

- (a) Legislation, contracts or agreements affecting control;
- (b) Absenteeism in meetings on the part of other shareholders. This is more a *de facto* situation and difficult to prove in practice.

21.34 It may not be a sufficient condition because the ability to effectively exercise control depends on the ability to actively participate in the decision-making process. This may be limited by:

- (a) Shareholdings with limited voting rights;
- (b) Statutory provisions that limit the transferability of shares;
- (c) Temporary suspension of voting rights.

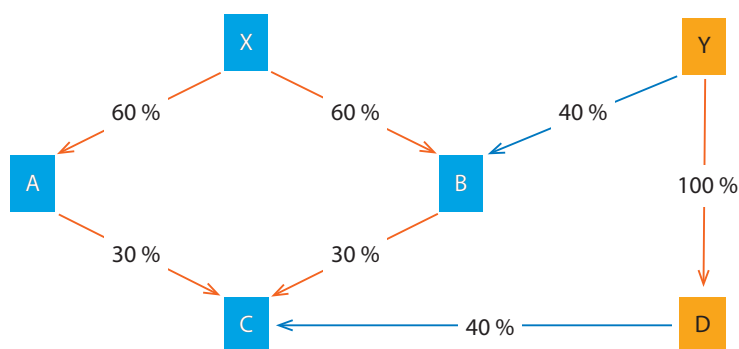
21.35 Effective minority control means having effective control of a unit without holding the majority of voting stock. It does not include indirect control via a majority-controlled subsidiary. The most common case is a minority but large shareholder and a very large number of dispersed small shareholders, none of whom hold a significant share of the capital. The minority shareholder can thus exercise effective control insofar as no majority of shareholders is really able to oppose it. However, it is possible that the small shareholders could join forces in order to have more influence over strategic decisions. Effective minority control is, in general, difficult to prove in practice and a shareholding between 10 and 50 percent is generally regarded as influence, not control.

21.36 Situations vary considerably from country to country and depend on the legal framework concerning corporate governance, i.e. the legislation that regulates the allocation of property rights and control of enterprises in the economy. In particular, the principles vary sometimes notably between civil law systems and common law ones.

21.37 Control can be a *de facto* situation without legal basis or other proof and in such a case it is not to be stored in the business register. Strategies of outsourcing, aimed at reducing production costs and increasing productivity, such as exclusive sales or supply contracts, may generate dependency of one legal unit on another without any direct participation on the part of the latter in the capital share of the former. A legal unit can thus be “captured” by another unit without being owned by it. The link may be a commercial contract, which ensures the “*de facto* controlling” legal unit the exclusive rights to the work of the “subordinate” unit. In the case of natural persons, such subordinate units have often been referred to as false self-employed in business demography. At least in theory such a subordinate can cease this control by closing down their legal unit. This is not possible for a subsidiary that is owned by the parent.

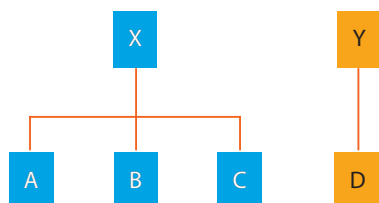
- 21.38 According to the SU Regulation (Annex III C, Explanatory notes 4), “The subsidiary enterprises of a subsidiary enterprise are considered to be subsidiaries of the parent enterprise. (...)”. This means that a parent unit may have indirect control over a legal unit (sub-subsidiary) through one or many other subsidiaries. Indirect control does not require the parent unit to own a majority of an integrated shareholding in the capital share of the sub-subsidiaries. The difference between control and ownership is shown in Figure 3.
- 21.39 The example in Figure 3 shows that X has indirect control over unit C, even though it owns indirectly $(60\% * 30\%) + (60\% * 30\%) = 36\%$ of its capital share, X controls C through its two subsidiaries A and B by combining their voting rights in the meeting of C $(30\% + 30\%) = 60\%$. On the other hand, Y owns $(40\% * 30\%) + (100\% * 40\%) = 52\%$ of C, but has no power to control it, since the voting rights that it has in its meeting of C amount only to 40% of its capital share. In other words, the voting rights resulting from paths X-A-C and X-B-C have to be cumulated to determine actual control.

Figure 3: How control can differ from ownership



- 21.40 Control is a (direct or indirect) relationship between legal units such that either one legal unit is controlled by exactly one other legal unit or it is not controlled by any other legal unit. The ownership of a unit or a group of units is related to the holding of its assets, and determines the distribution of financial flows and income. If a unit or group of units is owned by shareholders, its ownership is vested in the shareholders collectively and can be seen as diffused among the legal units that own its shares in proportion to their shareholdings and independently of voting rights.
- 21.41 In fact, deriving control links from the ownership structure between legal units defines an operational hierarchical structure of the enterprise group with one legal unit at the top (the global group head) which is not controlled by any other legal unit and which controls all other legal units in the hierarchy. Therefore it is necessary to also record minority intermediate shareholdings into the business register, in case there is indirect control where the links can only be derived from the complete ownership structure.
- 21.42 The control hierarchies in Figure 4 are derived from the example in Figure 3 and should be recorded in the business register.

Figure 4: How to record control links from ownership structures



- 21.43 The group head can be either resident in the country that compiles the business register, if the group is domestically controlled, or abroad. Unless otherwise noted, “group head” refers to the ultimate or global group head, not to a national (or European) group head, which has a foreign parent.
- 21.44 If the group head is a resident legal unit, it must be recorded in the national business register as a single legal unit, which may possibly form an enterprise in combination with other legal units, according to the principles stated in Chapter 7.

21.45 *The statistical concept of the enterprise group is different from the accounting concept, as can be derived from the Seventh Council Directive (see the Annex). In fact, as it is stated in explanatory note 3 of section III C of the Annex to the SU Regulation “this definition (of accounting groups ...) is not suitable for statistical analysis because they 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 four amendments:*

- *Consider accounting group 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.’*

Operational rules for identifying control links

“21.46 *Control is a complex concept in economic terms. Statistical operational rules need to rely on observable criteria: Proof of control. Therefore it is sufficient that at least one of the following applies, in order to identify a link of direct or indirect control between two legal units:*

- 1) *A legal unit directly owns more than 50 % of the voting rights of another legal unit (direct control);*
- 2) *A legal unit indirectly owns more than 50 % of the voting rights of another legal unit, through subsidiaries (indirect control);*
- 3) *Existence of special legislation decree or regulation, which empowers the government to determine corporate policy or to appoint the directors of the legal unit;*
- 4) *A legal unit fully consolidates the accounts of another legal unit, according to the criteria of the Seventh Directive, and no other legal unit consolidates the same legal unit (control by virtue of full consolidation);*
- 5) *Administrative sources, collecting declarations in application of specific laws for market regulation, provide the information that a legal unit controls one or a set of legal units, even though it owns less or 50 % of its voting rights (effective minority control) and no other legal unit owns more.*

Note — It may be possible that two rules, e.g. both cases 1 and 4, could apply simultaneously. As one unit cannot be controlled by two different units, the de facto controlling unit should then be chosen. Case 4 can in general be considered as weaker than 1, because there can be consolidation situations with less than 50 % ownership and situations with over 50 % ownership without consolidation.”

2.F — Summary of Chapter 2

First step: Examining information to prepare or carry out the manual profiling by desk work

In all cases of manual profiling, profilers start with a task called **desk work**. This consists in using currently available information to conduct the initial stages of profiling. For manual **intensive profiling** (which involves a meeting with the GEG's representatives, who are generally accountants), this initial desk profiling work should be completed before the meeting.

When there is no meeting with the GEG, the process is called **light profiling** and is entirely accomplished by desk work.

The information examined by profilers is of two types set out below.

- Profilers examine the sources commonly used in business statistics: EuroGroups register (EGR), foreign affiliates statistics (FATS), national business registers, structural business statistics (SBS), other surveys or administrative sources;
- The particularity of manual profiling is that profilers also examine sources provided by the GEGs themselves, such as GEGs' websites or reports. The most useful document for this manual profiling is probably the **financial statements report**, also called the **registration document**. It must be published by GEGs listed on a stock exchange, according to official accounting standards (IFRS in Europe and in most countries, and US GAAP in the US). The financial statements include a lot of information on the GEG: governance; activities; list of the main LeUs; gains/losses for a reference year (profit and loss); and assets/liabilities at the beginning and the end of this reference year (balance sheet).

Second step: Validating the global decision centre (GDC)

From these sources, the GDC must be validated, since its location determines the GDC profiling team which initiates the process and the roles and responsibilities of all the profiling teams.

Third step: Defining the perimeter of the GEG

The GDC profilers collect and input in the IPT the perimeter of the GEG. This perimeter may be corrected/updated by partner profilers for their country.

In all cases, the following six criteria must be upheld.

- The perimeter must be based on the concept of control, that is to say the ability to determine the strategy and to choose the managers of the controlled unit (LeU, corporate).
- Control may be direct or indirect. The concept of control differs from the concept of ownership. The perimeter of the GEG is thus the perimeter of the controlled LeUs. It may differ from the perimeter of the owned LeUs.
- The control perimeter determines the consolidation perimeter. The consolidated turnover and the employment of the GEG are the consolidated turnover and employment of its controlled LeUs. According to IFRS 11, the case that raises the greatest difficulties for determining perimeters is the case of joint operations, a particular case of joint arrangements (see 2.D.4).
- SPEs must be kept in the GEG perimeter and linked to the relevant GEN. Profilers must pay attention not to miss the control links as an SPE is an intermediate LeU (see 2.E.1).
- Branches must be included and consolidated in the GEG perimeter as if they were ordinary controlled LeUs (see 2.E.2).
- Franchisees must be excluded from the franchiser GEG perimeter.

3

Delineating the global enterprises



Chapter 3 — Delineating the global enterprises

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The previous chapters were dedicated to the necessary steps in preparing the profiling of the global enterprises (GENs) within the global enterprise groups (GEGs). Chapter 1 addressed in particular the question of the NSI in charge of initiating the process. Chapter 2 addressed the validation of the perimeter of the GEG.

This chapter will describe the process for delineating the GENs within the GEGs.

It will focus on the following points.

- Firstly, the European manual delineation of the GENs within the GEGs is based on a top-down method. Each GEN has to be in line with the definition provided in Chapter 1 (see 1.C.2). A GEN may be a single legal unit, a GEG as a whole, or a part of a GEG ‘benefiting from a certain degree of autonomy in decision-making, especially for the allocation of its current resources’.
- Secondly, as the notion of GEN refers to autonomy, we will recap and expand on the criteria for this concept according to the operating rules provided by existing official guidelines.
- Thirdly, we will present six practical operations that the profilers should do to draft a first delineation of the GENs from the information published in the financial statements published by the GEG.
- As a result of its method, the European profiling has implications for the delineated GENs. Thus, in the fourth section we will describe some of the most significant of these implications.
- At the end of the chapter, the criteria for assessing the autonomy of a GEN are summarised in the form of a summary list.

3.A — The top-down manual delineation of GENs within GEGs

The NSI in charge of starting or updating the European profiling starts by defining the perimeter of the global group (GEG). The next task is to propose a delineation of the global enterprises(s) GEN(s) within the GEG.

This manual delineation of GEN(s) is done through a top-down approach. This means that the profilers start from a picture of the GEG at its global level to delineate within it one or several GEN(s).

To initiate an intensive or a light profiling, the profilers start by checking the financial statement reports and other information available on the website of the GEG. They then get an initial global picture of the GEG and propose a first delineation of its GEN(s). To update a profile, the profilers start from the results of the previous profile, and use the same information published by the GEG to check for changes.

According to its definition, the criterion for delineating a GEN is based on 'autonomy' and not the activity of the GEN.

This does not mean that the profiled GEN performs only one activity. In the methodology of European profiling, a delineated GEN may include legal units of different activities. The Interactive Profiling Tool (IPT, see 1.C.1) makes it possible to easily input the activities of the LeUs. Besides, when the NSIs confirm or restructure the GENs to form the national enterprises (ENTs) on the scope of their national territory, the NSIs may also confirm or change the main activity (see 1.D.2). Experience has also shown that the NSIs are able, through their own national tools, to implement several activities or kind-of-activity units (KAUs) to a profiled enterprise.

For all of these reasons, the criterion which must be taken into account to delineate the GENs and the national ENTs is the degree of autonomy, and not the activity.

3.B — Criteria for 'a certain degree of autonomy in decision-making'

3.B.1 OFFICIAL CRITERIA AND OPERATING RULES

The criteria for being an active enterprise are those defined in the *Business Registers Recommendations Manual* (2010) and in the *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 of June 2015*. This Notice is shown in the annex.

According to this notice, 'an enterprise is deemed as active in a certain period if it generates turnover, employs staff or makes investments in the period' (see 1.B.5).

In this paragraph, we aim to add to these criteria. The *Notice of intention* also provides the following operational rule.

A unit is deemed to be an enterprise if it:

- *operates the necessary factors of production (for example, human resources, capital, technology, land and in particular management); and*
- *accesses the necessary controlling systems, for example, an integrated cost calculation, which covers the main, secondary and ancillary activities of the unit deemed as enterprise; and*
- *has adequate managerial structures, in other words, managers that can decide about the production process and about the economic transactions.*

These criteria are linked together to define the enterprise as a meaningful economic unit operating in a market 'with a certain degree of autonomy' and which may be distinguished from other economic players.

The criterion of a 'certain degree of autonomy in decision-making' means that the enterprise may be considered as an economic player distinguished from the others and which exchange with them.

In all cases, an autonomous enterprise requires identified manager(s), human resources, capital and turnover.

In the following paragraph, we comment on some of the points contained in the official definition and operating rules.

- **Identified manager(s) and human resources:** An identified manager (potentially a board of managers) is necessary to take decisions at the level of the enterprise. In the same way, persons employed are necessary to carry out the economic activity.
- **Capital:** Responsibility for a part of the capital (corporate or incorporate) is a necessary criterion for being an enterprise. This criterion is explicitly written into the operational rule of the *Notice of intention*. Indeed, responsibility for a part of the capital is necessary to be considered an economic player that benefits from a certain degree of autonomy and that may be distinguished from the others. In large GEGs, the management and the reporting system illustrate this issue. The team-leaders are responsible for managing a team and delivering economic results. To reach their objectives, they manage a staff and an allocated budget. In the reporting system of the GEG, the performance of team-leaders may be measured in 'reporting units', which may be recorded in a 'consolidation pillar'. These consolidation pillars are then aggregated to calculate the accounts of the GEG. However, the leaders of such reporting units have no responsibility for the capital. Managing the capital remains the responsibility of the director(s) and senior executive(s). In practical terms, this criterion of the responsibility for a part of the capital is particularly useful for the profilers to help them discern the difference between the 'reporting units' or 'consolidation pillars' and the upper levels which may be identified as a GEN.
- **Access to controlling systems and managerial structures about the production process.** The managers need such reporting systems that provide a set of accounts to be able to benefit from 'a certain degree of autonomy'. This criterion means that the identified manager(s) should be able to provide business-register data and SBS data at the level of the enterprise.
- **Economic transactions and 'market-orientation'.** In the same way, to benefit from a certain degree of autonomy an enterprise must sell its product to other economic players. An enterprise is described as 'market oriented' if it sells its production to other economic players in a market transaction. This occurs in two cases.
 - (a) The first case, and the simplest one, is when the enterprise sells its product to external customers, outside the GEG to which it belongs.
 - (b) However, there is also a second case. The experience of profiling found that a GEN may also fulfil the criterion of being market-oriented if it sells its production to other GENs of the same GEG, and if the selling prices allow for the GEN's sustainability (in other words, if the selling prices are sufficient to cover the GEN's operating costs and allow for a profit). In such cases, financial statements often quote the 'arm's length' principle. This means that the parties involved in the transaction are independent and on an equal footing. This means that the GEN sells its production at the same market prices to other GENs of the GEG as it does to external customers. In other words, the selling prices paid to the GEN are not internal transfer prices which would be biased towards one player of the transfer without any influence taken by the other player.



3.B.2 THE LIMITS OF AUTONOMY FOR THE GENs CONTROLLED BY A GEG

According to the definition of an enterprise contained in the *Intention*, an enterprise benefits 'from a certain degree of autonomy in decision-making, especially for the allocation of its current resources'. When the GEG as a whole consists of one GEN, this GEN is fully autonomous as an economic player.

However, when the GEG consists of several GENs, the definition also means that there are limits to the autonomy of these GENs. Indeed, two levels of autonomy can be distinguished, one for the GEG and one for the GENs. The GEG has full autonomy at the highest level, and exercises this autonomy mainly for strategic and long-term decisions. The executive management board of the GEG only needs to report its decisions — and give account of them — to the owners or to the board of shareholders. A second — and lower level — of autonomy is related to the allocation of current resources in the production processes. This lower level of autonomy is to be understood from a more operational point of view. If the GEN is part of the GEG, the managers of the GENs must report their decisions — and give account of them — to the executive management board of the GEG.

The GEG is the most relevant statistical unit for strategic and financial decisions. The following decisions and variables are more relevant at the level of the GEG:

- strategic decisions about the business model of the GEG;
- mergers and de-mergers, in other words, the authority to buy (stocks of) other LeUs (whether autonomous enterprises or not) or sell LeUs of the GEG itself;
- income assessment, in other words, decisions on keeping reserve funds or large unexpected depreciations;
- income distribution, in other words, the allocation of the generated income, for example, from products, to shareholders, investments or reserves;
- financing of new projects or termination of on-going ones;
- global debt, global capital, and dividend distribution;
- goodwill, and the value of the GEG's brand.

The enterprise is the most relevant statistical unit when it comes to operational decisions. The following decisions and variables are more relevant at the level of the enterprise:

- fixed capital investments within certain limits for the running of the production process;
- recruitment or dismissal of personnel;
- increases in salaries and other remuneration;
- choice of the product assortment;
- provisions for debtors whose repayment of their debts is uncertain;
- pricing of the output/products;
- choice of suppliers and customers.

Given these different levels of autonomy and the relevance of the economic variables, there is no doubt that the enterprise is the most eligible unit to compile and analyse structural business statistics data (see Box 5).

Box 5: The enterprise is the most relevant unit for compiling and analysing SBS variables

Enterprises compared to legal units

SBS variables undoubtedly have a meaning for uncontrolled LeUs, because in this case the LeU is itself an enterprise.

However, when LeUs are controlled by groups, we encounter a variety of problems, which were set out in Chapter 1 (see 1.B.8):

- plenty of small LeUs without autonomy;
- legal units without consistency, since some of them engage in the production process, while others sell the product, and others pay the employees or own the assets;
- double counting of the non-additive variables, in particular turnover.

As a result, for the LeUs controlled by a group, some performance ratios are often not relevant, for instance turnover-per-employee or assets-per-employee.

Enterprises compared to groups

In the same way, SBS variables undoubtedly have a meaning for the groups which consist of only one enterprise, because in this case the group is itself the enterprise.

However, when a group consists of several enterprises, then the group is not the best level at which to compile SBS variables. These SBS variables focus on productive activity in particular to calculate the breakdown by industry. The most important of these variables are turnover, production, value added, gross operating surplus, employment, wages and investment. The enterprises benefit from a certain degree of autonomy in these issues and are therefore the right level for compiling and analysing the SBS variables. Moreover, monitoring the SBS variables for a diversified group would result in putting together data from different industries, which would falsify the relevance of the industrial breakdown. It is therefore far more relevant to analyse the productive structure in the delineated groups, which are generally more homogeneous in terms of activity.

Nevertheless, it is at the higher level of the group where strategic decisions are taken and where most of the financial flows occur.

The following table presents the most relevant unit for compiling and analysing different economic variables.

Table 1: Most relevant unit for analysing the economic issues and variables

Economic issues, variables:	Most relevant unit:	
	Out of the groups' perimeter control:	Within the groups' perimeter control:
SBS variables: turnover, value added, employment, wages, gross operating surplus.	LeU = ENT in this case	ENT
Some financial and balance sheet variables: global debt, dividends, goodwill, value of the brand of the group.	LeU = ENT in this case	Group as a whole

3.C — Practical delineation of the GENs

When they profile a GEG, the profilers start by analysing its financial statements. Their objective is to delineate the GEG in one or several GEN(s) following the criteria of a certain degree of autonomy explained above.

