

## Public Consultation on UK SIC Alignment

### Update Paper

NSCASE(23)31

#### Background and Reason for coming to NSCASE

1. This paper provides an update on the future alignment of the UK Standard Industry Classification (SIC) following Brexit. The International Standard Industrial Classification of All Economic Activities (ISIC) was initially brought to the National Statistician's Committee for Advice on Standards for Economic Statistics (NSCASE) in June 2022 (NSCASE(22)02), with another update in October 2022 (NSCASE(22)03). The Office for National Statistics (ONS) was to prepare a consultation process receiving feedback from key stakeholders on the impacts of classification changes. The public consultation will be primarily aimed at statistical users but will also include a wider set of classification users from across the UK. The consultation aims to understand the impact to users on the revision of the classification system which is being undertaken for statistical purposes.
2. It was agreed that once the consultation had closed, the ONS would draft a recommendation report based on the stakeholder responses. The recommendation report will be submitted in the first instance to NSCASE for their comments and questions. The ONS will then bring an options paper to NSCASE, with their advice going to the National Statistician. The final decision, and a summary of responses, will be published on the [Consultation Hub](#) and communicated to all stakeholders. It should be noted that the original ISIC proposal sparked the creation of the decision-making framework.
3. Now that the UK has left the European Union (EU) it does not have any legal requirement to follow the European Statistical System. Therefore, the UK does not have to align with Nomenclature of Economic Activities (NACE).
4. NACE is governed by Eurostat, the statistical authority of the EU. It is the classification of economic activities corresponding to ISIC at the European level; its use is a regulatory requirement for EU member states (NACE Rev. 2.1, Eurostat, 2022).
5. Below are examples of classifications used by other statistical agencies outside of the EU and details of how they are still comparable to ISIC as a reference classification, as opposed to a derived classification, for economic activities:
  - a. The North American Industry Classification System ([NAICS](#)) was developed in the mid-1990s to provide common industry definitions for Canada, Mexico, and the United States. NAICS was to facilitate the economic analysis of the economies of the three North American countries. NAICS is developed based on a production-oriented conceptual framework and classifies units, not activities. As a result,

the structures of ISIC and NAICS are substantially different. However, statistical data collected according to NAICS can be aggregated into the two-digit divisions of ISIC Rev. 4 / NACE Rev. 2, ensuring comparability of data. In many cases, more detailed links are possible and detailed concordance between NAICS and ISIC is published on the NAICS website for each country USA ([Economic Classification Policy Committee](#), 2022) and Canada (<http://www.statcan.ca/>) ([Statistics Canada](#), 2022).

- b. The Australian and New Zealand Standard Industrial Classification (ANZSIC) was developed for use in both countries for the production and analysis of industry statistics. In the development of ANZSIC great emphasis was placed on the alignment with the international standards. ISIC Rev. 3 had been used as the international standard for reference purposes. Broad concordances between ANZSIC and ISIC can be found on the Australian Bureau of Statistics (ABS) website ([ABS](#), 2008) and some of the challenges are articulated within a UN document ([United Nations](#), 2022). ANZSIC is much closer to ISIC / NACE than NAICS, as its structure broadly follows ISIC, where categories at the division and more detailed levels can be aggregated into the two-digit categories of ISIC. Therefore, conversion of ANZSIC data into ISIC/NACE is possible at a detailed level. The ABS has recently undertaken their own consultation on the use of the economic activity classification and feedback is published on their website ([ABS](#), 2023).
  - c. In addition to the EU Member States, Norway and Switzerland are committed to using a national version derived from NACE. Moreover, about ten other countries outside the EU, or candidate countries like Croatia and Turkey, refer to NACE for their classification of economic activities. More than 150 countries in the world are using classifications of economic activities based either on NACE or ISIC.
6. The UK version of NACE is known as UK SIC. UK SIC is identical to NACE down to and including the 4-digit level of the classification. To allow for further granulation and to reflect some activities in the UK economy better, the UK also has an additional specific 5-digit level designation.
  7. The International Standard Industry Classification (ISIC), set by the UN, provides a standard activity classification, in which NACE and UK SIC align. NACE is fully derived from ISIC, so whilst there is more detail at the lower levels in NACE, it can still be aggregated back to ISIC. Therefore, the classification systems are consistent at the lower level through aggregation. [Annex 1](#) outlines the alignment between the International Classifications and their previous versions.
  8. Traditionally, the UK has revised UK SIC in-line with ISIC and NACE. These classification systems have just undergone a revision and the ONS was involved in the consultation process. Before Brexit, Eurostat represented us in discussions on ISIC, however, since departure, we now represent ourselves.

9. The UK will continue to maintain the 2-digit level of alignment with ISIC and therefore also NACE (given they are aligned with each other at this level). Alignment will maintain a level of international comparability for our economic activity statistics.
10. We ask NSCASE in the future to provide advice on UK SIC. Advice will cover the outcome of the consultation document and details of the classification in the future. Consideration should also be given to the impact on associated classifications including product classifications. The UK and the EU currently use the Statistical Classification of Products by Activity (CPA) for product classifications. The UN uses Central Product Classification (CPC). Each system aligns closely to its related activity classification i.e., UK SIC/NACE (EU) and ISIC (UN). ONS expects a paper on CPA to be brought to NSCASE in April 2024.
11. Some consistency in the interpretation and classification of activities and products is also to be factored across the System of National Accounts (SNA) and Classifications.

### What has been done since the last update?

12. The last update provided to NSCASE was in October 2022 (NSCASE([22](#))03). The ONS have worked in partnership with economic experts to lead the consultation work. It was agreed that ONS needed to await the conclusion of associated international revisions to be able to link to information sources before conducting the consultation. Extra information sources will aid contributors' decision-making when responding to the consultation paper. Therefore, ONS work on the proposed public consultation for UK SIC was postponed until the structure of NACE and ISIC international classifications were finalised and approved by Eurostat and UNSC.
13. Revisions from Eurostat include a new version of NACE ([NACE Rev. 2.1](#), Eurostat, 2022). NACE is to be used for European statistics from 2025 onwards. This was adopted by the European Commission in October 2022. For European statistics referring to the period 2018-2024, the members of the [European Statistical System](#) are using the NACE Revision 2 (NACE Rev. 2).
13. At the time of the last update in October 2022 (NSCASE([22](#))03), the structures of ISIC and NACE had only been agreed to the 3-digit Group level. Since then, the United Nations (UN) launched a global consultation on the complete draft structure of [ISIC, Rev. 5 \(United Nations, 2023\)](#), launched on 16th December 2022 with a deadline of 20th January 2023. All comments received were reviewed and discussed in detail by the UN ISIC Task team. We actively engaged in the process and seen in [Annex 2](#).
14. The UN Statistical Commission (UNSC), at its 54<sup>th</sup> session in March 2023, endorsed revision 5 of the International Standard Industrial Classification of All Economic Activities.

