

Economic Territory, Units, Institutional Sectors, and Residence

A. Introduction

Reference:

2008 SNA, Chapter 4, Institutional Units and Sectors.

4.1 This chapter is concerned with identifying statistical units, grouping them (according to the institutional sector classification), and identifying the economic territory to which each entity is most closely connected (according to the residence principles). The principles for economic territory, units, institutional sectors, and residence are harmonized across macroeconomic statistical guidelines, so this chapter identifies the general principles as well as specific issues of relevance in an international accounts context.

4.2 The principles in this chapter define the meaning and coverage of each national economy. An economy consists of the institutional units that are resident in the economic territory of that economy. Most entities have strong links with only one economy, so their residence is clear, but with increasing international economic openness, a growing number of institutional units have connections to more than one economy.

B. Economic Territory

4.3 In its broadest sense, an economic territory can be any geographic area or jurisdiction for which statistics are required. The connection of entities to a particular economic territory is determined from aspects such as physical presence and being subject to the jurisdiction of the government of the territory. These issues are discussed in the residence section of this chapter (see paragraphs 4.113–4.144).

4.4 The most commonly used concept of economic territory is the area under the effective economic control of a single government. For the purposes of global statistics and reporting to the IMF, it is important to

have data on all areas under control of a particular government, including special zones, even if for some of the government's own statistical purposes, those zones are excluded or shown separately. Another kind of economic territory is a currency or economic union, which is dealt with in Appendix 3. Other types of economic territory include a part of an economy, regions, or the world as a whole. Economic territories reflect any possible scope for macroeconomic policy or analysis.

4.5 The economic territory includes:

- (a) the land area;
- (b) airspace;
- (c) territorial waters, including areas over which jurisdiction is exercised over fishing rights and rights to fuels or minerals;
- (d) in a maritime territory, islands that belong to the territory; and
- (e) territorial enclaves in the rest of the world. These are clearly demarcated land areas (such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic status) that are physically located in other territories and used by governments that own or rent them for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas are physically located. These areas may be shared with other organizations, but the operations must have a high degree of exemption from local laws to be treated as an enclave. However, government operations that are fully subject to the laws of the host economy are not treated as enclaves, but as residents of the host economy.

4.6 Economic territory has the dimensions of legal jurisdiction as well as physical location, so that corporations created under the law are part of that econ-

omy. The concepts of economic territory and residence are designed to ensure that each institutional unit is a resident of a single economic territory. The use of an economic territory as the scope of economic statistics means that each member of a group of affiliated enterprises is part of the economy in which it is resident, rather than being attributed to the economy of its head office. The focus on data for an economic territory means that, in a few cases, a legal entity may be split for statistical purposes into separate units in different territories, as elaborated in paragraphs 4.26–4.49.

International organizations

4.7 The economic territory of an international organization (defined in paragraphs 4.103–4.107) consists of territorial enclave(s) over which the organization has jurisdiction. These enclaves are clearly demarcated land areas or structures that the international organization owns or rents and uses, and that are formally agreed on with the government of the territory, or territories, in which the enclave(s) are physically located. Each international organization is an economic territory in its own right, covering operations from all its locations.

Special zones

4.8 Sometimes a government has a separate physical or legal zone that is under its control, but to which, to some degree, separate laws are applied. For example, a free trade zone or offshore financial center may be exempt from certain taxation or other laws. Because of the need to view the whole economy, to have comprehensive global data, and to be compatible with partner data, these special zones always should be included in the economic statistics of that economy. While national totals showing all economic activities in the economy are required for international purposes, separate data may be prepared for different subsets of the economy. To the extent that different laws and policies may apply, and persons, goods, and finance do not flow completely freely between a zone and the rest of the economy, a government may wish to have data to support separate analysis of either or both the special zone and the remainder of the economy.

Changes in economic territory

4.9 The scope of an economic territory may change under several circumstances:

- (a) The passing of control of a geographic area from one government to another by mutual agreement

or under a decision of an international court or arbitrator. These exchanges satisfy the definition of a transaction. Accordingly, assets conveyed from one government to the other are recorded as an acquisition of land (in the capital account) or equipment and buildings (in goods and services,¹ respectively, if they can be separated). If the exchange is made in exchange for payment or extinguishing of a prior liability, the corresponding entry is a financial account entry for the agreed amount. If there is no amount payable, the corresponding entry is a capital transfer. If there is a mutual exchange of land or buildings, both entries in the exchange are shown on a gross basis (capital account for land, construction in the goods and services account for buildings). In addition to these cases involving the two governments, the exchange of territory could change the territory of residence of other institutional units. As with other changes in residence, these would result in other changes in the volume of assets. (The effects of changes of residence are covered in paragraphs 9.21–9.23.)

- (b) Change in the status of a particular area by seizure. Because this change in status is not by mutual agreement (defined in *GFSM 2001* paragraph 3.5), it is not a transaction. (However, any institutional units that changed residence could have other changes in financial assets and liabilities; see paragraphs 9.21–9.23.)
- (c) The merger of two or more economic territories to have a single national government may be seen as an absorption of one territory by another or the elimination of two territories and the creation of another. These arrangements result in entries in the other changes in volume account (namely, elimination of cross-border liabilities between the two previous constituent territories and possible reclassifications for economies having asset or liability positions with either territory).
- (d) The split of a single economic territory into two or more territories is not in itself a transaction. However, there may be associated flows between the parties, for example, compensation for assuming liabilities that would qualify as transactions and be classified according to usual definitions. There also would be entries in the other changes in volume account for the appear-

¹The inclusion of international transactions in new and existing buildings in services is discussed in paragraph 10.108.

ance of cross-border liabilities between the two separating economies.

When such events occur, it is essential that metadata are provided to assist users in understanding how the territorial changes affect the data.

Joint zones

4.10 In some cases, areas are under joint administration or sovereignty, that is, an area is under the effective economic control of two or more governments. These areas can be called joint administration or sovereignty zones. Because, typically, they have laws that differ from the primary territories of the individual governments, the zone could be considered an economic territory in its own right. Because the number of enterprises in these zones typically is small, however, it may be preferred to split the enterprises in the zone between the primary territories rather than publish separate data for the zone. The method of splitting should be to prorate on the basis of a relevant factor according to the circumstances, such as some operational indicator or equal proportions for each of the primary territories. This general guidance needs to be applied appropriately to the economic circumstances faced. For instance, when the enterprises that account for the vast majority, or all, of the economic activity in the zone are effectively operated from the economy of just one of the sovereign authorities, it may be preferred to treat those enterprises as residents of that economy, showing the other economy as recipient of its share of property income, taxes, and so on, and avoiding most of the complexities of prorating for those enterprises. The statistical compilers of each primary territory involved should consult with each other to adopt consistent methods with no gaps or overlaps. Through metadata and consultations, they may also assist compilers in counterpart economies to ensure consistency of bilateral data.

Definition of an economy

4.11 *An economy consists of all the institutional units that are resident in a particular economic territory.* The concepts of institutional units and residence are the subject of sections C and E of this chapter, respectively.

C. Units

4.12 Different types of institutional units are explained in more detail in this section. Institutional units and local enterprise groups may be used in international accounts. Statistical units other than institu-

tional units and enterprises are also described briefly in this section.

I. General principles on institutional units

Reference:

2008 SNA, Chapter 4, Institutional Units and Sectors.

4.13 *The main attributes of an institutional unit are that:*

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

Institutional units are recognized in the cases of branches and notional resident units (as discussed in paragraphs 4.26–4.44) even though they may not fully satisfy criteria (a), (b), and (c).

4.14 There are two main types of units in the real world that may qualify as institutional units:

- (a) households—persons or groups of persons; and
- (b) corporations (including quasi-corporations), non-profit institutions, and government units—legal or social entities whose existence is recognized by law or society independently of the persons, or other entities, that may own or control them.

a. Corporations

4.15 Corporations in the legal sense are separate legal entities, so qualify as institutional units, except as discussed in paragraph 4.18. In addition to corporations in the legal sense, some arrangements that are not legal entities in their own right may be recognized as being institutional units, including cooperatives, limited liability partnerships that are not incorporated, notional resident units, and other quasi-corporations. For example, branches in separate economies from their head

offices and partnerships are not separate legal entities, and so they do not satisfy criteria (a), (b), and (c) in terms of legal capacity, but may be treated as corporations because they behave in similar ways.

Quasi-corporations

4.16 A quasi-corporation is an unincorporated business that operates as if it were an entity separate from its owner(s). It is treated as if it were a corporation. In this *Manual*, the term “corporations” includes quasi-corporations. Types of quasi-corporations are discussed in paragraphs 4.26–4.49 and may include branches, notional residents for ownership of land, trusts, and so on. The intent behind the concept of a quasi-corporation is to separate from their owners those unincorporated enterprises that are sufficiently self-contained, that is, that behave as if they were corporations.

4.17 For example, a partnership that includes a large number of partners or partners from different economies would normally have its accounts and affairs delineated from its individual owners, and therefore qualify as a quasi-corporation. A partnership may be limited liability or not; however, this does not determine whether the partnership meets the criteria to be recognized as a quasi-corporation. As well as private businesses, quasi-corporations can arise in the public sector when governments produce market output, charge economically significant prices, and have their own accounts. A quasi-corporation in one economy may be owned by residents of the same economy, nonresidents, or a combination of both. Some unincorporated businesses do not satisfy the requirements to be a quasi-corporation, typically businesses owned by members of a single household, and where the business activities are not separated from other household affairs. (However, the criteria for recognizing a branch in paragraph 4.27 mean that significant cross-border businesses will almost always be recognized as quasi-corporations.)

Resident artificial subsidiaries

4.18 A resident artificial subsidiary is a company set up to avoid taxes, to minimize liabilities in the event of bankruptcy, or to secure other technical advantages under the tax or corporation legislation in force in a particular economy. As the term is used in the *2008 SNA*, Chapter 4, Institutional Units and Sectors, an artificial subsidiary is incorporated or created in the same economy as its parent and is merged into an institutional unit with its owner. An entity incorporated in one economy is never combined with a nonresident owner into a single institutional unit. Entities in different economies are

not combined because combining across borders would undermine the concept of the economy as the focus of macroeconomic statistics. As well, an entity that has two or more owners who are resident in different economies cannot be combined with its owners.

4.19 An ancillary corporation is a wholly owned subsidiary whose productive activities are confined to providing services to the parent corporation or other affiliates owned by the same parent corporation. Like other direct investment enterprises, an ancillary corporation in another economy to that of its owners is a separate entity from its owners, even though it is not, in practice, autonomous. Examples of ancillary services that are sometimes undertaken through subsidiaries abroad include transport, purchasing, sales and marketing, financing, various kinds of business services, computing and communications, security, maintenance, and cleaning. (For information about recording these services, see Chapter 10, Part C, Services, and particularly paragraph 10.150.)

b. Splitting and combining legal entities

4.20 Because the focus of economic statistics is on a single economy, a legal entity may be split into separate institutional units for statistical purposes. The step is taken because each of the parts has such a strong connection with the economic territory in which it is located that it should be considered as part of that economy. In these cases, identifying separate institutional units resident in each economy allows a more comprehensive view of the economies concerned. Cases include branches, ownership of land, and other arrangements discussed in paragraphs 4.26–4.44. Similarly, households are defined such that they consist only of individuals who are resident in the same territory, even if individuals who are resident in different territories share expenses and decision making. This definition avoids a single household having members who are resident in different economies.

4.21 As noted in paragraph 4.18, legal entities that are residents of different economies are never combined in the macroeconomic statistics for a single economy. However, entities are combined in the case of an artificial subsidiary if the subsidiary and parent are resident in the same economy. Accordingly, a corporation is always resident in its economy of incorporation, in its own right, or as part of an institutional unit resident in the same economy.

