

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD WORKSHOP ON
INTERNATIONAL INVESTMENT STATISTICS**

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

BACKGROUND DOCUMENT ISSUE # 4

**MERGERS AND ACQUISITIONS
MINI-REVIEW
2003**

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MERGERS & ACQUISITIONS

MINI – REVIEW

2003

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MERGERS AND ACQUISITIONS INQUIRIES

EXECUTIVE SUMMARY

- 1 The Cross Border Mergers and Acquisitions (CBAM) and Domestic Mergers and Acquisitions (DAM) inquiries conducted by the Office for National Statistics (ONS) are designed to measure the level and value of Mergers and Acquisitions activity involving UK companies.
- 2 The inquiries differ from most other business inquiries in that they are conducted on a continuous basis and approaches are made to businesses only when there is prima facie evidence from the press that they have relevant transactions on which to report.
- 3 Both the CBAM and DAM inquiries have been statutory inquiries since July 1999. The number of companies approached in both the inquiries varies directly with the level of merger and acquisition activity. In 2002 the ONS approached 1731 respondents for CBAM and 723 respondents for DAM.
- 4 The inquiry results form very important components of the UK Balance of Payments (BoP) and the national economic and financial accounts. They are vital in the measurement of the financial and non-financial company sector accounts. Outside ONS, information is used for briefing senior officials and formulating trade policy. In addition, the estimates are published as a quarterly ONS Release.
- 5 Consultation with contributors revealed that the inquiries are not overly burdensome. The estimated cost to business of completing the inquiry forms is around £55,000 per annum. The estimated annual cost to the government of conducting the Mergers and Acquisitions inquiries is approximately £290,000 per annum.
- 6 There is a strong demand for the inquiries to continue in broadly the same form. No new requirements have been identified during the course of the review. However international organizations are becoming increasingly interested in statistics on Mergers and Acquisitions and it is possible that detailed requirements will be drafted shortly. These developments should be monitored and where possible changes introduced in the analyses required and data collected.

1 INTRODUCTION

Reasons for the review

- 1.1 Standing instructions on the control of statistical surveys require that regular annual surveys to businesses and local authorities are reviewed at least once every five years (monthly/quarterly surveys every three years). The aim of these procedures is to avoid unnecessary surveys, to ensure that control is exercised in the most cost-effective way and that authorised surveys are conducted in such a way as to obtain the information needed while imposing the minimum burden on respondents.
- 1.2 The present instructions for controlling Government statistical surveys, including the procedures for reviewing surveys, were issued by the Prime Minister's office in 1999. These instructions re-iterated the continuing need to review all regular surveys of business. Surveys with total compliance costs in excess of £250,000 are subject to a comprehensive review involving an external observer. Reviews of smaller surveys are subjected to a less burdensome 'mini' review. The level of detail contained in the mini reviews is expected to reflect the complexity and importance of the survey and the level of compliance costs. As per office policy, a copy of this review has been seen and commented on by the ONS' Survey Control Unit (SCU).
- 1.3 As the Mergers and Acquisitions inquiries produce quarterly results but have annual compliance costs less than £250,000, they are designated for a triennial mini-review. The inquiries were previously reviewed in 2000.

Summary of findings

- 1.4 This review follows a period of stability for the Mergers and Acquisitions Inquiry. The review of 2000 produced no significant recommendations for change, thus the inquiry has been conducted much as before. This mini review consulted contributors to ascertain their ability to provide the information required and, for selected large contributors, whether a regular collection of data is feasible. The result of this consultation, conducted by means of telephone interviews, is analysed in detail at annex C. No particular problems have been reported by contributors.
- 1.5 Customers were contacted principally by e-mail. This consultation confirmed the need for the data collected and identified an increasing interest in many forms of monthly

data, some of which may be more relevant to the Foreign Direct Investment Inquiries. International organisations continue to be interested in statistics on Mergers and Acquisitions and detailed requirements are under consideration. Where feasible, changes will be made to the inquiry to meet these suggestions.

