**TWINNING PROJECT**

**Support to Development Process in the State Statistics Service of Ukraine with the Objective to Enhance its Capacity and Production**

**Ukraine**



**MISSION REPORT**

**on**

**Component 9. Statistical Business Register**

**Activity 9.4 Recommendations on the results of special testing to identify enterprise groups in the statistical business register**

Mission carried out by Sarmite Prole and Inga Oksentjuka, Central Statistical Bureau of Latvia

21 – 24 April, 2015

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***IPA 2009***

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**List of Abbreviations**

EU European Union

SSSU State Statistics Service of Ukraine

CSB Central Statistical Bureau of Latvia

The views and observations stated in this report are those of the experts and do not necessarily correspond to the views of the EU, CSB, SSSU or Statistics Denmark.

# 1 - Executive summary

The objective of the Twinning project is to develop Ukraine’s national system of official statistics in order to apply European standards and Acquis in the area of statistics. The purpose of component 9 „Statistical Business Register” is to create and identify enterprise groups as well as to organize their surveying to lay the foundation for implementing the European methodology of enterprise group statistics, and the goal of activity 9.4 “Recommendations on the results of special testing to identify enterprise groups in the statistical business register” is to ensure the construction (formation) and recoding (identification) of the enterprise groups in the statistical register and organize observations of these enterprise groups in order to create prerequisites to implement European methodology of enterprise groups statistics into national statistical practice.

The objectives of mission were as follows:

* to present the results of the construction of the population of enterprises from the business register and of the pilot test, the results of which enabled identifying of the enterprise groups and establishment of the control links between enterprises in the group
* to discuss algorithm applied when establishing links between legal persons

# 2 - General comments

Within the framework of the mission the main emphasis was put on assessment of the results of the construction of the population of enterprises from the business register and of the pilot test, the results of which enabled identifying of the enterprise groups and establishment of the control links between enterprises made by the SSSU. A brief overview of the results was provided.

During the mission attention was paid to the algorithm applied in establishing links between legal persons. Two different approaches by creating algorithm for building the perimeter of enterprise groups were presented. The assessment of the algorithm was done, and it was recommended to additionally study methodology and national legislation for correct interpretation of control links and creation enterprise groups in the SSSU.

For the construction of an enterprise group and determination of its structure, the necessity of information on links of control between legal units was considered. Much time was spent on checking if the algorithm works properly using the available information on administrative data sources. For organizing future work the SSSU should pay attention to the principles of creating enterprise groups structure.

The concept of control was discussed during the mission. Deeper analysis of direct and indirect control was provided. The main attention was paid to identification of the top of the group head based on ultimate controlling institution determination principles. The information of beneficiary of the enterprise which will be available regarding national legislation in the SSSU was revised.

During the mission variables were discussed which should be included in the Business Register in accordance with Regulation (EC) No 177/2008 of the European Parliament and of the Council of 20 February 2008 establishing a common framework for business registers for statistical purposes.

Outcome of this work could be summarised during the study visit.

# 3 - Assessment and results

During the previous missions it was highlighted that the SSSU has an excellent quality business register of legal units. It can serve as a solid basis for the construction of statistical units at the level of enterprise groups. The SSSU experts presented the available information from business register and administrative register on the founders and their shares in the statute capital, declared when setting up the entities, as well as the available information about enterprises under control of foreign enterprise branches and representative offices of foreign companies. Before the mission the SSSU had prepared data files for analysis from administrative data base on limited liabilities companies. There were prepared two data files based on different approaches and development of the algorithm for the calculation of enterprise groups is under construction. The results show a need for an additional analysis of the methodological documents, including national legislation, for development of the algorithm for the calculation of enterprise groups. The presented results of the construction of population of enterprise groups are good enough to start establishing enterprise groups in the SSSU.

# 4 - Conclusions and recommendations

The goal of the mission was to present the results of the construction of the population of enterprises from the Business Register and of the pilot test, the results of which enabled identifying of the enterprise groups and establishment of the control links between enterprises in the group, and also to discuss the algorithm applied when establishing links between legal persons.

Proposed recommendations:

**1st recommendation**

Within this activity it was the third visit for the experts from Latvia. The mission focused on the presentation of the results on the identification of enterprise groups and creation of control and/or financial links between legal units. Further steps for the implementation of the identification system for the financial and control links between legal entities into Ukrainian SBR were discussed. The proposal is to present the results of the prepared algorithm for identification of enterprise groups during the study visit to the CSB. The result of this work could be presented and analysed.

**2nd recommendation**

Information on control links between legal units is needed in order to define an enterprise group for the whole population, delineate enterprises correctly, and profile large and complex units. For developing the existing enterprise group structure it was suggested to pay attention to the following principles:

* Correspond to enterprise definition
* Legal form (exclude sole proprietors and units which are not involved in economic activity)
* Correspond to active enterprise group
* Additional control in the list of joint venture companies, minority control
* Checking date of association to or separation from of enterprise group
* Double record checking (manual or automatic)
* Data quality assessment

This should be carried out in accordance with the national legislation.

The result of these works could be discussed during the study visit.

**3nd recommendation**

Enterprise groups are identified through the links of control between their legal units. The concept of control is the basic concept to be used for the delineation of an enterprise group. A legal unit ensures control over a corporation by owning more than half of the voting shares or otherwise controlling more than half of the shareholders’ voting power.