4.22 Having a set of accounts (or potentially having them, see paragraph 4.13(d)) provides an important indi-

cation of the status as a separate institutional unit. The existence of accounts (or the records that could be used to produce them) provides evidence of the existence of a unit for which transactions are implemented and can be measured. It also ensures that data can be obtained for such units. The definition of an institutional unit has no requirement that the unit be effectively autonomous, so a wholly owned subsidiary corporation can be recognized as a separate institutional unit from its parent, because corporations satisfy the criteria for an institutional unit in paragraph 4.13. For statistical purposes, corporations may be combined if they are residents of the same economy (under circumstances discussed in paragraph 4.18) and direct investment data may be collected for a local enterprise group (discussed in paragraph 4.55).

c. Enterprises

4.23 *An enterprise is defined as an institutional unit engaged in production.* Investment funds and other corporations or trusts that hold assets and liabilities on behalf of groups of owners are also enterprises, even if they are engaged in little or no production. (As discussed in paragraphs 10.124–10.125, institutional units that hold assets on behalf of their owners are providers of financial services to their owners.) An enterprise may be a corporation (including a quasi-corporation), a nonprofit institution, or an unincorporated enterprise. Corporate enterprises and nonprofit institutions are complete institutional units. An unincorporated enterprise, however, refers to a part of an institutional unit—a household or government unit—only in its capacity as a producer of goods and services.

d. Implementation

4.24 There may be some variation from institutional unit definitions in practice because of data sources; for example, arising from consolidation or use of administrative approximations. These variations should be monitored by statistical compilers to identify possible problems (e.g., cross-border or cross-sector consolidation). It is important that both data suppliers and compilers have a clear understanding of the scope of the unit being reported—a single legal entity, a selected group of legal entities, or all the legal entities under common ownership. Otherwise, some values could be omitted, double-counted, or misclassified.

2. Identification of institutional units with cross-border elements

4.25 Artificial institutional units are sometimes identified by breaking up an actual entity. However, to avoid

excessive creation of artificial units, such cases are limited to the few circumstances discussed in this section.

a. Branches

4.26 When a nonresident unit has substantial operations over a significant period in an economic territory, but no separate legal entity for those operations, a branch may be identified as an institutional unit. 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.

4.27 The identification of branches as separate institutional units requires indications of substantial operations that can be separated from the rest of the entity, to avoid creating numerous artificial units. A branch is recognized in the following cases:

- (a) Either a complete set of accounts, including a balance sheet, exists for the branch, or it is possible and meaningful, from both an economic and legal viewpoint, to compile these accounts if they were to be required. The availability of separate records indicates that an actual unit exists and makes it practical to prepare statistics.

In addition, one or both of the following factors tend to be present for a branch:

- (b) The branch undertakes or intends to undertake production on a significant scale that is based in a territory other than that of its head office for one year or more:
 - (i) if the production process involves physical presence, then the operations should be physically located in that territory. Some indicators of an intention to locate in the territory include purchasing or renting business premises, acquiring capital equipment, and recruiting local staff; or
 - (ii) if the production does not involve physical presence, such as some cases of banking, insurance, other financial services, ownership of patents, and “virtual manufacturing,” the operations should be recognized as being in the territory by virtue of the registration or legal domicile of those operations in that territory; or
- (c) The branch is recognized as being subject to the income tax system, if any, of the economy in which it is located even if it may have a tax-exempt status. (Usually, treatments by taxa-

tion authorities are a guide to the existence of branches, because the authorities are reluctant to exempt substantial operations within their jurisdiction.)

4.28 The identification of branches has implications for the statistical reporting of both the parent and branch.² The operations of the branch should be excluded from the institutional unit of its head office in its home territory and the delineation of parent and branch should be made consistently in both of the affected economies. Each branch is a direct investment enterprise. Branches most commonly arise for financial and nonfinancial corporations, but it is also possible that households, nonprofit institutions serving households (NPISHs), or governments (when government operations do not have diplomatic immunity) may have branches.

Construction projects

4.29 Some construction projects undertaken by a nonresident contractor may give rise to a branch (direct investment enterprise). Construction may be carried out or managed by a nonresident enterprise, without the creation of a local legal entity:

- (a) For major projects (such as bridges, dams, power stations) that take a year or more to complete and that are managed through a local site office, the operations would usually satisfy the criteria for identification of a branch in paragraph 4.27 and so would not be classified as trade in services;
- (b) In other cases, the construction operations may not satisfy the conditions for recognition as a branch, for example, for a short-term project or one based from the home territory rather than a local office. In those cases, the work provided to customers resident in the territory of those operations is classified as international trade in construction and included in services (i.e., an export of services by the home base and an import of services by the territory of operations). Paragraphs 10.101–10.108 discuss construction operations included under services.

Production delivered from a base

4.30 Activities such as consulting, maintenance, training, technical assistance, and health care may be

²The international accounts use of branch as a term is more limited than common usage, where “branch” may also mean establishments, incorporated subsidiaries, or industrial classification groups.

provided by a branch or from a home base. If operations are substantial enough to satisfy the criteria given in paragraph 4.27, a branch would be recognized as a direct investment enterprise. On the other hand, if a branch is not recognized in the territory, the operations will give rise to international trade in services. The residence of units providing services in this way is discussed in paragraph 4.136.

4.31 Mobile equipment, such as ships, aircraft, drilling platforms, and railway rolling stock, may operate across more than one economic territory. The criteria for recognition of a branch also apply in these cases. That is, if the operations in a territory outside the home base are substantial enough, they meet the definition of a branch. For example, a secondary base for servicing the fleet with long-term presence and its own accounts may satisfy the definition of a branch. (If they do not satisfy the definition of a branch, the activities of the ship-operating enterprise are included in the economy where the operator is resident; see paragraph 4.136.)

4.32 Similarly to mobile equipment, a multiterritory pipeline that passes through a territory, but is not operated by a separate legal entity in that territory, would be recognized as constituting a branch if there is a substantial presence, availability of separate accounts, and so on. In cases in which such operations are not separate institutional units (a) there may be payment of rent to a notional unit owning the land or a long-term lease of land, of the kind discussed in paragraphs 4.34–4.40; or (b) there may be a multiterritory enterprise of the type discussed in paragraphs 4.41–4.44.

4.33 When a branch is identified, there are direct investment inflows to the territory, but the provision of goods or services to customers in that territory is a resident-to-resident transaction. In contrast, if the operations are not substantial enough to qualify as a branch, the provision of goods or services to customers in that territory are imports of that territory.

b. Notional resident units for land and other natural resources owned by nonresidents

4.34 When land located in a territory is owned by a nonresident entity, a notional resident unit is identified for statistical purposes as being the owner of the land. Because land and buildings produce rental services (see paragraph 10.157), the notional unit is usually an enterprise. A notional unit is also identified for a lease of land, or buildings, or land and buildings together

by a nonresident for long periods. This notional resident unit is a kind of quasi-corporation. The notional resident unit is also treated as the owner of any buildings, structures, and other improvements on that land that belong to the same nonresident owner. The nonresident is treated as owning the notional resident unit, rather than owning the land or structures directly. This treatment is designed so that land and other natural resources are always assets of the economy in whose territory they are located. Otherwise, the land would appear in another economy's national balance sheet. The situation in which the land is acquired or sold for an embassy or other enclave is discussed in paragraph 13.10.

4.35 A nonresident with a resource lease is classified as incurring rent and no notional unit is automatically created. (Rent and resource leases are defined in paragraph 11.85.) However, it is usually the case that ownership of land and other natural resources such as subsoil assets, noncultivated biological resources, water, and rights to use these assets through a lease or other permit over long periods are associated with a branch (see paragraph 4.27). In addition, preliminary expenses for an entity to be incorporated in the future are to be regarded as a notional direct investment enterprise (see paragraph 4.47).

4.36 The operations of notional resident units include holding the asset, paying any associated expenses (such as insurance, repairs, and taxes), collecting rent or rental on the asset,³ and any other transactions associated with those functions. If the nonresident owner uses the property, the notional resident unit generates rent (in the case of unimproved land, mineral rights, and so on, see paragraph 11.85) or rental included in travel or operating leasing services (for land with buildings or other improvements, see paragraphs 10.99, 10.100, and 10.157) in kind to its owner. The corresponding entry to the rent or rental would be income payable in kind to the owner by the notional resident unit. The notional resident unit should also be treated as incurring expenses and taxes; payments by the nonresident owner to meet a loss arising from these costs therefore would be recorded as direct investment flows from the owner to the notional resident unit. Other transactions of the owner would not be attributed to the notional resident unit, for example, any borrowing or debt service. As a result of the limited nature of notional resident

units, making acceptable estimates for their operations is generally feasible when they are significant.

4.37 When the ownership of land and other natural resources is associated with substantial operations, so that the requirements in paragraph 4.27 are met, a branch is identified. In such cases, a notional resident unit is not identified because the branch already exists as a resident owner.

4.38 The notional resident unit that owns land or other natural resources may be contrasted with a branch, which has a full set of accounts. An example is a nonresident fishing operator having a 10-year fishing license for the waters of a territory. If the operator has a base in the territory, keeps separate records, and so on, then a branch is identified, and its accounts will show sales of fish and other transactions. Another example could be a commercial farm owned by a nonresident entity. In contrast, the only activity of a notional unit will be the supply of rent or rental services arising from the ownership of property.

4.39 When several partners own land, there may be a quasi-corporation, as in paragraph 4.49, by virtue of the management of the land being separate from that of its individual owners. In that case, for statistical purposes, the nonresident partners would own a share in the quasi-corporation, so there would be no need to identify an additional notional resident unit. The notional resident unit for ownership of land is almost always a direct investment enterprise (the exception being for land where an individual nonresident's voting power was below 10 percent).

4.40 Some kinds of time-share accommodation arrangements give rise to a notional resident unit (see paragraph 10.100 and Table 10.3 for a discussion of alternative arrangements).

c. Multiterritory enterprises

4.41 Some enterprises may operate as a seamless operation over more than one economic territory. Although the enterprise has substantial activity in more than one economic territory, it is run as an indivisible operation with no separate accounts or decisions, so that no separate branches can be identified. Such enterprises may have operations including shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables. Some NPISHs also may operate in this way.

4.42 Governments usually require separate entities or branches to be identified in each economic territory

³The distinction between rent and rental is explained in paragraphs 10.153 and 11.84–11.86.

for more convenient regulation and taxation. Multiterritory enterprises may be exempted from such requirements, but there may be arrangements, such as a formula for payment of taxation to the respective authorities.

4.43 In the case of a multiterritory enterprise, it is preferable that separate institutional units be identified for each economy, as discussed in paragraphs 4.26–4.33. If that is not feasible because the operation is so seamless that separate accounts cannot be developed, it is necessary to prorate the total operations of the enterprise into the individual economic territories. The factor used for prorating should be based on available information that reflects the contributions to actual operations. For example, equity shares, equal splits, or splits based on operational factors such as tonnages or wages could be considered. Where taxation authorities have accepted the multiterritory arrangements, a prorating formula may have been determined, which should be the starting point for statistical purposes. Although the situation is somewhat different from the case of joint administration or sovereignty zones, discussed under economic territory in paragraph 4.10, the solution of prorating may be the same.