2 BACKGROUND

Introduction

2.1 The purpose of the Mergers and Acquisitions inquiries is to collect information on the timing, value and method of funding of Mergers and Acquisitions involving UK companies. The Cross-Border Mergers and Acquisitions (CBAM) inquiry requests information on UK companies' acquisitions and disposals of interests in foreign companies (outward) and foreign companies acquisitions and disposals of interests in UK companies (inward). The Domestic Mergers and Acquisitions (DAM) inquiry collects information on acquisitions by companies within the UK.

History of the survey

2.2 The effect of CBAM activity has been measured as a component of foreign direct investment since 1958, when the inquiries into foreign direct investment began. In 1986, when the level of cross border activity was reaching very high levels, a separate inquiry was introduced to ensure that cross border merger and acquisition activity was better measured. The DAM inquiries have been conducted since 1969.

2.3 Prior to the 1994 review, the CBAM and DAM inquiries were conducted as separate operations. As a result of the review recommendations, the two operations were unified in 1995 with the introduction of common practices and common processing systems in order to produce economies and a combined publication. The inquiries were also transferred to Overseas and Financial Division. In 1995, inquiry forms in the recommended ONS format replaced the letters previously sent to inquiries.

2.4 Following an earlier review, additional questions were added to meet the requirements of the new European System of Accounts and the inquiries were made statutory. Table 1 below highlights key dates in the development of the Mergers and Acquisitions Inquiries.

Table 1 : History of the surveys

YEAR	
1958	Department of Trade and Industry (DTI) began conducting annual inquiries into foreign direct investment, including the financial flows arising from cross border merger and acquisition activity.
1969	DTI began conducting a domestic merger and acquisition inquiry.
1986	DTI began conducting a separate inquiry into cross border mergers and acquisitions.
1989	Pickford review recommends responsibility for both inquiries be transferred from DTI to CSO along with other business statistics inquiries conducted by DTI.
1991	DAM inquiry drops the question on main industrial activity of acquiring and acquired company from the letter, as information was not used within DTI.
1992	CBAM inquiry relocates from London to Newport in conjunction with the relocation of the foreign direct investment inquiries.
1993	DAM inquiry transfers from CPS branch to BP branch, and is relocated from London to Newport.
1994	Quinquennial review recommends DAM and CBAM inquiries be unified. Inquiries transfer to Company and Overseas Branch, now the Financial and Accounting Surveys Division.
1995	Mergers and Acquisitions Inquiries unified and inquiry forms replace letters to contributors.
1997	New questions introduced to meet the requirements of the new European System of Accounts.
1999	Mergers and Acquisitions Inquiries became Statutory.
2001	Inquiry re-organised into separate data collection and results processing branches.

Information collected

2.5 The inquiries monitor share purchases and disposals involving all UK companies. The DAM inquiry requests information on purchases which result in ownership of 50.1 per cent or more of the issued share capital. The CBAM inquiries ask for details of all purchases and disposals of 10 per cent or more of issued share capital to feed into the foreign direct investment estimates. The term “direct investment” relates to where a company owns enough of another company to allow it a significant role in the management of that company. In the latest version of the IMF Balance of Payments Manual (BPM5), a significant influence is considered to be exercised if the shareholding is greater than or equal to 10 per cent of the voting shares.

2.6 The inquiries collect the following information:

- I full legal names of the vendor, acquired company and acquiring company;
- li date of the transaction;
- lii percentage of shares bought or sold;
- lv value of the transaction;
- V the source and method of funding i.e. cash, shares, fixed interest securities or deferred payments;
- Vi the securities purchased i.e. ordinary shares, preference shares, other securities.

Respondents

2.7 Deals are identified through a process of scrutinising the financial press, other specialised publications and the Internet. The latter is employed by means of looking at websites specialising in information on Mergers and Acquisitions and the websites of companies regularly engaged in merger and acquisition activity.

The full range of types of sources is:

- I The Financial Times
- li Acquisitions Monthly
- lii Ceefax
- lv Stock Exchange Weekly Official Intelligence
- V Investors Chronicle
- Vi Internet sites such as “UK-wire” and other commercial information providers and individual companies' websites

2.8 The CBAM inquiries approach all foreign companies investing or disinvesting in the UK and all UK companies investing or disinvesting abroad. The DAM inquiries

approach all UK companies identified as purchasing shares which result in ownership of more than 50 per cent of the share capital or control of another UK company.