For intensive manual profiling, this analysis aims to prepare the profilers for the comprehensive dialogue and the meeting with the GEG's representatives. The final decision about the delineation of the GEN(s) within the GEG will be taken with these representatives during the meeting.

For light manual profiling, this analysis of the financial statement almost affects the delineation, even if there may be contacts by email and conference call with the GEG's representatives to validate the delineation (see 1.B.7).

In both cases, the analysis to delineate the GEG in GEN(s) is conducted through a combination of the following operations:

- checking the segmentation of the GEG;
- checking the management of the segments;
- checking the characteristics of the segments within the GEG;
- special cases: listed segments and separation between financial/non-financial activities;
- taking advantage of the common experience of European profiling;
- obtaining a validation from the GEG's representatives if possible.

3.C.1 CHECKING THE SEGMENTATION OF THE GEG

In the EU, GEGs listed on a stock exchange must publish their financial statements according to the International Financial Reporting Standards (IFRS). These standards include IFRS 8. IFRS 8 is highly useful for delineation because it obliges the GEGs to present themselves in the 'business activities in which they are engaged' (see Box 6). Such information is usually presented in the 'Segments', or 'Segmental information' parts of the financial statements. The 'business activities' defined by IFRS 8 are usually named by one of the following terms: 'business segments', 'operating segments', 'segments' or 'divisions'. In this recommendations manual, we will always use the word 'segment' to simplify.

IFRS 5 obliges the GEGs to identify non-current assets held for sale and discontinued operations (see Chapter 2, Box 4). This rule is also highly useful, since it allows profilers to anticipate the main changes in the perimeter, as well as the main changes in the activities performed by the GEG.

In most non-EU countries, GEGs listed on a stock exchange must also publish their financial statements, either according to IFRS or according to national accounting standards which tend to resemble IFRS. These GEGs must also include a presentation by segment. The one exception remains the US, where GEGs listed on a stock exchange are only obliged to provide their financial statements according to purely national standards (US GAAP). However, the US GAAP also includes a requirement to report by segment⁽¹⁰⁾. This means that regardless of the GEG to be profiled, one of the first things that profilers must do is to check the segments. In a practical way, the profiler may start by browsing the words 'segment', and 'IFRS 8' in the GEG's financial statements.

This first step does not mean that the profilers must strictly follow the segmentation to delineate the GENs. The segments are just a starting point. The main objective of the financial statements is to inform the managers and the capital providers (shareholders, bond buyers, banks) of the risks and opportunities of the GEG's business. Distinguishing segments may be a way to show the diversity of the GEG's activities and to focus on some of them, in particular in growing markets. As a result, the profilers must depart from the segmentation displayed in the financial statements if these segments do not have a 'certain degree of autonomy' to meet the criteria for being a GEN.

⁽¹⁰⁾ As the accounting standard partly affects the presentation of a GEG and thus its delineation, it is of course better when the standards remain stable within groups and over time. However, experience has shown that groups sometimes change accounting standards. The NSIs should be keen on such changes and should make data comparable to previous periods. The main problem arises when a group exits the stock exchange, which results in regulated information no longer being available.

Box 6: IFRS 8 and its use in delineating the GENs

International Financial Reporting Standards (IFRS) IFRS 8, which deals with ‘operating segments’, is very useful in delineating the GENs.

IFRS 8 introduces the concept of a group’s operational segments or divisions. 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 operate’ (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.*

The use of these standards is compulsory for listed companies (whose shares or bonds are traded on exchanges). To be representative, the set of the segments must cover at least 75 % of the GEG’s external turnover.

Global operating segments are the starting point in delineating the GENs following the operating rules explained in this chapter.

In most cases, the segments provide consolidated data that cross national boundaries. However, IFRS 8 stipulates that the data presented for the reportable operating segments must be valued in the same way in which the chief operating decision maker (CODM) reviews them (in other words, 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 are 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 ‘reconciliation’ between the non-consolidated segment information and the consolidated figures of the financial statements. This means that the differences between the consolidated and non-consolidated figures must be listed in detail (in the current European profiling, the turnover is the only variable concerned). 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 profiling work by contacts with the GEG’s representatives.

www.iasplus.com/en/standards/ifrs/ifrs8

The GEG can present its financial statements in one or several segments. If it presents them in one segment, it is a strong indication that the GEG as a whole should be delineated into one GEN. The experience from European profiling has been that no GEG which presents itself in only one segment has been until now delineated in several GENs for which real data were available.

To define the operating segments, IFRS 8 does not provide more recommendations than those set out in the definition shown in Box 6. The GEGs may adopt many kinds of segmentations, following different managerial logics (not-officially defined in accounting rules), provided that the criteria of the definition are met. In practice, the segmentation may be presented according to different activities, processes of production, business lines or even brands. In a geographical segmentation, the information is displayed according to geographic areas (countries or regional zones defined as a set of countries) where the GEG performs its activities or serves its customers.

Some GEGs even have a mixed presentation, combining segments of different types. In particular, some GEGs combine on the one hand geographical segments, and on the other hand segments presented according to another logic. This occurs in particular where the GEGs used to be focused on a single country or a group of countries, and then diversified into other geographical areas or into new activities. As part of European profiling,

each kind of segmentation provides a starting point for delineating the GEN(s). The six operating rules explained in this chapter must be checked carefully to define the degree of autonomy of the GENs.

Purely geographical presentation is probably an exceptional case. From our experience in European profiling, no GEG has been delineated into several GENs following geographical segments only. No case was found of GENs that benefit from a certain degree of autonomy according to the areas in which they are located. It is highly probable that no GEG is organised in such a geographically decentralised way. Geographical segmentation is often put in place by GEGs performing only one activity which may be finally profiled in only one GEN. For example, geographical segmentation is often used in GEGs producing only one product (tyres, beverages, and so on) or one service (such as distance selling or real estate). In fact, geographical segmentation may be a strong indication that the GEG as a whole should be profiled in only one GEN. However, an NSI reports cases where, after discussion with their representatives, some GEGs with a geographical segmentation were profiled in several GENs, not on a geographical basis, but according to their different activities at a more detailed level. Here again, the six practical rules explained in this chapter must be checked to delineate the GEN(s), and discussion with the GEG's representatives is a crucial determinant.

Besides the different ways to present the segments, a GEG may also present its P&L statement by nature or by function. For data collection (and in particular if profilers must collect a lot of data as part of national profiling) a presentation by nature is far more convenient, since the accounting variables are closer than those usually collected by NSIs (see Box 7). However, these two ways of presenting the P&L provide no indication on the delineation of the GENs. Here again, profilers must check the degree of autonomy according to the six operating rules explained in this chapter.

3.C.2 CHECKING THE MANAGEMENT OF THE SEGMENTS

Once the segments have been identified, a very informative operation is to check how these segments are managed. This information is usually presented on the website of the GEG, in pages often named 'Corporate' or 'Governance'. The profilers must browse these pages.

Large GEGs are usually managed by three kinds of governance bodies, set out below.

- The first kind of governance body is the 'board of directors' or 'executive committee': the board gathers a chairperson and senior executives in charge of setting the GEG's general strategy. Among these senior executives, some generally chair the specialised committees (see below). Some people on the board of directors may also be the heads of the segments or specialised directors involved in cross-group functions (such as deputy CEOs, the general counsel, the financial director, and so on). In most cases, there are also independent executives appointed by reason of their experience in managing other GEGs.
- The second kind of governance body is the 'specialised committee': these committees define and implement procedures for the good governance, internal control, and risk management of the GEG. They usually deal with accounts, staff recruitment, staff remuneration, and ethics.
- The third type of governance body are 'operational committees': within these management bodies, there may be deputy CEOs and specialised directors involved in cross-group functions. Alongside these directors, there also may be heads of segments or operational committees managing the segments. This information is very informative. Indeed, the presence of well-identified managers for the segments may be a strong indication that these segments benefit from a certain degree of autonomy in decision-making and could give rise to GENs. However, this point has to be complemented by the other operating rules explained in this chapter.

Box 7: Presentation of the accounts by nature and by function

These two following lists of variables are taken from authentic financial statements. They present the upper lines of the P&L accounts of two GEGs (from the sales to the operating profit) by nature and by function.

A presentation by nature

In a presentation by nature, the expenses are classified according to their cost components. This presentation is close to those commonly used in national accounting standards.

Sales

Other revenues from operations
 Purchases used in production
 Personnel costs
 External charges
 Taxes other than income tax
 Net depreciation and amortisation expense
 Charges to provisions and impairment losses, net of reversals due to utilisation
 Changes in production and property development inventories
 Other income from operations
 Other expenses on operations
Current operating profit/(loss)

Other operating income
 Other operating expenses
Operating profit/(loss)

A presentation by function

In a presentation by function, the expenses are classified according to the cost components.

Net sales

Cost of sales

Gross profit

Research and development
 Advertising and promotion
 Selling, general and administrative expenses

Operating profit

Other income and expenses

Operational profit

In a presentation by function, the variables are far from those commonly used in the national accounting standards. They are also far from those required by structural business statistics.

For data collection, and in particular if profilers have to collect a lot of data as part of national profiling, a presentation by nature is far more convenient than a presentation by function.

However, for the delineation of the GEN(s) within the GEG, these two presentations are equivalent. In both cases, the financial statements include one or several segments according to the activities performed by the GEG. Profilers must check whether and how these segments could help delineate one or several GEN(s), according to the criteria explained in this chapter.



3.C.3 CHECKING THE CHARACTERISTICS OF THE SEGMENTS WITHIN THE GEG

The degree of autonomy of a segment depends heavily on its economic characteristics and its relationships with other segments of the GEG.

This is why the following four questions must also be addressed.

Question 1: Is a part of the capital (corporate or incorporated) assigned to the segment? As explained in the official criteria and operating rules (see 3.B.1), the responsibility for a part of the capital is a criterion for being an enterprise. Therefore, if it is not possible to assign a part of the capital of the GEG to a segment, then the segment undoubtedly has no autonomy and cannot be considered as a GEN⁽¹⁾. This means that the profilers must browse the details of the information provided on the segments.

Question 2: Does a segment have elements of a balance sheet (for example tangible assets) ⁽²⁾? In the financial statements, all the segments are presented with a profit and loss (P&L) account. However, the segments are not in all cases presented with elements of a balance sheet. If the segments are presented with elements of a balance sheet, this could be an indication that a part of the capital is assigned to them. Note that this indication is often not sufficient for reaching a firm conclusion without contact with the GEG's representatives. It may even be misleading, since the two opposite cases are possible as set out below.

- The first opposite case is where financial statements published by the GEG do not present elements of a balance sheet for the segments (for instance because it is assumed that the investors are not interested in it). However, the other operating rules and the dialogue with the GEG's representatives show that the segments do indeed each have an assigned part of the capital.
- The second opposite case is where the segments are presented with elements of a balance sheet (for instance with patents and other assets assigned to each one, to show the diversity of technologies that the GEG masters) ⁽³⁾. However, the other operating rules and the dialogue with the GEG's representatives show that these segments do not have a sufficient degree of autonomy to be delineated as GENs.

To summarise, the responsibility for a part of the capital is a crucial point, but it may be difficult to assess this responsibility from the financial statements alone. This is why, if possible, a short exchange with the GEG's representatives on this point may be highly useful (see 3.C.6).

Question 3: Does the segment benefit from a certain degree of autonomy in economic transactions? This criterion is also required for being an enterprise. If the segment does benefit from a certain degree of autonomy in economic transactions, it is usually explicitly written in the part about the segments in the financial statements. Profilers must check if there is a sentence such as the ones listed below in the authentic financial statements.

- 'Sales prices between business segments approximate market prices'
- 'Inter-segment sales are at market-based prices'
- 'The pricing policy for internal transfers is based on estimated market prices'
- 'As a rule, inter-segment transfers are carried out on an arm's-length basis'

Such sentences mean that, even if the GEN sells its production not to external customers but to others parts of the GEG, it does it according to the 'arm's-length' principle. Thus, the GEN complies with the operating rule of being sustainable by its selling prices, which is a necessary condition of its autonomy (see 3.B.1).

Question 4: Does the segment have other secondary characteristics which may indicate a degree of autonomy? Such characteristics are not related to the definition of the enterprise as the characteristics in the three questions above are (identified management, part of the capital, degree of autonomy in economic transactions, and so on). Instead, these secondary characteristics are only indications, which may be checked to supplement the assessment of autonomy that emerges from the other operating rules explained in this chapter. These indications may also pave the way for the discussion with the GEG's representatives.

⁽¹⁾ In that case, it is likely that the segmentation aims to show the diversity of the goods or services produced by the GEG. This may happen, for instance, in textile-clothing manufacturing. Some textile-clothing GEGs produce clothes in different categories, with each category of clothes being identified by a specific brand. The GEG may display the financial statements by segments with some data which corresponds to the different brands to show the market power of each brand. However, all the clothes of different brands may be produced by the same employees, with the same equipment, with centralised management, and without separate reporting. As a consequence, such segments based on different brands cannot be considered as GENs.

⁽²⁾ We say 'elements of the balance sheet' for a segment or a GEN within the GEG. Indeed, as explained in 3.B.1, some variables of the balance sheet have a meaning only for the GEG as a whole.

⁽³⁾ For instance, a GEG producing tyres may present financial statements by segments according to the different types of tyres, with the patents assigned to each type. However, the management and the production remain fully centralised, so the GEG has to be profiled in one GEN.

These indications/secondary characteristics may be that:

- a segment has a separate headquarters;
- a segment has a specific website;
- besides its identified manager(s), a segment has a dedicated team for reporting and accounting purposes (after the first contact with the GEG's representatives, profilers are invited to turn to this dedicated team for information on the segments).

It may be useful to check such indications/secondary characteristics, even if they do not have the same importance for deciding autonomy as the other operating rules explained in this chapter.

3.C.4 SPECIAL CASES: LISTED SEGMENTS AND SEPARATION BETWEEN FINANCIAL/NON-FINANCIAL SEGMENTS

Some kinds of segments are special cases for profiling: a listed segment is undoubtedly an autonomous GEN. The segments and the LeUs involved in banking, insurance or other financial services must be located in different GENs than those delineated from the non-financial segments.

A segment listed on a stock exchange must be delineated as a GEN.

Among large and diversified GEGs, there are cases in which a segment is specifically listed on a stock exchange, in addition to the GEG itself (or while the GEG is not listed). In such cases, the listed segment must undoubtedly be delineated as a GEN. Indeed, being listed implies that the segment has a degree of autonomy to generate profits, its own management, and its own reporting system. Its assets and liabilities are clearly separated from those of the rest of the GEG. It therefore fulfils all the criteria for being an enterprise.

With the same degree of certainty, the non-financial segments must be located in different GENs to the segments or LeUs involved in banking, insurance, or other financial services.

As explained in Chapter 1 (see 1.E), in the current stage of European profiling, it was decided to focus on private, non-financial GEGs. However, these non-financial GEGs may have segments or LeUs involved in banking, insurance, or other financial activities. We designate these activities as 'financial activities' and refer to Section K of the NACE Rev. 2 classification 'Financial and insurance activities' apart from NACE 64.20 'Activities of holding company'.

This distinction is based on the following three reasons.

- (iii) Apart from NACE 64.20, the financial activities are specifically monitored by dedicated regulatory authorities (competent for banks, insurance companies, or other financial services providers). All the units performing these activities must be identified, and their managers are also registered.
- (iv) Apart from NACE 64.20, the accounting variables for financial activities are not the same as those for the non-financial units.
- (v) The two points above do not apply to NACE 64.20. Holding companies are not specifically identified by dedicated regulatory authorities. Holding LeUs are often included in non-financial GENs. In many cases, they have turnover. Indeed, patents, licences or even production equipment are often assigned to the holding LeUs, and the productive LeUs pay them to use this capital.

There are two main reasons for profiling. The first reason is to go further than LeUs by delineating the enterprises (according to their economic significance) that gather together the LeUs that own capital and engage in production.

The second reason is to provide a consolidated turnover for the enterprise (see 1.B.8).

In the structure of the GEG, the holding units (NACE 64.20) are very different from the other units of the rest of Section K. Their role is far closer to those of: (i) the LeUs classified as head offices (NACE 70.10); or (ii) other units owning the capital used by the productive units, such as those units engaged in rental and leasing activities (Division 77) or those units engaged in real estate activities (Division 68).

The 2016 Methodology for Manual European Profiling made three proposals for treating the financial part of the non-financial GEGs:

- delineating, in agreement with the concerned GEGs, the financial GENs and, if possible, their links with the LeUs;
- discussing with the NSI concerned and the regulatory authorities for the financial cluster;
- discussing with the authorities that prepare the NA to ensure consistency on units and accounts.

Following these proposals, financial segments in non-financial GEGs must be incorporated in financial GENs and separated from the other GEN(s) delineated within the GEG.

In particular, some large non-financial GEGs control a bank to manage their funding and cash, and to provide loans to their customers. This structure is common in large GEGs which sell goods on credit, in particular in car manufacturing or car retail. In the 2000s, some telecoms GEGs also set up banking units in addition to their core business. In all cases, the financial segments must be incorporated in dedicated financial GENs.

To know whether the GEG includes a financial segment, the profilers must carefully check the financial statements. In most cases, this financial segment is clearly identified in the reporting. However, it may be the case that the financial activity is presented only by default to explain the difference between the accounts of the other segments and the consolidated accounts of the GEG. In such cases, this explanation is displayed in the segment information with a concordance table and an explanatory note.

The following note is retrieved from an authentic financial statement report: 'The holding function, the bank and other activities not allocable to the reportable segments, combined together with consolidation effects, are disclosed in the column 'Other/HQ/Conso'.

If there are different types of financial activities (banking, insurance, other financial services), profilers may have to separate these different types of financial activities into different GENs, since the accounting variables, legal frameworks and regulatory authorities differ for each of these types. However, as in all the other cases of delineation, it is better to obtain confirmation from the GEG's representatives.

The NACE code of the LeUs is the easiest and most efficient way to identify the financial LeUs and to check the activity of a segment according to those of the LeUs assigned to it.

To supplement the information on the financial GENs, the profilers can visit the websites of the national regulatory agencies. Indeed, in the EU, authorisation from a national regulatory agency is required to engage in financial activity. The legal framework is based on a set of directives, such as Directive 2000/12/EC for credit institutions, Directive 1998/78/EC for insurance, and Directive 2014/65/EU for financial instruments. The lists of units performing a financial activity are available from the websites of the national regulatory agencies.

However, the lists available on these websites are not exhaustive, especially for LeUs. There are three main reasons they are not exhaustive which are set out below.

- Firstly, the level of information available on the websites differs between the regulatory agencies and between the countries. On some websites, there are only lists of groups while on others there are lists of LeUs.
- Secondly, there are exemptions from the authorisation, for example those listed in Directive 2000/12/EC.
- Thirdly, an authorisation may be granted to an LeU below the global group head (GGH) or below the global decision centre (GDC). It seems also that an authorisation may be valid for a set of legal units;

Despite these limits, it is recommended that profilers visit the websites of the national regulatory agencies since this may help to at least identify the financial GENs.

In contrast to non-financial GEGs with a financial component, there are also financial GEGs with a non-financial component. In particular, some large banking GEGs control segments in non-financial activities such as IT, real estate, vehicle leasing, and fleet management. These segments usually fulfil the criteria for being an enterprise, since they sell their services to external customers and are not ancillary. For example, one of the global leaders in the vehicle-leasing and fleet-management industry is a GEN controlled by a banking GEG. As they are not subject to regulation by the agencies that regulate financial activities, such non-financial segments are generally well identified in the financial statements of the financial GEGs. If profilers intend to assess the non-financial part of a financial GEG, they could try by considering it as an autonomous non-financial GEG, and then start to delineate it in one or several GEN(s).

3.C.5 TAKING ADVANTAGE OF THE COMMON EXPERIENCE OF EUROPEAN PROFILING

Since the beginning of European profiling, vast experience in several industries has been accumulated. The profilers who initiate a profiling must exchange information with profilers from other NSIs involved in the process. Thanks to the IPT, these profilers have access to the information on the GEGs they are involved in. A lot of material and case studies are now available, and training seminars and webinars are regularly organised. Profilers may take advantage of all this information to understand the business models of the GEGs.

This experience has produced lessons that confirm what had been expected. These lessons are outlined in the bullet points below.