4.44 The proration of the enterprise means that all transactions need to be split into each component economic territory. The treatment is quite complex to implement. This treatment has implications for other statistics and its implementation should always be coordinated for consistency. Compilers in each of the territories involved are encouraged to cooperate to develop consistent data, avoid gaps, and minimize respondent and compilation burden, as well as assist counterparties to report bilateral data on a consistent basis.

d. Joint ventures

4.45 A joint venture is a contractual agreement between two or more parties for the purpose of executing a business undertaking in which the parties agree to share in the profits and losses of the enterprise as well as the capital formation and contribution of operating inputs or costs. It is similar to a partnership, but typically differs in that there is generally no intention of a continuing relationship beyond the original purpose. A joint venture does not involve the creation of a new legal entity.

4.46 Whether a quasi-corporation is identified for the joint venture depends on the arrangements of the parties and legal requirements. The joint venture is a quasi-corporation if it meets the requirements for an institutional unit, particularly by having its own records. Otherwise, if each of the operations are effec-

tively undertaken by the partners individually, then the joint venture is not the institutional unit and the operations would be seen as being undertaken by the joint venture partners separately. (In that case, there would usually be direct investment enterprises that undertook the joint venture operations of each of the partners.) Because of the ambiguous status of joint ventures, there is a risk that they could be omitted or double-counted, so particular attention needs to be paid to them.

e. Quasi-corporations identified prior to incorporation

4.47 A resident enterprise is identified when preliminary expenses, including mining rights, license fees, site preparation, building permits, purchase taxes, local office expenses, and lawyers' fees, are incurred prior to establishing a legal entity. As a result of identifying a quasi-corporation, those preparatory expenses are recorded in the economy of the future operations as being resident-to-resident transactions that are funded by a direct investment inflow, rather than as sale of nonproduced assets to nonresidents, exports of legal services, and so on. Because of the limited scale of these activities, assembly of acceptable data for these enterprises is often feasible, despite the lack of incorporation. If the project does not subsequently go into operation, the value of the direct investment is eliminated by an entry for other changes in the volume of assets or liabilities.

f. Trusts

4.48 Trusts are legal arrangements that have aspects of legal identity separate from their beneficiaries and trustees. Similarly, the estate of a deceased person is held by an administrator (executor or trustee) on behalf of the beneficiaries and is separate from the executor's other property. A trust is a legal device by which property is held in the name of one party or parties (the administrator or trustee) who is under a fiduciary obligation to hold assets for the benefit of another party or parties (the beneficiary or beneficiaries). (In some cases, a person can be both trustee and beneficiary.) Foundations and other fiduciary arrangements may have similar functions. Administrators and trustees are required to keep the trust and estate assets separate from their personal property and they must account to the beneficiaries for the income and assets. These legal arrangements are treated as separate institutional units—that is, as quasi-corporations—if they are constituted in a different territory to that of any

of the beneficiaries or otherwise satisfy the definition of a quasi-corporation. This treatment is necessary because it is neither meaningful nor feasible for the trust assets to be allocated to the beneficiaries and then be combined with the assets of beneficiaries who are resident in another economy.⁴ Trusts can be used for businesses, asset management, and nonprofit institutions. (Related issues are nominee accounts, covered in paragraph 4.160, and depository receipts, covered in paragraph 4.161.)

g. Other unincorporated enterprises

4.49 As stated in paragraph 4.16, a quasi-corporation is an unincorporated business that operates as if it were an entity separate from its owners. There is almost always a quasi-corporation if the operations are in a separate economy from at least one of their owners, because taxation, other laws, and convenience are all factors that tend to prevent the affairs of residents of different economies from being mixed. This treatment is applied whether a branch, trust, limited liability or other type of partnership, or other legal structure is used.

h. Flexible corporate structures with little or no physical presence

4.50 *Special purpose entities (SPEs) or vehicles, international business companies, shell companies, shelf companies, and brass plate companies are all labels that are applied to flexible legal structures in particular jurisdictions, which offer various benefits that may include any or all of low or concessional tax rates, speedy and low-cost incorporation, limited regulatory burdens, and confidentiality.* Although there is no internationally standard definition of such companies, typical features of these entities are that their owners are not residents of the territory of incorporation, other parts of their balance sheets are claims on or liabilities to nonresidents, they have few or no employees, and they have little or no physical presence.

4.51 Some purposes that such structures are used for include (a) holding and managing wealth for individuals or families, (b) holding assets for securitization, (c) issuing debt securities on behalf of related companies (such a company may be called a conduit), (d) as holding companies that own shares in subsidiaries but without actively directing them, (e) as securitization vehicles, (f) as ancillary companies in different

⁴Indeed, the beneficiaries may be uncertain (with a discretionary trust) or even unborn.

economies to that of their parent, and (g) carrying out other financial functions. The “captive financial institutions and money lenders” institutional sector class is applicable to many of these entities, as discussed in paragraphs 4.82–4.87. Although these entities do not have a standard international definition, the possibility of recording them separately according to national definitions is discussed in paragraph 4.87.

4.52 These entities are always treated as separate institutional units if they are resident in a different territory to that of their owners.

3. Statistical units other than institutional units and enterprises

Reference:

2008 SNA, Chapter 5, Enterprises, Establishments and Industries.

Establishments

4.53 *An establishment is an enterprise, or part of an enterprise, that is situated in a single location and in which only a single productive activity is carried out or in which the principal productive activity accounts for most of the value added.* The breaking up of enterprises into one or more establishments is useful because some enterprises are large and complex, with different kinds of economic activity undertaken in different locations. The establishment is particularly useful as a unit for production statistics. Because the establishments of a multiestablishment enterprise are part of the same legal entity, financial transactions and positions cannot always be attributed to a particular location or activity, so the use of the institutional unit concept is appropriate for statistics covering financial transactions and positions, such as the balance of payments and IIP.

Local and global enterprise groups

4.54 Groups of enterprises are sometimes identified in defining and classifying direct investment. Although enterprises are the basic unit of economic statistics, a single owner or group of owners may have control of more than one enterprise, so they may act in a concerted way and the transactions between the enterprises may not be driven by the same concerns as “arm’s-length” transactions, that is, those with unrelated enterprises.

4.55 Enterprise groups may be either global or local. A global enterprise group refers to an investor and all

the enterprises under that investor, whereas the local (or territory-specific) enterprise group refers to an investor and the legal entities under that investor that are resident in the reporting economy. Business accounting may cover groups of related corporate entities (consolidated accounts) including entities that are resident in different economies. However, entities in different economies are not aggregated for macroeconomic statistics that have a focus on an economy. The concepts of global enterprise groups and local enterprise groups are used in the *OECD Benchmark Definition of Foreign Direct Investment*. The global enterprise group is also called a multinational enterprise.

4.56 Local enterprise groups may be used for compiling and presenting direct investment statistics. For example, if direct investment is initially channeled to a holding company and then on to a manufacturing subsidiary, then it may shed light to classify the direct investment in manufacturing rather than in a holding company operation, which is just the initial investment. The implications of combining entities in different institutional sectors need to be carefully considered.

D. Institutional Sectors

References:

2008 SNA, Chapter 4, Institutional Units and Sectors.
IMF, *MFSM 2000*, Chapter 3, Institutional Units and Sectors.
IMF, *GFSM 2001*, paragraphs 2.28–2.62 (for general government and public sectors).

I. General principles

4.57 Institutional units are grouped into institutional sectors. The units in each sector have similar economic objectives, functions, and behavior. The institutional sector classification is mainly applied to resident units, but it also could be applied to compiling supplementary data on the sector of the nonresident counterpart. For example, in an economy that received international aid, there may be interest in separating data on aid provided by other governments from aid provided by private sources.

4.58 When an ancillary corporation is a separate institutional unit, according to the criteria in paragraph 4.19, it is classified as financial or nonfinancial according to the activities it undertakes, rather than according

to the predominant sector of the company or companies it serves.

4.59 The SNA institutional sector classification is shown in Table 4.1. The international accounts institutional sector classification is shown in Table 4.2. It has the same sectors and subsectors as the SNA institutional sector classification shown in Table 4.1, but with order and groupings to allow greater backward compatibility with the *BPM5* classification and a shorter list of sectors for economies in which it is not practical to implement the full classification. The other sectors category includes both financial and nonfinancial sectors, so it is recommended that, at least, the financial corporations be identified separately. The full institutional sector detail is required for international accounts to be fully integrated with monetary, flow of funds, and other financial data. Public corporations may be identified separately on a supplementary basis, as discussed in paragraphs 4.108–4.112.

4.60 Transactions in financial instruments recorded in the balance of payments raise particular issues concerning attribution of institutional sector. The economic owner of the asset, the creditor, is invariably one party to any change of economic ownership of the asset. Therefore, for assets, sector attribution by creditor and by transactor coincide. A claim on a resident debtor, however, may change ownership between a resident creditor and a nonresident creditor so that the domestic sector of the debtor may not coincide with that of the transactor. For instance, the issuer may be a resident in one institutional sector, the seller a resident in another institutional sector, and the buyer a nonresident.

4.61 Although the sector classification for IIP liabilities is clearly according to the issuer, for the sector data in the financial account, there are both practical and analytical considerations over whether the sector allocation should be determined according to the issuer or the seller. By convention, the sector of the debtor is the one that determines the classification of the change of ownership that has occurred, because the original nature of the liability is generally considered more significant than the identity of the resident seller of the claim. These issues are discussed in the context of partner economy data in paragraphs 4.152–4.154 and 14.24.⁵ The same issues apply for financial instru-

⁵An additional factor for institutional sector data is that, in the national accounts, data for the sector of the seller will show a disposal of an asset.

Table 4.1. SNA Classification of Institutional Sectors*(Includes 2008 SNA codes)***S1 Total economy**

- S11 Nonfinancial corporations¹
- S12 Financial corporations
 - S121 Central bank²
 - S122 Deposit-taking corporations, except the central bank¹
 - S123 Money market funds (MMFs)¹
 - S124 Non-MMF investment funds¹
 - S125 Other financial intermediaries, except insurance corporations and pension funds¹
 - S126 Financial auxiliaries¹
 - S127 Captive financial institutions and money lenders¹
 - S128 Insurance corporations¹
 - S129 Pension funds¹
- S13 General government
 - General government classification—alternative A
 - S1311 Central government
 - S1312 State government
 - S1313 Local government
 - S1314 Social security funds
 - General government classification—alternative B
 - S1321 Central government³
 - S1322 State government³
 - S1323 Local government³
- S14 Households
- S15 Nonprofit institutions serving households

S2 Rest of the world

May be classified in the same way as resident institutional sectors, with the addition of:

- International organizations
 - International financial organizations
 - Central bank of currency union⁴
 - Other
 - International nonfinancial organizations

Note: The SNA sector classification also includes scope for a subsector for foreign-controlled corporations, defined similarly, but not identically, to direct investment subsidiaries. It also allows for separate identification of nonprofit institutions and for-profit institutions within the corporations sectors.

¹Supplementary “of which” items may be provided for public corporations.

²Additional subsector may be identified for monetary authorities, where needed, as discussed in paragraph 4.70.

³Including social security funds of this level of government.

⁴If the reporting economy is a member state of a currency union.

ments issued by a resident that are sold by a nonresident holder to a resident buyer.

2. Definitions of institutional sectors and subsectors

a. Nonfinancial corporations

4.62 *Nonfinancial corporations are corporations whose principal activity is the production of market goods or nonfinancial services. These include legally constituted corporations, branches of non-resident enterprises, quasi-corporations, notional resident units owning land, and resident nonprofit institutions that are market producers of goods or nonfinancial services.*

b. Financial corporations

Reference:

IMF, *Monetary and Financial Statistics Compilation Guide*, Chapter 3, Institutional Units and Sectors.