2.9 At present all companies identified from press sources are approached, irrespective of size, and no account is taken of the size of the deal or the number of approaches made to each company. There are some large companies who by the nature of their business are inclined to be involved in merger and acquisition activity and are therefore more regularly approached. Since the inception of the inquiries the level of merger and acquisition activity has fluctuated, and as a result, so have the number of approaches to companies.

2.10 The company approached is usually the purchaser. However, in the case of an acquisition or disposal by a foreign company of a UK company, an existing UK subsidiary of the foreign company will be approached where possible. If no reply is received from the purchasing company, the acquired company will be approached, or the parent company of the subsidiary being sold. The first approach is to the Company Secretary, unless the company is an existing contributor to the foreign direct investment inquiry, in which case the existing contact is approached.

Survey Procedures

2.11 The inquiry forms are despatched within five working days of a transaction being identified, with a request that the data be returned within one month. Two written reminders are sent (one on the return date and one 2 weeks later) and inquiry staff telephone those who fail to respond.

2.12 The results are first published as an ONS First Release 7 weeks after the end of the reference quarter, by which time the response rate target for both inquiries of 80 per cent should have been achieved. The increased level of merger and acquisition activity in recent years, rising from 1850 contacts in 1996 to 2450 in 2002, has meant that 80 per cent is a challenging target. However the overall inquiry target has been met on 11 out of 14 occasions since the beginning of 2000.

Alternative sources

2.13 No other surveys are conducted by ONS or other government departments which provide sufficiently comprehensive information on the level of merger and acquisition activity to serve the national accounts. There are publications that record international and domestic

Mergers and Acquisitions, for example, Acquisitions Monthly and Mergers and Acquisitions International. These sources are based mainly on scrutiny of the world's financial press, performed in a similar way to that undertaken by ONS, and of information received from merchant bankers acting as advisors. These publications and databases usually record the announcement date of the transaction and the announced value, plus other associated facts, for example, who the financial and legal advisors are. Whilst the ONS uses these sources for the initial information, information on the completion date of the transactions; when money changed hands; how the money was raised; or the percentage of shares bought and sold is not usually available from these publications and must be collected through the inquiries. The press published value for the deal in total is also sometimes widely different from reality.

- 2.14 2.14 Other government departments do hold some information on new investments by foreign companies in the UK. Invest.UK, an agency jointly managed by the Foreign and Commonwealth Office and the Department of Trade and Industry, and Regional Development Agencies have an interest in the initial investment by foreign manufacturing companies in the UK. However, the information they collect relates to the initial capital expenditure, level of assistance and the number of employees and does not cover the financial transactions appropriate for measuring merger and acquisition activity.

3 USES

Within ONS

- 3.1 The primary use of Mergers and Acquisitions data can be broken down into two separate areas.

The CBAM inquiry data is used in the compilation of the estimates of foreign direct investment (FDI). These estimates then feed into the UK balance of payments and the 'Rest of the World' sector of the financial accounts for which there is an EU legal requirement. The CBAM inquiry data is the only data available with which to produce monthly estimates of direct investment flows as part of a project to produce monthly balance of payments information. In 2002, provisional figures show that UK companies' net acquisition of foreign companies, financed from the UK, amounted to £17.9 billion (64 per cent of the total foreign direct investment by UK companies), whilst foreign net acquisition of UK companies financed from

abroad, amounted to £11.8 billion (64 per cent of the total direct investment by foreign companies). Individual deal information is also used to estimate the counterpart in portfolio investment flows in the work on producing monthly balance of payments.

The DAM inquiry data is used in the measurement of transactions in UK company securities and is an essential part of the financial accounts. It is the sole source of data for acquisitions by Non-Financial Corporations (NFCs) and provides figures on the value of independent companies acquired, the net value of subsidiaries acquired from other sectors, and the value of securities issued as part of the consideration during acquisitions.