- The larger the GEGs (in terms of employment, turnover or assets), the more complex their structure. Very complex GEGs have many LeUs. Similarly, large GEGs have more LeUs when they are located in many countries.
- For similarly sized GEGs, manufacturing GEGs generally have more complex structures than services GEGs, with more GENs and more LeUs. Manufacturing GEGs are usually more diversified. Manufacturing GEGs include LeUs in their core business, but they also include a lot of ancillary LeUs in sales and services ⁽¹⁴⁾.
- Joint ventures are widely used by construction GEGs. Indeed, in construction, the GEGs often work together on the same building. Thus, they create joint ventures of which they hold shares in proportion to their commitment in the project.
- A significant number of GEGs has already been profiled in some industries. In particular, given their weight in the economies, around 20 oil & gas GEGs and 15 telecoms GEGs have been profiled. These common experiences provide indications for how to profile other GEGs in these industries (see Box 8).

3.C.6 OBTAINING A VALIDATION FROM THE GEG'S REPRESENTATIVES (IF POSSIBLE)

By checking the financial statements while bearing in mind the combination of the operating rules detailed below, the profilers may arrive at an initial and quite correct picture of the structure and the business model of the GEG. However, as explained, the information displayed in the financial statements may be insufficient for reaching an indisputable delineation of the GEN. In particular, the question whether a part of the capital is assigned to a segment may be incomplete or confusing, even though it is a key criterion for being an enterprise. Indeed, this question is strongly related to other questions of similar importance, such as whether the segment could be separated from the rest of the GEG, and what degree of autonomy the segment's managers benefit from.

For these reasons, it is always better to obtain — if possible — a validation of the delineation in GENs from the GEG's representatives. Even in light manual profiling, a few specific questions by emails or conference calls may greatly improve the quality of the profiling.

These questions could explore in particular the three following questions.

- Is a part of the capital assigned to the segments?
- What are the manager's responsibilities on the capital assigned to the segments?
- What decisions are taken at which level?

These questions on the level of decision-making are those listed in point 3.B.2, which explain the difference in autonomy between a GEG and its controlled GENs.

All combined, the six operating rules previously detailed may be sufficient to arrive at a first delineation of a GEG in one or several GEN(s). The summary list at the end of the chapter also summarises the criteria for assessing the autonomy of a GEN.

As seen in the last operating rule, just a few specific questions to the GEG's representatives may substantially improve the quality of the profiling.

⁽¹⁴⁾ Ancillary activities are defined in Council Regulation (EC) No 696/93 (Annex, Section IV, B). Operational rules for identifying them are explained in Annex 2 of the *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*, which is shown in the annex. In 2019, Eurostat is also working on a statistical manual on business function classifications, and a correspondence table between business functions and the CPA/NACE classifications. This work could offer useful insight on ancillary activities, as the concept of 'support business functions' is closely related to ancillary activities.

Box 8: Two sectoral examples — the profiling of oil & gas groups and telecoms groups

Since the beginning of European profiling, around 20 oil & gas GEGs and 15 telecoms GEGs have been profiled in common. Many lessons were learnt about these two industries as a result of this profiling. These lessons are detailed below.

Oil & gas groups

In their financial segments, all the oil & gas GEGs present the same segmentation that is typical of a vertically integrated production process. In every case, this segmentation is a combination of all of the following segments or a part of them: upstream (oil and gas exploration and production); downstream (refining, transportation); in some cases chemicals; and sales to customers. In all cases, a segment headquarters and others manage the whole GEG and coordinate the other segments.

Although they are engaged in a vertically integrated process, these segments meet all the criteria for being an enterprise. Each segment has an identified CEO and a management team; each segment has its own capital; and the transactions between segments are made at the market price. Indeed, the production chain never needs to be interrupted. As a consequence, within each GEG, the segments (upstream, downstream, sales to the market) exchange between themselves. But they also exchange to a significant extent with their competitors on spot markets to adjust the quantities they need. It can sometimes happen that a GEG leaves an activity (such as refining, or sales to customers) by selling a segment, which is the best evidence that it is a GEN. For these reasons, these segments have been profiled in almost all cases as being one GEN each.

Telecoms groups

The current classification NACE Rev. 2 distinguishes four classes for telecommunications: 61.10 'Wired telecommunication activities'; 61.20 'Wireless telecommunications activities'; 61.30 'Satellite telecommunications activities'; and 61.90 'Other telecommunications activities'. So when they started to profile telecoms GEGs, the profilers expected and intended to achieve a delineation of GENs which would reflect, at least in part, the distinction between these activities.

However, in their financial statements, most telecoms GEGs do not present their segments according to the type of services they produce, but by geographic segments or by consumer-facing segments. Besides, as part of intensive profiling, when profilers met representatives of telecoms GEGs, those representatives explained that they are now unable to clearly separate the telecommunications activities themselves. Telecoms GEGs nowadays sell packages including mobile line, fixed line, satellite telecommunication, internet and TV. As a result, most telecoms GEGs have until now been profiled as being one GEN each.

Nevertheless, in recent years there has been a trend towards diversification with the rise of digital business. Some telecoms GEGs are diversifying into banking, which undoubtedly involves the creation of a new financial GEN. Telecoms GEGs increasingly seek to sell content (such as movies and music). They are also diversifying into new industries (such as IT, cloud computing, and engineering). The case of telecoms illustrates clearly that, for a given industry, the business model of the GEGs may change over time.

3.D — Consequences on the delineated GENs and remarks

The following paragraphs detail some of the consequences of European profiling using a top-down approach to delineate GENs in accordance with Council Regulation (EC) No 696/93. These consequences are important enough to be clearly stated and commented on.

3.D.1 CONSEQUENCES AND REMARKS ON THE STRUCTURE OF THE GEGs IN GENs

A GEG may consist of one GEN or several GENs.

This delineation depends only on where the level of autonomy is located.

When a GEG consists of several GENs, several of these GENs may have the same NACE code.

This type of organisation occurs mainly in cases where: (i) the GEG was formed by the acquisition of control of enterprises performing the same activity; and (ii) the top managers decided to give a ‘certain degree of autonomy’ to the GEN(s) over which they have taken control. Sometimes, the top managers also confirmed in their functions the former heads of the enterprises. This situation is often observed in the major luxury GEGs. Indeed, luxury products are strongly associated with a name, a brand, a specific production process, or know-how which presents the image of the goods to customers. As a result, even if purchased by a major GEG, luxury enterprises often give the acquired GEN a certain degree of autonomy.

Experience from European profiling shows that similar cases may also occur in other industries when the GEG has been formed by acquisitions.

A GEN has to be active but it may include inactive LeUs.

A GEN must also meet the criteria for ‘a certain degree of autonomy in decision-making’ explained in this chapter (see 3.B). The GEN must also be active, according to the criteria for deciding whether an enterprise is active as defined in the *Notice of intention* and explained in Chapter 1 (see 1.B.5). However, so long as the GEN is active, it may include economically inactive LeUs in addition to its active LeUs. As stated in Regulation (EC) No 177/2008 ‘economically inactive legal units are part of an enterprise only in combination with economically active legal units’.

3.D.2 CONSEQUENCES AND REMARKS ON THE CONSOLIDATED ACCOUNTS

When a GEG is profiled in one GEN only, the global consolidated data are directly available in the financial statements. Besides, when a GEG is profiled in one GEN and presents its financial segments by a geographical segmentation, this segmentation provides direct information on the GEG’s footprint on a country or a set of countries. If the segmentation is presented by countries, these GENs are also good bases to become national ENTs.

3.D.3 CONSEQUENCES AND REMARKS ON THE PERIMETER OF THE GENs IN LEUs

A GEN may include only one LeU.

This situation poses no problem as long as this LeU fulfils the criteria for being an enterprise.

An LeU may be part of two different GENs, which raises difficult issues for profiling.

This situation may occur because the delineation of the GENs is based on a top-down approach to the organisation of the GEGs, which starts with LeUs, regardless of the GEG’s structure.

This case occurs when a GEG centralises in an LeU some shared functions used by all the GENs. Such cases are common when public monopolies are split into several new separated GEGs as part of competition policy. In many EU countries, such split-offs have happened since the end of the 1990s. They typically involve former monopolies in mail delivery, telecoms, electricity, gas, and rail transport. In each country, these GEGs rank among the largest in terms of employment and revenues. It was often the case that, when a former monopoly was split into several new GEGs, all the employees remained employed and paid by a single LeU, because of collective labour agreements. In addition, the activities performed by the former monopolies are of public interest. It was therefore common for the government to keep some stake in the GEG, which has delayed the restructuring of the new organisation into LeUs ⁽¹⁵⁾.

⁽¹⁵⁾ This again illustrates the relevance of top-down profiling, because of the gap which may exist between the picture created by an LeU perspective and the economic reality. It has sometimes been the case that, several years after the spin-off of an electricity monopoly, the new electricity producer and the electricity transmission network were separated GEGs exchanging on an arm’s-length basis and at market prices. However, during this period, a common legal unit continued to employ all the employees of these two newly separated GEGs.

This situation raises difficult issues for profiling. From a technical point of view, the IPT offers the possibility of splitting an LeU between different GENs, even using different distribution keys for the collected variables, employment and turnover. However, this greatly complicates the profiling process, and the difficulty would dramatically increase if other variables were collected. It would be especially difficult at national level for those countries which aim to link their ENTs to the GENs and deal with more variables.

Thus, to avoid this problem, a second-best option is to assign the LeU which would be split to only one GEN. For example, a solution may be to keep together as one GEG the new productive GEG and the network (for instance production of electricity and transportation of electricity) if there is no real competition in the market. European and national experiences in the telecoms and energy industries have shown that the split-off of former monopolies becomes fully effective after a transition period, even in terms of LeUs.

3.D.4 CONSEQUENCES AND REMARKS ON THE TREATMENT OF HEADQUARTERS

A GEG may consist of one GEN and be autonomous in itself. However, other GEGs are profiled in several GENs. In most cases, one of these GENs is the headquarters. Its functions are to manage the whole GEG and to coordinate the other GENs. It is delineated from the segment which is often named 'Headquarters and/or others' in the financial statements. In this recommendations manual, we will always use the word 'Headquarters & others' to simplify ⁽¹⁶⁾.

There are two ways to look at the treatment of headquarters, both of which will be addressed in what follows.

The first way to look at the treatment of headquarters is to find disadvantages in delineating such GENs under 'Headquarters & others'. Firstly, there is a difference between the profiled GEGs, since their headquarters functions are identified in a dedicated GEN for only a part of them. Secondly, from a conceptual point of view, one may think that a dedicated 'Headquarters & others' GEN is not market oriented.

This is why, in their national profiling, some NSIs prefer when it is possible to avoid delineating such GENs as 'Headquarters & others'. A solution could be to distribute this GEN among the other GENs in the GEG, but this is not achievable in practice because the distribution keys may materially differ from one accounting variable to another. A possible solution is to merge this GEN with the largest one among the others.

The second way to look at the treatment of headquarters is to find benefits from delineating such GENs under 'Headquarters & others'. Firstly, this GEN provides actual services to the others (for example administration, financing, and cash management). Some variables have a meaning only at the level of the GEG and it would be questionable to allocate them to one GEN among the others. Secondly, manual profiling is based on the top-down observation of the structure of the GEGs and data collection at consolidated level. Eliminating the GEN 'Headquarters & others' results in changing the consolidated variables of other GENs compared to those published in financial statements, which also raises difficulties.

A balanced solution may be that, although a GEN 'Headquarters & others' is probably not market oriented, it must meet all the other criteria for being an enterprise. There is no doubt that it meets the criteria on autonomy in decision-making, turnover and capital. However, it must also employ personnel. A headquarters without any — or with very few — personnel should instead be considered as a holding and merged with another GEN.

The *Notice of intention* provides an operating rule to identify headquarters (HO) and distinguish them from holding companies (HC). This rule is set out below.

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.

As a result, an operational rule is that the profilers must avoid delineating a GEN as 'Headquarters & others' if it has no — or only a few — employees. If not, the segment 'Headquarters & others' should instead be considered as a holding and included in another GEN.

⁽¹⁶⁾ This term 'Headquarters & others' refers to the vocabulary commonly used in the segmental information of the financial statements. It does not provide direct information of the NACE code of the legal unit(s) included in this segment.

3.E — Summary of Chapter 3: list of the criteria for assessing the autonomy of a GEN

Once the GDC and the perimeter of the GEG are defined, the next step is to delineate the GENs.

The following list summarises the criteria for assessing the autonomy of a GEN and more generally an enterprise.

According to the definition of the GEN:

- a single LeU (not controlled by a GEG) is autonomous;
- if a GEG includes no autonomous parts, it is autonomous as a set of LeUs under common control and provides only one GEN;
- if a GEG includes autonomous parts, then this can lead to the delineation of several GENs according to the criterion of 'a certain degree of autonomy in decision-making especially for the allocation of its current resources' (the autonomy of the GENs is restricted to the usual running of the production process and economic transactions).

1. In this case, to delineate a GEN within a GEG, a large majority of the following rules must be met.

a) Manager(s) and human resources

- The GEN has identified manager(s) who can make decisions. It has employees to perform the activity.

b) Reporting system and calculation cost

- The GEN has a complete profit and loss, or substantial elements of a profit and loss.
- This means that the GEN should be able to provide business registers and structural business statistics data.

c) Factors of production

- The GEN has the means to perform its usual operation of the production process.
- A part of the capital (corporate or incorporated) is assigned to the GEN.
- Elements of a balance sheet may be assigned to the GEN (even if they are not published in the financial statements).
- The amounts of these factors of production needed for the production process (employment, fixed capital, and so on) are consistent with each other.

d) Economic transactions

- The GEN is market oriented. It sells its production to customers outside the GEG. It can choose its customers and suppliers.
- Or: The GEN sells to and buys from other GEN(s) within the GEG according to the 'arm's length' principle (see 3.B.1).
- The GEN can hire and dismiss employees.

e) Some characteristics that are not criteria but may indicate a degree of autonomy:

- a separate headquarters;
- a specific website;
- a specific team for reporting and accounting.

2. A GEN must be delineated if it is listed on a stock exchange separately from the rest of the GEG.

3. In non-financial GEGs, financial activities (Section K apart from NACE 64.20) must be delineated in separate GENs.

4. Because of practical difficulties and a lack of information, it is better to avoid splitting an LeU between different GENs (see 3.D.3).

5. GEGs which are diversified conglomerates may have among their GENs a GEN 'Headquarters & others'. This GEN must have a significant number of employees (see 3.D.4)

Just a few specific questions asked to the GEG's representatives may improve the quality of the profiling substantially (see 3.C.6).

4

Profiling process, data collection and calendar



Chapter 4 — Profiling process, data collection and calendar

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The annual profiling process can be split into a few specific steps that need to be performed by either the GDC NSI or the partnering NSIs. These steps are: desk work; discussion with the statistical users; contact with the GEG; delineation of the GENS and respective proposal of TENTs; and delineation of the national ENTs. The success of profiling depends on the cooperation between the GDC country and the partnering countries.

From a process perspective, the current chapter will focus on the following steps: (i) desk work; (ii) the delineation of the GENS and the TENTs; and (iii) the validation of the national ENTs. It will examine the unit levels at which data are collected and the specific data that are sought. The chapter will also describe the profiling calendar in place ⁽¹⁷⁾, linking it to the respective roles of the GDC and the partnering-country profilers. Finally, the chapter will describe the profiling treatment of mixed financial/non-financial GEGs in terms of data collection.

⁽¹⁷⁾ This document refers to the current profiling calendar; some activities (2018-2019 ESBRS Interoperability Pilots) are under way to improve the future calendar, reflecting the results of profiling tests and users' needs.

4.A — The manual profiling process

4.A.1 THE PROFILING PROCESS FROM A GDC PERSPECTIVE

The GDC country initiates the manual profiling of a GEG, taking part in some of the following steps of the process: desk work; discussion with the statistical users and the partnering countries; contact with the GEG itself; delineation of the GEG's GENs (and respective proposal of TENTs); and validation of the ENTs resident on its own territory. The steps relating to contacts with the GEG, discussion with the statistical users, and contacts with the GEG are covered in detail in Chapters 5 and 6.

The order of the above steps is not pre-determined. It will depend on the specific situation of the GEG, and each case may have its own priorities. The GDC-country profilers will determine the most effective order in which to follow the steps. What is important to note, however, is that manual profiling begins with desk profiling work. In this phase, GDC profilers research, familiarise themselves with, and actively analyse the GEG, its structure, activities and specificities. The goal of this work is to prepare for the subsequent GEG visit if scheduled, and to prepare for discussion with other profiling colleagues. It is at this stage that GDC profilers form their first informed opinions on the group's GENs.

The work of GDC profilers in the manual profiling process can be summarised as follows.

1. Checking the correctness of the GDC.
2. Collecting the perimeter of the GEG in terms of LeUs.
3. Collecting and analysing the available consolidated information on the GEG.
4. Deciding on a preliminary picture of the GEN(s) and the TENT(s). The TENTs will be delineated automatically as a projection of GEN(s) on the countries where the GEG is located.
5. For intensive profiling, organising the meeting with the GEG (to confirm the correct GEN(s), LeU perimeter, and GEG financial data). There is no meeting for light profiling.
6. Updating the group's GEN(s) if needed, after analysing information obtained from the GEG interview.
7. Discussing with the national statistical users (to confirm the correct national ENT(s), consolidated data, and so on, as explained in Chapter 6). Update data on the national LeU(s) and ENT(s).
8. Automatically defining the TENT(s) for non-resident LeUs and the ENTs for resident LeUs.
9. Passing the profiling process on to the participating partnering countries.

In the above steps, the GDC country is responsible for its own TENT(s) and ENT(s), and fills in the ENT(s) information according to its national statistical business register (NSBR).

The steps of the above summary are examined in greater detail below.

1. Checking the correctness of the GDC

- a. Confirming the country of the GDC is very important, as it allocates the responsibility for manual profiling to a specific NSI as explained in Chapter 1. Refer to Chapter 2 for guidance on validating a group's GDC.

2. Collecting the perimeter of the GEG in terms of LeUs

- a. In this step, the GDC-country profilers collect information on the legal structure of the GEG by using the EGR data of the previous reference year. The EGR provides the global picture of the GEG structure in terms of LeUs and the countries in which the GEG operates. The information coming from the EGR is checked and enhanced with information from the NBRs and annual financial statements. The purpose for GDC profilers is to have the most up-to-date LeUs' perimeter of the GEG. Chapter 2 details the nature of the LeU perimeter that should be collected by GDC profilers (in other words, controlled and consolidated).

3. Collecting and analysing the available consolidated information on the GEG

- a. In this step, GDC profilers collect and analyse all relevant economic data for the GEG (for details see Chapter 2). They review the information that is already available at the NSI (business registers, private sourced data, survey data, and so on). Profilers also examine the GEG's annual reports to identify the operational structure of the GEG. GEGs that are IFRS compliant and provide information by operational segments (by activity) are particularly suitable targets for profiling data collection and analysis. However, in some cases, the IFRS breakdown is not the best way to present the operational structure of a GEG from a statistical point of view.
- b. Profilers should aim to obtain as detailed as possible a description of the GEG's global activities. This should allow them to produce an informed initial opinion of the group's GENs(s).
- c. The specific data-collection requirements for the work of the GDC profilers in this step are presented in 4.C of this chapter.

4. Deciding on a preliminary picture of the GEN(s)

- a. GDC profilers analyse the relationship between the legal structure and the operational structure. Priority should be given to the operational structure, as it shows the actual processes within the GEG, while the legal structure focuses on the LeUs and their relationship and ranking within the GEG.
- b. This step consists in: (i) determining the GENs according to a top-down approach and by attributing to them an activity code (NACE code); and then (ii) delineating the GENs in terms of LeUs. The TENT(s) are automatically derived by IPT from the allocation of the GENs by country where they are active. This is a first proposal from the GDC profilers of what the ENTs could look like.
- c. Chapter 3 provides detailed guidance on all the important considerations when delineating a group's GEN(s).

5. Organising the GEG interview (to confirm the correct GEN(s), LeU perimeter, and so on)

- a. For guidance on this step please see Chapter 5.

6. Updating the group's GEN(s) if needed, after analysing information obtained from the GEG interview.

If it is needed and possible, the ENT(s) should also be updated after the meeting.