4.63 *Financial corporations consist of all corporations and quasi-corporations that are principally engaged in providing financial services, including insurance and pension fund services, to other institutional units. The production of financial services is the result of financial intermediation, financial risk management, liquidity transformation, or auxiliary financial services. In other manuals, financial corporations are sometimes called financial institutions.*

Table 4.2. BPM6 Classification of Institutional Sectors

Central bank¹

Deposit-taking corporations except the central bank²

General government

Other sectors

- Other financial corporations
 - Money market funds (MMFs)²
 - Non-MMF Investment funds²
 - Other financial intermediaries except insurance corporations and pension funds (ICPFs)²
 - Financial auxiliaries²
 - Captive financial institutions and money lenders²
 - Insurance corporations²
 - Pension funds²
- Nonfinancial corporations, households, and NPISHs
 - Nonfinancial corporations²
 - Households
 - NPISHs (nonprofit institutions serving households; may be combined with households)

Additional sectors for counterpart data:

- International organizations*
- International financial organizations*
- Central bank of currency union*
- Other international organizations*

¹Additional subsector may be identified for monetary authorities, where needed, as discussed in paragraph 4.70.

²Supplementary “of which” items may be provided for public corporations, as discussed in paragraphs 4.108–4.112.

4.64 Financial corporations can be divided into three broad classes, namely, financial intermediaries, financial auxiliaries, and other financial corporations:

- (a) Financial intermediaries consist of deposit-taking corporations, investment funds, other financial intermediaries, insurance corporations, and pension funds. *Financial intermediation is a productive activity in which an institutional unit incurs liabilities on its own account for the purpose of acquiring financial assets by engaging in financial transactions on the market.* Financial intermediaries as institutional units collect funds from lenders and transform or repackage them (with respect to maturity, scale, risk, and the like) in ways that suit the requirements of borrowers. Through financial intermediation, funds are channeled between parties with a surplus on one side and those with a need for funds on the other. A financial intermediary does not simply act as an agent for these other institutional units but places itself at risk by acquiring financial assets and incurring liabilities on its own account.
- (b) Financial auxiliaries are institutional units principally engaged in serving financial markets, but they do not take ownership of the financial assets and liabilities they handle or regulate.
- (c) Other financial corporations are institutional units providing financial services, where most of their assets or liabilities are not available on open financial markets. These corporations are included in the captive financial institutions and money lenders subsector.

4.65 The *SNA* further identifies nine subsectors of the financial corporations subsector (shown in Table 4.1 and as discussed in the following paragraphs). They are used in the following ways in international accounts:

- (a) The standard components use three subsectors: the central bank, deposit-taking corporations except the central bank, and the other seven subsectors combined as “other financial corporations.” Additional details can be compiled according to circumstances.
- (b) The functional category classification of debt positions between affiliated financial intermediaries is defined in terms of the first five subsectors of the financial sector—that is, the central bank, deposit-taking corporations except the central bank, money market funds (MMFs), other investment funds, and other financial intermediaries (except insurance corporations and pension

funds, ICPFs). Such debt is excluded from direct investment, as discussed in paragraph 6.28.

4.66 Although the financial corporations sector and its subsectors are defined in terms of economic function, data sources may tend to follow regulatory definitions. Differences between regulatory and statistical definitions should be monitored, and adjustments made, where necessary.

Central bank

4.67 *The central bank is the financial institution (or institutions) that exercises control over key aspects of the financial system.* It carries out such activities as issuing currency, managing international reserves, transacting with the IMF, and providing credit to deposit-taking corporations. The central bank of a currency union is classified as a central bank in the data for the currency union as a whole; in the data of individual member states, it is part of the rest of the world sector. Central banks in some economies also accept deposits from or provide credit to entities in other sectors.

4.68 The central bank subsector includes the following:

- (a) central banks, which in most economies are separately identifiable institutions that are subject to varying degrees of government control, engage in differing sets of activities, and are designated by various names (e.g., central bank, reserve bank, national bank, or state bank);
- (b) currency boards or independent currency authorities that issue national currency that is fully backed by foreign exchange reserves; and
- (c) government-affiliated agencies that are separate institutional units and primarily perform central bank activities.

If an institutional unit is mainly engaged in central banking activities, the entire unit is classified in the central bank subsector. Many central banks regulate or supervise other deposit-taking corporations and other financial corporations, and these central bank activities also are included in the central bank subsector. However, units that are affiliated with the government or with other sectors and are mainly engaged in regulating or supervising financial units are classified as financial auxiliaries rather than as units in the central bank subsector. Private units that perform activities such as check-clearing operations are assigned to other financial corporations subsectors depending on their activities, rather than to the central bank.

4.69 A few economies do not have central banks. Typical central banking activities that are performed by general government and cannot be separated into specific institutional units are treated as part of general government and are not allocated to the central bank subsector.

4.70 In economies in which some central banking functions are performed wholly or partly outside the central bank, particularly holding reserve assets, consideration should be given to compiling supplementary data for the monetary authorities sector, as defined in paragraph 6.66. The concept of monetary authorities underlies reserves assets.

Deposit-taking corporations, except the central bank

4.71 *Deposit-taking corporations, except the central bank have financial intermediation as their principal activity. To this end, they have liabilities in the form of deposits or financial instruments (such as short-term certificates of deposit) that are close substitutes for deposits.* In general, the following financial intermediaries are classified in this subsector:

- (a) commercial banks, “universal” banks, and “all-purpose” banks;
- (b) savings banks (including trustee savings banks and savings and loan associations);
- (c) post office giro institutions, post banks, and giro banks;
- (d) rural credit banks and agricultural credit banks;
- (e) cooperative credit banks and credit unions;
- (f) traveler’s check companies that mainly engage in financial activities; and
- (g) specialized banks or other financial institutions if they take deposits or issue close substitutes for deposits.

4.72 The liabilities of deposit-taking corporations to residents are typically included in measures of broad money. The money-issuing sector may be identified on a supplementary basis to assist in reconciliation with monetary data. It consists of the central bank plus deposit-taking corporations plus other institutions included in the definition of broad money (e.g., MMFs in some cases). Deposit-taking corporations that engage exclusively (or almost exclusively) with nonresidents, often called offshore banks or offshore banking units, are included in deposit-taking corpo-

rations, but they may be excluded from the money-issuing sector because their liabilities are not included in broad money. MMFs are separate from deposit-taking corporations and should be identified separately in the circumstances discussed in paragraph 4.73.

Money market funds

4.73 *MMFs are collective investment schemes that raise funds by issuing shares or units to the public. The proceeds are invested primarily in money market instruments, MMF shares and units, transferable debt instruments with a residual maturity of less than one year, bank deposits, and instruments that pursue a rate of return that approaches the interest rates of money market instruments. MMF shares can be transferred by check or other means of direct third-party payment. Because of the nature of the instruments that MMFs invest in, their shares or units may be regarded as close substitutes for deposits. When MMFs are included in monetary aggregates, showing MMFs as an extra subsector will assist comparability. (The corresponding specialized financial instrument—MMF shares or units—is discussed in paragraph 5.29.)*

Non-MMF investment funds

4.74 *Non-MMF investment funds are collective investment schemes that raise funds by issuing shares or units to the public. The proceeds are invested predominantly in long-term financial assets and nonfinancial assets (usually real estate). Investment fund shares or units are generally not close substitutes for deposits. They are not transferable by means of check or third-party payments. Some funds may be limited to certain investors only, whereas others are available to the public generally. Investment funds can be open or closed ended. Open-ended funds or open funds are those whose shares or units are, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking's assets. Closed-ended, closed, or exchange-traded funds are those with a fixed share capital, where investors entering or leaving the fund must buy or sell existing shares. Investment funds may be constituted as follows: (a) under the law of contract (as common funds managed by management companies), (b) under trust law (as unit trusts), (c) under a statute (as investment companies), or (d) otherwise with similar effect. Some investment funds invest in other funds ("funds of funds"). Pension funds are excluded; they are part of the insurance companies and pension funds subsector. Real estate investment trusts are included. Investment fund shares are shown as a financial instrument (as defined in paragraph 5.28).*

Fund managers of investment funds are financial auxiliaries (paragraph 4.80(h)).

4.75 Hedge funds are a kind of investment fund. Hedge fund is a term that covers a heterogeneous range of collective investment schemes, typically involving high minimum investments, light regulation, and a wide range of investment strategies. However, special purpose government funds, usually called sovereign wealth funds, are more likely to be classified as captive financial institutions than as investment funds, given the nature of their liabilities, if classified as a financial corporation (see the footnote to paragraph 4.92).

Other financial intermediaries, except insurance corporations and pension funds

4.76 *Other financial intermediaries, except ICPFs, consist of financial corporations and quasi-corporations that are engaged in providing financial services by incurring liabilities, in forms other than currency, deposits, or close substitutes for deposits, on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market, and that are not included in another subsector. It is a feature of a financial intermediary that operations for both sides of the balance sheet are carried out in open markets.*

4.77 In general, the following financial intermediaries are classified in this subsector:

- (a) financial corporations engaged in the securitization of assets;
- (b) underwriters, and securities and derivative dealers (on own account). In contrast, security brokers and other units that arrange trades between buyers and sellers but do not purchase and hold securities on their own account are classified as financial auxiliaries (see paragraph 4.80(b));
- (c) financial corporations engaged in lending, including financial leasing, as well as personal or commercial finance;
- (d) central clearing counterparties, which provide clearing and settlement of market transactions in securities and derivatives. Clearing refers to the process of offsetting obligations and entitlements vis-à-vis counterparties to transactions so that settlement—which involves the actual exchange of securities, derivatives, and funds—can occur more efficiently on a net basis. The central clearing counterparties involve themselves in the transaction and mitigate counterparty risk;

- (e) specialized financial corporations that assist other corporations in raising funds in equity and debt markets and provide strategic advisory services for mergers, acquisitions, and other types of financial transactions. (These corporations are sometimes called “investment banks.”) In addition to assisting with the raising of funds for their corporate clients, such corporations invest their own funds, including in private equity, in hedge funds dedicated to venture capital, and in collateralized lending. However, if such corporations take deposits or close substitutes for deposits, they are classified as deposit-taking corporations; and
- (f) any other specialized financial corporations that provide short-term financing for corporate mergers and takeovers; export and import finance; factoring companies; and venture capital and development capital firms.

4.78 *Securitization involves raising funds by selling a security backed by specific assets or income streams.* For example, an originating mortgage lender could sell a portfolio of loans to a special purpose vehicle that issues units sold to investors. The originator may continue to provide administrative services, but the vehicle is the legal owner of the portfolio. Such vehicles are included in “other financial intermediaries, except ICPFs” if the entity is the legal owner of a portfolio of assets, sells a new financial asset that represents an interest in the portfolio, and has or potentially has a full set of accounts. However, in cases in which the originator issues asset-backed securities on its own books, then securitization may take place without the creation of a separate entity. When the portfolio is not transformed, or the vehicle does not bear market or credit risks, then it can be combined with its parent (if resident in the same economy) or treated as a captive intermediary (if in a different economy to that of its parent). Asset-backed securities are discussed as financial instruments in paragraph 5.47.