15. A research agenda for future revisions of ISIC is currently being developed, with topics potentially including:
- Intermediation service activities,
  - Factoryless goods producers (FGPs),
  - Activities related to climate change and environmental protection and conservation,
  - Treatment of digitalisation and digital activities,
  - Fintech,
  - Activities related to crypto assets.
16. In 2023 the ONS reviewed the original scoping and consultation documents including the accompanying questionnaire from the UN presented in [Annex 2](#). Following feedback, edits have been made to improve readability and add further details reflecting international revisions.

#### What are your future timelines for the work?

17. The ONS consultation will open October 31<sup>st</sup>, 2023, and close January 23<sup>rd</sup>, 2024. Following the consultation, the closure report will be published. NSCASE will receive a copy and, in the April 2024 meeting, will provide comments and questions to feed into the options paper. Finally, an options paper based on the results of the consultation will be presented at the July 2024 NSCASE meeting. Confirmed timings on this are dependent upon factors that are outside of the Classifications team's control and may be subject to change.

#### What is the international community doing on this work?

18. International revisions to ISIC and NACE have concluded. The international community is working on finalising associated guidance documentation and correspondence tables to previous versions and associated classifications.
19. Implementation timeframes have been set for European Statistical System member states using NACE. The UN has not published its implementation timings but intends to follow Eurostat's. NACE rollout details can be found in article 2 of the Commission delegated regulation 2023/137 ([The European Commission](#), 2022).

#### Who are the major stakeholders for the work?

20. Stakeholders will include all users of UK SIC. Industries that are using government services, government departments and other industry bodies that implement such services, users of industry data and statistics, and producers of such data and statistics.

## References

Australian Bureau of Statistics. (2008) [1292.0.55.005 - Australian and New Zealand Standard Industrial Classification \(ANZSIC\), 2006 - Correspondence Tables, 2008](#)

Australian Bureau of Statistics. (2023) [Help Shape the Future of Classification on Industries in Australia](#)

Economic Classification Policy Committee. (2022) [North American Industry Classification System](#)

Eurostat. (2022) [NACE Rev. 2 update 1](#)

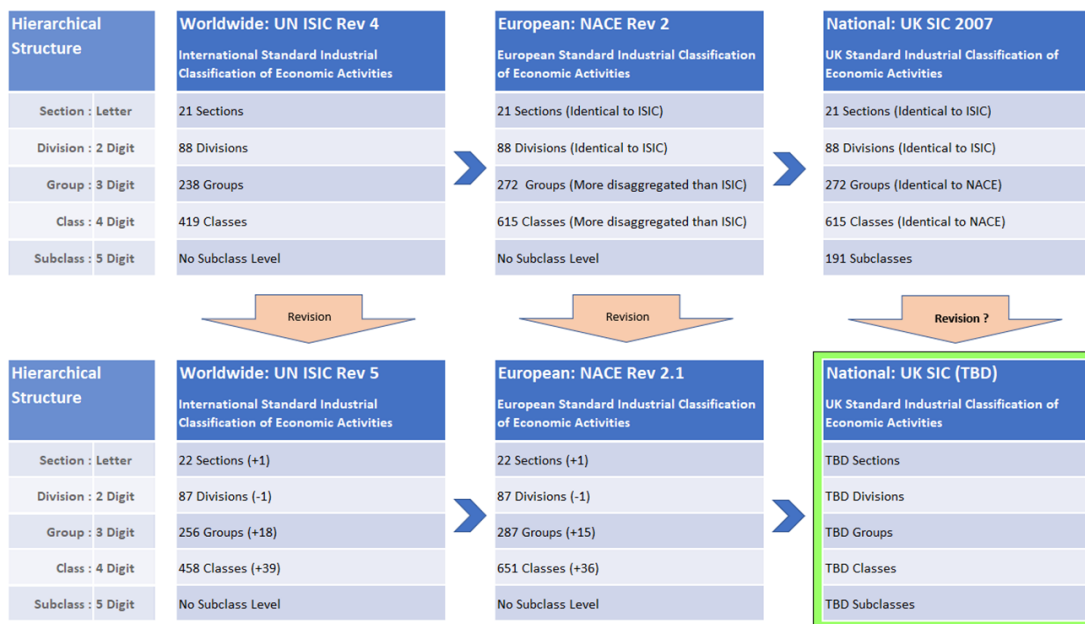
Statistics Canada. (2022) [North American Industry Classification System \(NAICS\) Canada 2022 Version 1.0](#)

The European Commission. (2022) [COMMISSION DELEGATED REGULATION \(EU\) 2023/137](#)

United Nations. (2023) [Challenges of adopting international industrial classification & progress on adopting ISIC – Australian Context](#)

United Nations. (2023) [ISIC Rev. 5](#)

## Annex 1 - Alignment between the International Classifications and their previous versions



## Annex 2 – Consultation Process

### Dec 2022/Jan 2023 consultation – full structure at 4-digit class level

*UK Response sent via online response form:*

Text detailed below:

#### 1. ISIC Structure:

**Do you agree with the proposed structure at Class level (four-digit code) of the complete draft structure of ISIC Rev. 5? Please note that the structure of ISIC Rev. 5 at Section level (one-digit codes), Division level (two-digit codes) and Group level (three-digit codes) was endorsed by the United Nations Statistical Commission at its 53rd session in March 2022.**

1. Yes
2. No

1a. If your answer to question 1 is Yes, please enter your additional comments below, if any. Please be specific and include the relevant codes.

