



Proposed Recommendations Document:

1.10 Super-dividends and Reinvested Earnings of Public Corporations¹

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals: GN D.17 Identifying Super-dividends and Establishing the Boundary Between Dividends and Withdrawal of Equity in the context of Direct Investment GN F.2 Asymmetric Treatment of Retained Earnings Issue Note: D.17 Identifying Super-dividends and Establishing the Boundary Between Dividends and Withdrawal of Equity in the context of Direct Investment Draft 2025 SNA and Draft BPM7 ²	
Global Consultation(s):	BPM: June 2021 ; February 2021 SNA: July 2022 ; November 2021
Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):	BOPCOM: June 2021 ; February 2021 Joint AEG/BOPCOM: October 2022 ; March 2022
Discussions at GFSAC Meeting(s):	To be determined
Summary of Proposed Recommendations: The proposed recommendation is to amend the <i>GFSM 2014</i> guidance so that payments from foreign direct investment entities to their domestic public sector owners/investors are not divided into regular dividends and super-dividends but instead all payments from both distributable income from the current period and accumulated retained earnings from previous periods (accumulated reserves) are recorded as dividends. However, other distributions, such as those generated through the sale of assets, are to continue to be treated as withdrawal of equity.	

¹ This Proposed Recommendation was previously titled as “Identifying super-dividends and establishing the borderline between dividends and withdrawal of equity in the context of Direct Investment.”

² Links are to the “white cover” versions of the 2025 SNA and BPM7. While technically still considered draft only editorial amendments will be made between these versions and the final versions.

This recommendation only relates to foreign direct investment entities, with the conceptual *GFSM* guidance on super-dividends for distributions from other entities remaining unchanged.

Background and Issues

1. Two SNA/BPM guidance notes considered the separate but related issues of how to establish the boundary between dividends and withdrawal of equity in the context of foreign direct investment (GN D.17) and the asymmetry between the different treatment of retained earnings for foreign direct investment relationships and retained earnings for other enterprise relationships (GN F.2).
2. The first issue of differentiating between regular dividends and exceptional distributions for direct investment relationships focused on the practical challenges in applying the current super-dividend rules given the irregular nature of distributions from many foreign direct investment enterprises. Different options were considered, including no longer applying the super-dividend concept to foreign direct investment enterprises. SNA/BPM update recommended to only record exceptional payments to the parent company as withdrawal of equity if they relate to the sale of fixed assets and similar non-produced assets.
3. The second issue considered the impact of following different treatments for the retained earnings of foreign direct investment enterprises with those of other enterprises. The retained earnings of foreign direct investment enterprises are considered in macroeconomic statistics to be reinvested by the owners/investors, and they are therefore imputed as property income in the accounts of the domestic owner/investor. This involves recording an imputed revenue in the accounts of the domestic owner/investor (1416) with a counterpart entry as an acquisition of equity asset (3225). The rationale being that the decision to retain some of the earnings within the foreign direct investment enterprise represents an investment decision on the part of the owner/investor. It is important to note that the reinvestment of earnings may be negative, for example, in case of losses by the direct investment enterprise or if actual dividends payable in a period are larger than net earnings in that period.
4. On this second issue consideration was given to expanding the scope of the imputed reinvested earnings treatment beyond foreign direct investments to (i) public corporations, (ii) cross-border portfolio investors, or (iii) all domestic and foreign equity holdings. Although this topic was extensively discussed and consulted on it was ultimately decided not to expand at this time the scope of the imputed reinvested earnings treatment, in part due to GFS-related concerns on the fiscal challenges that it would pose, both with regard to fiscal analysis and fiscal policy (see footnote 6 of Issue Note D.17 repeated below for ease of reference³).
5. It was however noted by the *SNA* and *BPM* editors that it would seem conceptually desirable to introduce the reinvested earnings approach more widely and that work should be undertaken to further explore this topic for future *SNA/BPM* updates. *GFSM* update research project 2.29 on *Retained earnings of public corporations and their impact on fiscal statistics*, will therefore separately explore how expanding the approach to imputing reinvested earnings from foreign direct investment relationships to all public corporations would impact fiscal analysis.

³ Several GFS concerns were referenced, both including challenges for fiscal policy, such as the creation of potential new fiscal policy incentives regarding loss-making and profitable public corporations; and implementation challenges for the large number of countries who currently report their GFS on a cash basis.

Proposed Recommendations

6. The current conceptual guidance (*GFSM 2014* paras. 5.115-5.116) on distinguishing between dividends and super-dividends when assessing distributions from public corporations to their owners is to remain unchanged but with further elaboration on the exception for foreign direct investment.

7. The exception also requires an amendment to the current guidance (*GFSM 2014* para. 5.134) so that payments from foreign direct investment entities⁴ to their domestic public sector owners/investors are not divided into regular dividends and super-dividends but instead all payments from both distributable income from the current period and accumulated retained earnings from previous periods (accumulated reserves) are recorded as dividends. However, other distributions, such as those generated through the sale of assets, are to continue to be treated as withdrawal of equity.

Rationale for Proposed Recommendations

8. The proposed recommendations aim to harmonize the updated *GFSM* with the 2025 *SNA* and *BPM7*, a key objective of the *GFSM 2014* update process.

9. The proposed recommendation addresses the concerns around the irregular distribution policies of many foreign direct investment entities impacting the partitioning of distributions into regular dividends and super-dividends.

Proposed Text for GFSM Update

10. *GFSM 2014* paras. 5.115-5.116 should be reviewed to ensure that the language around super-dividends is fully consistent with that in the draft 2025 *SNA* and *BPM7*. In addition, *GFSM 2014*, para. 5.115 should be supplemented to be consistent with draft 2025 *SNA*, para. 8.138, indicating “*This treatment applies to all dividends paid by corporations whether incorporated or quasi-corporate, to their direct owners. However, an exception is made for foreign direct investment enterprises. For these enterprises, all dividends payable to direct investors are treated as earned income, including dividends sourced from accumulated reserves. Distributions beyond that would not be included in dividends. Such distributions could be funded, for example, from the sale of financial or nonfinancial assets of the corporations and should be recorded as a withdrawal of equity in the financial account.*”

11. *GFSM 2014* para. 5.134 also requires changes, as shown below, in line with the draft *BPM7* paras. 8.15-8.16.

5.134 Reinvested earnings are the direct investor’s share of the retained earnings of the foreign direct investment enterprise, which is treated as being distributed and subsequently reinvested. A general government unit or public corporation may have foreign direct investment in nonresident special purpose entities (SPEs), or nonresident branches or subsidiaries of public corporations. Actual distributions receivable from such nonresident units out of their distributable income from the current period and accumulated retained earnings from previous periods (accumulated reserves) should be recorded as dividends (1412) or withdrawals of income from quasi-corporations (1413). However, distributions beyond

⁴ In this context, nonresident special purpose entities (SPEs) conducting fiscal or quasi-fiscal activity are not considered foreign direct investment entities. The treatment of distributions from SPEs to their domestic owners is separately covered by *GFSM* Update research project 1.9.

that would not be included in property income and should be recorded as withdrawals of equity. Such distributions could be funded, for example, from the sale of financial or nonfinancial assets. In addition, these entities may have retained some of their earnings. Retained earnings of a corporation or quasi-corporation are equal to the distributable income minus the dividends payable or withdrawal of income from the corporation or quasi-corporation, respectively.