Financial auxiliaries

4.79 *Financial auxiliaries consist of all financial corporations that are principally engaged in activities associated with transactions in financial assets and liabilities or with providing the regulatory context for these transactions but in circumstances that do not involve the auxiliary taking ownership of the financial assets and liabilities being transacted.*

4.80 In general, the following financial corporations are classified in the financial auxiliaries subsector:

- (a) insurance brokers, salvage administrators, and insurance and pension consultants;
- (b) loan brokers, securities brokers that arrange trades between security buyers and sellers but that do not purchase and hold securities on their own account, investment advisers, and so on (securities dealers that trade in securities on their own account are other financial intermediaries);
- (c) flotation corporations that manage the issue of securities;
- (d) corporations whose principal function is to guarantee, by endorsement, bills and similar instruments;
- (e) corporations that arrange derivative and hedging instruments, such as swaps, options, and futures (without issuing them);
- (f) stock exchanges, insurance exchanges, and commodity and derivative exchanges;
- (g) other corporations providing infrastructure for financial markets, such as securities depository companies, custodians, clearing offices,⁶ and nominee companies;
- (h) fund managers of pension funds, mutual funds, and so on (but not the funds they manage);
- (i) nonprofit institutions recognized as independent legal entities serving financial corporations, but that are not themselves providing financial services, for example, bankers’ associations;
- (j) holding companies that exercise some aspects of managerial control over their subsidiaries (see paragraph 4.85);
- (k) foreign exchange bureaus and money transfer operators;
- (l) resident offices of foreign banks that do not accept deposits or extend credit on their own account;
- (m) corporations primarily involved in operation of electronic payment mechanisms that do not incur liabilities against the instruments (if they do incur liabilities against the instruments, then they are other financial intermediaries except ICPFs); and

⁶Clearing offices are classified as financial auxiliaries when they facilitate transactions without acting as the counterparty; in contrast, central clearing counterparties, as discussed in paragraph 4.77(d) are counterparties and thus are classified as intermediaries rather than auxiliaries.

- (n) central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units.

4.81 Corporations facilitating financial transactions, such as central clearing counterparties, stock exchanges, derivative exchanges, and repurchase agreement settlement institutions are financial intermediaries, if they generally act as principals to the counterparties to the underlying transactions; otherwise they are financial auxiliaries.

Captive financial institutions and money lenders

4.82 *Captive financial institutions and money lenders consist of institutional units providing financial services other than insurance, where most of either their assets or liabilities are not transacted on open financial markets.* It includes entities transacting only within a limited group of units, such as with subsidiaries or subsidiaries of the same holding corporation, or entities that provide loans from own funds provided by only one sponsor. Other financial intermediaries, except ICPFs (discussed in paragraphs 4.76–4.77) are distinguished from captive financial institutions and money lenders in that the latter serve a limited group only for at least one side of their balance sheet.

4.83 In general, the following financial corporations are classified in this subsector:

- (a) institutional units with the function of simply holding assets, such as trusts, estates, agencies accounts, and some “brassplate” companies;
- (b) institutional units that provide financial services exclusively with own funds, or funds provided by a sponsor to a range of clients and incur the financial risk of the debtor defaulting. Examples are moneylenders and corporations engaged in lending (e.g., student loans, import and export loans) from funds received from a sponsor such as a government unit or nonprofit institution;
- (c) pawnshops that predominantly engage in lending;
- (d) financial corporations, such as SPEs, that raise funds in open markets to be used by affiliated corporations (in contrast to securitization vehicles, see paragraph 4.78); and
- (e) conduits, intragroup financiers, and treasury functions when these functions are undertaken by a separate institutional unit.

Captive insurance companies and pension funds are not included in this subsector.

Holding companies

4.84 Holding companies are included in this subsector, financial auxiliaries, or nonfinancial corporations, according to which functions they undertake. One type of holding company is a unit that holds equity in one or more subsidiaries but does not undertake any management activities. These companies are described in the *International Standard Industrial Classification of All Economic Activities (ISIC)*, Rev. 4, in section K class 6420 as follows:

This class includes the activities of holding companies, i.e. units that hold the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group. The holding companies in this class do not provide any other service to the businesses in which the equity is held, i.e. they do not administer or manage other units.

Such units are captive financial institutions and are included in the financial corporations sector even if all the subsidiaries are nonfinancial corporations. The subsidiaries may be resident in the same economy or in other economies.

4.85 Another type of unit referred to as a holding company is the head office that exercises some aspects of managerial control over its subsidiaries. The head office sometimes may have noticeably fewer employees, and at a more senior level, than its subsidiaries, but it is actively engaged in production. These types of activities are described in *ISIC*, Rev. 4, in section M class 7010 as follows:

This class includes the overseeing and managing of other units of the company or enterprise; undertaking the strategic or organizational planning and decision making role of the company or enterprise; exercising operational control and managing the day-to-day operations of their related units.

Such units are allocated to the nonfinancial corporations sector unless all or most of their subsidiaries are financial corporations, in which case they are treated by convention as financial auxiliaries. The subsidiaries may be resident in the same economy or in other economies. Other entities that hold and manage subsidiaries may have substantial operations in their own right, in which case the holding company functions may be secondary, so they would be classified according to their predominant operations.

Conduits

4.86 *A conduit is an entity that raises funds on open financial markets for passing on to other affiliated enterprises.* Often, the conduit's liabilities are guaranteed by a parent company. If a conduit issues new financial instruments, which could be debt securities, shares, or partnership interests, that represent a claim on the conduit, it is acting as a captive financial institution. (Conduits are a case of "pass-through funds," discussed in paragraph 6.34.)

Wealth-holding entities

4.87 Institutional units that solely hold assets and liabilities, along with the associated property income, for their owners are classified as captive financial institutions. Some SPEs and trusts perform these functions. SPEs are discussed further in paragraphs 4.50–4.52. Although there is no internationally standard definition of SPEs, in economies in which they are important they may be identified separately, according to either a national company law definition, or in terms of a functional description, possibly referring to their limited physical presence and ownership by nonresidents. In economies with large direct investment flows through resident SPEs, it is recommended that these flows be shown as a supplementary item, so that they can be identified separately.

Insurance corporations

4.88 *Insurance corporations consist of incorporated, mutual, and other entities whose principal function is to provide life, accident, health, fire, or other forms of insurance to individual institutional units or groups of units or reinsurance services to other insurance corporations.* Captive insurance is included, that is, an insurance company that serves only its owners. Deposit insurers, issuers of deposit guarantees, deposit protection schemes, and other issuers of standardized guarantees that are separate entities and act like insurers by charging premiums and have reserves are classified as insurance corporations. (The relevant specialized instruments—nonlife insurance technical reserves, and life insurance and annuity entitlements—are discussed in paragraphs 5.64–5.65.)

Pension funds

4.89 Pension liabilities arise when members of households participate in a social insurance scheme that will provide income in retirement (and often benefits for death or disability). Such schemes may be organized by employers or by government; they also

may be organized by insurance corporations on behalf of employees; or separate institutional units may be established to hold and manage the assets to be used to meet the pension obligations and to distribute the pensions. Pension schemes may be operated by a separately constituted pension fund or a fund that is part of the employer, or they may be unfunded. *The pension fund subsector consists of only those social insurance pension funds that are institutional units separate from the units that create them.*

4.90 Social security schemes are not included in pension funds, although they sometimes may have pension entitlement liabilities if they provide pensions to public sector employees. In the case of unfunded pension schemes, general government and corporations other than pension funds may have pension entitlement liabilities. Nonautonomous pension funds are not separated from the entity of which they are part. (Pension entitlements as a type of financial asset or liability are discussed in paragraph 5.66.)

c. General government

4.91 *Government units are unique kinds of legal entities established by political processes and have legislative, judicial, or executive authority over other institutional units within a given area.* Viewed as institutional units, the principal functions of government are to assume responsibility for the provision of goods and services to the community or individual households and to finance their provision out of taxation or other incomes; to redistribute income and wealth by means of transfers; and to engage in nonmarket production. In general terms:

- (a) A government usually has the authority to raise funds by collecting taxes or compulsory transfers from other institutional units.
- (b) Government units typically make three different kinds of outlays. The first group consists of actual or imputed expenditures on the free provision to the community of collective services, such as public administration, defense, law enforcement, public health, and so on. The second group consists of expenditures on the provision of goods and services for free or at prices that are not economically significant. The third group consists of transfers to other institutional units that are made to redistribute income or wealth.

Within a single territory, many separate government units may exist when there are different levels of government, specifically central, state, or local govern-

ment. In addition, social security funds also constitute government units.

4.92 The general government sector consists of departments, branches, agencies, foundations, institutes, non-market nonprofit institutions controlled by government, and other publicly controlled organizations engaging in nonmarket activities. As discussed in paragraph 4.5, the operations of a government that are located abroad and that are largely exempt from the laws of the territory in which they are located, such as embassies, consulates, and military bases, are a part of the home government. Government units are mainly involved in the production of goods and services that may be provided free of charge or sold at prices that are not economically significant. Government-controlled enterprises that (a) produce market output (i.e., charge prices that are economically significant), and (b) have complete sets of accounts are excluded from general government and are included as public enterprises in the appropriate nonfinancial or financial corporations sector. The requirement that prices be economically significant means that prices must be high enough to have an impact on the demand for, and supply of, a good or service.⁷

Government entities resident abroad

4.93 If a government uses an entity that is resident in the economic territory of another government to carry out general government activities (i.e., fiscal activities, rather than for a public corporation, as defined in paragraph 4.108), that entity is not included as part of the general government in either its economy of residence or the economy of the government that uses the entity. Such entities are not treated in the same way as embassies and other territorial enclaves if they are created and operate under the laws of the host economy. As noted in paragraph 6.20(d), governments may be direct investors in these cases. However, as noted in paragraphs 8.24–8.26, 11.40, and 12.48, special imputations of transactions and positions between the government and the entity are adopted to ensure that any fiscal operations undertaken through nonresident entities are reflected in the transactions and positions of the government concerned.

⁷The classification of a “special purpose government fund” controlled by government in the general government or financial corporations sectors is determined according to the criteria set out in paragraphs 4.63–4.92, such as whether they charge economically significant prices for their services. If the fund is an entity incorporated abroad or quasi-corporation located abroad, it is classified as a separate institutional unit in the financial corporations sector resident in its economy of incorporation. See also paragraphs 6.93–6.98 for more information on “special purpose government funds.”

Restructuring agencies

4.94 Restructuring agencies are entities set up to sell corporations and other assets, and to reorganize companies. They also may be used for defeasance of impaired assets or repayment of liabilities of insolvent entities, often in the context of a banking crisis. Restructuring agencies are involved in such activities as managing liabilities and their repayment, managing impaired assets and their sale on the market, and in the financing of the process.

4.95 When the restructuring agency is government funded and is considered not to be putting itself at risk, for example, because the debt liabilities it manages are disproportionately large relative to the fair value of its assets, then it is considered to be operating for fiscal purposes, rather than on a commercial basis, so that the agency is part of the general government sector. For instance, if a restructuring agency deliberately purchases assets at above-market prices with direct or indirect financial support from the government and does not place itself at risk, it is considered to be operating for fiscal purposes and therefore should be classified in the general government sector. Otherwise, it is classified as a financial corporation according to the nature of its operations, usually in the subsector other financial intermediaries except ICPFs. For instance, if the restructuring agency borrows on the market at its own risk to acquire financial or nonfinancial assets that it actively manages, the unit should be classified as a financial corporation. Asset management companies that acquire, manage, and dispose of impaired bank assets, and that are considered to be putting themselves at risk, are classified this way.

d. Households

Reference:

2008 SNA, Chapter 24, The Households Sector.

4.96 A household is defined as a group of persons who share the same living accommodation, who pool some or all of their income and wealth, and who consume certain types of goods and services collectively, mainly housing and food. Households often coincide with families. However, members of a family are not always members of the same household, if they live separately. Equally, members of the same household do not necessarily have to belong to the same family if they share resources and consumption.

4.97 Households may be of any size and take a wide variety of different forms in different societies or cultures depending on tradition, religion, education,

climate, geography, history, and other socioeconomic factors. Institutional households include persons in retirement homes, jails, hospitals, and religious orders.

4.98 Although each member of a household is a legal entity, the household is an appropriate unit for statistical purposes because many economic decisions are made at the household level and transactions within the household are outside the scope of economic statistics. The members of a household are all residents in the same economic territory. A person who pools income with the household in one economic territory, but is resident of another economic territory, is not classified as a member of that household. A single person can constitute a household.