A direct control or indirect control is the relationship between legal units such that either one legal unit is controlled by exactly one other legal unit, or it is not controlled by any other legal unit. Deriving control links from the ownership structure between legal units defines an operational hierarchical structure of the enterprise group with one legal unit at the top (group head) which is not controlled by any other legal unit and which controls all other legal units in the hierarchy. Regarding main principles for identification of the top of the enterprise group, it is necessary to pay attention to identification of the ultimate controlling institution (UCI):

* The global decision centre is the unit where the strategic decisions of an enterprise group are taken
* The foreign affiliates should be linked to that country where the ultimate decisions on production are made
* The beneficiary of global group head is UCI
* Only one UCI is possible for the enterprise group
* Information should be fixed on 31.12.YYYY
* Methodology according FATS Regulation 716/2007 and Recommendation Manual on FATS

The information which is available in accordance with national legislation is a solid basis for obtaining information on the beneficiary of the enterprise. The available information should be carefully studied and applied in practice.

The results of these works could be discussed during the study visit.

**4nd recommendation**

The control may be exercised in different ways:

* Direct control - a legal unit directly owns more than 50 % of the voting rights of another legal unit;
* Indirect control - a legal unit indirectly owns more than 50 % of the voting rights of another legal unit, through subsidiaries;
* Combination of direct and indirect control – a legal unit owns more than 50 % of the voting rights of another legal unit and through the subsidiaries owns less than 50% but not less than 10% of voting rights of another legal unit.

During this activity it is necessary to apply methodological rules for establishing control links between legal entities.

The practical examples should be presented during the study visit by the CSB of Latvia.

# Annex 1: Terms of Reference

for a short-term mission to the State Statistics Service of Ukraine

21 - 24 April, 2015

Working meetings between EU and SSSU experts within the framework of the Twinning Project “Support to Development Process in the State Statistics Service of Ukraine with the Objective to Enhance its Capacity and Production”, Component 9. Statistical Business Register

Component 9: Statistical Business Register

Activity 9.4 Recommendations on the results of special testing to identify enterprise groups in the statistical business register

Experts:

Ms Sarmite Prole

Ms Inga Oksentjuka

Date: 21-24/04/2015

Working language: Russian

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| --- | --- | --- |
|  | Morning | Afternoon |
| Monday  20/04/2015 |  | 18:00 Arrival to Kyiv (Boryspil airport)  Reservation at the Hotel Rus  Address: 4, Hospitalna Str., Kyiv  Ms Sarmite Prole # 1557346  Ms Inga Oksentjuka # 1557347 |
| Tuesday  21/04/2015 | 10:00 Arrival to the SSSU  Address: 3 Shota Rustaveli Str., Press centre  At the entrance to the SSSU you will be picked up by K.Zhulay, Protocol Department  10:00-13:00  Discussion of the mission programme and tasks, overview of the current situation.  Presenting the results of construction of the population of enterprises from the Business Register. Presenting the results of special test, which enabled to identify enterprise groups and establish control links between enterprises in the group.  Presentation of the algorithm applied to build the perimeter of enterprise group.  Questions and answers. | 14:30 -17:00  To be continued |
| Wednesday  22/04/2015 | 10:00 Arrival to the SSSU  Address: 3 Shota Rustaveli Str., Press centre  At the entrance to the SSSU you will be picked up by K.Zhulay, Protocol Department  10:00-13:00  Assessment of algorithm used to obtain the results of the pilot survey.  Discussion on examples of enterprise groups, obtained when approbating the pilot survey algorithm.  Expert recommendations on practical application of the algorithm.  Questions and answers. | 14:30 -17:00  To be continued |
| Thursday  23/04/2015 | 10:00 Arrival to the SSSU  Address: 3 Shota Rustaveli Str., Press centre  At the entrance to the SSSU you will be picked up by K.Zhulay, Protocol Department  10:00-13:00  Expert recommendations on the procedure of obtaining and processing of information.  Setting the appropriate identification and attributes to the information on the group leader or group members, the percentage of management / participation etc. concerning enterprise groups in business register.  Questions and answers. | 14:30 -17:00  To be continued |
| Friday  24/04/2015 | 10:00 Arrival to the SSSU  Address: 3 Shota Rustaveli Str., Press centre  At the entrance to the SSSU you will be picked up by K.Zhulay, Protocol Department  10:00-13:00  Discussion on identification of the direct / indirect control.  Identification of the Head of the group.  Evaluation of the work performed and outlining issues for discussion during the study visit.  Discussion, debriefing, recommendations. | 14:30 -17:00  To be continued  21:00 Departure from Kyiv (Boryspil airport) |

**Participants:**

Ms Sarmite Prole, Central Statistical Bureau of Latvia

Ms Inga Oksentjuka, Central Statistical Bureau of Latvia

Ms Anna Rozumna, Deputy Director, Department for Statistical Methodology, SSSU

Ms Alla Varnidis, Deputy Director, Department for Statistical Methodology, Director at the Department for Statistical Classifications, SSSU

Ms Olga Ponomarenko, Head of division, Department of Statistical Infrastructure, SSSU

Mr Anton Tovchenko, Head of Division of mathematic processing methods and analysis of statistical data, SSSU

Ms Natalia Kuzmina, Head of division of statistical register, Regional statistics, SSSU

# Annex 2. Persons met

**SSSU:**

Ms Anna Rozumna, Deputy Director, Department for Statistical Methodology, SSSU

Ms Alla Varnidis, Deputy Director, Department for Statistical Methodology, Director at the Department for Statistical Classifications, SSSU

Ms Olga Ponomarenko, Head of division, Department of Statistical Infrastructure, SSSU

Mr Anton Tovchenko, Head of Division of mathematic processing methods and analysis of statistical data, SSSU

Ms Natalia Kuzmina, Head of division of statistical register, Regional statistics, SSSU

**RTA Team:**

Irina Bernstein, RTA

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# Annex 3. Presentation on delineation of enterprise groups