*If you comments contain more than 3,000 characters, please send it in a separate Word document by email to [chl@un.org](mailto:chl@un.org)*

Suggest 5813 Publishing of journals & periodicals be split in 2. Some produce journals only and periodicals are something very different

- Class 5821 amend to video & computer games? Does class include mobile games/apps?
- Concerned re merger of 4741 & 4742 for realistic industry level deflators, given the different trajectories for telecommunications equipment & other digital goods in past 10years
- It is unclear from the given structure whether companies like e.g. Amazon would be categorised under the new class 4790, or whether they would stay in their current categorisation. Preference for separation of primarily digital retail intermediaries eg amazon/etsy/ebay from primarily non-digital ones; also true for other intermediation classes.
- Electric power generation, transmission & distribution activities (Group 351)

We note the proposal to distinguish two new classes (3511, 3512) for non-renewable/renewable electric power generation, as well as 3513 for transmission & distribution activities. Is there a case to identify nuclear as such an additional class for power generation? Nuclear generation is substantial in its own right, categorically distinguishable from other non-renewables power generation, has distinctive economic/financing characteristics - very long-term decommissioning & typically some requirement for government support/engagement

- Financial services

Welcome the increase in detail, the further NACE alignment, improvements to financial services in L64 which helps with more detailed financial sector statistics in SNA.

Group 643 Trusts, funds & similar financial entities (new classes 6431-6433) & Group 649 Other financial service activities, except insurance & pension funding (new classes 6491 et seq) it's likely such entities may make little or no contribution to economic activity but will have significant balance sheet impacts on financial accounts.

By aiding classification of entities this way (as opposed to 'activities' implied by literal ISIC/NACE titles) the new classification can enable a more reliable & precise collection of financial statistics. We remark partly to confirm our understanding of the implications of what is proposed & in case it helps motivate appropriate clarifications of definitions of these & related classes eg activities of securitisation (new class 6694) & fund management (existing class 6630) This understanding accommodates a model in which the entity undertaking fund management activities is distinct from the fund itself (fund as a client of the fund manager) & similarly for securitisation (distinguishing between 'securitisation' as an activity that entails the establishment & administration of standalone securitisation SPEs).

Digital products & fintech

Banking sector concerns:

Fintech & digital product activities not resolved J/L

Appears little change reflecting data centres, cloud storage, social media evolution

## 2. Research agenda of ISIC:

The research agenda for future revisions of ISIC is currently being developed. Please provide below issues that you would like to be included.

*If your answer contains more than 3,000 characters, please send it in a separate Word document by email to [chl@un.org](mailto:chl@un.org)*

The need for a dedicated esports class; where would it sit?

- The need for clearer naming around streaming & content
- Administration & Support Services doesn't describe the function of those who organise events for themselves eg festivals/sporting events. They should be moved from 82 as not office administration. Suggest to develop 823 into several 4-digit codes similar to SOC event occupations

823 rename to Organization of business events.

8231 Organization of conventions

8232 Organization of trade shows

8233 Organization of festivals

8234 Organization of hospitality

8239 Organization of events nec

Research to support the explicit identification of wider events ecosystem, to include 4-digit-codes that would enable businesses supplying the events industry to be identified and data recorded

- Investigate public/private split in health & education
- Add Modern Construction Methods & illegal activity (in already existing categories) guidance
- Research countries' cybersecurity analysis methods as no separate code
- Real estate & construction

Little change in div 68 & 41; doesn't reflect the following well: speculative development for sale; development for long-term returns; urban planning policy objectives; private market versus public or non-profit provision of rented residential housing; investment vehicles for long-term investors; tax-advantaged structures; other specialised financing structures.

Consider:

- Additional class under 681 to distinguish between 'buying & selling' of real estate & 'renting & operating of own real estate'
- Additional class/es under 681 to distinguish the provision of renting & operating of residential housing by any or different categories of, non-profit or public sector providers, from private market provision. This would reflect different economic characteristics of for-profit & non-profit modes of rental housing provision.
- Whether activity of 'development' of own property can be usefully distinguished from 'construction' (4100) eg where the owner of a property under development contracts out the major part of the construction work & moved to a class under real estate.
- Status of legal structures such as REITs.

For UK data, a significant feature is that many property development companies have established themselves as Real Estate Investment Trusts (REITs) for tax reasons. We understand the economic character of major UK REITs is more that they function as 'property companies' than as financial investment funds; this may not be a uniform characterisation of all REITs at the smaller end. UK SIC07 at 5digit level distinguishes property unit trusts (64305) & REITs (64306), albeit listed under financial services. We feel that in an ideal classification framework such examples would be classified under real estate, requiring a classification judgement on their operational nature not their legal form. We recognise these considerations are likely to be highly national-specific & may be difficult to codify at ISIC level

### 3. Additional comments:

Please provide below any additional remarks you may have on the complete draft structure of ISIC Rev. 5.



*If you comments contain more than 3,000 characters, please send it in a separate Word document by email to [chl@un.org](mailto:chl@un.org)*

We welcome and agree with listed future research activities. A regular revision cycle of ISIC is also most welcome, as is the introduction of an ISIC Index – will this be both alphabetical and numerical? Both the indexes and explanatory notes will be valuable resources to highlight activities not specifically mentioned in the structure headings and notes.

Some disappointment among stakeholders that the proposal of a code for Weddings and Private events was rejected. Good to receive confirmation via the Explanatory Notes for Section O – exclusions from 82.30, that “Party Organiser/Planner”, Wedding Organiser/Planner” are to be in ISIC Division 96, rather than Division 93.

Grateful for the explanatory notes additions but disappointed there was no agreement on proposed separate Cybersecurity code. How do other countries measure their cybersecurity activities with no separate code?

Activities related to environment

TT-ISIC’s conclusion that new categories under this heading are premature is noted. Given the likelihood of significant future growth in biodiversity measures, nature–based solutions to climate change & possible impact of voluntary carbon credits, this seems a disappointing outcome. It is complex, covering distinctive & varied policy objectives; entailing a variety of radical new directions of economic activities (eg eco-tourism, re-wilding, recycling, adaptations to changing geographical conditions). International standards relating to environmental activities will have to accommodate obvious geographical variation & will be an important challenge to get right.