4.99 The households sector includes enterprises owned by household members that do not satisfy the definition of a quasi-corporation. For example, if the business affairs of a household are not separable from the personal consumption of household members, then the business would not satisfy the requirements for a quasi-corporation to have the ability to produce accounts. (Some unincorporated businesses are treated as quasi-corporations, as discussed in paragraphs 4.34–4.40 and 4.49.)

e. Nonprofit institutions serving households

Reference:

2008 SNA, Chapter 23, Non-profit Institutions in the SNA.

4.100 *NPISHs are entities mainly engaged in providing goods and services to households or the community at large free of charge or at prices that are not economically significant (and thus are classified as nonmarket producers), except those that are controlled and mainly financed by government units.* Examples include charities, relief and aid organizations financed by voluntary transfers, as well as trade unions, professional or learned societies, consumers' associations, religious institutions, and social, cultural, and recreational clubs that do not charge economically significant prices. They may be corporations, foundations, trusts, or other unincorporated entities.

4.101 NPISHs are mainly financed from contributions, subscriptions from members, or earnings on holdings of real or financial assets. The NPISH sector is a subset of nonprofit institutions. Those that charge economically significant prices are included in the financial or nonfinancial corporations or households sectors, as relevant. Additionally, nonprofit institutions

serving businesses, such as chambers of commerce and trade associations, are included in the corporations sectors (see paragraph 12.57 on their membership dues). When this *Manual* refers to nonprofit institutions, it includes all nonprofit institutions.

f. Rest of the world

4.102 The rest of the world consists of all nonresident institutional units that enter into transactions with resident units or that have other economic links with resident units. The rest of the world sector is identified in the national accounts, while it is the counterparty in all international accounts items.

International organizations

4.103 International organizations have the following characteristics:

- (a) The members of an international organization are either national states or other international organizations whose members are national states; they thus derive their authority either directly from the national states that are their members or indirectly from them through other international organizations.
- (b) They are entities established by formal political agreements between their members that have the status of international treaties; their existence is recognized by law in their member countries.
- (c) International organizations are created for various purposes:
 - International financial organizations—these entities conduct financial intermediation at an international level (i.e., channeling funds between lenders and borrowers in different economies). A central bank to a group of economies (including currency union central banks) is an example of an international financial organization. Other examples are the IMF, World Bank Group, BIS, and regional development banks; and
 - Other international organizations—these entities provide nonmarket services of a collective nature for the benefit of their member states, such as peacekeeping, education, science, policy issues, and other research.

4.104 International organizations may be global or regional. An international agency responsible for functions normally undertaken by general government, such

as administration and policing, is classified as an international organization, but it may be useful to identify such agencies separately in statistics.

4.105 International organizations are treated as not being resident of the territories in which they are located. This treatment is because they are generally exempted from, or are only partially subject to, national laws or regulations, and so they are not considered to be part of the national economy of the territory, or territories, in which they are located.

4.106 International organizations may be presented as an institutional sector in some cases. First, they may appear in data for a currency union or economic union, in which case, international organizations of the union are residents of the union as a whole. Second, they may be of relevance when data by sector of counterparty are prepared, for example, for sources of current transfers. Such data would be of particular interest in economies in which international organizations have a substantial presence.

4.107 In contrast to international organizations, enterprises owned jointly by two or more governments are not treated as international organizations but like other enterprises. The distinction is based on whether the organization produces for the market and is important because of the different treatments for the residence of international organizations and enterprises. Separate pension funds for the staff of international organizations are treated as pension funds, rather than as international organizations. Therefore, the residence of these pension funds is determined in accord with paragraph 4.141.

g. Additional detail for public corporations

Reference:

2008 SNA, Chapter 4, Institutional Units and Sectors, and Chapter 22, The General Government and Public Sectors.

4.108 *A corporation is a public corporation if a government unit, another public corporation, or some combination of government units and public corporations controls the entity, where control is defined as the ability to determine the general corporate policy of the corporation.* The expression “general corporate policy” as used here is understood in a broad sense to mean the key financial and operating policies relating to the corporation’s strategic objectives as a market producer. (This use of public corporation as a term should be distinguished from the use of the same term to refer to a public corporation whose shares are traded on public markets.) Public corporations may be shown as “of which” items for the

financial and nonfinancial corporations sectors or sub-sectors as supplementary items, when relevant.

4.109 Because governments exercise sovereign powers through legislation, regulations, orders, and the like, care needs to be applied in determining whether the exercise of such powers amounts to a determination of the general corporate policy of a particular corporation and therefore control of the corporation. Laws and regulations applicable to all units as a class or to a particular industry should not be viewed as amounting to control of these units. The ability to determine the general corporate policy does not necessarily include the direct control of the day-to-day activities or operations of a particular corporation. Because the arrangements for the control of corporations can vary considerably, it is neither desirable nor feasible to prescribe a definitive list of factors to be taken into account. The following eight indicators, however, will normally be the most important factors to consider:

- (a) ownership of the majority of the voting interest;
- (b) control of the board or other governing body;
- (c) control of the appointment and removal of key personnel;
- (d) control of key committees of the entity;
- (e) golden shares and options (golden shares give the holder a decisive vote, even without a majority of shares);
- (f) regulation and control;
- (g) control by a dominant customer; and
- (h) control attached to borrowing from the government.

4.110 Although a single indicator could be sufficient to establish control, in other cases, a number of separate indicators may collectively indicate control. A decision based on the totality of all indicators must necessarily be judgmental in nature. International accounts compilers should consult with government finance statisticians to ensure consistent treatments.

4.111 Public-private partnerships are long-term contracts, whereby a private entity acquires or builds an asset, operates it for a period, and then hands it over to a government. The private entity may be a direct investment enterprise. These schemes may be called private finance initiatives; build, own, operate, transfer (BOOT) schemes; and so on. As with leases, the economic owner of the assets related to such an arrangement is determined by assessing which unit bears the majority of the risks and which unit is expected to

receive a majority of the rewards of the assets. More details are available in *2008 SNA*, Chapter 22.

4.112 Corporations subject to the control of a government that is resident in a different economy from that government are not classified as public corporations. They receive this treatment because they are not public companies related to the government of their economy of residence. These corporations differ from embassies and military bases in that they are subject to local laws and so should be seen as part of their economy of location.

E. Residence

I. General principles

Reference:

2008 SNA, Chapter 4, Institutional Units and Sectors, and Chapter 26, The Rest of the World Accounts.

4.113 *The residence of each institutional unit is the economic territory with which it has the strongest connection, expressed as its center of predominant economic interest.* Each institutional unit is a resident of one and only one economic territory determined by its center of predominant economic interest. Specific criteria for determining residence are given below. The definitions given below are designed to apply the concept of center of predominant economic interest. These definitions should be used in preference to a discretionary choice between different possible aspects of economic interest.

4.114 *An institutional unit is resident in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale.* The location need not be fixed so long as it remains within the economic territory. Actual or intended location for one year or more is used as an operational definition; although the choice of one year as a specific period is somewhat arbitrary, it is adopted to avoid uncertainty and facilitate international consistency.

4.115 In overview, residence of selected entities is as follows, subject to the more detailed elaboration in paragraphs 4.116–4.144:

- (a) The residence of individual persons is determined by that of the household of which they are a part

and not by their place of work. All members of the same household have the same residence as the household itself, even though they may cross borders to work or otherwise spend periods of time abroad. If they work and reside abroad so that they acquire a center of predominant economic interest abroad, they cease to be members of their original households.

- (b) Unincorporated enterprises that are not quasi-corporations are not separate institutional units from their owners and, therefore, have the same residence as their owners. (However, the criteria for recognizing a branch in paragraph 4.27 mean that significant cross-border businesses will almost always be recognized as quasi-corporations.)
- (c) Corporations and nonprofit institutions normally may be expected to have a center of economic interest in the economy in which they are legally constituted and registered. Corporations may be resident in economies different from their shareholders and subsidiaries may be resident in different economies from their parent corporations. When a corporation, or unincorporated enterprise, maintains a branch, office, or production site in another territory to engage in a significant amount of production over a long period of time (usually one year or more) but without creating a corporation for the purpose, the branch, office, or site is considered to be a quasi-corporation (i.e., a separate institutional unit) resident in the territory in which it is located.
- (d) For entities, such as many SPEs, that have few if any attributes of location, the residence is determined by their place of incorporation.
- (e) When a nonresident has ownership of land and buildings, and natural resources other than land, the assets are deemed to be owned by a notional resident institutional unit in the economy of location, even if they do not engage in other economic activities or transactions in the economy. All land, buildings, and natural resources other than land are therefore owned by residents.

2. Residence of households

4.116 Although many people are clearly strongly connected to only one economy, others have substantial economic interests in two or more economic territories. Factors such as location of dwellings, employment, asset holdings, citizenship, migration status, income tax

status, income received, expenditure, business interests, and location of dependent family members may point to different economies. To identify the economy of residence when there are connections to two or more economies, the following definition is used to identify the center of predominant economic interest.

4.117 *A household is resident in the economic territory in which household members maintain or intend to maintain a dwelling or succession of dwellings treated and used by members of the household as their principal dwelling. Being present for one year or more in a territory or intending to do so is sufficient to qualify as having a principal dwelling there.* If there is uncertainty about which dwelling is the principal dwelling, it is identified from the length of time spent there, rather than other factors such as presence of other family members, cost, size, or length of tenure.

4.118 Individuals who belong to the same household must be residents of the same territory. If a member of an existing household ceases to reside in the territory where his or her household is resident, the individual ceases to be a member of that household. As a result of this definition, the use of households as the institutional unit is compatible with residence being determined on an individual basis.

4.119 Further to the general principles, some other factors are used to determine residence of particular categories. These categories are students, medical patients, ship's crew, as well as national diplomats, military personnel, staff of scientific stations, and other civil servants employed abroad in government enclaves (these enclaves are discussed in paragraph 4.5(e)). In these cases, some other connections are considered to be more important in determining residence. In the case of significant population movements between two particular territories, compilers in each territory should cooperate to ensure consistent definitions and measurement.

Students

4.120 People who go abroad for full-time study generally continue to be resident in the territory in which they were resident prior to studying abroad. This treatment is adopted even though their course of study may exceed a year. However, students change to being residents of the territory in which they are studying when they develop an intention to continue their presence in the territory of study after the completion of the studies. For students, the rationale for not changing the territory of residence is that the movement to the different territory is considered to have a temporary motivation, that is, their center of

predominant economic interest remains with the home territory. The residence of accompanying dependents of students is determined in the same manner as the persons they accompany. The tuition and other expenditure of students in their host economies are included in travel (see paragraph 10.89).

Patients

4.121 People who go abroad for the purpose of medical treatment maintain their predominant center of interest in the territory in which they were resident before they received the treatment, even in the rare cases in which complex treatments take a year or more. As with students, the movement is considered to have a temporary motivation. The residence of accompanying dependents of patients is determined in the same manner as the persons they accompany.

Crew of ships and so on

4.122 Crew of ships, aircraft, oil rigs, space stations, or other similar equipment that operate outside a territory or across several territories are treated as being resident in their home base territory. The home base is determined from where they spend most time other than undertaking their duties. The home base is regarded as a stronger connection than the location of the mobile equipment or its operator, even though most of the time may be spent at the latter location.

Diplomats, military personnel, and so on

4.123 National diplomats, peacekeeping and other military personnel, and other civil servants employed abroad in government enclaves, as well as members of their households are considered to be residents of the economic territory of the employing government. Those enclaves—military bases, embassies, and the like, as discussed in paragraph 4.5(e)—form part of the economic territory of the employing government. They continue to be residents in their home economies even if they live in dwellings outside the enclaves. The expenditure of diplomats and so on in their host economies is included in government goods and services n.i.e. (see paragraph 10.177). Other employees, such as locally recruited staff, are resident in the location of their principal dwelling.