3.2 The data collected via the inquiries are also used in updating company structures and country of ownership codes on the Inter-Departmental Business Register (IDBR) and the Foreign Direct Investment Inquiries register.

3.3 The Mergers and Acquisitions data is considered by users to be essential for producing balance of payments and economic account statistics. The quality and accuracy of the UK's measurement of foreign direct investment and the financial transactions of NFCs would be significantly compromised and the maintaining of up to date registers would be impaired if these inquiries were not conducted. One user felt that if there were no Mergers and Acquisitions inquiries, then such inquiries would have to be established to meet the UK's legal requirements.

Within Government 3.4 The Mergers and Acquisitions data is published independently of its use within the national accounts. Within Government, some examples of departments who use the results are:

- i) H M Treasury, Economic Analysis Division: the data is used in preparing briefing and forecasting;
- ii) Department of Trade and Industry (DTI) : direct investment data is required for ministerial briefing, parliamentary questions and in formulating trade policy;
- iii) DTI, Invest.UK: the information is used for briefing and supplementing information available from the Bureau on the extent to which the UK is successful in attracting inward investment;

iv) Inland Revenue: the data is used to help in forecasting company taxation.

**Outside
Government**

3.5 The ONS publishes a quarterly First Release containing the summary results of the inquiries. The First Release presents a breakdown of both cross-border and domestic merger and acquisition activity, giving analyses of funding, a geographical split (for CBAM) and a breakdown of whether the acquisition was of an independent company or a subsidiary (DAM). This information is provided without charge on the ONS website.

Little contact was made with parties outside of Government during the course of this mini review. Based on response to the previous full review of the FDI Inquiry external users include:

- i) private companies which are interested in analysing country and industry data for trends by foreign firms in the UK and by UK companies abroad, and also for researching corporate finance activity and for the purpose of investment banking;
- ii) UK embassies of foreign countries, which are interested in information on specific countries and companies making acquisitions, for briefing for visiting officials;
- iii) private sector economists, journalists and academics who are interested in information on particular industries and particular countries for research purposes and who use the data for periodic statistical comparisons.

In addition to the regular publication of data, there are a number of ad hoc inquiries. Approximately 50 requests for Mergers and Acquisitions statistics are received each year from within government and from external sources.

**International
organisations**

3.6 International organisations such as the Statistical Office for the European Communities (Eurostat) and the International Monetary Fund (IMF) receive the Mergers and Acquisitions First Release and regular analysis of foreign direct investment data, to which the inquiries contribute.

Respondents

3.7 The responses to the contributor questionnaire (annex C) indicate that contributors are generally happy with the

inquiry form.

4 RESPONDENTS' VIEWS

Survey of respondents' views

4.1 In the course of conducting the triennial review, a survey of respondents' views was conducted by telephone. A number of companies who had been approached during 2003 were contacted, some felt unable to help us but 35 were happy to discuss the inquiry, 25 on CBAM and 10 on DAM inquiries.

A copy of the review questionnaire along with a summary of the replies is attached at annex C.

The answers to the survey of respondents confirmed that the information requested is readily available and that in general the questions do not cause any problems. However, a number of contributors did have specific comments to make.

Only two contributors said that they would not wish to use electronic mail to send details of deals to ONS, the majority preferring this option. The implications of these findings are discussed in the section headed 'recommendations'.

Seventeen contributors knew how the data they supplied was used and 23 said that more feedback would be of interest - see annex A.

Complaints

4.2 There have been no complaints from contributors to the Mergers and Acquisitions inquiries in the last year.

5 COSTS

Government costs

5.1 The estimated total costs including overheads for conducting the Mergers and Acquisitions inquiries is approximately £290 thousand per annum. A breakdown of these costs is provided at annex C.

Respondent costs

5.2 The questionnaire despatched to respondents requested information regarding the time taken to complete the inquiry forms and the management level of the individual responsible. On the basis of the information received, estimates have been prepared on the total compliance costs to the companies receiving the returns. These estimates are set out in table 2 below. The staff costs used to prepare the totals are based on the hourly cost for a senior manager. This is considered to be the closest

estimate to the average staff cost of the respondent when the typical position of contacts within the company is taken into account.