Banks are preparing to adapt to future new climate policy reporting requirements, some institutions are considering the potential for more detailed classifications of climate-related activities for their own internal needs. One banking institution has undertaken a substantial development of an in-house classification introducing considerable detail on climate impacting activities

## Jan 2022 consultation (at 3-digit Group level)

Launched mid-jan

Closed 18-feb

**Reference:** <https://unstats.un.org/unsd/classifications/ISIC/revision>

UK response:

Text detailed below:

### Question 1 - Section (1 alpha level)

The major changes are minimal & without the recognition of the experience economy include a lot of the events industry.

**Section S** (previously section R): It is disappointing to see the proposed change to the title from 'Arts, entertainment & recreation' to '**Arts, sports & recreation**'. It is anticipated that this will narrow the interpretation of the codes included in this section. At least with 'entertainment' in the title, more leisure based cultural activities were included. Sport & recreation are close together, so our suggestion would be to have a new title of 'Arts, entertainment & sport'.

### Section 2

Disagree with removing Div 45 (Wholesale & retail trade & repair of motor vehicles & motorcycles) & move to Divs 46,47 & 95. The benefits of this change are not apparent versus the status quo. It is true treatment as a physical good was at odds with everything in terms of the way it was classified; this is by far the highest value product owned after houses. This will significantly expand Div 46,47 & completely swamp Div 95 as car maintenance/repair is a substantial industry in its own right & several times larger than current Div 95.

We'd value further discussion as accounting conventions/rules seem to result in businesses reporting sales as new or used rather than who the cars are being sold to. Therefore classifying units to the Div46 or Div47 may be more difficult than expected.

The rationale for disaggregating Divs 90 & 91 at group level is logical but not so for Div 93 where old titles are used eg Group 932 Other amusement & recreation activities. 'Amusement' should this be amended to 'entertainment'?

It was proposed Div 96 be split to create a new Div covering 'Hair Beauty & Wellness activities' with relevant groups, classes, explanatory notes – providing a more suitable place for other activities that may currently be misclassified or “lost” in other n.e.c. categories. The new structure improves the situation for these activities but more should be done for a growing/distinct range of activities. For substantive argument see Additional Comments. If unsuccessful at Div level, we propose change to group **962** to reflect the same range of activities & explanatory notes.

Expand personal/life-stage events in Section T. Given the new group 963 should there be groups for: 'Wedding & related activities' & 'Other personal event activities'? The latter would include: birthday celebrations, graduations, bar mitzvahs.

### **3-digit group**

Providing long-term HR services to other businesses seem to be a different activity to providing a temporary supply of labour. What is the rationale behind merging groups 782 & 783?

Under the title changes of 872 and 873 where will residential care activities for people with learning difficulties now be included? If this activity remains in 872, the new title may not capture the coverage of this grouping.

Major change 8 (Improve group structure in ISIC Rev. 4 Divs 90 & 91 – “Creative, arts & entertainment activities” & “Libraries, archives, museums & other cultural activities) explains that there has now been a new group 913 (conservation, restoration & other support activities for cultural heritage) created. We were hoping further information could be provided to us on the type of activities that would be included within this group, & confirmation that this is a separate & distinct proposal from the suggestion to create a new class 9142 (Nature reserve & protected areas activities) which we were not in agreement with.

If a new division for 'Hair Beauty and Wellness activities is not possible, then expand the group 962, currently being proposed in the draft, to reflect the range of activities and also be supported by comprehensive explanatory notes.

Major change 9 (Define & classify Intermediation service activities) describes some of the changes made as a result of the discussion around intermediation. The groups for intermediation services seem useful & well thought out but we were hoping that further information could be provided to us on what types of body belong to group 964 (Intermediation services for other personal services) as we weren't sure how prevalent such an activity was in most economies. We also note that there are

separate groups for intermediation services for passenger transportation & intermediation services for accommodation. However, many websites allow for booking of both of these services meaning it may be impractical to determine which provides the greater degree of value-added, & it may also result in units shifting from one class to another each year. & this may be more of an issue for the explanatory notes but thought may have to be given on how each of these activities relate to travel agencies.

## Section 4

For major change 5 (**Restructure Section J – “Information & communication”** to address the classification of related activities such as social media, search engines, cloud technology & cybersecurity activities) we think that the restructure of section J has resulted in social media sites falling under class 6039 (Other content distribution activities) ). We posed a question in the past relating to whether it was most appropriate for social media companies to be included in a class (rather than a group) because of their size in many economies. We also weren't sure what other types of body would fall under 'other content distribution activities' & were hoping further detail could be provided to us. & from the details provided we're not sure where price comparison/marketplace sites are to be included, which is another important area to be reflected in the updated guidance.

Overall supportive of the suggestions around **factory-less manufacturing, treatment of online retailing & inclusion of “intermediation” activities** into various areas of the ISIC system.

### **Hair Beauty & Wellness Activities:**

The British Beauty Council (BBCo) maintains that the size, scale & diversity of the activities, undertaken in the hair & beauty group of services is sufficiently well-known, similar & also different to everything else within Div 96 & therefore warrants recognition at the 2-digit Div level, separate to 'other personal services activities'. It will therefore look to make further amendments to these codes as opportunities arise to do so. The BBCo believes the hair & beauty activities account for approximately 1.3% of the UK's total GDP. These activities have grown over time & the range of services commonly provided has expanded, making it even more important that these are updated & separately enumerated.

Recently, due to coronavirus interventions, these services have received a lot of attention from government, the media & the public as 'close-contact services' underlying how different they are to rest of the activities in Div 96 & how similar they are as a group of activities.

The BBCo also stress that the accompanying definitions & descriptions to the updated classifications must also be revised to more accurately reflect the activities & move away from outdated & inappropriate terminology for the services provided.

It is disappointing that the **experience economy** has not been recognized, where digitization & globalization has been. Events are part of this

## September 2019 global consultation

Launched 10 September 2019

The UK did contribute directly to this consultation though previously representation for the UK had been provided by Eurostat previously. The NACE consultation was also ongoing at the time and we had been contributing to this also.

Text below:

### *Questionnaire on ISIC Rev. 4 Revision Issues*

What is the purpose of this questionnaire?