- a. For guidance on this step please see Chapter 5.
- b. In this step, the GDC profilers analyse and reflect on the findings from the GEG interview about the correct GEN structure. In this stage, an important part of the profiler's job is to check with the GEG on the autonomy of the GENs. The GEN(s), with all their relevant measurements, as delineated after input from the GEG, are a key output from the GDC profiling process.

7. Discussion with the national statistical users (to confirm the correct national ENT(s), consolidated data)

- a. For guidance on this step, please see Chapter 6.



8. Automatically defining the TENT(s) for non-resident LeUs and the ENTs for resident LeUs

- a. In this step, the GDC-country profilers assign all the LeUs that were collected during the profiling perimeter validation (step 2) and confirmed during the GEG interview (step 5) if scheduled with the GEG (step 6) for their resident LeUs and, as much as possible, for the non-resident LeUs. They will flag as uncertain the cases where insufficient information is available.
- b. The linking of non-resident LeUs to GENs automatically proposes TENTs in the relevant countries.
- c. As explained in Chapter 1, these technical units seek to inform the participating partnering countries of what their ENTs could look like from a global perspective. In the partnering phase of the profiling process, the participating partnering countries can either re-shape the proposed TENT(s) to reflect the correct national ENT(s) or confirm the proposed TENT(s) as the national ENT(s).
- d. The linking of resident LeUs to GENs produces a first look at the possible national ENT(s). The result then needs to be discussed with all relevant national statistical users, until an agreement is reached by all users on the final correct national ENT(s). The agreed ENT(s) will be the result of profiling nationally, and will be the ENT(s) submitted by the GDC country to the EGR.
- e. Collecting data on employment, turnover and NACE code by the GDC country at the level of the non-resident GENs is conditional. This means that it must be done only if data are available and can be easily collected, otherwise it is not compulsory. However, it is mandatory for the GDC to provide data on its national ENTs.

9. Handing over the profiling process to the participating partnering countries

- a. In this step, the GDC profilers have completed their part of profiling the GEG and are ready to pass the process on to their participating partners, as explained in Chapter 1.

4.A.2 THE PROFILING PROCESS FROM A PARTNERING PERSPECTIVE

The partnering country takes over the annual profiling process of a GEG from the GDC country as soon as the GDC country has confirmed and communicated the group's GEN(s) and TENT(s).

In profiling a GEG, the partnering country also takes part in a number of steps: desk work; discussion with the statistical users; and confirmation of the national ENTs. Its discussion with the statistical users is covered in detail in Chapter 6.

The work of partnering profilers in the manual profiling process can be summarised as follows:

1. discussing with the GDC country during the desk profiling phase if the GEG is nationally profiled;
2. analysis of the GEN(s) presented in the IPT by the GDC country;
3. checking and updating (if necessary) the national LeU perimeter of the GEG;
4. checking the structure and consolidated data on the proposed national TENT(s), to see if they fit the national situation;
5. discussion with the national statistical users (to confirm, among others, the correct national ENT(s) structures, consolidated information and NACE code);
6. restructuring of the proposed TENT(s) into the correct national ENT(s) or confirming the proposed TENT(s) as national ENT(s).

The above steps are developed in more detail below.

1. Discuss with the GDC country during the desk profiling phase if the GEG is nationally profiled

This information could help the GDC country to propose relevant GENs to the GEG during the meeting with them.

2. Analysis of the GEN(s) communicated by the GDC country

When the partner initiates the partner profiling process, the partner profilers familiarise themselves with the picture emerging from the global analysis of the activities of the GEG and the possible national implications of this analysis.

3. Checking and updating (if necessary) the national LeU perimeter of the GEG

Partner profilers check the proposed LeU perimeter nationally, and add missing resident LeUs that are: (i) controlled by the GEG; (ii) active in the reference year of profiling; and (iii) part of the ENT(s) for the GEG. Discontinued LeUs should be removed from the GEG structure. Units added or deleted in such a way should be flagged in the course of the profiling process. The partnering country confirms or updates data on the resident LeUs.

4. Checking the structure and consolidated data on the proposed national TENT(s), to see if they fit the national situation

Partnering profilers view the information obtained from GDC profiling (in other words, the proposed national TENTs) as informative in nature, seeking to provide the top-down perspective of what the ENTs could look like.

Partner profilers retain decision-making control over their ENTs. In this respect, the partner profilers study all available national sources, financial statements and so on to see whether the delineation makes sense. They also check the existence and attributes of the LeUs in the national business register and other sources. Finally, they involve the national users in discussions to determine the final correct ENT(s) to be reported under the GEG.

5. Discussion with the national statistical users (to confirm the correct national ENT(s) structures, consolidated information, and NACE code)

For guidance on this step, please see Chapter 6.

6. Restructuring of the proposed TENT(s) into the correct national ENT(s) or confirming the proposed TENT(s) as national ENT(s)

If the partners need to modify the perimeter of the TENTs to define their ENTs, they must check that all the LeUs of the TENTs belong to an ENT.

Having reviewed the proposed TENT(s) by the GDC country, and consulted with all relevant national statistical users, partnering profilers in this step have reached a clear understanding of the correct ENT structure nationally.

This allows them either: (i) to validate the TENT(s) as its ENT(s); or (ii) if the national situation has shown different needs, to amend the proposed national TENT(s) in a number of ways, to arrive at the final correct national ENT(s). As described in Chapter 1 (see 1.D.2), partnering profilers have several ways to link national ENTs to the informative and automatically created TENT(s).

The partnering country links the national ENTs to the group GENs in the best way to reflect both the global picture of the GEG and the national needs and situation.

The national-enterprise structure, as agreed during the profiling process, should be the same as the one reported by the business register of the partnering NSIs to the EGR for the GEG.

4.B — Profiling calendar

The profiling calendar is published and updated annually on the [wiki/Profiling/IPT](#).

Here is the link to the most recent calendar (profiling cycle 2019 for the reference year 2018):

<https://webgate.ec.europa.eu/fpfs/wikis/display/Profiling/Calendar>.

By way of indication, the calendar below provides information on the following key profiling-process milestones.

Date	Action	Who
January-February X	NSIs select the GEGs to be profiled for reference year X-1	ESTAT/NSIs GDC
February-March X	NSIs validate the GEGs in EGR IM	NSIs GDC
March X	EGR frame X-2	ESTAT Unit G3
31 March X	IPT uploaded with GEG data from EGR (reference year X-2)	ESTAT Unit G1
01 April X	GDC profiling commences	NSIs GDC
September X	Partnering profiling commences	NSIs partners
30 November X	Closing IPT	ESTAT Unit G1
31 December X	Update national SBRs	All NSIs
01 January X	Send update to EGR	All NSIs

4.C — Profiling data collection

European profiling looks at both statistical and technical units.

The GEG, the ENT, and the LeU are statistical units as defined in European legislation. In addition, the GEN and the TENT (which is the national part of the GEN) are technical units that support the profiling process. Finally, the GDC is a relevant attribute for the GEG.

The GDC-country profilers and the partnering-country profilers help gather data for the above units to different levels.

At the very beginning of the profiling process, the GDC profilers are responsible for:

- identifying the correct GDC — if the GDC is wrong in the EGR, it should be updated;
- collecting the perimeter of the GEG in terms of LeUs — in time, this new perimeter will be sent to the EGR;
- collecting the main attributes of the GEG: NACE code, turnover, and number of employees (in time, this information will be sent to the EGR);
- defining the perimeter of the GENs (assigning the LeUs to the GENs);
- collecting the main attributes of the LeUs: name, ID, NACE code, country, city, percentage of participation in the GEN, method of consolidation, percentage of the consolidation, branch status, and status for the national LeUs (and, when available, the status for all the other LeUs);
- collecting the main attributes of the GENs: name, ID, NACE code, consolidated (if possible) turnover, and number of employees;
- collecting the main attributes of the TENTs (for resident TENTs and, as much as possible, depending on data availability, for non-resident TENTs): automatically created name and ID, NACE code, consolidated (if possible) turnover, number of employees;
- collecting the attributes at ENT level for their country.

Taking over from GDC profilers, partnering profilers are responsible for:

- assessing whether the proposed TENT(s) are acceptable for use as ENT(s);
- checking and collecting the attributes at ENT level ⁽¹⁸⁾;
- checking the information provided by the GDC profilers at LeU level, adding and deleting LeUs when necessary;
- collecting the attributes at LeU level (as known/available to the NSI);
- adding missing LeU-level information (NACE code, number of employees and turnover at LeU-level).

⁽¹⁸⁾ Some partnering reports are published later in the year, making the contributions on ENT of both the GDC country and the partnering country very relevant at this period of the year.

Levels of data collection in profiling and corresponding attributes

Table 1 below provides a list of the attributes to be collected by the GDC and partnering-country profilers during the different stages of the profiling process. In the table, 'mandatory' refers to variables that must be collected for European profiling.

		GDC country	Partnering country
GEG			
Name		Mandatory	
ID			
NACE	year	Mandatory	
Employment	type	Highly desirable (to check the data consistency and to be sent to the EGR)	
	year		
	source		
Turnover	consolidated	Highly desirable (to check the data consistency and to be sent to the EGR)	
	currency		
	year		
	source		
GEN			
Name		Mandatory	
ID			
NACE	year		
	source		
Employment	type		
	year		
	source		
Turnover	consolidated		
	currency		
	year		
	source		
TENT			
Name		Mandatory (automatically derived)	
ID (automatically created by the IPT)			
NACE	year	Conditional upon availability	
	source		
Employment	type		
	year		
	source		
Turnover	consolidated		
	currency		
	year		
	source		

LeU			
Name		Mandatory for all LeUs	Mandatory for resident LeUs
LEID ID			
National ID			
Country			
NSA ID		Mandatory for resident LeUs	
Status	year		
	source		
NACE	year		
	source		
Employment	type		
	year		
	source		
Turnover	currency		
	year		
	source		
Consolidation percentage			
Enterprise percentage			
ENT			
Name		Mandatory for resident ENT(s)	Mandatory for resident ENT(s)
GEN ID			
Status			
NACE	year		
	source		
Employment	type		
	year		
	source		
Turnover	consolidated		
	currency		
	year		
	source		

Note that every LeU must have now an LEID for unique identification. This LEID is retrieved from the EGR identification service.

Other mandatory variables should be collected by the NSIs at the specified level. Conditional variables should be collected if they are available to the NSI.

As can be seen from the above table, TENT and LeU attributes are first collected by GDC NSI profilers. Partnering NSI profilers check, validate and complement the information collected by GDC NSIs, arriving ultimately at the correct resident ENT(s) and corresponding variables.

When collecting GEG-, GEN-, ENT- and LeU-level attributes, GDC NSI profilers and partnering NSI profilers must examine the two categories of sources listed in Chapter 2.

- The first category includes the sources commonly used in business statistics: EGR, FATS, national business registers, SBS, and other surveys or administrative sources.
- The second category includes the sources provided by the GEGs themselves, such as GEGs' websites or reports, in particular the financial statements.

Sourcing of the variables for the profiling process

Table 2 below details the sourcing process for all attributes that must be collected by the GDC-country profilers.

Attributes	Sources	Guidance for GDC NSI profilers
GEG		
Name	Group (annual accounts and/or visit)	Trade name of the group rather than GGH name.
ID	EGR	
NACE	Group (annual accounts and/or visit)	The more representative segment can help to determine NACE at GEG level.
Employment	Group (annual accounts and/or visit)	Bottom-up approach can also be used.
Turnover	Group (annual accounts and/or visit)	
GEN		
Name	Group (annual accounts and/or visit)	Group name, segment name (given in capital letters).
ID	IPT	
NACE	Group (annual accounts and/or visit)	The more representative segment can help to determine the NACE code at GEN level.
Employment	Group (annual accounts and/or visit)	Bottom-up approach can be used. However, if it is not possible to provide this variable from the financial statements of the GEG, this may be an indication that the GEN is not relevant.
Turnover	Group (annual accounts and/or visit)	If it is not possible to provide this variable from the financial statements of the GEG, this may be an indication that the GEN is not relevant.
TENT		
Name	Group (annual accounts and/or visit)	The TENT name is composed of the country code (2 letters) followed by the name of the GEN in other words, GB_COMPANY_MANUF. It should be kept as short as possible. Use capital letters for the TENT name.
IDs	IPT	The TENT ID is linked to the GEN ID, preceded by the country code; example: IT900018399501.
NACE	Group (annual accounts and/or visit); OFATS GDC NSI	The best way is to collect the information directly from the group. OFATS data are a good alternative if OFATS reporting segments (NACE 2-digits*country) are consistent with the delineated TENT(s). Without additional information, the TENT NACE code will correspond to the GEN NACE code. NACE codes from OFATS can be used if we can assume that it has not changed. Note: OFATS data provides only NACE on 2-3 digits.
Employment	Group (annual accounts and/or visit); OFATS	Use the same reference year as the profiling exercise. As NSIs can have data on employment for many types of employment, a priority list for type of employment should be defined, in line with EGR. Indicate the type of employment: head count referring to a precise date; head count referring to an average employment over the year; full-time equivalent referring to a precise date; full-time equivalent referring to average employment over the year. Note: for employment, OFATS would not be the best solution, since the data refers to the previous year. See <i>FATS recommendation manual</i> pp. 57.
Turnover	Group (annual accounts and/or visit); OFATS	The turnover should be consolidated. It is requested in thousands. Profilers should indicate which concept is referred to: revenue, sales, turnover, other unknown. Indicate which currency is referred to (EUR and so on) Stick to the same reference year as profiling exercise. Note: OFATS indicator corresponds to non-consolidated turnover. See <i>FATS recommendation manual</i> pp. 44.

Attributes	Sources	Guidance for GDC NSI profilers
LeU		
Name	Group (annual accounts and/or visit); OFATS and NBRs	Use capital letters for the LeU name. Note: OFATS can be a source for LeU names only for those NSIs which have an OFATS survey at LeU level.
Country	Group (annual accounts and/or visit); OFATS and NBRs	Use capital letters for the LeU country code.
City	Group (annual accounts and/or visit) and NBRs	Use capital letters for the LeU city.
ID	EGR; NBR	The LeU EGR ID (LEID) should be used. GDC NSI profilers can also use the NBR LeU ID(s) for resident LeU(s). Note: generally, groups do not have access to national ID numbers.
Status	Group (annual accounts and/or visit); OFATS; NBR	Stick to the same reference year as the profiling exercise.
Percentage of participation in the GEN	Group (annual accounts and/or visit)	This attribute allows GDC profilers to deal with LeUs which should be split into several GENs. In these cases, the LeU should appear several times in the file related to the GEN(s) it belongs to with the percentage of participation in each ENT. Percentage participation = 100, when an LeU is part of only one GEN. Percentage participation < 100 when an LeU is part of two or more GENs. Note: The sum of the attribute for the same LeU belonging to many GENs should be equal to 100 %. As explained in Chapter 3, it is better to avoid splitting LeUs as much as possible.
Percentage of consolidation	Group (annual accounts and/or visit)	The percentage of consolidation = 100 when the LeU is fully consolidated. The percentage of consolidation < 100 when the LeU is integrated for a joint operation.
Branch status	Group (annual accounts and/or visit); OFATS, NBRs	Note: branches must be included. OFATS and NBRs can help to identify them.
NACE	Group (annual accounts and/or visit); OFATS; NBR	The best way is to collect NACE codes of four digits directly from the group. OFATS data can be a good alternative if the OFATS survey is conducted at LeU level. Stick to the same reference year as the profiling exercise. Note: OFATS data provide only a NACE code for 2-3 digits. GDC NSI profilers can also use the NBR for resident LeU NACE codes.

Table 3 below details the sourcing process for all attributes that must be collected by the partnering-country profilers at ENT/LeU levels.

It presents the main sources of the information and provides guidance to improve comparability with the information collected by GDC NSIs. Where there are many possible sources that can be used by the partnering-country profilers, Table 3 also provides guidance on best practices.

Attributes	Sources	Guidance for partnering NSI profilers
ENT		
Name	NBR; Group	The ENT name in profiling is composed of the country code (2 letters) followed by the name of the GEN for example, GB_COMPANY_MANUF. Use capital letters for the ENT name. Note: the ENT name can be different from the TENT name (as proposed by GDC NSI) as follows: the ENT name FR_REED_ELSEVIER proposed by GDC NSI can become FR_MASSON when changed by the FR partnering NSI, since in France the GEG has another tradename. Note: if there is more than one ENT per GEN, the ENT name can be granted by the partnering NSI as follows: GB_COMPANY_MANUF proposed by the GDC NSI can become ENT1 name= FR_COMPANY_MANUF, and ENT 2 name = FR_COMPANY_SALES, and so on (to be aligned with the business rules/specification for profiling's integration with EGR).
IDs	Group; NBR	In profiling, the ENT ID is linked to the GEN ID preceded by the country code, for example, IT900018399501. If there are more than one ENT(s), the ENT ID contains the country code, the group ID and the ENT number (to be aligned with the business rules/specification for profiling's integration with EGR).
NACE	Group; NBR	The ENT NACE code should reflect the real activity of the GEN in the country. Partner profilers should check and amend (if necessary) the TENT NACE code provided by the GDC profilers. They have two options for doing this. The first option is to look at the description of the activities in their country in the annual report or in the national corporate website of the GEG. They can then possibly ask GEG local contacts if there is a visit. The second option is to use the NACE code of the LeUs to identify the ENT NACE code. If there is only one LeU in a TENT/ENT, the ENT NACE code should be the same as the LeU NACE code. If there is more than one LeU in the TENT/ENT, the ENT NACE code should be the same as the NACE code of the LeU which has the largest number of employees.
Turnover	Group (annual accounts and/or visit); SBS; NBR	The turnover should be consolidated. It is requested in thousands. Partner profilers should indicate which concept is used: revenue, sales, turnover, or other unknown. Indicate which currency is referred to (EUR and so on). Stick to the same reference year as the profiling exercise.
Employment	Group (annual accounts and/or visit); SBS; NBR	Stick to the same reference year as the profiling exercise. Indicate the type of employment: head count referring to a precise date, head count referring to average employment over the year, full-time equivalents referring to a precise date, or full-time equivalents referring to average employment over the year. As employment is an additive variable, the employment of the ENT is equal to the sum of the employment of its LeU(s).

Attributes	Sources	Guidance for partnering NSI profilers
LeU		
Name	Group (annual accounts and/or visit); NBR	Partner profilers should check the LeU name as proposed by the GDC profilers. Use capital letters for the LeU name.
Country	NBR	Check that the LeU is located in the partner country. Use capital letters for the LeU country code.
City	Group (annual accounts and/or visit); NBR	Check the city name. Use capital letters for the LeU city.
ID	EGR, NBR	Check the LeU IDs.
Status	Group (annual accounts and/or visit); NBR	Stick to the same reference year as the profiling exercise
Percentage of participation in the GEN	Group (annual accounts and/or visit); NBR	This attribute allows partner profilers to deal with LeUs that should be linked to several GENs. The percentage participation = 100 when an LeU is part of only one GEN. The percentage participation is < 100 when an LeU is part of more than one GEN. Note: The sum of the attributes for the same LeU belonging to several GENs should be equal to 100 %. In most cases LeUs belong to only one TENT/ENT and the rate = 100 %.
Branch	Group (annual accounts and/or visit); NBR	Check if LeUs provided by the GDC profilers are branches (Yes or No), or identify branches belonging to the ENT(s).
NACE	Group (annual accounts and/or visit); NBR	The NBR can be used to fill the four-digit LeU NACE code.
Turnover	SBS	Turnover at LeU level is requested in thousands. Indicate which currency is referred to (EUR and so on). Stick to the same reference year as the profiling exercise.
Employment	NBR; SBS	Stick to the same reference year as the profiling exercise. Indicate the type of employment: head count referring to a precise date, head count referring to an average employment over the year, full-time equivalents referring to a precise date, or full-time equivalents referring to average employment over the year.

4.D — Collecting data for the financial GENs of non-financial GEGs

In the current stage of European profiling, it was decided to focus on private, non-financial GEGs (see 1.E). These non-financial GEGs may have a financial part, under the meaning of this manual. This means that they may have units or segments which refer to Section K of the NACE Rev2 classification 'Financial and insurance activities' apart from NACE 64.20 'Activities of holding company'. Such financial parts must be profiled to get a full picture of the GEG. The way to delineate these financial parts according to the 2016 *Methodology* is explained in 3.C.4.