The following concessions are available to respondents to the inquiries in order that their compliance costs are kept to a minimum:

- i) if a company does not have the accurate information available, best estimates are accepted;
- ii) companies may return their figures in the form of a computer printout rather than complete the inquiry form if this proves easier.

Table 2: Estimated compliance costs for the Mergers and Acquisitions inquiries.

Inquiry	Average time taken to complete the form (minutes)	Cost per hour	Number of forms despatched in 2002	Total cost in 2002
Inward	17	£55.58	530	£8,592
Outward	32	£55.58	1201	£35,601
Domestic	13	£55.58	723	£8,707
Total	-	-	2454	£52,899

6 RECOMMENDATIONS

6.1 This audit has found that both respondents and customers (internal and external) are satisfied with the Mergers and Acquisitions Inquiry and the First Release. As such it is recommended that the inquiries continue in broadly the same form. There are two issues which will need to be monitored in future and one which can be acted upon immediately, namely:

International requirements

6.2 There has been international interest for some years in the various activities that contribute to the process of globalisation. This interest has been led by a combination of the United Nations, International Monetary Fund, Organisation for Economic Co-operation and Development

and Eurostat. Mergers and Acquisitions are clearly a major factor here and the OECD in particular is starting to strongly question the need for more detailed information. Proposals have not yet been tabled but they could include a breakdown by the different types of Mergers and Acquisitions.

Recommendation : International requirements for more information on Mergers and Acquisitions should be monitored and contributed to as appropriate. These changes should be considered alongside any proposed changes to the Foreign Direct Investment Inquiries arising from the Eurostat Balance of Payments regulation. This may include the possibility of a permanent M&A inquiry.

Improvement of the forms

6.2

The questionnaire sent to contributors is updated regularly as a result of comments received and problems arisen in the conduct of the inquiries. All comments received from contributors during the course of this review should be followed up and changes made to the questionnaire where appropriate.

Recommendation : Inquiry forms and notes to be revised where appropriate based on comments received during the review.

Electronic Data Capture

6.3

During the consultation process, contributors were asked whether they were able to supply the Mergers and Acquisitions data via electronic mail, and whether they would prefer to. A large majority of contributors who responded would prefer to use electronic mail to supply the information requested, saying that it would be quicker and easier. There are still some concerns about the security of data supplied by email. However various electronic data capture techniques are being employed elsewhere within the ONS. As these are developed further and rolled out more widely, consideration should be given to their use for the Mergers and Acquisitions inquiries within the context and priorities of the ONS strategy.

Recommendation : Monitor the development and rollout of electronic data capture techniques with a view to introducing an appropriate technique for the Mergers and Acquisitions inquiries.

Progress on Recommendations of the 2000 Review

1 International requirements

Recommendation : International requirements for more information on Mergers and Acquisitions should be monitored and contributed to as appropriate.

1.1 There has been international interest for some years in the various activities that contribute to the process of globalisation. This interest has been led by a combination of the United Nations, International Monetary Fund, Organisation for Economic Co-operation and Development and Eurostat. Mergers and Acquisitions are clearly a major factor here and the OECD in particular is starting to strongly question the need for more detailed information. Proposals by Eurostat have been tabled but are not expected to be actioned until 2005/06. The proposals may include a regular collection of data from the larger UK companies.

2 Improvement of the forms

Recommendation : Inquiry forms and notes to be revised where appropriate based on comments received during the review.

2.1 The questionnaire sent to contributors is updated regularly as a result of comments received and problems arisen in the conduct of the inquiries. All comments received from contributors during the course of this review have been followed up and changes made to the questionnaire where appropriate.

3 Electronic Data Capture

Recommendation : Monitor the development and rollout of electronic data capture techniques with a view to introducing an appropriate technique for the Mergers and Acquisitions inquiries.

3.1 During the consultation process, about half of the contributors said that they would prefer to use electronic data collection to supply the information requested. They also expressed concerns about the security of data supplied by email. However various electronic data capture techniques are being employed elsewhere within the ONS. As yet, suitable electronic data collection methods are still undergoing rigorous testing, but consideration will be given to their use for the Mergers and Acquisitions inquiries within the context and priorities of the ONS strategy.