This questionnaire was prepared by the Technical Sub-Group on International Standard Industrial Classification of economic activities (TSG-ISIC) to assess the need for change to the ISIC Revision 4 (ISIC Rev.4) classification through a global user consultation with experts from countries and relevant international/regional organizations. ISIC, or a national/regional classification that is comparable with ISIC Rev. 4, is used in many countries for a variety of statistical and administrative purposes. The changes in the economy since ISIC Rev. 4 was introduced more than a decade ago have led to the need to review its relevance. Classifications need to remain relevant and responsive to contemporary reality whilst also maintaining the ability to link data over time. To ensure that the classification remains a useful tool for compiling statistics at the national level and for international comparison, inputs from a variety of users of the classification into the revision process are necessary.

This questionnaire is a first step in the assessment. During its last meeting in New York, 18-20 June 2019, the TSG-ISIC discussed an initial list of issues that were deemed important for consideration when assessing the need for a revision of ISIC. This list of issues is reflected in this questionnaire but should not be viewed as an exhaustive list. The questions in this questionnaire are developed in order to facilitate the assessment of ISIC Rev.4, but they should not preclude other categories of problems or proposals. If other issues are encountered with ISIC Rev. 4, please indicate them in the questionnaire. Problems may cut across these categories and can be listed in any of them or separately.

The overall goal of this process is for the TSG-ISIC to develop a recommendation for a possible ISIC revision to the Expert Group on International Statistical Classifications in November 2019.

Who should fill out this questionnaire?

The main target audience for this questionnaire is experts in national statistical offices or other relevant national, regional or international institutions who are tasked with assigning ISIC or ISIC-comparable codes to economic activities. The responses to this questionnaire will serve as the basis for the discussions on the purpose and scope of the ISIC and to assess the classification system needs for revision. Your input is therefore extremely important.

Ideally, this questionnaire should be discussed with a wide range of users of the classification in your office and/or in your country, including analysts, classification experts and producers of statistics using ISIC or a comparable classification. Each national statistical office or institution should return one response that is the result of internal coordination.

What should you do with this questionnaire?

Your response should address, wherever applicable, the following:

- views on the concepts that underpin ISIC and their continued applicability;
- additional issues, gray areas or blurred boundaries that you have encountered in classifying activities;
- listings of new activities that are not well-defined in the current version of ISIC;
- listings of activities in the current version of ISIC that have lost relevance for the modern global economy

While the focus of the questionnaire is on ISIC Rev. 4, any additional comments that you might have regarding identified issues with the CPC or other product classifications will also be welcomed.

When is this questionnaire due?

This questionnaire is available in two formats: an online form (available at <https://forms.gle/fpnBx5HWey9PsB826>) (preferred option) or a stand-alone Microsoft Word document. Your response to this questionnaire should be submitted online or sent to [business\\_stat@un.org](mailto:business_stat@un.org) by Friday 4 October 2019. You can choose either one of the two formats to send your response.

Overall structure and underlying concepts of ISIC

As specialization on aspects of production increasingly takes place in a growing global business environment, national statistical offices face a challenge in qualifying and quantifying these new production arrangements. What was once done within the confines of single companies in domestic economies is now characterized by international flows and even definitional

issues with goods and services. This creates a situation where international industry and product classifications require evaluation to determine if the standards used to report data internationally are up to the task of identifying new trends and conceptual and structural shifts in economies.

ISIC is a classification of economic activities, which are grouped together into categories from lower to higher levels of detail. Different criteria are used to group activities, such as the inputs of goods, services and factors of production; the process and technology of production; the characteristics of outputs; and the use to which the outputs are put (ISIC Rev. 4, para 7). Currently, activities are defined by lower level units such as kind-of-activity units or establishments (local kind-of-activity units), but there is an increasing country practice in using ISIC to classify higher level units such as enterprises.

ISIC has a general applicability in classifying economic activities at different levels of statistical units, including classifying activities of production units at single locations in order to describe a country's domestic economy. As such, there may be an expectation of relative homogeneity of units within ISIC classes. ISIC classes are based on a variety of concepts – inputs, outputs, or production processes. In some cases, a fully automated factory and a garage doing hand transformation of transport vehicles are in the same class because the output is the same. In other cases, two establishments with very similar processes are in different classes because their outputs are considered different in ISIC. The point of this is that while ISIC has an inherent classification logic and practice, it is a standard for which choices have been made in the past resulting in today's classification of data. This assessment is an opportunity to revisit some of these choices and consider how ISIC might need to change with the evolution of the structure of economic activities.

There is a relationship between economic activities in ISIC and products in the CPC. The former lead to the production of the latter. The definition of products in existing or revised product classifications, such as the Harmonized System (HS) and CPC, are used to define the boundaries of some activity categories. Currently, product detail of the CPC is used to provide more detail to the activities or industries described in ISIC and thus the combination of ISIC and CPC defines the classification of the statistical unit in more detail. As a result, not all detail of the classification of a statistical unit has to be included in the description of the ISIC classification. Your contact information:

Country: UK



Institution: Office for National Statistics (ONS)

Contact person: Lindsay Prosser

Phone: 01633 455334

E-mail: [lindsay.prosser@ons.gov.uk](mailto:lindsay.prosser@ons.gov.uk)

Please elaborate your answers as much as possible in the textbox below each question.

Specific issues Identified by the TSG-ISIC in June 2019

1. Internet retail sales and e-Commerce sales - ISIC classes in retail trade are defined on the basis of store retail and non-store retail. This class distinction creates difficulties measuring Internet sales and e-Commerce as a growing number of retailers have both a physical and online presence. There are substantial sales using the web in both store and non-store categories of ISIC.

1.1 Should store and non-store retail activities be merged in a single industry? Please elaborate below.

We would prefer to keep these activities separate

1.2 How is your country addressing this issue? Please elaborate below.

The difficulty in dealing with retailers who have both an online and physical presence is recognized; however we consider this to be a data collection issue, which can be handled by questions on surveys which ask for example, ask for online activity. More of an issue for this breakdown is the risk that people conflate on line with non-store, which is not the same.

Asking retailers for their store and non store retail activity separately on relevant questionnaires, also helps when we regionalise the data as well as providing low level commodity breakdowns.

1.3 Do you have other proposals for ISIC to address this issue? Please elaborate below.

Not directly, however, some users consider that it would be useful to have a second dimension to ISIC covering mode of delivery.