In particular:

- profilers should delineate the financial GENs and, if possible, their links with the LeUs;
- if there are different kinds of financial activities (banking, insurance, other financial services) profilers should separate these different types of financial activities into different GENs.

As for non-financial GENs, profilers must assign a NACE code and employment data to the financial GENs. These two operations do not raise any particular issue. Besides, when a GEG controls a financial activity, financial statements on this activity often must be published separately from the rest of the GEG for regulatory reasons. The number of employees can be easily found in this source.

A more difficult issue is choosing the accounting variable equivalent to the turnover commonly used for non-financial activities. For several years, the Task Force Framework Regulation Integrating Business Statistics (FRIBS) has worked on the definitions of cross-cutting variables including net turnover. For Section K, the Member States requested specific definitions, which were discussed and agreed by the SBS Working Group. The definitions for turnover of Section K have been included in the draft FRIBS general implementing act, Annex 3, pp. 124-125, as presented to the BSDG in June 2018. This document, which is the reference, is available on Circabc ⁽¹⁹⁾ at: <https://circabc.europa.eu/w/browse/56c470c7-71d2-43df-88ee-000f6d26d100>.

In European profiling, it is entirely appropriate to apply these definitions. Firstly, by doing so, the SBS variables will be consistent between profiling and the other methods. Secondly, these definitions are really relevant and meet the purpose of European profiling, which is to focus on the largest GEGs. In particular, these accounting variables are the same ones used in research papers or economic magazines to rank together and by size both large non-financial and financial GEGs.

The problem is that, in financial activities, the presentation of financial statements is less harmonised than the presentation of non-financial statements. In the statements of financial GEGs, the presentation of the accounts and the terms used may differ greatly.

In the section below, we present for each financial variable the variable according to FRIBS and the accounting variables that may match it, or that at least may serve as a starting point for asking questions to the GEG's representatives.

⁽¹⁹⁾ An updated version of the draft FRIBS general implementing act will be made available for the BSDG in June 2019. However, the definition of net turnover will remain unchanged.



K64.19: Other monetary intermediation

FRIBS definition

Interest receivable and similar income
– Interest payable and similar charges
+ Commissions receivable
+ Income from shares and other variable-yield securities
+ Net profit or net loss on financial operations.

Starting point/equivalents in the financial statements

This definition conforms to the variable named in the financial statements as ‘net banking income’ or ‘operating income’. The variables needed by the FRIBS definition are in almost all cases published in the profit and loss of financial GEGs. Besides, the credit institutions operating in Europe must be able to provide these variables, according to Council Directive 86/635/EEC.

K64.3: Trust funds and similar financial entities

FRIBS definition

0 if not significant.

Otherwise, net turnover. If no net turnover is available in the profit and loss accounts, the FRIBS definition explains a method to calculate it (see the previous link to Circabc).

Starting point/equivalents in the financial statements

The net turnover can be easily found in the income statements, or reconstituted with the variables available: ‘consolidated net sales’. Some US funds use the term ‘revenue’.

K64.9: Other financial service activities, except insurance and pension funding

FRIBS definition

0 if not significant.

Otherwise, net turnover. If no net turnover is available in the profit and loss accounts, the FRIBS definition explains a method to calculate it (see the previous link to Circabc).

Starting point/equivalents in the financial statements

The net turnover can be easily found in the income statements.

K65: Insurance, reinsurance and pension funding, except compulsory social security

FRIBS definition

Net turnover = gross premium earned.

Starting point/equivalents in the financial statements

The gross premium earned can be easily found in the financial statements. This variable may be calculated from ‘gross written premiums’ by correcting for the ‘gross change in the provision for unearned premiums’, as explained in the FRIBS implementing act.

Even more than for non-financial activities, a validation from the GEG’s representatives is very helpful to check that the collected variables are what was expected.

4.E — Summary of Chapter 4

The first four steps of European profiling were explained in the previous chapters. These four steps are set out below.

- European profiling is a collaborative task carried out by the profiling teams of several NSIs, with different roles and responsibilities (see Chapter 1). In a first step, these profiling teams examine information to prepare or to execute manual profiling through desk work (see Chapter 2).
- In a second step, the profiling teams validate the global decision centre (GDC). The GDC must be validated, since its location determines the GDC profiling team (GDC profilers) which is responsible for initiating the process. The other profiling teams are called partner profilers (see Chapter 2).
- In a third step, the profilers define the perimeter of the GEG.
- In a fourth step, the GDC profilers delineate the GEN(s) within the GEG through a top-down approach. They also define their national ENT(s). The partner profilers define their national ENTs from the informative and temporary ENTs (TENTs) automatically created by the IPT. The GENs and the ENTs must be delineated following the criteria for being enterprises (see Chapter 3).

Fifth step: Collecting data and inserting them into IPT

And in the fifth step, the GDC and the partner profilers collect data and populate the IPT. At the end of the collaborative process, the following two deliverables are expected.

- Deliverable 1: The perimeter in terms of LeUs for the GEG, the GEN(s), and the ENTs.
- Deliverable 2: NACE, employment and turnover of the units. These variables are mandatory for GENs, ENTs, and LeUs. For GEGs, NACE is mandatory. Employment and turnover are also desirable for GEGs, to check data consistency but also because these variables are used by the EGR.

European profiling is carried out as part of a clear annual collaborative process

GDC profilers and partner profilers have clear roles and responsibilities, which are explained in detail (see 4.A). Their collaborative work is coordinated in the scope of a calendar, which is published and updated annually on the wiki/Profiling/IPT (see 4.B).

Level of data collection and corresponding attributes are clearly defined and must be fulfilled

Harmonised variables are necessary to allow consistency and to provide results from the data input in the IPT (see 4.C). The following points should be kept in mind.

- Every LeU must have an LEID retrieved from the EGR identification service.
- According to the accounting rule IFRS 11, there is no reason to split an LeU between several GEGs. The only case for splitting an LeU is when it belongs to several GENs or several ENTs, even if it is better to avoid this solution (see 3.D.3).
- For NACE, 4-digits are optimal, 2-digits are mandatory.
- Employment should be provided by the GEG (by their representatives or in the financial statement). However, as employment is an additive variable (at least for full-time equivalents), it can be provided by the bottom-up method.
- Consolidated turnover is highly desirable. Whatever the currency, it must be provided in thousands.
- For financial GENs (in other words, Section K except 64.20), variables equivalent to the turnover have been defined by the FRIBS Regulation. These definitions must be applied in European profiling (see 4.D).

5

Establishing constructive relationships with the groups



Chapter 5 — Establishing constructive relationships with the groups

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A key principle of European profiling is that quality and consistency are substantially improved by dialogue with colleagues/users of the other domains and with GEGs' representatives.

Dialogue with colleagues/users is mandatory and this issue is addressed in Chapter 6. Dialogue with the GEG's representatives is highly recommended and is explained in the present chapter.

This chapter focuses on the following points.

- The first section deals with the preparation of the contact with the GEG. It gives a reminder of the context for the profiling team and the need for the preparatory desk work. It also addresses the issue of the first contact with the GEG's representatives.
- The second section explains: which documents could be discussed with the GEG's representatives; how to make progress during the meeting; and how best to carry out the dialogue with the GEG's representatives.
- Until now, the cooperation of the GEGs to participate in European profiling has been voluntary. Thus, in a third section, we present techniques and hints to establish constructive relationships with them.



5.A — Preparing the contact with the GEG

5.A.1 PREPARING THE CONTACT: THE CONTEXT FOR THE PROFILING TEAM

The extent of the dialogue with the GEG depends on the kind of profiling and the role of the profiling team.

- As explained in Chapter 1, we talk of **intensive manual profiling** when there is a comprehensive dialogue and a meeting between the profiling team and the GEG's representatives. We talk of **light manual profiling** when there is an analysis of the GEG without contact with its representatives, or contacts only by email and conference calls (see 1.B.7).
- The **GDC profiling team** and **partnering profiling teams** have different roles and responsibilities (see 1.D.1).
- The profiling may be initiated for the first time, or followed up from a previous profiling.
- In the current European profiling, data collection is limited to three variables for the GEGs and for the GENs: employment, NACE code and turnover. However, several NSIs already implemented profiling at national level in which they collect far more variables by manual profiling of large GEGs.

Thus, in this chapter, we aim to describe basic rules which can apply irrespective of the extent of the dialogue with the GEG.

When planning and preparing contact with a group it is essential to bear in mind some basic rules:

- be well prepared beforehand from desk work;
- be familiar with and known to the already established contacts (for example, involvement in surveys);
- try to find the right contact at the right level;
- use the right instrument to contact;
- use the right arguments for why profiling also has — or can have — advantages for the GEG;
- come to clear agreements that avoid misunderstandings.

5.A.2 THE NEED FOR HIGH-QUALITY DESK PROFILING WORK

Before each contact with the GEG's representatives — and even more so before a meeting — profilers must complete the preparatory **desk work**. This consists in taking advantage of an array of useful information already available to prepare the profiling exchanges or meeting (see 2.A). Indeed, desk work provides a lot of information and it is essential for the success of the contact and of the meeting. Besides, this preparatory task is absolutely needed so that the GEG's representatives perceive the profilers as valid interlocutors able to speak the business language.

Thus, in all cases, the desk work should support the profiling process in producing the following outcomes explained in the previous chapters:

- defining the perimeter of LeUs of the GEG;
- identifying the GDC of the GEG;
- delineating the enterprises (GEN(s) or ENT(s)) and defining their perimeter in LeUs;
- providing data at the level of the GEG and GEN(s);
- providing data at the level of the resident ENTs, and if possible, those located in partnering countries (see 1.C).

To produce these outcomes, the profilers must firstly use information from sources which are available in the NSI (such as the business register, structural business statistics). They also have to take into account the information from the EGR. If there is a follow-up profiling, the result of the previous profiling is of course a starting point. Good preparation with other colleagues/users within the NSI is necessary to identify the key questions to ask, and if possible, to reduce as much as possible the statistical burden (see Chapter 6). Profilers should also know the existing contacts with the GEG and its involvement in national statistical surveys. If possible, in particular if there is a follow-up profiling, it is better if profilers of the GDC country have contacts with those of the partnering countries from the stage of the desk work.

Besides, for a successful dialogue with the GEG's representatives, it is very important to show them that attention was also paid to the information that the GEG publishes on its website.

In particular, profilers should prepare questions and an approach for delineating the GEN(s) according to the method explained in Chapter 3, and they should discuss this with the GEG's representatives. For this purpose, the following points should be considered:

- how the management of the GEG gets a first view on the issue of decision-making within the GEG;
- the segmental information and the management of the segments;
- the financial statements and national annual reports ⁽²⁰⁾.

Finally, to prepare the profiling, it is also important that profilers are able to present the objective and general process of profiling. They must also have in mind questions to be asked to the GEG's representatives and techniques and hints to encourage cooperation (see 5.C).

5.A.3 MAKING EARLY FIRST CONTACT WITH THE GEG

When profiling is initiated, it is highly recommended to contact the GEG during the phase of desk work. This first contact aims at explaining in general terms what is expected from the GEG's representatives and at asking them to cooperate.

Contacting the GEG's representatives during the desk work has the following advantages.

- If the objective is an intensive manual profiling, it leaves time to reopen the contact if the GEG's representatives do not answer. It leaves time to renegotiate a light manual profiling with contacts only by email or conference calls, if this second-best solution cannot be avoided.
- If the GEG's representatives refuse all forms of contact, then the objective could be to downsize and carry out a light profiling. Thus, no work from profilers will be lost.

Anyway, it is better to know as soon as possible the attitude of the GEG about cooperation in order to plan the profilers' work and coordinate with the partnering NSIs and with Eurostat.

Experience from manual profiling (both European and national) has yielded the following lessons.

- Profilers are often obliged to make contact repeatedly to get an answer from the GEG's representatives.
- Cases where the GEG's representatives refuse all forms of dialogue with the NSI of their country are very rare.
- The best time to get a meeting or to dialogue with the GEG's representatives is immediately after the publication of the annual accounts (see 5.C.6). Even if profilers can contact the GEG at any time of the year, it is better to have in mind the working cycle of the GEG's representatives.

The initial contact is preferably made by a letter of introduction sent to the chief executive officer (CEO), 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, for example by the Director General or by the Division Director. The hierarchical roles of the sender and the recipient may vary depending on the contexts and between countries. But these roles should always be roughly equivalent to each other – so that people in NSIs make contact with people in the GEG who are at roughly the same level. Besides, this letter has to emphasise the deep interest of the NSI in cooperating with the GEG.

Profilers should look at the website of the GEG to find out the most appropriate person to whom the initial official introductory letter should be addressed. In countries with a well-developed system for account management with large GEGs, the method of contact can be based on the already existing experiences with the GEG. Exchanges with survey respondents may also be useful to check the person to whom the letter is sent. In all cases, sending an official letter to request cooperation is important.

Alongside the letter itself, a background note on confidentiality should be included in the introduction (see below, 5.C.5).

Examples of letters to GEGs to introduce profiling are shown in the annexes.

In case of follow-up profiling, and if contacts have been maintained with the GEG, there is usually no need to send another letter. In this case, the next contacts can be made by phone call or by email to the GEG's representatives. However, these interlocutors may have changed, especially after several years. The more time that has passed since the initial contact, the more it will be necessary to get a new formal agreement to cooperate.

⁽²⁰⁾ Note that the list of legal units published in financial statements or annual report is generally not exhaustive, but limited to the main ones. The statistical sources (national BR or EGR) are better to have a first view of the GEG perimeter.



5.B — Dialogue with the GEG and visit to the GEG

5.B.1 THE BENEFITS OF A FACE-TO-FACE MEETING

After the desk work has been completed, there are many benefits in meeting with the GEG's representatives face-to-face. It is not always possible, but some of the benefits from a face-to-face meeting include:

- building up a strong relationship with the GEG if meeting in person;
- reinforcing trust between NSIs and the GEG;
- raising the profile of the NSI;
- facilitating discussion on complex subjects;
- being able to use visual tools and printed pictures to make the subject much easier to understand.

In short, a face-to-face meeting with the GEG's representatives may be easier to conduct and more efficient than dialogue by conference call or by email.

5.B.2 ISSUES TO BE DISCUSSED WITH THE GEG'S REPRESENTATIVES

The profilers must obtain certain information from the GEG's representatives. Some documents may be sent by email and discussed by email or conference calls, but a face-to-face meeting facilitates a more comprehensive exchange of information.

When profiling is initiated, the profilers of the **GDC NSI** have the following responsibilities (see 1.D.1):

- to collect the perimeter of the group in terms of LeUs;
- to delineate the GEN(s) within the GEG ⁽²¹⁾;
- to assign the LeUs to the GEN(s) (for the resident LeUs and, as much as possible, for the non-resident ones);
- to collect data at GEN level (consolidated turnover, employment and NACE activity);
- to collect data for their resident ENTs (for European profiling, consolidated turnover, employment and NACE activity) ⁽²²⁾.

To do so, the profilers of the GDC country can present the following documents and review them with the GEG's representatives.

5.B.3 ISSUES IN THE DELINEATION IN GEN(s)

Considering the importance of the issue of the delineation in GEN(s), profilers must have a sincere and open exchange about it with the GEG's representatives. Conducting a fruitful dialogue on this point is one of the key contributions of manual profiling.

To meet this objective, profilers must balance the two following conditions.

- The first condition is to: (a) have well prepared the desk work; (b) have in mind questions; and (c) have a method to delineate the GEN(s), or even a first schema of delineation to be proposed and discussed with the GEG's representatives.
- The second condition is to let the GEG's representatives express themselves about the organisation of the GEG and its business models and avoid imposing a pre-defined schema.

If the consolidated segments include information by segment of the GEG, it may be useful to have this information during the meeting. Profilers can use the printed pages to ask further questions on the topic. The accounts presented by segments may be used to discuss whether they should lead to GEN(s), according to the method explained in Chapter 3. In the information by segment, the headings 'Notes' and 'Accounting principles' must also be read and printed if they provide explanations on the reporting and perimeter of the segments.

⁽²¹⁾ In particular, the GDC profilers may check with the GEG's representative if the GEG has a financial part (in the meaning of this manual, section K apart the NACE 64.20) as it has to be delineated in separate GEN(s) (see 3.C.4).

⁽²²⁾ The data requirements can be significantly larger for the needs of national profiling.

5.B.4 ISSUES OF PERIMETERS, ATTRIBUTES, VARIABLES

The documents for asking questions about these items are the EGR cluster and tree. This could be an Excel file with a list of the LeUs of the GEG 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 LeUs;
- national ID code;
- country code;
- NACE code;
- number of employees.

The profilers of the GDC country can also present national sources from their BR or other statistical sources to ask questions, in particular about their resident ENTs.

5.B.5 COORDINATION BETWEEN THE GDC PROFILING TEAM AND THE PARTNERING PROFILING TEAMS

In European profiling, the question of the dialogue with the GEG's representatives raises an issue of coordination between the GDC profiling team and the partnering teams. The respective responsibilities of the different teams were well clarified in the updated methodology (see 1.D). Besides, the different profiling teams meet different representatives from different GEGs, as each one meets those located in their country.

However, a challenge remains. On the one hand, it would be highly counterproductive for the GDC NSI and the partnering NSIs to both ask the same questions of the different representatives of the GEGs that they meet. At best, it would lead to replication of work. At worst, the NSIs could intrude on each other's work. In either case, this would damage the credibility of European profiling and that of all the NSIs.

On the other hand, it seems difficult to leave the monopoly of contacts with the GEG to the GDC NSI. Firstly, the updated methodology provides more responsibilities to the partnering NSIs and they may need to make contact with the GEG's representatives located in their country to perform these tasks. Secondly, the partnering NSIs also have regular contact with the GEG for their national surveys (and in more and more countries for their national profiling).

This is why, even if the responsibilities and the interlocutors differ, it is very important that the GDC NSI coordinates with the partnering NSIs ⁽²³⁾. The profiling calendar allows this, since there are several months between the beginning of the work performed by the GDC NSI and that of the partnering NSIs.

This cooperation includes the following:

- checking regularly what was added to the IPT by the other NSIs working on the same group;
- as far as possible, encouraging close dialogue between NSIs to warn the GDC NSI when partnering profiling commences;
- as far as possible, encouraging close dialogue between NSIs when significant changes are added to the IPT.

⁽²³⁾ Functional mailboxes have been created and are available on the [wiki/Profiling/IPT](#) to facilitate exchanges between profiling teams.



5.B.6 QUESTIONS TO BE ASKED OF THE GEG'S REPRESENTATIVES

Questions to assess the autonomy of an enterprise are listed in Chapter 3 (see 3.C.6 and 3.E), and the list of variables to be collected is shown in Chapter 4. In this paragraph, we summarise a short list of very valid questions which could be posed to the GEG's representatives.

In the following lines, these questions are mainly worded as if they were asked by a GDC NSI, but they may also be asked by a partnering NSI or adapted to delineate the national ENTs.

1) On the perimeter and the attributes of the GEG

- Could the GEG's representatives provide a complete list of LeUs for the group, or validate the list presented to them?
- Which LeU is seen as the global decision centre (GDC) for the group?
- Which LeU is seen as the global group head (GGH) for the group?
- Are there joint operations, with a part integrated in the turnover (see 2.D.4)?
- Are there branches in other countries (see 2.D.4)?

2) On the delineation of GENS or national ENTs

- Does the GEG operate according to the result/picture that emerged from the preparatory desk work?
- If profilers create GENS according to the outcomes of the desk work, are the GEG's representatives able to report the three main economic variables (NACE, employment, turnover) for these GENS? Are they able to do this for each country where the GENS are located in order to delineate the ENTs/collect data at ENT level?
- Is there much trade between the proposed GENS? Can the GEG's representatives provide data on the total intra-group sales and intra-group sales between LeUs belonging to proposed national ENTs?
- Could the GEG's representatives confirm the main economic activities of the GENS/ENTs (for classifying)? On this issue of classification, it is recommended that profilers come with proposals (from the statistical sources or financial statements) and ask for confirmation from the GEG's representatives.

3) Specific questions on data collection

In cases where there is doubt on the accounting standards used by the GEG (national GAAP, IFRS or others), questions about these standards must be asked of the GEG's representatives.