International organization staff

4.124 Staff of international organizations, including those with diplomatic status and military personnel,

are resident in the territory of their principal dwelling. The treatment of international organization staff is different from national diplomats and others discussed in the previous paragraph because the latter continue to be paid from and directed by their home government and tend to have shorter postings and rotate back to their economy of origin.

Cross-border workers

4.125 Border workers, seasonal workers, and other short-term workers cross borders for a short period to undertake a job. No special treatment is adopted, so their residence is determined according to the criteria in paragraph 4.117. Border workers are employed persons who cross from one territory to another to attend their place of employment. Seasonal workers cross the border for particular periods, such as the harvest or tourist seasons to attend a place of employment. Other short-term employment may occur for a particular task, such as a construction project, repairs, delivery of advice, and so on. In each case, the residence of the persons concerned is based on the principal dwelling, rather than the territory of employment.

Highly mobile individuals

4.126 Some individuals have close connections with two or more territories, for example, they have dwellings in more than one territory in which they spend significant amounts of time. For individuals who do not have continuous actual or intended presence in any one territory for one year, the territory of the principal dwelling they maintain is the key consideration. In cases of no principal dwelling, or two or more principal dwellings in different economies, the territory of residence is determined on the basis of the territory in which the predominant amount of time is spent in the year. Although these individuals need to be classified as residents of a single economy for statistical purposes, additional information may be needed in recognition of strong ties to another economy. The statistical result of classifying long-term guest workers as residents of the host economy is appropriate, however, in that their income and consumption in the host territory are not treated as international transactions, only the amounts actually sent to the home economy are. The alternative would involve artificial rerouting—the income credits and travel debits would be attributed to the home territory.

4.127 Nevertheless, it may be desirable for compilers to provide supplementary data on groups of non-residents that have significant links with the economy,

for example, by remitting funds to family members remaining there or by intending to return there with savings or pension entitlements. Similarly, it may be desirable to have supplementary data on those who are classified as residents of the economy, but maintain significant links to other economies. Appendix 5 discusses some supplementary presentations for flows associated with some of these mobile individuals.

Refugees

4.128 No special treatment is adopted for refugees. Their residence will change from their home territory to the territory of refuge, if they have stayed or intend to stay in their place of refuge for one year or more, even if that residence is involuntary or transient, and its future status is unclear.

Application of residence principles

4.129 In practice, residence principles are generally not applied to specific individuals, but to broad groups of people. As a result, factors such as intention to stay for one year or more are typically inferred from patterns of similar groups in the past. Some administrative data sources may vary somewhat from statistical definitions of residence. If the variations are significant, some adjustment may be made, or the administrative definition may be considered as an acceptable approximation in practice.

4.130 The determination of residence results in how the income, expenditure, and financial positions of the households concerned are treated in international accounts statistics. Table 4.3 provides a brief summary of some of the implications for the international accounts of whether a household is classified as resident or non-resident of the reporting economy for different types of flows. For example, a nonresident student studying in a territory is shown as being a source of service credits for education, housing, food, other goods and services, and possibly transfer debits, if the student is receiving a scholarship from the host economy. For a resident student, these transactions would be out of scope of the international accounts. The effect of changes of residence of persons is discussed in paragraph 4.165.

3. Residence of enterprises

4.131 *As a general principle, an enterprise is resident in an economic territory when the enterprise is engaged in a significant amount of production of goods or services from a location in the territory.* Additional

Table 4.3. Selected Effects of a Household's Residence Status on the Statistics of the Host Economy

Economic flow or position	Resident (e.g., long-term guest worker)	Nonresident (e.g., short-term guest worker)
Compensation of employees received from enterprises in the reporting economy	Not international transaction	Primary income
Personal expenditure in the reporting economy	Not international transaction	Services, mainly travel
Transfers to relatives in home economy	Current or capital transfers	Resident-resident transfer within home economy, so outside balance of payments (However, possible financial account transactions if made from bank in host economy)
A resident institutional unit's financial claims on or liabilities to the household	Not in international accounts	Included in international accounts
Land and buildings in host economy	Not included in international investment position	Direct investment liability of the reporting economy in notional resident unit
Land and buildings in home economy	Direct investment asset in notional resident unit	Not included in international investment position

principles are spelled out in paragraphs 4.134–4.136. As stated in paragraph 4.23, an enterprise is an institutional unit engaged in production and may be a corporation or quasi-corporation, a nonprofit institution, or an unincorporated enterprise (part of household sector).

4.132 In contrast to individuals and households, which may have connections to two or more economies, enterprises are almost always connected to a single economy. Taxation and other legal requirements tend to result in the use of a separate legal entity for operations in each legal jurisdiction. In addition, a separate institutional unit is identified for statistical purposes in cases in which a single legal entity has substantial operations in two or more territories (e.g., for branches, land ownership, and multiterritory enterprises, as noted in paragraphs 4.26–4.44). As a result of splitting such legal entities, the residence of each of the subsequently identified enterprises is clear. The introduction of the terminology “center of predominant economic interest” does not mean that entities with substantial operations in two or more territories no longer need to be split.

4.133 It is generally required that production take place or is planned to take place in the territory over a period of a year or more for a quasi-corporation to be identified. All enterprises must be resident somewhere, however, so if an actual institutional unit's only activity is a production process that is undertaken over a shorter period, the unit is resident in the territory of location of the production.

Corporations with little or no physical presence

4.134 A legal entity is resident in the economic territory under whose laws the entity is incorporated or registered. If it is a resident artificial subsidiary, it is combined with a parent resident in the same economy to form an institutional unit (paragraph 4.18) or, for some purposes, combined into a local enterprise group (paragraph 4.55). However, it must not be combined with entities resident in other economies. If it has substantial operations in another economy, a branch may be identified there (paragraph 4.26). In some cases, a corporation has little or no physical presence, for example, its administration is entirely contracted out to other entities. Banking, insurance, investment funds (as distinct from their managers), securitization vehicles, and some SPEs often operate this way. Similarly, with virtual manufacturing, all the physical processes are outsourced to other units.

4.135 A single corporation might be registered in several jurisdictions, for example, incorporation, income tax, value-added tax, and particular regulations, and a jurisdiction may have been agreed on for settling disputes involving the enterprise. In such cases, the jurisdiction of the laws that govern the creation and continued existence of the entity should be used as the criterion for determining residence. If there is no incorporation or registration, legal domicile is used as a criterion. The incorporation and registration represents a substantial degree of connection to the economy, asso-

Table 4.4. Selected Effects of the Residence Status of an Enterprise Owned by a Nonresident on the Statistics of the Host Economy

Economic flow or position	Resident enterprise (e.g., long-term construction project)	Nonresident enterprise (e.g., short-term construction project)
Sales by enterprise to residents	Not international transaction	Imports of goods and services
Purchases by enterprise from residents	Not international transaction	Exports of goods and services
Compensation of employees payable to residents of host economy	Not international transaction if receivable	Compensation of employees
Compensation of employees payable to residents of home economy	Compensation of employees	Not transaction of host economy
Net operating surplus	Dividends payable or reinvested earnings (enterprise is a direct investment enterprise)	Not international transaction
Injections of funds by owners	Direct investment liabilities of the reporting economy (enterprise is a direct investment enterprise)	Not international transaction
A resident institutional unit's financial claims on or liabilities to the enterprise	Not included in international accounts	Included in international accounts

ciated with jurisdiction over the enterprise's existence and operations. In contrast, other connections such as ownership, location of assets, or location of managers or administration may be less clear-cut.

Production delivered from a base

4.136 In some cases, an enterprise has a location that is used as a base to deliver services to other locations. For example, this mode is used for transport (discussed under mobile equipment in paragraph 4.31) and also may be used for delivery of many kinds of services, such as on-site repairs, short-term construction, and many types of business services. In such cases, the residence of the enterprise is determined from its base of operations, rather than the point of delivery or location of mobile equipment, unless the activities at the point of delivery are sufficiently substantial to amount to a branch, as defined in paragraph 4.27. For example, an institutional unit that operates ships on the high seas and various territorial waters has its residence determined according to the criteria in paragraphs 4.131–4.135, and the economy of residence is not necessarily the same as the location where the ships spend the most time or the territory of registration of the ships. Additionally, the enterprise that operates the ships is not necessarily the same as the enterprise that owns the ships, such as where the ship operator has an operating lease from the ship owner, who is resident in another economy. The residence of

the enterprise that owns the ship is determined according to the criteria in paragraphs 4.131–4.135. Flags of convenience used by enterprises do not determine the residence of the operator, and indeed a single shipping operator may have ships registered in several economies. Similarly, the residence of enterprises that charter ships is determined by the location of its own base of operations, rather than the flags or locations of particular ships. The base of operations does not necessarily equate to the location from which the enterprise is managed. A company operating mobile equipment may be legally domiciled in one economy but managed from another economy.

4.137 Table 4.4 provides a brief summary of some of the implications for the international accounts of whether an enterprise is treated as a resident enterprise or as a nonresident for different types of flows and positions. The possibility of change of residence by enterprises is discussed in paragraph 4.167.

4. Residence of other institutional units

a. General government

4.138 General government includes operations outside the home territory, such as embassies, consulates, military bases, and other enclaves of foreign governments, including those providing training and other forms of assistance. Usually, these operations are not

separate institutional units, but even if they were, they are residents of their home territory, rather than the host territory in which they are physically located. This treatment is adopted because they usually have some degree of immunity from the host territory's laws and are deemed under international law to be extensions of the home government's territory. However, an entity created by a government under the laws of the host jurisdiction is an enterprise resident in the host economy and not part of the general government sector in either economy. (See also paragraph 4.93 for further discussion of such cases.) The residence of the employees of these operations is discussed in paragraph 4.123.

b. International organizations

4.139 International organizations are defined in paragraphs 4.103–4.107. International organizations are resident in an economic territory of their own, and not of the economy in which they are physically located. This treatment applies to both international organizations located in only one territory and those located in two or more territories. The residence of the employees of these operations is discussed in paragraph 4.124.

4.140 An international organization that operates peacekeeping and other military forces or that acts as the interim administration in a territory remains classified as an international organization and is nonresident in that territory, even if it undertakes general government functions. In cases in which these organizations are significant, it may be desirable to identify them separately.

4.141 A separately constituted pension fund of an international organization is not treated as an international organization, but it is regarded as a financial corporation. Its residence is determined according to the general principles in paragraphs 4.131–4.135—that is, it is a resident of the territory in which it is located, and if it lacks a physical presence, it is a resident of the economy in which it is incorporated or registered.

c. Regional international organizations

4.142 Some international organizations cover a group of economies in a particular region, such as with economic or currency unions. If statistics are prepared for that region as a whole, these regional organizations are residents of the region as a whole, even though they are not residents of any member economy (see Appendix 3 for further information in the case of currency and economic unions).

4.143 When producing global or regional totals, international organizations are combined with national data when deriving global and regional totals, such as for the international transactions and positions compiled by the IMF.

d. NPISHs

4.144 An NPISH has a center of economic interest in the economy in which the institution was legally created and is officially recognized and recorded as a legal or social entity. In practice, residence of the vast majority of NPISHs may be determined without ambiguity. When an NPISH is engaged in charity or relief work on an international scale, it may maintain substantial operations for individual territories that may amount to branches (see discussion in paragraph 4.27). Such a branch is usually financed largely or entirely by current or capital transfers from abroad. NPISHs are not international organizations, which are limited to those created by governments.