2. The increasing use of Internet-enabled technologies is rapidly changing the business practices of several industries. For example, the traditional local travel agencies are declining, and Internet based reservation services are increasingly being used by both businesses and households. New service transaction intermediaries bring together producers and consumers in new ways. Intermediaries have created the ability, for example, for a

local traveler to arrange a ride with a local driver instead of a traditional local taxi service provider. Intermediaries can also bring together owners of real estate with customers looking for short-term accommodation. In 2017, the Expert Group adopted guidance for classification of these intermediaries (ESA/STAT/AC.340/10 - 15 August 2017 available at <https://unstats.un.org/unsd/classifications/expertgroup/egm2017/ac340-10.PDF>).

2.1 Based on this guidance, is there a need for new categories in ISIC for more intermediaries in service activities?

Please elaborate below.

The general opinion is that the updated classification should try and make a provision to distinguish these businesses from the more traditional service providers. The consensus appears to be that users would be interested in new categories for these new, emerging types of service provider.

Areas of interest includes the better capturing of the activities of intermediaries (or digital platforms) and obtaining statistics on the performance/extent of the Gig economy. For the latter it would be useful to know if/where they are captured and whether they can be split into a distinct category as part of the revision.

From an ONS perspective, as this is the largest growing area within services, we would like to be able to distinguish such intermediaries in our data. We are already looking at the digital economy and sharing economy to consider how these should be captured. There are several working groups on the sharing economy internationally which it is hoped will also contribute towards this review.

We are aware that there is an argument that as such intermediaries undertake supporting activities for the core activity (travel booking, taxis, real estate, etc) they should be classified accordingly. If however a new category is not created, then clear guidance is needed on both classification and how to use the data, for example internet connected products and devices (internet of things).

2.2 Are the existing categories still relevant? Please elaborate below.

Yes to an extent, some of the existing codes are used as part of measuring the economic value and number of businesses within the Tourism sector. We would like to keep existing categories so that we can assess the digital transformation (i.e., change in practices) of service intermediaries over time

2.3 How would you address this issue in ISIC? Please elaborate below.

Options include:

Adding another dimension to the ISIC classes by covering mode of ordering/delivery so that we could distinguish between digitally and non-digitally assisted activities across all sectors.

Add further classes in the relevant sections to capture emerging industries. Possibly create new divisions which may prove more useful to users, given they would be able to compare between the old and new ways of providing these types of service.

Create a separate section to cover digital economy activities and disaggregate this, or split each existing category by digital and non-digital.

Although in some areas the services provided by more traditional industries are falling, they haven't as yet been fully overtaken by the new emerging types of industries, as such, any additions should compliment the existing categories

3. The distribution of both audio and video content has rapidly changed because of technological advances. ISIC Rev.4 Section J, Information and communication, currently includes distinctions for publishing activities (Division 58), motion picture, video and television programme production, sound recording and music publishing activities (Division 59), programming and broadcasting activities (Division 60), and telecommunications activities (Division 61). However, much of the distribution activity is now taking place over a mixture of wired and wireless networks, and internet enabled on-demand services (streaming) are not easily classified to a single location in ISIC.

3.1 Does the current structure of Section J appropriately classify the new distribution activities of both audio and video content, or should activities such as audio and video content distribution be classified regardless of the technology used (e.g., wired, wireless, broadcast, Internet, etc.)?

Please elaborate below.

It would be useful to distinguish activities that are digital to those that aren't, for example, can book publishing (group 581) be further aggregated to include digital/online book publishing. This would help provide further, reliable estimates on digital industries.

Companies such as Google and Facebook give access to a considerable amount of news and content (through Youtube, Facebook feeds, Google news, etc.); due to a debate on the editorial position of such companies and responsibilities for the content they give access to, there is some

disagreement that they should be considered as 'publishing'. Given the disagreement, there may be a need to create new codes to capture their activity.

Although some new technology can be classified within its existing structure, Section J would benefit from an expansion of the explanatory notes; in addition there is a need for new categories to capture these activities.

To deal with this new and emerging market it would be useful from both a NSI and user perspective, to classify them more appropriately by creating new classes within division 59. Classification possibly should take account of the way in which the services are delivered; however it should be noted that the mechanism by which content is broadcast should not govern the classification – if it does, then we run the risk of insufficiently future-proofing the classification, as new means of transmission may well emerge.

This area is likely to expand, continually develop and change, therefore a way to incorporate such changes would be beneficial otherwise ISIC will always be outdated.

4. Several countries have problems with the ability to implement the concepts of wholesale trade and retail trade in ISIC. In many instances, businesses actually perform a mixture of sales to both business and household customers. While surveys may attempt to separate class level data with additional inquiries for class of customer, concerns remain with the quality of available class of customer data when attempting to assign a business to wholesale trade or retail trade.

4.1 Should ISIC continue to keep separate divisions for wholesale trade and retail trade? Please elaborate your answer below.

Yes, there is a clear policy requirement to monitor the changes in the retail industry, particularly the move away from traditional high streets to the online shops.

There are considerable issues with businesses which carry out wholesale and retail. In some instances businesses selected under retail put their turnover under the wholesale (or vice versa). Another issue is that the breakdown for wholesale and retail do not match; products being available for wholesale and not retail, has resulted in some businesses being incorrectly classified.

The alignment of wholesale breakdown and retail breakdown is proposed, so that margins can be estimated more accurately.

4.2 If separate divisions are maintained, should type of customer remain the primary distinction between wholesale and retail trade divisions? Or should other potential distinctions, such as sales tax, type of sale outlet, or other criteria be used to separate wholesale from retail trade?

Please elaborate below.

Type of customer is still the preferred way to distinguish between retail and wholesale - it would be very difficult to determine another way.

4.3 Division 45 of ISIC Rev.4 (wholesale and retail trade and repair of motor vehicles and motorcycles) is treated separately within Section G. Should the activities in Division 45 be classified consistently with other activities and therefore split between existing divisions for wholesale, retail, and repair, or should they remain together?

Please elaborate below.

It would be very difficult to split this division, as it is likely that the same establishments will carry out at least two, if not all three of the activities.

