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D.17 Identifying Superdividends and Establishing the Borderline Between Dividends and Withdrawal of Equity in the Context of Direct Investment: Outcome of the Public Consultation

Prepared by the Direct Investment Task Team (DITT)

INTERNATIONAL MONETARY FUND

D.17 Identifying Superdividends and Establishing the Borderline Between Dividends and Withdrawal of Equity in the Context of Direct Investment: Outcome of the Public Consultation¹

The public consultation generally agreed with the adoption of Alternative A3 which recommends regarding distributions of accumulated reserves from ordinary earnings in any case as ordinary dividend and, therefore, to record them in primary income. However, the consultation strongly supported not including an ‘of which’ position of withdrawal of equity to distinguish exceptional distributions from sales of assets in the financial account due to confidentiality constraints that will arise. Likewise, there was strong preference to keep the term “superdividends” for direct investment in the manuals instead of referring to the treatment of distributions of the proceeds from the sales of assets, which would be a narrower concept.

In view of the broad agreement received during the public consultation, the guidance note is proposed to be considered by the Committee for decision.

1. **The public consultation² revealed significant support for alternative A3 due to the practicality of this proposal, which provides better clarity, will facilitate the work of compilers and lead to harmonized data at the international level.** Alternative A3 provides a symmetrical treatment to ordinary earnings as in this alternative both the accumulation of ordinary earnings and their subsequent distribution impact the reinvested earnings account. This symmetry not only ensures that reinvested earnings (RIEs) are consistent over time but is also more comprehensible for users. According to the respondents, this alternative will reduce the two drawbacks, namely discretion in calculating super dividends and interpretability of RIEs, as recognized in the guidance note (GN). It will result in less arbitrary rules like “disproportionately large in relation to the recent level of dividends and earnings”, without affecting the total current account balance. Additionally, it would maintain consistency between the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*, and [OECD Benchmark Definition of Foreign Direct Investment, fourth edition \(BD4\)](#) in relation to super dividends.

2. **Respondents were less inclined for adding an “of which” category, mostly due to confidentiality concerns.** Because of the occasional nature of such exceptional distributions for most countries, the costs on the compilers, including confidentiality constraints, would outweigh the benefits of this additional breakdown. Even those agreeing to the possibility of a breakdown only as a supplementary item recognized that such information, while being useful for analytical reasons, can be difficult to apply in practice due to confidentiality limitations.

3. **Most respondents did not see the need to replace the term “superdividends”.** Superdividends is a known term, reflecting the payment of dividends from the direct investment (DI) enterprise to the parent, and allows a broader range of financial activities used to pay dividends than asset sales to be excluded from income. Most respondents underscored the need to mention that the scope of “superdividends” is limited to DI. Using the term “sales of assets” can be misleading, because

¹ Prepared by Ms. Padma S. Hurree-Gobin (IMF), and Ms. Francesca Spinelli (OECD), both DITT Secretariat.

² Twenty-one responses. See detailed results in Annex II.

not all sales of assets by DI enterprises are withdrawal of equity and not all the receipts from sales of assets are attributable to the direct investor.

4. **In terms of adopting A3, some respondents pointed to practical difficulties.** Some noted that separating non-operating earnings from accumulated reserves may be hampered by data sources' limitations. Others noted that compilers may not separately identify in each current period payments out of (i) accumulated reserves, (ii) earnings from operating income, and (iii) earnings from non-operating activities. Also, practical difficulties could arise from the lack of information to check the data declared by the companies or any mirror data identification. Additional efforts will have to be borne by the compilers and reporters to distinguish at the level of the balance sheet sales of physical assets from other current receipts. All in all, responses pointed to the need to develop practical guidance (e.g., in the Compilation Guide) to properly operationalize and identify exceptional payments from sales of fixed capital assets to ensure consistency of treatment across countries. A data sharing framework at the international level could also contribute to reducing related inconsistencies or asymmetries.