F. Issues Associated with Residence

I. Assets and liabilities held by groups that include both residents and nonresidents

4.145 Some financial assets have owners who are residents of different economic territories. Examples include joint bank accounts or other cases in which an account holder authorizes relatives to withdraw funds from the account. In these cases, the allocation between the owners may be unclear:

- In the case of deposits of emigrant workers in their home economies that are freely usable by family members resident in the home economies, a convention can be adopted to treat these assets as being held by residents of the home economy.
- Similarly, for deposits of emigrant workers in the host economy that are freely usable by family members, a convention can be adopted to treat these as being held by a resident of the host economy.

(See *Monetary and Financial Statistics Compilation Guide*, paragraph 3.46.)

Compilers may adopt another treatment if better information is available. Because these accounts may be used to make transfers, it is important that such transactions are recognized at either the time of deposit or time of withdrawal (depending on the convention adopted). It is also important that compilers discuss methods with

the compilers of monetary and financial statistics and compilers in the counterpart economy with a view to adopting consistent and realistic treatments in cases in which the values are significant.

2. Data by partner economy

4.146 The primary presentation of international accounts shows positions and transactions with all non-residents as a total, but data on positions and transactions with nonresidents broken down into individual partner economies or groups of economies are of considerable interest. (The possible split of data by partner institutional sector is discussed in paragraph 4.57.) Data may be provided for the balance of payments or IIP as a whole, or for particular components, such as goods, services, direct investment, or portfolio investment. As well as for economic analysis, partner data make bilateral comparisons possible and, hence, assist in identifying data problems. For example, partner data are an essential element of the IMF's Coordinated Portfolio Investment Survey and Coordinated Direct Investment Survey as well as the BIS's international banking statistics.

4.147 Partner data are often prepared for groups of economies or a mix of groupings and major individual partner economies. (Because partner economies are often grouped into regions, the data are sometimes called regional statements.) It is desirable to follow standard lists of economies and regions, such as those of the United Nations or IMF. The partner data published may be aggregated to groups of economies because of confidentiality and to avoid categories with minimal values. In addition to economies and regions, categories for international organizations as counterparties are needed. Partner data are also necessary to consolidate data from member states into data for a currency union. Additional information on partner data is dealt with in paragraphs A3.21–A3.28.

4.148 The basic principle for data by partner economy is based on the economy of residence of the counterparty to the transaction or financial position. The same principles for determining residence, as discussed in Section E of this chapter, are applicable, but they are often more difficult to apply because the information is not known to the resident counterparty. In a number of cases listed in paragraphs 4.149–4.164, the main potential source of information may fall short of the preferred basis. In each case, such divergences should be noted by compilers and their significance assessed to determine whether adjustments are needed. The balance of payments statement as a whole is conceptually balanced because each transaction involves two equal

flows; however, bilateral balance of payments may not balance (even in theory) (see paragraph A3.73).

a. Agents

4.149 An agent is a party who acts on behalf of or as a representative for another party. Transactions arranged by an agent on behalf of a principal should be attributed to the principal, not to the agent. For example, if an agent issues tickets on behalf of an airline resident in another economy, the transactions and positions related to those tickets are attributed to the airline. However, an agent also may undertake transactions on its own account, including the agency services it provides to the principal.

b. Goods

4.150 In line with the change of ownership principle, the residence of the seller or purchaser of the good is the preferred concept for identification of the partner. In practice, available data may be based on the economy of origin,⁸ consignment, destination, or other criteria that, in some cases, may differ from the economy of the seller or purchaser. In general, the economy of final destination (for the partner to exports) is considered to be more likely to correspond with the party taking ownership of the goods. Similarly, the economy of origin (for the partner to imports) is considered to be more likely to correspond with the party conveying ownership of the goods. However, economy of origin, destination, and consignment can be misleading as to ownership in cases of merchanting and goods processed on a fee basis. In those cases, adjustments should be considered to accord with the change of ownership principle as much as possible.

c. Freight and insurance

4.151 Freight and insurance beyond the frontiers of the exporter are imputed in international accounts statistics as being payable by the importer, even if payable by the exporter, wholesaler, or other third party. In practice, data may be recorded on other bases, such as the economy of source or destination of the goods carried, or the registration of the ship. In cases in which this occurs, adjustments for the effect of these factors should be made, where possible.

⁸Economy of origin is defined in *International Merchandise Trade Statistics: Concepts and Definitions*, paragraph 139, as where the goods were wholly produced, or where there was "substantial transformation" in cases of production taking place in two or more economies.

d. Financial instruments

4.152 Partner data on asset positions are classified to the partner economy according to the residence of the issuer, not other factors such as the place of issue, the residence of a guarantor, or the currency of issue. Similarly, partner data on liability positions are classified according to the residence of the holders. In practice, identification of counterparty for securities positions, income, and transactions is difficult for various reasons, including that (a) the issuer is not always aware of current holders of securities, (b) transactors in securities markets may not be aware of the identity of the counterparty, and (c) security holders may be unaware that income on securities positions may be payable by a financial intermediary that created a “short” or reverse position in the security rather than by the issuer of the security.

4.153 Classification of balance of payments transactions in financial instruments by partner raises some additional issues to those for the IIP, in terms of data availability and user interest. These issues arise when an existing instrument is sold by a holder to another party. Such transactions involve only an exchange of assets, in contrast to the initial issue of a new instrument, which involves the creation of a new liability. This situation applies not only to securities, but also to other instruments that are traded, such as loans, deposits, banknotes, and coin.

4.154 For balance of payments transactions, the partner attribution could be made on the basis of the parties to the transaction (namely, the buyer and the seller, the so-called transactor approach), or for assets owned, the residence of the issuer (the so-called debtor-creditor approach). In these cases, it is acceptable to adopt a convention for partner attribution of assets owned based on the residence of either the counterparty to the transaction or the issuer. On practical grounds, the information available does not always permit identification of the two parties to the transaction. As noted in paragraph 14.24, both the debtor-creditor and transactor bases could be of analytical interest. (See also paragraphs 3.7–3.8.)

e. Securities

4.155 The partner attribution of a liability position or issue of a liability is made on the basis of the residence of the issuer. In cases in which a security is issued in a market other than where the issuer is resident, there is a need for particular attention. For example, for debt securities, the security identification number could be based on the economy of issue.

f. Direct investment

4.156 For direct investment, there can be chains of voting power, such as when a direct investor in Economy A has a subsidiary in Economy B, which in turn has a subsidiary in Economy C. In this case, for the direct investment in Economy C

- (a) the economy of **immediate** ownership is Economy B; and
- (b) the **ultimate** investing economy is Economy A.

As a basic principle, direct investment transactions and positions by partner economy should be reported according to the immediate host or investing economy, based on the direct relationships between the parties rather than based on the residence of the ultimate partner economies or transactors. The partner allocation is based on the economy of the debtor (for transactions in securities, this is the economy of the issuer) rather than that of the counterpart transactor, if different. However, a resident and a nonresident must engage in a transaction with one another for the transaction to be included in the balance of payments.

4.157 Supplementary data on direct investment positions may be prepared according to ultimate source and host economy (destination). The *OECD Benchmark Definition of Foreign Direct Investment*, fourth edition, provides further information for the identification of ultimate source. When direct investment is channeled through intermediate entities, such as holding companies or SPEs, there may be particular interest in supplementary data, such as the following:

- (a) in original source economies, data on the basis of the **ultimate host economy**;
- (b) in final recipient economies, data on the basis of the **ultimate investing economy** or **ultimate controlling parent**; and
- (c) in intermediate economies, data with **pass-through funds** excluded (see paragraph 6.33).

In the case of round tripping, as discussed in paragraph 6.46, the ultimate investing economy and ultimate host economy are the same.

g. Stripped securities

4.158 Stripped securities (or strips) may be treated as the liability of the original issuer if there is no new security, or of the party creating the stripped securities if a new security is created (as discussed in paragraph 5.50).

h. Securities repurchase agreements

4.159 The treatment of securities under reverse transactions, such as repurchase agreements, is discussed in paragraphs 5.52–5.54. Under that treatment, securities under reverse transactions are regarded as still being owned by the security-providing party, because there is no change of economic ownership.

i. Nominee accounts and custodians

4.160 Nominees are a legal device for holding assets for confidentiality or convenience reasons. The assets held in nominee accounts should be attributed to the beneficial owner, not the nominee. However, for issuers of securities, it may be difficult to identify whether nominees hold assets in their own right or as nominees. Furthermore, if the assets are held by a nominee, it is recognized that it may be difficult to identify the beneficial owner.

j. Depository receipts

4.161 Depository receipts are securities that represent ownership of securities held by a depository (see paragraph 5.23 for further information). The economy of issue of the underlying securities is different from the economy in which the depository receipts are issued. Depository receipts allow investors to acquire an interest in companies in other economies, while still using the payment and settlement systems and registration procedures of another economy. Depository receipts are treated as being a claim on the issuer of the underlying security, not that of the issuer of the depository receipt.

k. Gold bullion included in monetary gold

4.162 Gold bullion that has no counterpart liability is shown as unallocated in position data on assets by counterpart. For partner data on transactions, if a convention based on issuer is adopted, the transaction can be assigned to an unallocated or residual partner economy.

l. Special drawing rights

4.163 These instruments are discussed in paragraphs 5.34–5.35. SDRs are based on a cooperative arrangement among the members of the SDR Department and other participants. The membership (SDR Department participants) incurs the asset and liability positions unto itself. Given that claims on and liabilities to members in the SDR system are attributed on a cooperative basis, an unallocated or residual partner category is used as the counterpart to SDR holdings and SDR allocations.

m. Quasi-corporations

4.164 When an actual entity is split into separate institutional units (such as for joint administration zones, branches, notional resident units, and multiterritory enterprises, as noted in paragraphs 4.10 and 4.26–4.44), they should be split consistently in partner data for statistics in the economy of the counterparties.

3. Changes in residence of institutional units**a. Change in residence of individuals**

4.165 Households or their individual members can change their territory of residence. Because all members of a household are residents of the same territory, the movement of an individual may require that the person leave one household and become a member of another household. The change in the residence by an owner of an asset or by someone who has a liability requires a reclassification, because no exchange is made between two parties and, accordingly, no transaction occurs. (The entries are discussed in paragraphs 9.21–9.22.)

b. Assets moved between entities

4.166 For what are called “corporate migrations,” two situations can occur: one in which assets are moved between entities and another in which the corporation itself changes residence. When a company is said to relocate to another jurisdiction, it usually involves transactions to move assets from a corporation in one economy to a related corporation in a different economy (see paragraphs 8.19–8.22, “corporate inversion and other restructuring”). That is, the ownership of assets is moved, rather than the entity changing residence.

c. Change in residence of entities other than persons

4.167 In contrast, in some rare cases, an entity changes its residence (i.e., without moving assets to ownership by another entity). These cases could arise from exchanges of territory between governments. Additionally, corporation or trust law in some cases allows entity emigration or immigration (e.g., it could be permitted within an economic union, but is not generally the case for most jurisdictions). The effects on the IIP would be treated as other changes in volume in the same way as for the change in residence of an individual, recorded in the other changes in financial assets and liabilities account. (These cases are discussed in paragraph 9.23.)

4. Alternatives to the residence concept

4.168 With globalization, an increasing number of entities have connections to two or more economies. Some additional data sets provide alternatives to the residence concept, such as those based on ownership (as in data on the activities of multinational enterprises, as discussed in Appendix 4, and consolidated bank-

ing statistics) and provide additional information, such as on resident workers who send remittances abroad (as discussed in Appendix 5). In consolidated banking statistics, banking groups and their global operations are reported as a single entity (i.e., all the controlled affiliates of an enterprise are allocated to the economy of the head office).