5. Outsourcing of manufacturing transformation services has remained an implementation problem for users of ISIC. Many countries have noted that the factoryless goods producers (FGPs) who outsource all manufacturing transformation activities to non-affiliated enterprises, either abroad or in the resident economy are hard to identify. Some countries have expressed the opinion that the FGP activity is not significant while other countries have noted that it is both important and growing in their economies. FGPs are characterized in ISIC as units that perform all of the necessary steps that result in the production of goods but outsource the actual transformation or manufacturing activities to unaffiliated entities domestically or unaffiliated entities outside of the domestic economy. After significant discussion, the TSG-ISIC recommended no changes in the

current guidance in ISIC Rev. 4 based on ownership of input materials (see paragraphs 136-145 of ISIC Rev.4) because no firm recommendations for improvement are available. However, the text in the ISIC Rev. 4 manual could be further clarified that the FGP activity refers only to a production arrangement between non-affiliated entities.

5.1 Do you agree with the current treatment of FGPs in ISIC Rev. 4 (as described in paragraphs 142-145 of ISIC Rev.4 for non-affiliates)?

Please elaborate below.

According to paragraphs 142-145 for ISIC, the ownership of the input materials (raw materials or intermediate goods) is the key determinant for a

business to be classified into manufacturing. Based on experience, this definition is quite limited, we have the example of a business which sells semi-finished goods; its a contract manufacturer (however doesn't own the input material), but owns the designs and final output.

The UK recommends that there should be a review of the current rules

6. Technology and the application of new technology raises a number of questions for ISIC. Is the application of new technology a new activity or a new way of performing an existing activity? For example, the use of technology in financial transactions, sometimes referred to as Fintech, has expanded the availability of services to much broader segments of the population than they previously had access to physical banks or other service providers. The transfer of money between parties, even in different countries, has been possible for many years using wire transfer services. Now, the same transfer of money can be performed by money transfer apps on a smart phone, greatly expanding the market. Similarly, in the past, loans were provided by banks. The application of technology has seen the rise of alternative lending facilities such as non-bank lending and even arranging peer to peer lending. Other examples of new technology include 3D printing, digital music sharing, sharing of Internet TV services, etc.

6.1 Do you have specific recommendations for changes in ISIC Rev.4 on the activities of money transfer and lending in the face of technological advances that expand potential markets?

Please elaborate below.

A core question is whether the application of new technology is a new activity or a new way of performing an existing activity; for example, replacing steam trains with diesel or electric – same activity, new way of doing it.

If FinTech (for example) is a new or different activity, would it still be relevant to consider it as a different activity in 10/15 years? In the short term it would be very helpful to be able to capture FinTech activities in a robust and comparable way, especially as this would enable us to better assess the activities of the digital sector and the digitalization of the economy. It is possible that capturing the technologies used by FinTech may help to distinguish that from online activities of financial institutions.

Classes could be added to the relevant sections to capture these emerging industries. Possibly new divisions could be created which may be more useful to users, as they would be able to compare between the old and new

ways of providing these types of services. Clear guidance would be needed on how these activities should be captured as many are cross cutting and need also to ensure that they are captured correctly for each country.

6.2 In the cases of 3D printing, digital music sharing, and sharing of Internet TV services, do you have specific recommendations on how to classify these activities in ISIC?

Please elaborate below.

Digital music sharing and sharing of internet TV services might fit in Section J, Information and Communication activities.

There is however a need for these activities to be completely reviewed; a further suggestion is that case studies should be undertaken, along with consultation with such businesses to gain insight into how they consider they should be classified.

6.3 Besides what you may have discussed in response to question 2, do you have any other examples or recommendations on the application of technology in existing activities in general?

Please elaborate below.

The application of technology is changing in a number of existing activities and sectors, for example health and food. There is a need to ensure a consistency of approach and whether technologies in these sector expand the availability of services to much broader segments of the population or create a new activity.

It would be very helpful if the explanatory notes could be expanded to clarify where both the production of internet enabled devices (such as smart fridges, central heating systems etc.) should be classified and their associated software development. Clarification on how the insurance market for cyber security would be included in the classification system is also welcome.

7. There are some ISIC codes that have been deemed to be overloaded, such that it does not serve the needs of countries in either collection or reporting data. An example of these is “Mining of Other Non-ferrous Metal Ores (0729)”, which includes mining of gold, mining of bauxite, and mining of manganese.

7.1 Do you have problems with such codes (0729) or would further detailed breakdown be more useful to your needs?

Please elaborate below.

This is not a known a problem for the UK

7.2 Do you have other examples on the need for more breakdowns in ISIC? Please share your suggestions, including the existing appropriate ISIC code and description as well as the rationale for more detailed categories.

Please elaborate below.

A further disaggregation of division 62 would be usefull, particularly as this sector is likely to grow in the future.

The digital economy, sharing economy and gig economy are amongst the UK's priorities to implement. Clear guidance is needed on this fast paced and continuing area of development. Thought is needed on how the ISIC structure can keep pace with these developments. Additional Issues

8. Regarding the revision process of ISIC,

8.1 Should we continue with irregular ISIC revisions or should there be a regular update schedule (e.g., every 5 – 10 years)?

Please elaborate below.

Given the increasingly fast pace of change in the economy, we would prefer frequent revisions, ideally every 5 years.

Regular updates would facilitate more frequent small changes rather than large scale longer term changes and allow for a focus on emerging sectors.

8.2 Should the revision of ISIC be synchronized with the revision process for the System of National Accounts and related standards for economic statistics? Please elaborate below.

Yes, it would make sense to be consistent across the world, particularly with Eurostat CN numbers.

8.3 Do you have any specific suggestions on how to maintain the relevance of ISIC and make changes outside a regular revision process? (Examples of suggestions are: create an alphabetical index of ISIC, create a central online registry of case laws and rulings, create correspondences, etc.)

Please elaborate below.

An accompanying index to ISIC and easy access to reference data such as caselaw, would be very helpful and promote consistency and uniformity.

An online discussion database would help promote best practice - this could also be used to inform the next review and implementation of ISIC.



9. Please add any difficulties that you have had with the structure or relevance of ISIC Rev. 4 in practice. Include cases where a new activity is not clearly classified as well as cases where the importance of existing classes has grown or declined significantly.

Please elaborate below.

