

Revised valuation of unquoted shares and other equity in the financial accounts

1. Introduction

In the financial accounts an adjustment has been made to the methodology concerning the outstanding amounts of unquoted shares issued by non-financial corporations and the rest of the world. These used to be valued in terms of own funds. However, the European System of National Accounts (ESA 95) requires valuation at market value. The outstanding amounts of unquoted shares issued by non-financial corporations and the rest of the world were therefore revalued. Some other methodological adjustments were also made in regard to unquoted shares and other equity. This revision has an impact on the tables relating to the financial accounts in chapter 12 "National financial accounts of Belgium", in tables 15.3 to 15.6 concerning the financial assets of non-financial corporations and individuals, and in tables 16.1.3 and 16.1.4 concerning the liabilities of non-financial corporations.

2. Market value of unquoted shares

There are three different types of equity in the ESA 95¹, namely quoted shares, unquoted shares and other equity. Quoted shares are shares whose prices are listed on a recognised stock exchange or secondary market. Unquoted shares are not listed but are, in principle, freely negotiable. In Belgium, these are shares issued primarily by public limited liability companies (NV/SA). All the types of equity participation which do not belong to the first 2 categories come under other equity. These are mainly shares which are less readily negotiable and which represent the capital in private companies, such as private limited liability companies (BVBA/SPRL) and cooperative companies with limited liability (CVBA/SCRL).

These 3 equity categories are valued in different ways². The outstanding amounts of quoted shares are determined on the basis of representative prices on the stock exchange, in other words the market value, at the end of the period in question. According to the ESA 95, unquoted shares must also be recorded at market value. That market value has to be estimated on the basis of shares traded on the stock market. Finally, other equity has to be valued on the basis of own funds (or another method of calculating the net assets).

2.1 Liabilities

However, unquoted shares issued by non-financial corporations³ and the rest of the world were formerly valued in the financial accounts at the value of the own funds recorded on the company's balance sheet. In order to estimate the market value of unquoted shares, the ESA 95 offers a method based on the capitalisation ratio. That is the ratio between the market value of the quoted shares and the value of the own funds represented by those quoted shares. That ratio is then multiplied by the value of the own funds represented by the unquoted shares in order to

1. See [European System of Accounts 1995 \(ESA 95\)](#), §5.86-5.95.

2. See [European System of Accounts 1995 \(ESA 95\)](#), §7.52-7.56.

3. The valuation of unquoted shares issued by financial corporations is already based on the market value of the quoted financial stocks.

arrive at their market value. However, it is necessary to take account of the company's sector and of possible variations in liquidity.

In order to put this method into practice, the recommendations of a European working group organised by Eurostat were followed. The capitalisation ratios were calculated as the weighted average of all ratios (market value over own funds) of the quoted shares. However, a number of adjustments were made here. Quoted shares representing very low or even negative own funds are not included in the calculations because they could have very high or negative capitalisation ratios. Further adjustments are then made to the ratios because quoted shares are more liquid than unquoted shares. This is done in two ways. First, shares included in the Dow Jones STOXX 600-index are excluded from the calculations. At the end of 2007, 14 Belgian quoted shares were therefore disregarded. These are highly liquid shares, closely monitored by many analysts; they are often included in the portfolio of institutional investors and also traded by ETFs¹. Next, a liquidity premium is deducted from the ratios obtained. This premium expresses the difference in liquidity between quoted and unquoted shares. On the basis of empirical research, the liquidity premium is set at a hypothetical figure of 20%². This provides a good macroeconomic estimate of the market value of the total outstanding amount of unquoted shares.

Foreign unquoted shares were also revalued. However, the methodology differs from that applied to Belgian unquoted shares. Previously, the outstanding amounts were determined by revaluing the outstanding amounts from the preceding period and adding up the transactions for the current period on the basis of the balance of payments data. That revaluation comprised a partial application of a price index of foreign quoted shares. In the new methodology, however, full account is taken of this revaluation. Consequently, prices of unquoted foreign shares will follow a pattern comparable to that of quoted foreign shares, just like unquoted Belgian shares will reflect the performance of the quoted Belgian shares, whereas for the latter a more refined method can be applied³.

2.2 Assets

If the unquoted shares are revalued at market value at the level of the issuers (liabilities side) it is necessary to ensure that the holdership (assets side) is also revalued at market value. Some adjustments are therefore made to the sources recording the ownership of unquoted shares. For example, on the assets side of the balance sheet, the annual accounts filed by non-financial corporations do not record the market value of the equity they own but show a book value (often the acquisition value). That book value is revised to market value in two steps. First, the book value is reassessed according to an own funds valuation by using information in the notes to the annual accounts concerning the equity participations. Next, the same capitalisation ratios are used as on the liabilities side in order to convert the own funds valuation to market value.

In the case of credit institutions, the issued shares have already been revalued on the liabilities side, but not yet on the assets side. This imbalance is now eliminated by revaluing the unquoted shares owned by credit institutions (assets side) by analogy with the method used for non-financial corporations.