Contributor Views

1. Was the information requested on the form readily available?

	No. of Replies	Yes	No
Inward	10	6	4
Outward	15	10	5
Domestic	10	10	0

2. Did any particular questions cause you problems?

	No. of Replies	Yes	No
Inward	10	4	6
Outward	15	4	11
Domestic	10	0	10

Inward

Whether to include debt in question 7V.

The company sold a product line and didn't count this as an asset.

Funding - but that is an internal problem.

Outward

Q6 - information requested involves including goodwill, omitting deferred payments and it can be confusing.

Q7 - Method of funding section difficult to find the relevant information.

"full name of acquiring co", this could be difficult depending on the company.

3. In general, how easy did you find the questionnaire to understand ?

	No. of Replies	Very clear	Reasonably clear	Confusing	Very confusing
Inward	10	2	7	0	1
Outward	15	4	10	1	0
Domestic	10	10	0	0	0

4. Did you refer to the accompanying notes to the survey form when completing the form?

	No. of Replies	Always	Sometimes	Never
Inward	10	6	2	2
Outward	15	8	6	1
Domestic	10	7	0	3

5. Did you consider the accompanying notes to the survey form helpful?

	No. of Replies	Yes	No	N/A
Inward	10	7	3	0
Outward	15	13	0	2
Domestic	10	8	2	0

6. Have you any suggestions on how the accompanying notes may be improved?

	No. of Replies	Yes	No	N/A
Inward	10	4	6	0
Outward	15	1	14	0
Domestic	10	0	10	0

Put the phrase 'Do not include debt' in bold font

Adapt better for asset sales

Specify what exactly indirect funding is etc and give examples.

Outlining the objective - due to them being overseas owned they must complete this form.

It should explain why this company is being picked up for the inquiry i.e the ultimate parent owns all activities by it's subsidiaries.

7. Do you have any further comments on the layout of the form?

	No. of Replies	Yes	No	N/A
Inward	10	0	10	0
Outward	15	3	12	0
Domestic	10	0	10	0

Outward

Should allow for foreign currencies

It would be helpful if a direct e-mail address could be provided for the contact as well as the telephone number.

Could be a bigger space as the company name is often very large.

8. Approximately how long did it take you to complete the survey form?

	No. of Replies	Minimum Mins	Maximum Mins	Average Mins
Inward	10	10	30	17
Outward	15	10	120	32
Domestic	10	5	60	13

9. At what management level was the form completed ?

	No. of Replies	Director	Senior Management	Middle Management	Other
Inward	10	1	6	3	0
Outward	15	0	5	7	3
Domestic	10	1	7	2	0

10. Were you able to supply the information requested via electronic mail?

	No. of Replies	Yes	No
Inward	10	10	0
Outward	15	8	7
Domestic	10	10	0

11. Would you have preferred to supply this information by electronic mail ?

	No. of Replies	Yes	No	Indifferent
Inward	10	8	1	1
Outward	15	14	0	1
Domestic	10	9	1	0

12. Do you know to what uses the ONS puts the information you supplied ?

	No. of Replies	Yes	No
Inward	10	2	8
Outward	15	10	5
Domestic	10	5	5

13. Would you find some feedback on the use of the figures you provide to ONS helpful?

	No. of Replies	Yes	No
Inward	10	5	5
Outward	15	10	5
Domestic	10	8	2

14. Do you find ONS contacts that you deal with helpful?

	No. of Replies	Yes	No	No Dealings with ONS contacts
Inward	10	7	1	2
Outward	15	14	0	1
Domestic	10	10	0	0

Government Costs*Salary Costs*

<u>Grade</u>	<u>Staff Years</u>	<u>Annual Cost (£)</u>
Director of Division	0.01	773
D2	0.06	3104
C1	0.25	7666
B1	1.2	29808
A2	4.6	75017
A1	1.0	15938
Total	7.12	132306

Overheads

IM Division charges	55000
Accommodation and corporate overheads	102537
Total Cost Per Annum	289843