Specific User Feedback:

Department for Digital, Culture, Media and Sport: Video games

UK Interactive Entertainment (a UK organisation for video games) estimates that 40% of UK video game businesses are using the wrong code. Many video game companies use 6201 or 6202 instead, because they identify their main activity to be programming, rather than publishing. This makes it difficult to disaggregate video games activity from general programming activity. We suggest an additional code: 'Video games programming activities' in order to better capture the sector.

Music

We would like to be able to distinguish the following activities in the music sector at class level: 1) creation of musical compositions and sound recordings; 2) activities relating to live music performance; 3) commodisation of musical compositions and sound recordings.

Design

The current structure does not allow us to distinguish between different components of the design industry, such as: communication, product and industrial, interior and exhibition & service design.

Crafts

It is currently difficult to assess the contribution of the crafts industry as businesses making handcrafted products are included in the same classes as businesses manufacturing products on a much larger scale. We would like to be able to distinguish between people making e.g. handcrafted clothes or other textiles, and industrial scale clothes manufacturers. Similarly for woodworking, and other skilled trades.

Cyber security

The cyber security sector (manufacturing, retail and services) is growing both within the UK and abroad. We would like new classes for cyber security products (physical and software) and services to be included.

Research by RSM (published on gov.uk) found that over two thirds of cyber security firms are classified in division 62 (Information technology), with others placing themselves in 8299 (other business support) and 7020 (Management consultancy). The report says “whilst these provide a useful initial categorization of firms (and a layer of validation), these remain vague, and do not fully capture the activities of each firm. Given the nascent nature of the cyber security sector, and that several key firms are not aligned to division 62, this demonstrates that for a sector such as cyber security, analysis by SIC (UK Standard Industrial Classification of Economic Activities 2007, the national version of NACE Rev 2) code is not sufficient to provide an accurate insight to sectoral performance.” We also know that the cyber security market in products and services is due to grow as we become a more digital economy.

An initial taxonomy/view of the sector by K Matriz includes the following as cyber security:

- Cyber Consultancy Services
- Cyber Infrastructure
- First Party Cyber Security Insurance (added in 2014)
- Third Party Cyber Security Insurance (added in 2014)
- Outsourced/Managed Services
  - Mobile
- Business Continuity
- Anti Malware
  - Application Security
  - Encryption
  - Identity & Access Based Services
  - System Recovery & Data Cleansing
- Situational Awareness

Scottish Government: A specific challenge is to define emerging sectors (e.g. Data, Informatics, FinTech, Subsea, Precision Medicine, Informatics, Life Sciences, AI, Robotics).

Different approaches to restructuring ISIC could be taken to better capture these emerging sectors for example, companies involved in Data may serve any industry, so that may warrant a completely new section. Some

other sectors may benefit from an expansion of existing divisions (div. 62 for example) others may benefit from a split of current classes; for example, to better measure the Scottish Life Sciences sector it would be helpful if 7210 (Research and experimental development on natural sciences and engineering) could be split out to separately identify 'natural sciences' and 'engineering'. It may be that some of these emerging sectors are currently hiding under some of miscellaneous / not elsewhere classified type divisions in the current classification. It would be helpful to consider the level of detail currently available for sections that have grown substantially over the last 15 years; for example, Professional, Scientific and Technical Activities (Section M) more resolution would be helpful to provide finer detail where there has been particularly marked growth; for example, in management consultancy.

10. Do you have any comment on the following:

10.1 The applicability of the ISIC concepts, and its main principles and the definitions of higher-level categories of the ISIC structure, i.e. Sections and Divisions.

Please elaborate below.

No comment

10.2 Gray areas (for example, activities based on crypto assets, marketplace, digital economy, cloud technology, 3D printing, drones, fintech) and blurred boundaries between classes (for example, traditional TV broadcasting vs live streaming)

Please elaborate below.

It would be useful to capture the emerging sectors, such as artificial interlligence, FinTech, Cyber sector and those activities mentioned in quetion 6.3 above.

It should be noted that the lack of definitve product level detail for products such as Drones & 3D printing frustrates customers in the media who use our data.

10.3 Any problems not already mentioned in previous questions that you would like to see addressed when developing a recommendation for ISIC revision.

Please elaborate below.

The current structure does not allow us to define some cross cutting sectors such as renewables, green economy and advanced technology.

Like the emerging sectors, approaches to capturing these cross cutting sectors may differ; for example, for renewables it would be helpful to consider a specific renewable breakdown of the power generation; for example, including classes for electric energy storage and other gas production (such as bio-methane & hydrogen) in group 351 as these are likely to be part of an expanding supply in future.

There is a need to consider some specific issues: (a) Cross-cutting classifications, e.g. digital, sport, music, etc. as well as consider the business model links to the global value chains for MNE Groups.

(b) R&D – caution with the Frascati Manual breakdown. Mixing funders and providers needs a separate link as well as who is the economic owner.

(c) More comprehensive breakdown of the services industries and products.

(d) Categories for software as a service, platform services and e-commerce in general would be helpful.

(e) Splitting out of ecological/environment industries to allow the gathering of statistics which could aid beyond GDP statistics.

Application of ISIC or Comparable Industry Classification

11. In your country's statistical programmes, at what level(s) of statistical unit do you apply ISIC or a comparable industry classification (establishment, kind-of-activity unit, enterprise, enterprise group, etc.)?

Please elaborate below.

12. Of the existing four levels in the structure of ISIC (Section, Division, Group and Class), which level(s) do you use most frequently in your surveys/statistical programmes, publications or data sharing with international partners?

Please elaborate below.

Unfortunately the form wouldn't allow a reply to question 11, however the answer is 'reporting unit' a hybrid of establishment and enterprise dependent on the business.

The level used varies depending on the publication, the survey and the user. Thank you for the time and effort you put into your response.

Your input is important for keeping ISIC an up-to-date international standard for economic activities.

## Consultation Process

### Reference:

Provides overview of how the revised version was attained [ISIC, Rev. 5](#)

UNCEISC – Mandate <https://unstats.un.org/unsd/statcom/52nd-session/documents/BG-3k-TOR-UNCEISC-E.pdf>

UNSC – Mandate <https://unstats.un.org/UNSDWebsite/statcom/>