Twenty-Fourth Meeting of the
IMF Committee on Balance of Payments Statistics
Moscow, Russia
October 24–26, 2011

BPM6 Implementation Plans: Superdividends

Prepared by the Central Bank of Brazil
I. THE CONCEPT OF SUPERDIVIDENDS AND ITS IMPLEMENTATION

Paragraph 8.23 of BPM6 introduces the concept of superdividends, which is defined in Paragraph 11.27 as “Exceptional payments by corporations (including quasi-corporations such as branches) to their shareholders that are made out of accumulated reserves or sales of assets (…)”. In the same paragraph it is recommended that superdividends should be treated as “withdrawals of equity, and therefore recorded in the financial account.”

The concept is an important innovation and the timing of its introduction seems to have been very fortunate. The analysis of detailed data for dividend outflows registered in the balance of payments of Brazil shows a sharp increase for some sectors following the 2008 crisis. Strong evidence was found that dividends were being paid to parent companies facing liquidity or solvency problems. Attention to this was first drawn because of the sectors in which the surge in dividend payments were noticed, namely the automobile industry and financial services. The conclusion that superdividends were being witnessed was based on the assessments of payments for individual companies in these sectors. These assessments showed, other than a large increase compared to recent dividend payments.

Paragraph 11.27 also state, in the last sentence, that “If the level of dividends declared is greatly in excess of previous dividends and trends in earnings, the excess should be excluded from dividends and shown as withdrawal of equity.”

II. CONCERNS AND SHORTCOMINGS REGARDING THE APPLICATION OF THE CONCEPT OF SUPERDIVIDENDS

While the first part of Paragraph 11.27 presents an important concept, the last sentence provides potentially misleading guidance on how to identify superdividends.

The last sentence raised concerns regarding the adoption of the concept of superdividends. Although dividend payments seemed out of proportion with FDI positions in Brazil, the Brazilian economy had been growing very strongly prior to the crisis. It could have been that the level of dividends in excess of what had been previously observed was in fact a result of the outstanding performances of companies in those sectors during the accounting period.

Thus, it may not be possible to determine if the “level of dividends declared in excess of previous periods” are “made out of accumulated reserves or sales of assets”. In this case and whenever it is not possible to clearly determine if exceptionally high dividend payments stem from accumulated reserves or sales of assets, the adoption of a straightforward approach such as presented in paragraph 11.27 should be avoided. Further evidence of the occurrence of superdividends should be sought before classifying dividend payments as such.

Distinct treatments applied by compilers of the countries of the DI enterprises, from where the dividends are sent, and those from the countries of the direct investors would lead to bilateral asymmetries. It is unlikely that the information available for both
groups of compilers would be symmetrical and thus unlikely that superdividends could be classified in the same way by dividend paying and receiving countries.

III. POSSIBLE ALTERNATIVE TREATMENTS

The subjectivity introduced by that the last sentence could be overcome by narrowing down the circumstances under which dividends qualify for the classification of superdividends and by describing which kind of evidence would be necessary (e.g. assessing the companies balance for the compiling and previous period and verifying the change in reserves) to ensure that the concept can be applied.

It could be recommended that the concept of superdividends only be applied in case of strong evidence.