Annex I. WGIIS Consultation on GN D.1

As part of the BPM6 and BD4³ update process, the OECD Working Group on International Investment Statistics (WGIIS) Secretariat, consulted with WGIIS delegates⁴ on the DITT GN D.1 to gauge their support and preferences. The OECD also organized a webinar⁵ on October 13, 2020, to discuss the outcomes of the consultation and gather additional insights on the feasibility of the proposed approaches.

1. **There was broad support for treating any distributions of accumulated reserves from ordinary earnings, as ordinary dividends (alternative A3).** However, many practical issues were raised, including how to properly distinguish distribution of past non-operating earnings and, in particular, the proceeds from sales of assets. One of the reasons mentioned is that accumulated reserves comprise a mixture of earnings, reflecting current and past earnings, as well as operational and non-operational gains and losses, and past distributions. Some indicated that the implementation of A3 will require adjustment to existing survey forms and to data compilation systems, as currently only large assets sales can be identified. Some others noted that a timely access to information on the nature of dividends could be difficult for outward DI and especially in SPEs.

2. **There was a slight preference for the inclusion of an “of which” position of withdrawal of equity to distinguish exceptional distributions from sales of assets in the financial account.** However, many noted that those transactions tend to be large and infrequent and would be subject to significant confidentiality constraints, hence the “of which” item, if included, should remain optional.

3. **Finally, most respondents saw no need for a new term to replace “super-dividends” and think that the manuals can simply refer to the treatment of distributions of the proceeds from sales of assets.** Some indicated that more specific details on what is meant by sales of assets should be provided (for example, the types of assets that should be considered). Some respondents would find it beneficial to have more detailed guidance on how to treat specific cases (for example when the dividend includes only a portion of proceeds from the sale of assets).

³ The IMF and the OECD are collaborating in the work of the Direct Investment Task Team (DITT), serving as co-Chairs and in the DITT Secretariat. The OECD's *Benchmark Definition of Foreign Direct Investment, fourth edition (BD4)*, which is being updated, provides detailed guidance on the compilation of direct investment (DI) statistics in line with the IMF's *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*. The WGIIS reviews the guidance notes produced by the DITT and provides feedback at different stages.

⁴ Nineteen countries responded to an online survey set up by the OECD, but not all countries responded to all questions. Includes answers provided by two countries during the earlier WGIIS/BPTT consultation exercise conducted in December 2020.

⁵ There were 90 participants, and no dissenting opinions emerged during the discussion.

Table 1. WGIIS Delegates' Answers to the Questions in the Online Survey

	Yes	No
Q1. Considering strengths and weaknesses of each alternative, do you support alternative A3?	16	3
Q2. Do you agree to add an "of which" position of withdrawal of equity to distinguish exceptional distributions from sales of assets in the financial account?	11	8
Q3. Do you think a new term to replace 'super-dividends' is needed or can the manuals simply refer to the treatment of distributions of the proceeds from the sales of assets?		
<ul style="list-style-type: none"> • A new term is needed 	6	12
<ul style="list-style-type: none"> • The manuals can simply refer to the distributions of the proceeds from the sales of assets 	12	6

Annex II. Summary Results of the Public Consultation

4. Do you agree, considering the strengths and weaknesses of each proposed alternative, to support alternative A3?

Yes	No
71%	29%

5. Do you agree to add an “of which”-position of withdrawal of equity to distinguish exceptional distributions from sales of assets in the financial account in order to gain additional analytical power?

Yes	No
29%	71%

6. Do you have a preference for (a) a new term to replace “superdividends”; (b) can the manuals simply refer to the treatment of distributions of the proceeds from the sales of assets?

a. New term to replace “superdividends”

Yes	No	Abstention
29%	67%	5%

b. Can the manuals simply refer to the treatment of distributions of the proceeds from the sales of assets?

Yes	No
48%	52%