- Which accountancy software is being used to consolidate the accounts (actually, the level of the data which the GEG can easily provide (by GEN, by country) may be linked to the accountancy software)?
- Who would be the best contacts within the GEG to supply consolidated turnover and employment for the delineated GENS/ENTs?

In fact, in some cases, GEGs have a centralised accounting system, and the senior accountants of the main headquarters can provide truncated data for every country. If so, these national data should be collected if possible. In such cases, this information on each country could be shared with partnering NSIs.

Besides, the best interlocutors on accounting data are not necessarily the best interlocutors for other variables (for example employment, or data on production volumes in national profiling). The profilers should therefore ask the GEG's representatives who are the most appropriate interlocutors to collect the different data.

These two specific questions must therefore also be discussed with the GEG's representatives.

5.C — Techniques and hints to encourage cooperation

European profiling is currently not covered by a European Regulation, and cooperation from the GEGs has until now been completely voluntary. Therefore, the following section may provide some helpful techniques and hints that could be used to encourage GEGs to cooperate.

5.C.1 THE CONTEXT FOR THE GEG'S REPRESENTATIVES

Generally speaking, the GEG's representatives easily understand the relevance of profiling, at European level and at national level. In fact, they are often accountants, so they are familiar with the limits of LeUs for monitoring the activities of the GEG. In large GEGs, two systems of reporting operate in parallel.

- The first system is a set of national reporting by accounts in LeUs, used to fulfil the legal and tax obligations in each country.
- The second system involves centralised reporting by a cost accounting system, which provides information at global level. The GEG's representatives know that when LeUs are controlled by GEGs their accounts generate biases if not analysed together. This is especially the case if non-additive variables are simply added together, which leads to double counting (see 1.B.8). They also clearly understand how important it is for the NSIs to evaluate the footprint of a multinational GEG in the different countries. In most cases, the GEG's representatives also have a good image of Eurostat and of the NSIs⁽²⁴⁾. In this context, the main obstacle to cooperation is the fear of additional statistical burden, which will be discussed in further detail in the next section.

5.C.2 THE ISSUE OF STATISTICAL BURDEN

The issue of statistical burden needs to be treated with caution. In European profiling, only three variables are collected, but it is difficult to evaluate the burden that it involves, in particular for the GEG's representatives in the GDC country. Anyway, this data collection is in addition to those statistical surveys already carried out by the NSIs and by other administrations or institutions.

The following arguments could be used to encourage the GEGs to cooperate.

- **Not denying this issue.** Listening to the respondent's issues about burden, and then if possible remedying these issues, can result in a more positive image of the NSI. Profilers could show empathy with the GEG for the burden placed on them and for how complex some of the NSIs' data requests are.
- **Explaining the importance of profiling.** In particular, it is important to explain how European profiling is the only way to reach a global picture of the GEGs and calculate global statistics, avoiding double counting due to the simple addition of national aggregates. More than 410 GEGs have now been collaboratively profiled (at least once) since the beginning of European profiling in 2014. 241 different GEGs were profiled in 2016-2018 with results in the IPT (290 profiles including the follow-ups) thanks to the cooperation of 26 NSIs⁽²⁵⁾.
- **Trying to create a reciprocal relationship with the GEG's representatives.** Examples of reciprocating techniques which could be used include providing the GEGs with information about particular business surveys and the likely timing of national questionnaires. Profilers could also offer to be contact persons with their colleagues in charge of statistical surveys for any queries that the GEG may have about these surveys. One of the biggest incentives for GEG participation in profiling is to offer them to examine the current state of data collection at LeU-level, to help them identify the best observation units, and to investigate whether there is any opportunity to reduce the number of survey questionnaires they receive.
- **Showing how profiling enables the representatives to better control the reliability and consistency of the information displayed for the GEG.**

⁽²⁴⁾ However, from some national experiences, it appears that sharing the information between countries may be an obstacle. In this case, it is important to remind the GEG's representatives of the rules which guarantee the security of the data (see 5.C.6).

⁽²⁵⁾ These first results are available in the papers: 'Improving the quality of business statistics through profiling' presented in the 2018 European conference on quality in official statistics; and 'European profiling to better measure multinational groups' activities' presented in the 2019 group of experts on national accounts at UNECE.



5.C.3 COMMUNICATION WITH THE GEG'S REPRESENTATIVES

As will be explained in Chapter 6, profilers require a variety of skills in order to build up sustainable relationships with all contacts within the GEG. For example, a profiler should be friendly, polite and professional but also needs to balance this with being clear and focused on achieving the desired outcomes.

It may be a good idea for two profilers to participate in the meeting so that they can have a shared view of the dialogue and its outcomes. The number of profilers and their hierarchical role in the NSIs should match those of the GEG's representatives. With that in mind (and in particular for national profiling) a colleague of another domain may also participate in the meeting to discuss particular technical points. A senior officer may also participate to emphasise the importance of profiling for the NSI.

The main aims and objectives should be clearly explained to the GEG. It should also be made clear what is expected from the GEG at an early stage. For example, profilers need to indicate: (i) that another meeting may be required; and (ii) how much information would be required from the GEG. This other meeting could be dedicated to the checking of the LeU perimeter of the global group or the provision of employment and turnover data from the GEG.

Often, the language used in statistics is very different to the accountancy terminology used by the GEG's representatives. Therefore, it is essential that profilers 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 using the abbreviations related to profiling (GEG/GEN/ENT/LeU) and instead use common words or find closer terms (for examples, 'group' for GEG, or 'global enterprise' for 'GEN').

To facilitate communication with the GEG's representatives, some profiling teams drafted communication tools (papers, flyers, and sometimes videos) to explain the relevance of profiling, in its method or its impact. Such communication tools may be very helpful ⁽²⁶⁾.

It will also help relationships with GEGs to always involve the same profilers. This will allow for the building of more effective relationships with all involved parties.

5.C.4 RELATIONSHIPS WITH BUSINESS FEDERATIONS

For some NSIs, business federations can heavily influence cooperation from the GEG and the enterprises. Therefore, for some NSIs it may be vital to meet up with business federations in order to get their support, approval and understanding of profiling. As the GEG's representatives, business federations generally well understand the relevance of profiling, since it provides a far better picture of the economic structure in terms of size and activities. Generally speaking, business federations are very interested in knowing the real economic weight of the enterprises they represent. In some countries, they already communicate a lot on the statistics drafted by NSIs on enterprises profiled at national level. Besides, business federations are also highly interested in issues of globalisation and the importance of reaching a global picture of multinational GEGs.

If they get references from the business federations, profilers may present them to the GEG's representatives during the meeting.

⁽²⁶⁾ Such communication tools are available on the [wiki/Profiling/IPT](#).

5.C.5 MUTUAL COMMITMENTS BETWEEN THE GEG AND THE NSI

Mutual commitments formalising the mutual expectations are very helpful.

Generally speaking, the following points should be borne in mind.

- It is highly recommended that the initial contact be made by a written letter sent by a senior manager of the NSI to a senior manager of the GEG.
- It is highly recommended that, after a meeting, the profilers write minutes and send them to be read by the GEG's representatives within a reasonable timeframe.
- It is not recommended to request a written agreement from the GEG to cooperate. This could be seen as too intrusive. What really matters to get from the GEG is feedback on delineating the GENS/ENTs and provision of data.
- A date for a visit to the GEG could be arranged months in advance as this is the only suitable time that both parties are able to meet. A few weeks before the meeting is due to take place, the profilers could contact the GEG's representatives again to confirm if the arrangements for the meeting are still suitable.
- If the GEG has already agreed to help with the project, the profilers should ensure that they at least have a verbal understanding from the GEG to this effect. They should also ensure that the GEG understands it will have to carry out some work.

5.C.6 DATA SECURITY

It is also important to explain to the GEGs' representatives that the data collected are treated according to the current legislation (national and European) on the protection of confidential data and stored securely. The data collected is confidential and there are strict processes in the NSIs and in Eurostat to keep the data secure.

- The most important point is to remind GEG representatives that the NSIs never disseminate individual data. NSIs disseminate only economic aggregates, complying with rules which make it impossible to assign these aggregates to a given enterprise or GEG.
- European profiling raises a particular problem since data are shared between several NSIs and Eurostat. There may be a need to explain the process involved in how the data are securely transferred from NSI to NSI.

5.C.7 TIMING OF CONTACT

Another practice which promotes a successful relationship with GEGs is the timing of the meeting/dialogue with them. Evidence has shown that the best period for meetings or dialogue with GEGs' representatives is just after the release of their annual consolidated accounts.

This is for several reasons.

- The most likely contacts required for profiling are often at the GEG-accounts level, and are usually very busy during the period running up to the publishing of annual consolidated accounts.
- Once their accounts have been published, there is far less data sensitivity and more likely to be prepared to share their data.
- Some GEGs publish monthly accounts. In this case, their accountants are often very busy in the first week of the month and more available in the following weeks.

In most cases, the accounts are closed on 31 December, and generally released from late March to the end of June. Later on in the year, the GEG's representatives have to work on the accounts for the second quarter, which is followed by the summer holiday period. Note that this timing corresponds quite well to the calendar of European profiling (see 4.C).

5.D — Summary of Chapter 5

Communication with the GEG's representatives must be carefully prepared and carried out. Among the rules and good practices listed in this chapter, the following three rules should be emphasised.

Contact with the group must be prepared for carefully

Before contacting the GEG's representatives, profilers should prepare carefully. This preparation includes in particular:

- high-quality desk work, from the statistical sources on businesses and from the information published by the GEG (see 2.A);
- dialogue with colleagues/users within the NSI to know the already established relationships with the GEG (in other words, involvement in surveys) and to be aware of their needs (see Chapter 6);
- making first contact with the GEG as early as possible;
- sending an official letter to the GEG to request cooperation (experience from manual profiling has shown the importance of this — examples of such letters are provided in the annexes).

Profilers must conduct the dialogue in an efficient and coordinated way

There are many benefits to intensive profiling, which involves a meeting between the profilers and the GEG's representatives. Among other benefits, a face-to-face meeting is often easier to conduct and more efficient for common understanding than exchanges via telephone or email. Nevertheless, the following rules must be respected in all kinds of dialogue with the GEG's representatives:

- profilers must use language understood by the GEG, bearing in mind the issues to be discussed and the questions to be asked of the GEG's representatives (possible issues and questions are listed in 5.B);
- if partner profilers contact the GEG's representatives in their country, coordination with the GDC profilers must be established (this will avoid double work, contradicting results, and a loss of credibility with the GEG).

Some techniques are helpful to encourage cooperation

- Generally speaking, the GEG's representatives understand the relevance of profiling, but they are cautious of the possible additional statistical burden. Profilers should explain the importance of profiling for the NSI. They can also offer to be contact persons with their colleagues to improve data collection or to identify the best observation units.
- Communication tools (papers, flyers or videos) may be helpful to explain the relevance of profiling, the profiling process, or the impact of profiling on statistics.
- It is highly recommended that, after a meeting, the profilers write minutes and send them to the GEG's representatives within a reasonable timeframe.
- Evidence has shown that the best period for meetings or dialogue with a GEG's representatives is just after the release of their annual consolidated accounts. Note that, for the GEGs which close their accounts on 31 December, this timing corresponds quite well to the calendar of European profiling.

6

Establishing constructive relationships with stakeholders within the NSIs



Chapter 6 — Establishing constructive relationships with stakeholders within the NSIs

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The objective of this chapter is to provide ideas to NSIs on how to successfully implement or manage European profiling (or profiling in general) in the organisation of the NSI. Profiling is an innovative process and some NSIs have only limited experience with it. Even if there is no one model for all circumstances, experience from recent years has made it possible to arrive at some general recommendations.

This chapter focuses on the following points four points.

- Manual profiling is a highly skilled task. First, we will list the ideal skillsets that should be shared or acquired by a profiling team.
- In recent years, some European NSIs have set up profiling teams. On the basis of the examples from seven NSIs, we will show different organisational models to present some available options.
- Regardless of the location of the profiling team, intensive dialogue and coordination with colleagues/users are necessary for the success of profiling. Thus, we discuss how to build relationships with the different colleagues/users for a successful profiling.
- At the end of the chapter, we will present the connection between national and European profiling. Even if there are differences between the two approaches (most notably the starting geographic perimeter), it is preferable for synergies to be found and for the processes to be linked.



6.A — The profiling team's optimal skillset

Profiling at both national and European level is a complex task requiring a high level of skills from the staff involved. Some of the skills required for profiling can only be acquired through real experience gained from carrying out the profiling activities. These skills take time to build up, and even experienced profilers can always find new challenges and scenarios they have not come across before. A professional profiler should be an overall professional, with strong knowledge of both the statistical and business domains.

For both national and European profiling, the following skills and experiences have been identified as essential to carry out profiling effectively and to a high standard. As profiling requires a multitude of skills and experiences, the full set of skills is not required for every individual. It would be sufficient if a group of profilers working together can share their skills among themselves and complement each other.

Communication and negotiation skills

Excellent oral and written communication skills are key to profiling. Profilers must be able to use their own initiative and have good negotiating and influencing skills. Profilers need to negotiate with the experts from the GEGs and with the internal statistical users to delineate the most appropriate statistical units to represent the GEG and to promote the collection of high-quality statistical data. They must also be able to negotiate compromise situations. When involved in European profiling they must also be able to discuss and negotiate with other profilers in different NSIs.

Knowledge of the businesses

The business world is continuously changing and adapting to global markets. Profilers therefore need to understand the drivers that influence businesses' decision-making, as well as the resulting business models and structures. Profilers must put themselves 'in the shoes' of the businesses. It is recommended that they follow the news about the GEGs that they profile by reading magazines, internet news, and press releases on the GEGs' websites. Good familiarity with the NBR and all relevant regulations is also essential. Profilers should also be empathetic to the actual and perceived statistical burden on businesses that is placed by NSIs, and try to simultaneously accommodate both the needs of the GEGs and the statistical needs. It is helpful if some profilers become experts on certain sectors of the economy, because certain sectors and industries organise themselves and their financial structure in a similar way. Becoming sector-specialists not only helps to save time, it also means that the GEGs in a sector are profiled in a more consistent way.

Knowledge in business accounting and reporting

The profilers must have very good knowledge and understanding of accounting and reporting standards, and of the standard information systems used in business organisations. Speaking the language of the group has proven to be a very effective way of establishing sustainable contacts and acquiring high-quality data. These skills are especially important for national profiling, and a little less important for European profiling, where data collection is more limited.

Knowledge in business statistics

It is important to understand that the requirements for compilation of economic statistics are sometimes different to the requirements of accountancy reporting that are in place in the business world. Therefore, a profiling team will also need to have a good understanding of the statistical data required, including an understanding of the different statistical definitions of the variables to be collected and how to correctly derive them from the accountancy reporting. It is important for the profiler to be able to explain why and how the participation of the group in the profiling process would bring improvement to the quality of the national statistics and at European level.

European profiling also requires an additional necessary skill: being able to communicate effectively in English when profilers of different EU Member States must: (i) collaborate; (ii) discuss and exchange relevant information on the same profiled multinational groups; (iii) use the shared IT tools; (iv) read the relevant documentation, and so on.

6.B — Organisational models for profiling

NSIs that are just starting off in profiling, or are considering profiling for the future, may benefit from examples of what models are currently used by other NSIs (organisational objectives and structure; lines of communication; roles; responsibilities; resource allocations; and required skillsets).

It is also important to note that there is no single ideal organisational model that is appropriate to all NSIs. Organisation of the national business registers (NBRs) team and the economic survey areas sometimes differ greatly across NSIs. In some cases, external bodies are involved in the collection and analysis of economic data (for example, central banks and ministries). Therefore, a model for profiling within NSIs needs to be carefully considered at national level, especially in terms of the impact that it would have on the NSI.

6.B.1 ORGANISATIONAL MODELS IMPLEMENTED AT NATIONAL LEVEL

During the last few years, some European NSIs have set up profiling teams whose aim is to: (i) accurately record and maintain large and complex enterprise groups in their NBRs; and (ii) correctly delineate the enterprise which is used for statistical data collection. The section below describes the profiling structure that has been implemented in four NSIs: the ONS in the United Kingdom, CBS in the Netherlands, INSEE in France and ISTAT in Italy. It provides a summary of the profiling organisation and the roles within it. With these four organisational models, those of three other NSIs (in Switzerland, Poland and Romania) are shown in Table 1 below.

Office for National Statistics (ONS), United Kingdom

The ONS profiling team is situated within the business register (BR) department and consists of 16 full-time equivalent profiling staff. They are responsible for ensuring that the reporting structure, employment, turnover and classification are accurately recorded for the top 2 500 groups in the United Kingdom. Data collection, validation and analysis are carried out outside the department.

The strengths of this organisation are that the profilers are all very experienced BR staff. Although situated within the BR, they maintain good relationships with all internal statistical users. The team that processes the data for the EGR is the same business profiling team, which helps improve coordination between the two processes. This smaller size of the profiling team enables close working relationships between profilers. Communication is good and all staff are kept informed of new developments and changes to processes. This makes it easier to ensure consistency in the profiling methodology.

One of the limitations identified by the profiling team is that as data collection, validation, analysis and results are carried out in a separate structure, no one area fully understands the GEG in its entirety. Most changes that trigger profiles are reactive to data changes highlighted by the enterprise through ONS surveys. It could happen that inconsistencies are identified only after they have entered the results area.

Statistics Netherlands (CBS), the Netherlands

The largest businesses in a country have the greatest influence on statistical data. For this reason, it is wise to put most of the profiling effort into compiling high-quality profiles for the largest enterprise groups. Back in 2005, CBS drew up a list of the largest, most influential, and most complex enterprise groups in the Netherlands. These are called the 'Top-X' groups. Altogether, there are 1 900 enterprise groups in Top-X, including enterprise groups that consist of only one enterprise. The Top-1 900 enterprise groups, which are profiled at least biannually, are split into two subsets.

The first subset contains the 300 most statistically significant enterprise groups, the so-called ConGO groups. ConGO is an abbreviation for Consistentie Grote Ondernemingen ('consistency between large enterprise groups'). For these units, consistency checks are carried out. The ConGO unit is part of a statistical department.

The other subset contains the rest of the Top-1 900 enterprise groups. Those groups are also regularly profiled, but consistency checks are not carried out for these groups. These groups are maintained by the BR department.

The other enterprise groups in the Dutch BR outside the Top-1 900 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, are significant changes that are detected by macro analysis checked manually by profilers.

The ConGO profilers are placed in the ConGO unit, because they have direct lines of communication with the data analysts and account managers. Currently, four profilers work for the ConGO unit. They are supported by editors, validators and qualified accountants. The non-ConGO profilers are part of the BR department. Currently, eight profilers work for the other Top-1 900 groups, and four profilers work for the non-Top-1 900 groups.

From 2010 onwards, the ConGO unit adopted an account-management approach. Around 300 of the largest, non-financial, truncated enterprise groups are profiled according to this approach. These 300 enterprise groups account for 50 % of the total value added for the Netherlands (40 % of total turnover and 55 % of balance-sheet data). Account managers are responsible for ensuring that consistent data are delivered by the 350 groups. They aim to visit the groups at least once a year.

The strength of the account-management approach in profiling is that it usually solves inconsistencies before the publication of data. Before this method was adopted and account managers were created, inconsistency between statistics only emerged at compilation stage. Experience has shown that once an inconsistency is resolved, it does not reoccur. The quality of business statistics and national accounts has improved as a result.

The accounts-management team has good knowledge of large groups, and strong relationships between them have improved the data. The perceived and actual response-burden decreased as fewer recognised enterprises were established. The team also takes responsibility for facilitating the introduction of new surveys and concepts.

National Institute of Statistics and Economic Studies (INSEE), France

The profiling team manually profiles the 50 largest GEGs located in France belonging to the non-financial sector. The other GEGs based in France are automatically profiled through an algorithm.

In France, profiling aims to:

- delineate ENTs within the French part of the GEG according to the definition of ENTs contained in Council Regulation (EC) No 696/93, emphasising autonomy in decision-making;
- calculate SBS, profit and loss and balance-sheet consolidated data at ENT level;

For this reason, in manual profiling, the profiler must obtain from the group:

- the delineation of the ENTs in LeUs;
- for each ENT, about 20 intra-flow data between their LeUs;
- the breakdown of consolidated turnover by activities (NACE codes) for each ENT and other sector information.

Thus, the profiler work allows a yearly update of the national statistical business register (nSBR) and SBS data.