3. Other methodological adjustments

In the old methodology the outstanding amounts of unquoted shares were calculated as the sum of the own funds on the balance sheets of all non-financial corporations. However, this led to an under-estimate, because negative own funds values were also recorded whereas the real value of those shares or other equity in most legal forms is not negative. In other words, the corporation has no claim on the shareholder. In the new methodology negative own funds values are therefore taken as equivalent to zero in calculating the market value (i.e. own funds x capitalisation ratio).

1. Exchange traded funds are investment funds traded on a stock exchange. They seek to track the performance of an underlying stock market index.

2. For further information, see for example the INSEE publication, L'estimation d'une valeur de marché des actions non cotées, Économie et Statistique N° 366, 2003, pp. 97-117.

3. The method for Belgian shares cannot be applied due to a lack of information, such as details concerning foreign equity, own funds and capitalisation ratio's.

The methodology used for other equity was also improved. Here, too, negative own funds values were taken as equivalent to zero. In addition, the sectoral classification of the holdership of other equity was improved. Previously, an allocation formula was used to determine other equity owned by the rest of the world. Now, a detailed record is kept of corporations owned by the rest of the world and having a legal form which requires classification under other equity.

4. Result

This results in major changes to the financial accounts. In table 1 there is clearly a strong increase in the unquoted shares issued by non-financial corporations. At the end of 2007 the market value of those unquoted shares following the revision stood at 683.9 billion euro, in comparison with 545.9 billion euro before the revision. Only in 2002, a year when market prices dropped sharply, do we find a market value which is a fraction under the value (in terms of own funds) prior to the revision. The other equity issued by non-financial corporations changes slightly, and quoted shares are unchanged.

TABLE 1 **SHARES AND OTHER EQUITY ISSUED BY NON-FINANCIAL CORPORATIONS**
(end of period outstanding amounts, millions of euro)

	<u>Quoted shares</u>		<u>Unquoted shares</u>		<u>Other equity</u>		<u>Total</u>	
	Before revision	After revision	Before revision	After revision	Before revision	After revision	Before revision	After revision
1998	127 352	127 352	202 304	278 246	52 564	49 550	382 220	455 147
1999	109 429	109 429	233 069	345 251	59 556	56 534	402 054	511 214
2000	112 671	112 671	281 864	430 464	78 728	75 937	473 264	619 072
2001	104 931	104 931	317 330	433 748	86 467	83 042	508 727	621 720
2002	66 056	66 056	342 071	336 772	90 476	87 009	498 603	489 837
2003	74 850	74 850	351 617	359 809	117 548	113 753	544 015	548 412
2004	113 647	113 647	355 444	438 758	141 551	148 588	610 642	700 993
2005	116 023	116 023	384 703	496 606	168 048	164 040	668 774	776 669
2006	144 874	144 874	470 156	692 343	191 456	187 664	806 486	1 024 881
2007	145 015	145 015	545 920	683 893	237 170	233 830	928 105	1 062 738

Source: NBB

The changes in share holdership by individuals (shares issued by both domestic sectors and the rest of the world) are shown in table 2. Unquoted shares owned by individuals increased at the end of 2007 from 66.9 billion euro before the revision to 104.2 billion euro after the revision. This is not only because of the revaluation of unquoted shares owned by individuals, but also because the figure for individuals is calculated as a balancing item. Consequently, revaluation of the holdership of other sectors affects the holdership of individuals. Other equity owned by individuals shows a small change. Quoted shares change mainly in 2006 and 2007 as a result of an update of the sources, unrelated to the methodological revisions.

TABLE 2 **SHARES AND OTHER EQUITY OWNED BY INDIVIDUALS**

(end of period outstanding amounts, millions of euro)

	<u>Quoted shares</u>		<u>Unquoted shares</u>		<u>Other equity</u>		<u>Total</u>	
	Before revision	After revision	Before revision	After revision	Before revision	After revision	Before revision	After revision
1998	58 182	57 952	89 898	97 398	11 263	10 057	159 344	165 407
1999	75 791	75 564	81 694	143 771	11 971	10 734	169 457	230 070
2000	72 518	72 283	71 083	158 957	13 097	11 695	156 698	242 935
2001	55 498	55 383	64 507	155 261	13 902	12 309	133 908	222 954
2002	31 647	31 714	40 566	88 828	14 756	13 010	86 968	133 553
2003	43 971	44 003	36 959	76 194	16 522	14 570	97 452	134 767
2004	65 164	65 099	33 659	82 921	19 026	16 896	117 849	164 916
2005	78 468	78 455	55 900	75 991	21 706	19 387	156 074	173 833
2006	106 591	102 088	60 419	95 463	25 514	23 302	192 523	220 853
2007	107 809	99 232	66 874	104 152	30 145	27 953	204 828	231 338

Source: BNB