

UPDATE OF THE 1993 SNA – ISSUE No. 25e
JULY 2005 MEETING OF THE ADVISORY EXPERT GROUP ON NATIONAL ACCOUNTS

TFHPSA
24 June 2005

NON-RESIDENT SPEs¹ LINKED TO GENERAL GOVERNMENT

For information

1. In the context of discussions held on issues related to privatisation, restructuring units etc., the Task force on Harmonisation of Public Sector Accounting, at its March 2005 meeting in Paris, proposed that some special purpose entities created abroad by the government – for purposes like defeasance or securitisation of assets - should be treated as part of the general government sector (S.13). The exclusion of these SPEs from the general government sector would distort the calculation of government balances and of government debt.

2. A similar orientation was taken in a meeting of the Eurostat task force on SNA review (Luxembourg, 27 April 2005). A large majority of the task force agreed to the following: "The Eurostat task force on SNA review (government finance and financial accounts) supports the view that SPVs created abroad by the general government to manage its financial interests should be classified inside the general government sector (and not in the rest of the world)."

3. Rationale: these type of units act under the direct control, financing and management of the general government, and are set-up abroad for some financial / strategical convenience. They often do not put themselves at risk and should therefore not be considered as public financial intermediaries (see the definition of financial intermediaries in SNA 1993, §4.78)² but rather as ancillary units of another general government unit.³ In such instances these entities might not be regarded as institutional units, albeit their legal status abroad.

4. Although recommendations from the balance of payments or the task force on financial services suggest that SPEs should be classified as non-resident purely on the basis of their legal residence, the TFHPSA recommends that more research be conducted in the case of SPEs created by general government. The AEG is therefore informed that the TFHPSA will explore alternatives for the treatment of government SPEs and/or their transactions, including with regard to those incorporated abroad, and will circulate proposals to an informal working group including BOP representatives during the Summer.

¹ SPEs and SPVs are used interchangeably to indicate entities created for a special purpose.

² SNA, §4.78: « (...) A financial intermediary does not simply act as an agent for other institutional units but places itself at risk by incurring liabilities on its own account.»

³ However in the *Monetary and Financial Statistics Manual*, it is indicated that "An ancillary corporation that has his center of economic interest in a foreign country is treated as a separate, nonresident unit" (par. 71)