The profiling team was set up in 2010. The team is part of the department in charge of the French SBR network, the EGR, and SBS. The French SBR consists of a BR network. At present, SIRUS, the core French SBR, is fuelled by three so-called 'authentic source BRs', each dealing with one type of statistical unit. Thus, one BR called SIRENE deals with the LeUs, another called LIFI deals with the groups, and one called BCE deals with the enterprises.

SBS data include independent accounts for both LeUs and ENTs. Profilers are responsible for: (i) the delineation of ENTs; (ii) ENTs' data collection; (iii) SBS data; and (iv) consolidated information on the variables from profit and loss and balance sheet. Profilers collect data for the 50 most important non-financial groups active in France at ENT level. The other groups (about 100 000) are automatically profiled. The profiling team also handles the programming and maintenance of the algorithm used for the automatic consolidation.

The profiling team is made up of 10 highly skilled experts that collaborate continuously with the national accounts team. A great asset is that skills are shared among the profilers. For instance, team members share knowledge of accounting practices; financial and business statistics expertise; and IT skills. Furthermore, some of the profilers have significant work experience in the private sector.

Profiling seminars are organised five times a year. The aim of these seminars is to present profiling cases or a specific methodological point to users from: the national central bank; the SBS data service; the office that prepares the national accounts; the STS data service; the FATS data service; and the ministerial department for statistics.

Moreover, to prepare each visit to the GEGs, a specific internal meeting is organised with all the users interested in the GEG. This meeting is crucial for: (i) deciding how to approach the exchange with the group; and (ii) identifying potential problems in the previous data that have to be discussed with the group. Some users (the number is still limited) can accompany the two profilers to the GEG visit. After the visit, the INSEE departments involved in profiling receive the minutes from the GEG visit.

The objective of the INSEE profiling team is to profile all GEGs with a specific methodology according to their size. Thus, profiling of the larger groups is carried out by profilers using a face-to-face profiling approach ('Target 1'). For small or simple groups, an automatic algorithm is applied ('Target 2'), and for medium-sized groups, a semi-automatic algorithm is applied ('Target 3').

In France, the profiling team carries out the European profiling as GDC and as partnering country.

ISTAT, Italy

The ISTAT profiling team is situated within the business register (BR) section, under the Directorate of Economic Statistics, and consists of six full-time-equivalent profiling staff. They are responsible for ensuring that the reporting structure, employment figures, turnover and classification have been recorded correctly for all groups. Consolidation, data collection and analysis of the economic data are carried out outside the BR section, under the SBS section, in the same directorate.

The strengths of this structure are that the profilers are all very experienced BR staff. Although situated within the BR, they maintain good relationships with all internal statistical users. The team that processes the data for the EGR is the same business profiling team, which helps coordination between the two processes. This smaller size of the profiling team enables close working relationships between profilers. In the coming years, ISTAT plans to invest in training six new full-time-equivalent profilers, focusing on collaboration with SBS staff, in order to monitor groups with both a BR and an account-management approach. This makes it easier to ensure consistency in the profiling methodology.

A new pilot SBS survey began in November 2018. It will look at about 70 large groups to validate the new ENT structures, profiled manually or automatically, and collect data at ENT level. The Large Case Unit (LCU) is located under the same Directorate of Economic Statistics. This ensures the monitoring of large groups and relationships with the national accounts section (GNI, early warning system, consistency for different statistical domains).

Table 1 below summarises the different models applied by Switzerland, France, Italy, the Netherlands, Poland, Romania and the United Kingdom.

Table 1: Summary of models

		Switzerland	France
Scope	GEGs' responsibility	All GEGs: 32 000	All GEGs in the scope of SBS (around 120 000)
	Selection criteria	Impact on national accounts and employment statistics	Economic weight, impact on national accounts
	Treated per year manually	Top 400 (private and public sector)	55 GEGs (target in 2-3 years: 70)
	Treated per year automatically	In 2019, an algorithm should be implemented to treat all the GEGs	The other GEGs
Frequency	Manual profiling of large GEGs	Quarterly	Annually
	Automatic profiling of other GEGs	Annually	Annually
Model	BR-maintenance approach or account-management approach	BR-maintenance approach	BR-maintenance and account-management approach
Size of the profiling team	Number of staff (FTE)	8.90	10
	Location	BR	In BR and SBS
Goals	Maintaining the correct structure	(i) Delineation of enterprise (LU) and maintenance of local units. (ii) Collection, and analysis of employment data for STS and SBS	(i) Delineation of enterprise and maintenance. (ii) collection of full SBS data
Large case unit (LCU)	No LCU or where the LCU is located	No LCU	The profiling team is a kind of LCU in the sense that we reconcile tax data and breakdown of turnover in NACE code; for specific cases, reconciliation with NA
Size of the LCU	Number of staff (FTE) (if the LCU is outside the profiling team)		= Profiling team

		Italy	Netherlands
Scope	GEGs' responsibility	All groups	Top-X (\pm 2 000 GEGs), among which are 360 ConGO GEGs
	Selection criteria	Mapping by size EU Directive 2013/34/EU and impact on BR, LCU, SBS, national accounts	Importance in NA
	Treated per year Manually	Average of 32; in November 2018 a new pilot SBS survey began for about 70 large groups (delineation and consolidation)	\pm 50 %
	Treated per year automatically	All SBS groups (about 94 000) excluding manually	Rest of BR is treated automatically \pm 1.5 million EG
Frequency	Manual profiling of large GEGs	Annually	½ year
	Automatic profiling of other GEGs	Annually	Continuously on administrative sources
Model	BR-maintenance approach or account-management approach	BR-maintenance approach and account-management approach	Both; ConGO is account-management approach
Size of the profiling team	Number of staff (FTE)	6 FTEs in 2018, in 2019 investment in training 12 FTEs	16
	Location	BR section under Directorate of Economic Statistics (2018), BR and SBS section (2019), Directorate of Economic Statistics	The profiling and the LCU (ConGO team) are in the BR Department under the Directorate of Economic and Business Statistics and NA.
Goals	Maintaining the correct structure	Delineation and consolidation of enterprises, pilot SBS intra-flows survey for about 70 groups (end 2018)	Maintaining the correct structure and the correct observation unit
Large case unit (LCU)	No LCU or where the LCU is located	Directorate of Economic Statistics	LCU is placed in business statistics department
Size of the LCU	Number of staff (FTE) (if the LCU is outside the profiling team)	4 FTE (15 members from different statistical domains: SBR, SBS, STS, and foreign trade; two of the FTEs are also profilers)	30 (ConGO team): <ul style="list-style-type: none"> • 3 profilers; • 6 account managers; • 14 data analysts; • 7 IT and project-management specialists. With the exception of the account managers, all functions were present in the business statistics.

		Poland	Romania
Scope	GEGs' responsibility	All GEGs as part of SBS (around 7 150)	All GEGs as part of SBS
	Selection criteria	Size of group	Economic weight
	Treated per year manually	Currently, 10-15 multinational GEGs with GDCs in Poland, and approximately 10 purely domestic groups; for permanent team (since 2019); there will be 150 groups annually	6
	Treated per year automatically	Approximately 7 000 groups	The other GEGs
Frequency	Manual profiling of large GEGs	Annually	Annually
	Automatic profiling of other GEGs	Annually	Annually
Model	BR-maintenance approach or account-management approach	BR-maintenance approach	BR-maintenance approach
Size of the profiling team	Number of staff (FTE)	Current temporary volunteer team: 10-15 people	10
	Location	Temporary in BR, SBS, OFATS	In BR and SBS
Goals	Maintaining the correct structure	Delineation of ENTs and core variables according to profiling methodology	Creating the frame population of ENTs and maintaining (for example, continuity of the ENTs)
Large case unit (LCU)	No LCU or where the LCU is located	No LCU	The LCU team reconciles tax data and breakdown of the turnover in NACE code, and for specific cases, reconciliations with NA
Size of the LCU	Number of staff (FTE) (if the LCU is outside the profiling team)	Not relevant	The LCU team includes a part of the profiling team

		United Kingdom
Scope	GEGs responsibility'	Top 2 500 by employment
	Selection criteria	TEGs or ENTs with employ of 2 000+ or ENTs with employment between 250-1 999 where there is secondary activity of 125+ employees
	Treated per year manually	260
	Treated per year automatically	None — there is no automatic process
Frequency	Manual profiling of large GEGs	They are reactive to the survey's requirements but profile in a four-year cycle (for the survey keys)
	Automatic profiling of other GEGs	N/A
Model	BR-maintenance approach or account-management approach	B. BR-maintenance approach
Size of the profiling team	Number of staff (FTE)	13.84
	Location	BR
Goals	Maintaining the correct structure	Delineation of enterprise/reporting; analysis and congruence on employment/turnover from STS and SBS.
Large Case Unit (LCU)	No LCU or where the LCU is located	Yes. Located in BR but governance split between BR and national accounts division for surveys and economic indicators
Size of the LCU	Number of staff (FTE) (if the LCU is outside the profiling team)	6

As can be seen from the above, the reviewed organisational models differ in the respective profiling roles, organisational set up, and resource requirements. The profiling teams have been organised to meet the needs of the national users within each NSI. For example, the criteria and selection of cases have been tailored to suit the needs of the different users.



6.C — Building relationships for successful profiling

6.C.1 ESSENTIAL RELATIONSHIPS FOR SUCCESSFUL PROFILING

Profilers and national business registers (NBR)

For NSIs with existing profiling teams, the models show that having the profiling teams sitting closely to the business register unit brings many benefits for correctly maintaining an accurate economic picture of GEGs and their constituent statistical units. The most obvious benefit is having access to the national statistical business registers (NBRs) which is a fundamental tool for profiling. NBRs are accurately updated and maintained with information sourced from profiling of both domestic and multinational groups.

Relationships with the EGR

EU profiling is directly linked to the EGR. For profiling, the EGR is the starting point in terms of acquiring a first picture of the LeU perimeter of the groups. Profiling compares this list of LeUs with the structure provided by the GEG (available directly from the group during the visit or from published data in the annual reports). The list available from the EGR also provides the LEID, an identification number for the LeUs.

Taking into consideration the above interactions, staff in NSIs working on the EGR and European profiling must have a close working relationship. EGR staff are responsible for ensuring the maintenance and quality of all enterprise groups that have cross-border relationships. In some of the larger NSIs, this will involve thousands of GEGs and tens of thousands of LeUs. Profilers' responsibilities include manually managing the largest and most complex of groups. This means that different profilers have different roles. Profilers can benefit from methodological knowledge about the EGR, including metadata, definitions and processes. A good understanding of the EGR and all associated processes will make it easier to understand and identify anomalies in the EGR and in the NBRs.

An effective organisational model could be for EGR and profiling staff to be part of the same department and located close to each other. For some 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. For communication, regular meetings should be held involving both parties to discuss particular GEGs or data anomalies and the most appropriate solutions to those anomalies.

European and national profilers

European and national profilers may differ in their approaches in any of the following areas:

- criteria and objectives for selection of the groups to be profiled;
- choice of profiling method (in other words, face-to-face, desk work and do on);
- enterprise delineation (the matching of business needs to the needs of national accounts and internal statistical output customers);
- the scope of checking the LeU perimeter;
- the structure and relationships;
- the data checks performed;
- the sources of data used;
- the type of communication with key players;
- the tools and documentation used;
- the frequency of profiling;
- the data collected and so on.

At the same time, for NSIs that have set up national profiling programmes, national profilers often provide a central point of contact for questions/queries between the NSI and the GEG. A good relationship between the profiler and the respondent at the group level helps to promote prompt notification when structure changes are taking place. European profilers can gain immediate and tangible benefits from communicating, exchanging and coordinating with their national profiling colleagues.

Relationships with other NSIs and sharing of data

There are many examples from previous profiling actions that demonstrate the benefits of sharing data, knowledge and experience across NSIs. For example, improvements to the NBRs have been reported, including: (i) changes to the classification of LeUs; and (ii) the addition of previously missing information thanks to other NSIs sending the missing data. The European profiling methodology encourages the participation of all partnering NSIs that are involved in the profiled GEG so as to achieve a successful profiling result.

Profiling of large and complex groups is a difficult task. It is therefore also very important that NSIs learn from each other and share best practice. Experience has shown that all NSIs face common difficulties in collecting accurate national data from large global groups. It is therefore necessary to draw upon the experience of others to identify common solutions.

Different treatment of data in different NBRs has also been observed. This shows that there are areas where there is a continuing need for detailed discussions to improve standardisation and consistency.

Finally, if a partner country has nationally profiled the group, this information can help the GDC profiler to better understand the structure of the group before the meeting.

6.C.2 DESIRABLE RELATIONSHIPS FOR SUCCESSFUL PROFILING

The recommendations below are considered important for successful profiling. It is important to note that communication with the statistical production domains within each NSI must be carried out at all stages of profiling. This is to ensure that the final enterprise delineation can be used to collect the right data in line with the national objectives.

Relationships with OFATS

Experience from profiling activities has shown that the OFATS data are very useful as a source of information for profiling. The OFATS survey provides employment and turnover data, but OFATS differs in its set up between NSIs. For most NSIs, the OFATS survey requests aggregated data by country and by three-digit NACE code. In some cases, GEGs supply a full list of non-consolidated data for every LeU. In this case, 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 (usually situated in the GEG's group-accounts department) is also the target contact person for European profiling for acquiring information about the group's global structure (after agreement has been secured from the group CEO or CFO).

Due to its importance as a source of data for profiling, there needs to be a strong relationship between OFATS staff within the NSI. In addition, because the EGR is committed to becoming the backbone for FATS statistics, it would be beneficial for EGR, profilers, and OFATS staff to be situated close to each other and to build strong working relationships between the three areas.

Relationship with other international trade statistics surveys

The international trade statistics surveys, such as Foreign Direct Investment (FDI) and ITIS (International Trade in Services), rely on data at the global level. This means that the relationships between European profiling, the EGR and the NBR are essential. European profiling involves the collection of data for all consolidated LeUs within the group. In this respect, the information collected by profiling can significantly help to quality-assure data for the users of the above surveys.



Relationships with structural business statistics (SBS), short-term statistics (STS) and national accounts (NA)

SBS is the main source of financial data for national accounts and for European statistics. Therefore, it is important that the European profiling methodology and organisation support the collection of SBS data at the national level. It is part of the responsibility of profilers to work with SBS to ensure that the appropriate enterprises are delineated at the national level.

As previously stated, it is important for profilers to discuss the profile with people working in statistical production domains at the very start of the profiling process. It is also important for these discussions to continue throughout the process. In these discussions, profilers can explain to the statistical users the impact of profiling on the statistical results. They can also explain that the delineation of enterprises is to be based on the criteria of 'a certain degree of autonomy', not on the activity. However, the implementation of the enterprise unit does not jeopardise the picture of the activities that is produced. An enterprise may include LeUs of different activities. And experience has also shown that the NSIs are able, through their own national tools, to implement several activities or kind-of-activity units (KAUs) for a profiled enterprise (see 3.A).

Relationships with Large Case Units (LCU) and Early Warning Systems (EWS)

Besides profiling, another way for the NSIs to monitor the largest and most complex groups is through the national implementation of LCUs. An LCU is a dedicated team tasked with ensuring that data collected across different statistical domains from the large and complex GEGs are consistent. An LCU may be a dedicated unit or a network of experts. It may be set up within the profiling team or outside it. Regardless of the location of the LCU in the organisational model of the NSI, intensive dialogue and coordination between the profiling team and the LCU are necessary. In fact, the profiling team and the LCU share the same objectives. Both the profiling team and the LCU aim to better monitor large and complex groups through direct dialogue between the NSI's teams and the GEG's representatives.

Similarly, NSIs implemented the 'Early Warning Systems' (EWS) for major GEGs. The objective of an EWS is to monitor the restructuring activities of large and complex GEGs which could have a severe impact on business and economics statistics, at national level or at European level. A network linking national EWS units and Eurostat is currently being set up. Here again, strong coordination between the profiling team and those working on the EWS is necessary, as both groups of people address challenges raised by large and complex GEGs.

6.C.3 COMPOSITION AND LOCATION OF THE PROFILING TEAM WITHIN THE NSI

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

For the work carried out in the economic statistical divisions of NSIs, physical proximity between the colleagues involved may benefit the exchange of complex and sensitive economic data. 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: (i) work well together; (ii) engage in planning and decision-making together; and (iii) understand each other's personalities and work styles. An added advantage of this close working proximity is the greater ability of the team to adapt quickly to changes due to differing demands.

The importance of having a team of individuals who work in the same environment, aspire to achieve the same challenging goals, and collaboratively adapt to continuous changes should not be underestimated.

6.D — The connection between national and European profiling

At first glance, there appear to be many similarities between the actions carried out at national and European level. For example, both approaches are responsible for maintaining the correct structure of the largest GEGs to support the delineation of the relevant statistical units for data collection. At both EU and national level, profilers are responsible for the delineation of enterprises, and for maintaining and correcting the relevant administrative and statistical units in national business registers. Both types of profilers also take responsibility for communicating directly with the GEGs to gain a better understanding of their organisation and financial reporting structure.

However, there are also a number of differences between the two approaches, reflected particularly in the overall goals and wider perspective of both approaches. In the sections below, we outline the two most significant differences in approaches and one area where synergies might be found.

Difference 1: The unit on which the analysis is mainly focused

Between national and European profiling, the most obvious difference is the starting geographic perimeter. National profiling analyses the GEGs starting from the truncated group at the level of the national territory. European profiling has its analytical focus on the entire group at a global level. All LeUs in the group's consolidation perimeter are examined and updated if needed. At national level, the focus may be on national units, but for European profiling, all LeUs consolidated within the financial statements are included. It is also worth noting that no economic data are currently shared between NSIs who are only engaged in national profiling.

Difference 2: Target large groups to be profiled

The process of prioritisation and selection of cases to be profiled also differs between the two approaches. National profiling focuses on prioritising the cases that have the most impact for important national clients, such as statisticians working on national accounts, SBS, and so on. Priorities may be different for European statistics. For example, a case might be extremely important for national needs due to its size in a particular sector, but at a European level, the impact might be lower. This could be because the sector is less significant on a European level.

Possible synergies

Despite the differences mentioned above, the two approaches to profiling can be employed together to create synergies between national and European profiling. Firstly, both types of profiling are usually carried out by the same profilers or the same profiling team. Secondly, both types of profiling aim to go further than LeUs and delineate enterprises with an economic meaning. Thirdly, both types of profiling seek to achieve improved consistency in economic statistics (and thus to achieve improved quality) through: (i) dialogue and coordination with colleagues/users of other domains; and preferably (ii) dialogue with group representatives, at least for the largest GEGs.

It is therefore highly preferable that synergies be found between national and European profiling. Below are three ways to create efficient synergies between the two approaches.

- (i) As far as possible, the GEG's profile through European profiling should also be relevant and selected for profiling at national level. This ensures synergies, and produces an up-to-date and correct GEG structure that has often been discussed and agreed with the GEG itself.
- (ii) In addition, if a GEG has been profiled at European level, national profilers should check this output at least as a starting point. For example, a GEG can be manually profiled at the European level and only automatically profiled for a partnering country at the national level. In this case, the results of the European profiling (the Temporary enterprises) can improve the quality of the delineation of the national enterprises.
- (iii) In any case, even if the methodology of European profiling was updated to better link European and national needs (see Chapter 1), sharing information stored in the IPT remains the most efficient solution or starting point to produce a high-quality and consistent picture of multinational GEGs.



6.E — Summary of Chapter 6

Profiling in general (European profiling and national profiling) is an innovative process, and some NSIs have only limited experience with it. This is why it may be helpful to provide ideas on how to successfully implement or manage profiling in an NSI. Of the lessons discussed in this chapter, the following three are the most important.

1. A profiling team must share or collectively acquire a large set of knowledge and abilities

Profiling is a complex task requiring a high level of knowledge and skills (see 6.A).

- It requires knowledge of the business sectors; knowledge in accounting and reporting; and knowledge of business statistics.
- It requires excellent communication skills. These are needed to communicate and negotiate with GEGs' representatives. Besides, profiling is an innovative and complex process, and profilers must also be able to explain the profiling process in simple terms to users.
- European profiling also requires good English skills and the ability to communicate with terminology that is understood by the GEG. These skills are needed to understand the information released by foreign GEGs, which do not publish their financial statements in other European languages.

Many of these skills may be acquired on the job, and not every profiler has the full complement of skills required. It is sufficient if the profiling team as a whole has these skills collectively.

2. Regardless of its organisational model, the profiling team should engage in continuous dialogue with colleagues/users within the NSI

The comparison between seven NSIs shows that organisational models may differ greatly in roles, structure and resources. However, within each NSI, the profiling team should engage in intensive and continuous exchanges with colleagues/users (see 6.B).

- Profilers must be familiar with the already established relationships with the GEG (in other words, their involvement in surveys). They should also know the sources on the GEG provided by the other statistical domains.
- Profilers should know what colleagues/users need from profiling.
- Profilers should also be able to explain the profiling process and the impact of profiling. In particular, they should be able to explain that the implementation of the enterprise unit improves the relevance and quality of business statistics, without jeopardising the picture of the GEG's productive structure in terms of its activities.
- NSIs report that it is useful to have regular meetings with colleagues/users and hold seminars on profiling.

3. It is preferable that synergies be found between national and European profiling

There are differences between national and European profiling. The first and most obvious difference is the initial geographic perimeter. However, it is of course far better when synergies are found between the two approaches (see 6.D).

Annexes



Annex 1: Notice of intention of the Business Statistics Directors Groups and the Directors of Macroeconomic Statistics on the consistent implementation of Council Regulation (EEC) No 696/93 on statistical units^c



EUROPEAN COMMISSION
EUROSTAT

Directorate G: Global Business Statistics
Unit G-1: Business statistics — coordination and registers

Notice of intention of the Business Statistics Directors Groups and the Directors of Macroeconomic Statistics on the consistent implementation of Council Regulation (EC) No 696/93 on statistical units

Drafted by the Eurostat Task Force 'Statistical Units'

Adopted by the ESS Directors of Business Statistics (BSDG) and Macroeconomic Statistics (DMES)

25-26 June 2015

Notice of intention of THE BSDG AND THE DMES on the consistent implementation of Council Regulation (EC) No 696/93 on statistical units



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 BPM6.
- 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 coordinated 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 ⁽¹⁾, 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

⁽¹⁾ See TF SU 18-19 March 2015 doc_8 Criteria for choosing the relevant statistical units
 Path: /CircaBC/ESTAT/bsdg/Library/BSGD public/Links to relevant working groups and task forces/Task Force Statistical Units/Meetings/Task Force Statistical Units March 2015
 URL: <https://circaabc.europa.eu/w/browse/c25dd6dc-1ddb-44b0-97ed-9bf115dbc414>.



EUROPEAN COMMISSION
EUROSTAT

Directorate G: Global Business Statistics
Unit G-1: Business statistics — coordination and registers

**Annex 1 to the Notice of intention of the Business Statistics Directors Groups and the
Directors of Macroeconomic Statistics on the consistent implementation of Council
Regulation (EC) No 696/93 on statistical units**

**Guiding principles for the implementation of the statistical units in National Statistical
Authorities for business registers and business statistics**

Drafted by the Eurostat Task Force ‘Statistical Units’

**Adopted by the ESS Directors of Business Statistics (BSDG) and Macroeconomic Statistics
(DMES)**

25-26 June 2015

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 ⁽¹⁾

(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.

⁽¹⁾ The importance of a correct delineation of the LKAU has to be emphasised for National Accounts, in particular for units which are vertically integrated.



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 ⁽²⁾ — 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 ⁽³⁾ — 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) ⁽⁴⁾. 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.

⁽²⁾ 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.

⁽³⁾ Reporting units may be e.g. the administrative unit or the legal unit. The reporting unit may be identical to the statistical unit.

⁽⁴⁾ 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.

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 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).

Table: Application of A, B and C methods for delineation of Enterprise Groups

	Manual intensive profiling	Manual Desktop profiling	Automatic methods
Large and complex ^(*)	A	B	C
Large and simple	A	A	C
Small and complex	A	A	B
Small and simple	A	A	A

(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.

(*) 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).



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 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.



EUROPEAN COMMISSION
EUROSTAT
Directorate G: Global Business Statistics
Unit G-1: Business statistics — coordination and registers

**Annex 2 to the Notice of intention of the Business Statistics Directors Groups and the
Directors of Macroeconomic Statistics on the consistent implementation of Council
Regulation (EC) No 696/93 on statistical units**

**Definition of Statistical Units as in CR 696/93, Annex Section III and IV: Statistical Units
definitions**

Operational rules for its implementation as developed by the Task Force Statistical Units

Drafted by the Eurostat Task Force 'Statistical Units'

**Adopted by the ESS Directors of Business Statistics (BSDG) and Macroeconomic Statistics
(DMES)**

25-26 June 2015



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

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.

Explanatory note

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

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) and*
- 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 period ⁽¹⁾.

(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.

⁽¹⁾ Holding assets and/or liabilities may also be considered to be an activity, in which case the operational rules for HO/HC/SPEs apply.



Further guidance:

- It should be noted that some enterprise groups may decide to organise their activities in various so-called profit-centres or operating segments ⁽²⁾.
- 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 activities ⁽³⁾.
- 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 units ⁽⁴⁾

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 units

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 market ⁽⁵⁾.

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 enterprise ⁽⁶⁾.

(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 than one national enterprise. Techniques like European profiling will aid such consistency.

⁽²⁾ 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.

⁽³⁾ 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).

⁽⁴⁾ 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.

⁽⁵⁾ Source: SNA 2008 paragraph 5.23.

⁽⁶⁾ 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.

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

Explanatory notes

Head Offices (HOs), Holding Companies (HCs) ⁽⁷⁾ 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) ⁽⁸⁾. 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 fulfil 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 ⁽⁹⁾.

(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.

⁽⁷⁾ For the definition of Head Offices and Holdings see: Final report from the Task Force on the classification of Holdings and Head Offices' 11 March 2015, Path: CircaBC/ESTAT/nacecpaon/Library/Methodological documentation
URL: <https://circabc.europa.eu/w/browse/1bd8d8bc-ddc5-4cbd-a023-2a32e6e7088e>.

⁽⁸⁾ https://ec.europa.eu/eurostat/documents/737960/738007/Final_Report_Task_Force_SPEs.pdf and <https://unstats.un.org/unsd/nationalaccount/sna/nn37-en.pdf>.

⁽⁹⁾ See ESA 2010, para 20.47-20.48.



(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 ⁽¹⁰⁾ 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.

⁽¹⁰⁾ 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.

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.

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

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) Operational rule: Examples of possible ancillary activities (1)

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

⁽¹⁾ Compare: Global Value Chains and Economic Globalization Project Report (GVC-EGP), pp. 26 Table 2;
URL: https://ec.europa.eu/eurostat/cros/system/files/Item%203_Sturgeon_GVC-EGP%20Report%20v.10-02-12.pdf.

Annex 2: Letters to propose a European profiling

2.A PROPOSAL TO A EUROPEAN GLOBAL DECISION CENTRE GROUP

Office for National Statistics
Government Buildings
Cardiff Road
Newport
South Wales
NP11 8XG
10 November 2017

Named contact
AAAA Group PLC
Road Runner House
Any Street
Anytown
AA1 1AA

European System of Interoperable Statistical Business Registers Task Force on European Profiling (2018)

Dear Mr/Mrs/Ms

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 develop methods to 'profile' businesses internationally. This work is sponsored by the EU and organised in a European Statistical System network (ESSnet) programme entitled 'European System of Interoperable Statistical Business Registers — Task Force on European Profiling (2018)'.

This new approach is being piloted across the EU member states with global 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 financial reporting system. The ultimate aims of this project are to reduce the burden on business from national statistical surveys and to improve the measurement of business statistics in an increasingly globalised economy.

We now wish to start a regular and personal dialogue with these large groups. The AAAA Group, as one of the world leaders in the xx sector appears to be an excellent candidate for the testing of European profiling and the ONS would welcome your involvement.

Of course, the usual confidentiality rules would continue to apply, for data that we collect from your organisation, exactly 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 up this letter with a telephone call from one of my senior staff to discuss your participation within the next week. To discuss the details of the project in the meantime please contact either Mr/Mrs X, Head of Business Profiling, on (phone number) or Mr/Mrs Y, Senior Business Profiler, on (phone number).

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

Yours sincerely,

Mr Z

Head of Business Register Transformation & International Business Unit
Office for National Statistics

Further information about National Statistics can be found on our website at
www.ons.gov.uk



2.B PROPOSAL TO A NON-EUROPEAN GLOBAL DECISION CENTRE GROUP

Office for National Statistics
Government Buildings
Cardiff Road
Newport
South Wales
NP11 8XG
12 February 2018

Named contact
Acme Holdings
Anystreet
AAAA
Anywhere
xxx xxx

ESSnet for European System of Interoperable Statistical Business Registers Task Force on European Profiling (2018)

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 develop methods to 'profile' businesses internationally. This work is sponsored by the EU and organised in a European Statistical System network (ESSnet) programme entitled 'European System of Interoperable Statistical Business Registers — Task Force on European Profiling (2018)'.

This new approach is being piloted across the EU member states with global enterprise groups across all industry sectors. The aim is to collect data using the operating segments defined by the group and used in its own financial reporting system. Current methodology requires data to be collected from each company, subsidiary or legal unit. The ultimate aims of this project are to reduce the burden on business from national statistical surveys and to improve the measurement of business statistics in an increasingly globalised economy.

We now wish to start a regular and personal dialogue with large non EU global groups. As the AAAA Group is one of the world leaders in the xx, with a significant presence in the EU, we feel that you would be an excellent candidate for European Profiling and would welcome your involvement.

For global enterprise groups where control lies outside of the EU, finding the correct contact to successfully profile the group is a challenge. The ONS is approaching Acme Holding because there are indications that you may have access to the information necessary to successfully profile the group. 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.

Of course, the usual ONS confidentiality rules would continue to apply, for any data that we collect from your organisation, exactly in the same way as they currently apply for any data collected from your UK legal units.

I would like to follow up this letter with a telephone call from one of my senior staff to discuss your possible participation within the next week. To discuss the details of the project in the meantime please contact either Mr/Mrs X, Head of Business Profiling, on (phone number) or Mr/Mrs Y, Senior Business Profiler, on (phone number).

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

Yours sincerely,

Mr Z

Head of Business Register Transformation & International Business Unit
Office for National Statistics

**Further information about National Statistics can be found on our website at
www.ons.gov.uk**

2.C : LETTERS TO PROPOSE A NATIONAL PROFILING



Insee, General-Directorate
88 Avenue Verdier CS 750058
92541 MONTRouGE CEDEX
Please answer to: Mr/Mrs W — Mr/Mrs X

*Madam L ... T ...
Chief Executive Officer of A
N boulevard de M
75vvvv Paris*

*Paris, September 23
No iii/DG75-*

Subject: Proposal for a statistical profiling of the group A

Dear Madam,

The growing importance of groups in the French economy has lead Insee to implement the economic definition of the enterprise, which is provided by the Law on the Modernisation of the Economy (LME). This law was set in place in 2008 to describe and analyse the French productive system.

According to the LME, Insee proposes, to important groups like yours, a new way of communicating and collecting information. This method is called 'profiling'. It consists of collecting information at the level of the group as a whole, or at the level of sub-groups which benefit from a certain degree of autonomy and which are defined as 'enterprises' in the terms of the LME.

Profiling improves undoubtedly the relevance and the quality of structural business statistics. These statistics are the input for national accounts which calculate in particular the gross national income and the national growth. Until recently, these statistics were based on individual tax declarations of your affiliates and individual responses of a sample of them to our activity surveys. This information did not reflect the internal organisation of groups, nor the consolidation between the accounts of affiliates.

Thanks to this new method, around 200 of your affiliates performing a service activity would be no more asked to provide annual activity surveys. (However, they could be addressed in the scope of surveys on other issues).

Profiling gives priority to important groups like yours located in France. Over the past years, this method has been successfully implemented with several dozens of large manufacturing, trade or services groups. It allows a regular and individual dialogue between these groups and Insee to facilitate their exchanges with the entire statistical system. It is our hope, therefore, that you will join us in this process.

The implementation of profiling requires that we find together the most efficient way to collect information. This task is done by Insee officers, called 'Profilers', who meet some of your staff to prepare with them the data which are needed.

At all points in time the data confidentiality rules continue to remain in force.

To start this process, **I would be grateful if you could inform us of your unit or your staff who could examine the project together with us.** Your staff can contact Mr/Mrs W, head of the Business Profiling team, or Mr/Mrs X, profiler in charge of your group, whose phone numbers and email addresses are provided above.

Thank you very much in advance for your willingness to participate and cooperation.

Yours faithfully,

Z (signature) Director General



ISTAT

Via Cesare Balbo

16 – 00184 Rome

Dear XXXXX,

ISTAT is committed to compiling statistics on the topic of globalization and on the measurement of the economic aggregates for multinational enterprise groups.

In this regard, Eurostat — the European Commission's Statistical Office — has launched a series of projects. On the one hand side, these projects seek to further develop the register of European Multinational Enterprise Groups (EGR). On the other hand side, they seek to estimate the expected effects, within the National Statistical Institutes (NSIs) in Europe, from monitoring and reflecting global economic activities. This project is called European Profiling, and the purpose is to produce more consistent and comparable statistics internationally.

With this letter we would like to invite you to a meeting with our ISTAT researchers. We would like to introduce to you in greater detail the contents and objectives of the project and verify the possibility of its experimental application on the xxxx Group. This would allow us to measure the impact of the above project on the statistical measurement of the economic aggregates of groups.

ISTAT carries out this survey exclusively for the measurement of the effects produced by the introduction of the economic definition of enterprise. The data that is collected is protected by the currently in force law on the statistical confidentiality. Personal data are subject to the legislation on the protection of such data. The collected data will be used only by ISTAT and will contribute to the overall assessment of the project.

The Director of the Department for National Accounts and Director of Economic Statistics in ISTAT is responsible for the statistical processing of the data collected as part of this survey. The same person is responsible for ensuring the protection of statistical data. For more information you can refer to this address: ISTAT, Via Cesare Balbo, 16 – 00184 Rome.

For any clarification on this request you can contact number xxxx or send a message to the e-mail address xxxxx@istat.it.

We would like to thank you in advance for your agreement to participate in this important collaboration. Please accept our best regards.

Director of Economic Statistics

Signature



ISTAT

Via Cesare Balbo

16 – 00184 Rome

Dear Sir/Madam XXXX,

In reference to the email sent on xxxxxx, we are writing to you regarding the request for a meeting with the XXXX Group for the project that ISTAT and Eurostat are carrying out to further improve the European Multinational Enterprise Groups Register (EGR). This project aims to produce statistics that are coherent and comparable at international level.

From our previous telephone discussion, it appears that your work commitments may prevent the possibility for a short face-to-face meeting where we can illustrate the project in detail. For this reason, we would like to propose an e-mail exchange on the topic, so that we can evaluate the feasibility of collaboration without direct visit.

For this activity we would need some information exclusively to measure the impact from the implementation of the definition of the economic enterprise. Specifically, based on the annex of your XXXX consolidated financial statements, it would be useful to obtain the following data:

1. the average number of employees for the year XXXX for each legal unit (Italian and foreign) indicating also the sector of activity of the unit;
2. revenues from sales and services (Item A1 of ordinary financial statements) differentiating between the market share and the infra-group share, detailing this second entry on the base of the business sector.

We would like to stress that the information collected will be protected by the legislation on the statistical secret and subject to the legislation on the protection of such data.

Finally, we would like to assure you that your participation in this project is of significant importance and on a voluntary basis. Delivering to us the requested data by mail would represent a vital support for the realization of the project.

In case you need additional clarification, you may contact the following numbers:

- * Mr YYYYYY telephone number e-mail;
- * Mrs XXXXX telephone number e-mail.

We are looking forward to your kind agreement to cooperate on the above.
Please accept our best regards,

Director of Economic Statistics

Signature

2.D: LETTER BY A LARGE CASE UNIT TO IMPROVE DATA COLLECTION FOR A BETTER CONSISTENCY



Office for National Statistics
Government Buildings
Cardiff Road
Newport
South Wales
NP11 8XG
10 November 201X

The Chief Finance Officer
Company A Limited
AB Road
Any Street
Anytown
AA1 1AA

** June 20**

Dear Sir/Madam,

The Office for National Statistics (ONS) is the UK's largest independent producer of official statistics and is the recognised statistical institute for the UK. It is responsible for collecting and publishing statistics related to the economy, population and society at national, regional and local level.

ONS is currently undergoing a significant transformation programme to improve the range and quality of our statistics to help support decision makers across Government and more widely across the public and private sectors. Part of this work is focusing on improving our methods for collecting accurate and timely statistical data from complex and large organisations. ONS have started a small pilot called the International Business Unit (IBU) which will review the way in which we collect data from the largest and most complex Multi National Enterprise (MNEs) such as Company A Limited.

The IBU aims to examine the complexity of the legal and operational structure of large global businesses such as yourselves and will investigate the challenges and opportunities in collecting the right data from organisations which cross national boundaries to ensure we can effectively measure the UK economy. It will evaluate the relevance of questions posed to those MNEs who have cross border trade of goods and services. It will also ask for feedback regarding ONS proposals to rationalise surveys and the possibility of making better use of publically available (annual reports and financial accounts) and administrative data, with the aim of reducing respondent burden.

Company A Limited is one of the key suppliers of statistical data to ONS and its contribution is highly valued and the IBU would like to invite Company A Limited alongside 24 other MNE's to participate in a pilot project to help address some of the difficulties stated above.

As one of our key suppliers of data in the ***** sector, we are hoping that you will agree to participate in this pilot. In terms of your commitment, this will be kept to a minimum. The IBU team would like to hold a face-to-face meeting at your place of work at a time which suits you. We would like to ask some questions regarding your global and domestic operational/reporting structures. We will also take the opportunity to evaluate the best methods to collate the statistical data we need from you.

Although this is a pilot focusing on recommendations to take forward, the existing method of data collection for Company **** will be examined to see if there are any efficiencies that can be made without delay. The team will also help to answer any questions you have about any of the ONS questionnaires that your business currently complete. Following this visit, we may need to follow up with some further questions by telephone and secure e-mail.



Just to re-assure you, ONS takes the confidentiality of data very seriously and ONS staff are bound by the strict confidentiality provisions of the Statistics and Registration Service Act 2007. Therefore any data or information that we receive from you will not be disclosed to any unauthorised personnel.

If Company **** are interested in participating I would be grateful if you could provide the name(s) of the most appropriate staff member(s), from the Finance or Accounting Division that could assist with the project.

In the meantime, if you would like to discuss the details of the project further, please contact my colleagues who are leading the project, Mrs XX (phone number) or Mr YY (phone number). Their e-mail addresses are XX@ons.gsi.gov.uk and YY@ons.gsi.gov.uk respectively.

Thank you very much in advance for your cooperation and we look forward to hearing from you.

Yours faithfully

Mrs ZZ
Director of Economic Statistics Transformation
Office for National Statistics



Annex 3: Glossary

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You can download or order free and priced EU publications from EU Bookshop at: <https://publications.europa.eu/en/publications>. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see https://europa.eu/european-union/contact_en).

EU law and related documents

For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex at: <https://eur-lex.europa.eu>

Open data from the EU

The EU Open Data Portal (<https://data.europa.eu/euodp/en>) provides access to datasets from the EU. Data can be downloaded and reused for free, both for commercial and non-commercial purposes.

European business profiling

RECOMMENDATIONS MANUAL

In official statistics, the enterprise has long been associated with its purely legal definition, the legal unit. With economic globalisation, large multinational enterprise groups (MNE groups) are more and more complex in terms of their legal organisation. This has led to a growing gap between the view of the productive system based on legal units and the economic reality.

To address this challenge, the National Statistical Institutes (NSIs) decided to go beyond the legal unit and to implement a new statistical unit, the enterprise. The implementation of the enterprise is done by business profiling.

In the last decade, Eurostat has encouraged European NSIs to cooperate in order to achieve a relevant and consistent cross-border view of MNE groups. This method is called “European Business Profiling”. It is carried out collaboratively by the profiling teams of the NSIs of the different countries where an enterprise group is located.

This manual provides recommendations on profiling MNE groups in the scope of European Business Profiling, and more generally guidance for business profiling.

For more information
<https://ec.europa.eu/eurostat/>

