

Special Purpose Entities and Pass-Through Equity: A Micro-Analysis with BEA Data

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Outline

- Motivation
- Definitions
 - Special purpose entity (SPE)
 - Pass-through
- Nonresident SPE affiliates of U.S. MNEs
- U.S. resident SPE affiliates of foreign MNEs
- Discussion and next steps

Motivation

- Statistical community attention on solving measurement challenges related to SPEs
- Purpose of many SPEs is to hold funds that pass through one country to be used for production elsewhere
- Initial focus has been on resident SPEs but...
- U.S. FDI statistics record large positions in “countries of convenience”
- Ongoing U.S. research to “push down” outward position to country of destination

Definitions - SPE



- IMF Task Force on Special Purpose Entities proposed the following definition of an SPE:
 1. Maximum of 5 employees and “little or no physical presence”
 2. Direct or indirect control by nonresidents
 3. Established to obtain specific advantages
 4. Transacts almost entirely with nonresidents

Definitions - SPE



- SPE definition operationalized for BEA data as follows:
 1. Affiliate is majority-owned by parent(s)
 2. 0-5 employees
 3. Less than \$1 million of gross property, plant, and equipment (PPE)
 4. Less than 10% of total sales are to customers in the host country

Definitions – Pass-Through

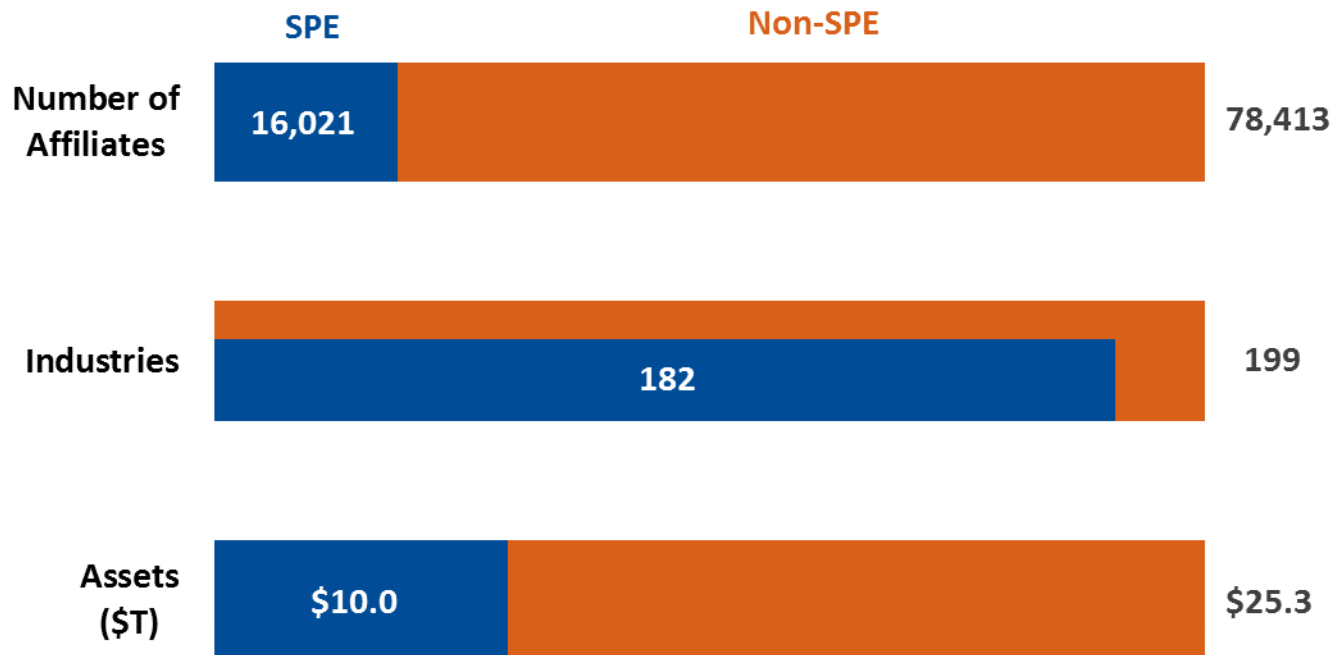
- Pass-through equity defined following Borga and Caliendo (2018)
- Each affiliate assigned its own “inward” and “outward” FDI position
 - Inward = owner’s equity (OE)
 - Outward = equity in subsidiaries (ES)
- Pass-through equals the smaller of the inward/outward positions



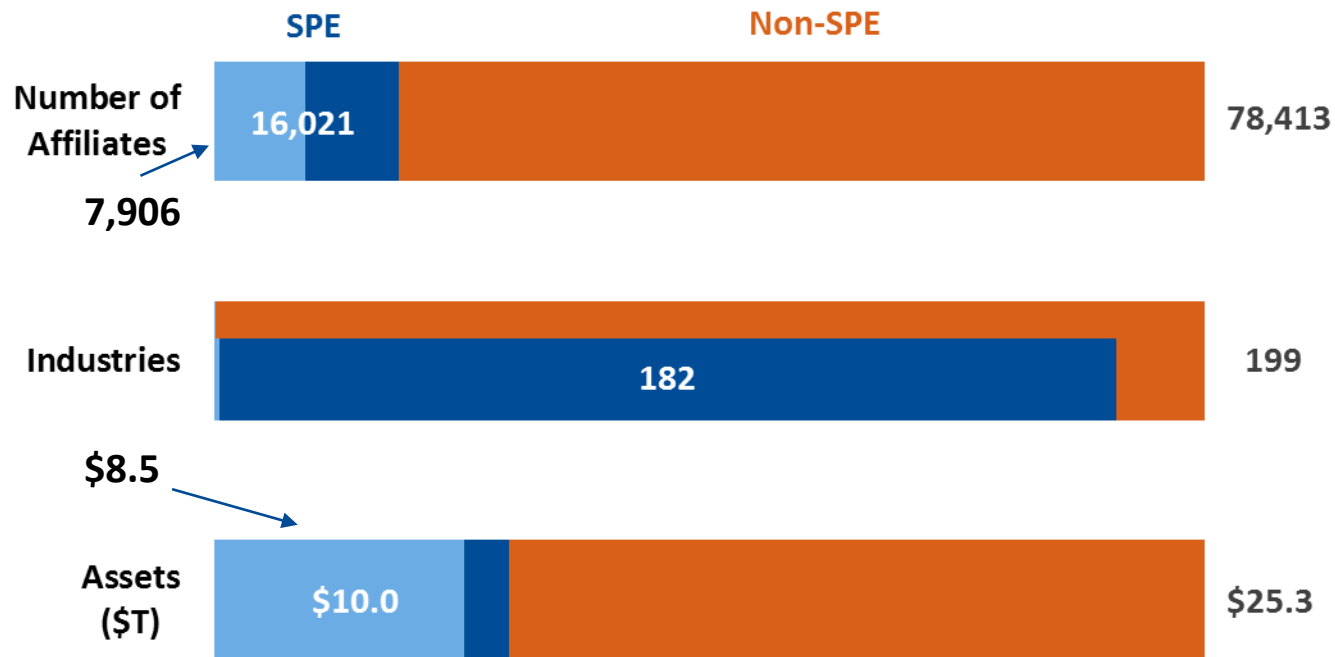
Nonresident SPEs of U.S. MNEs



Nonresident SPEs of U.S. MNEs

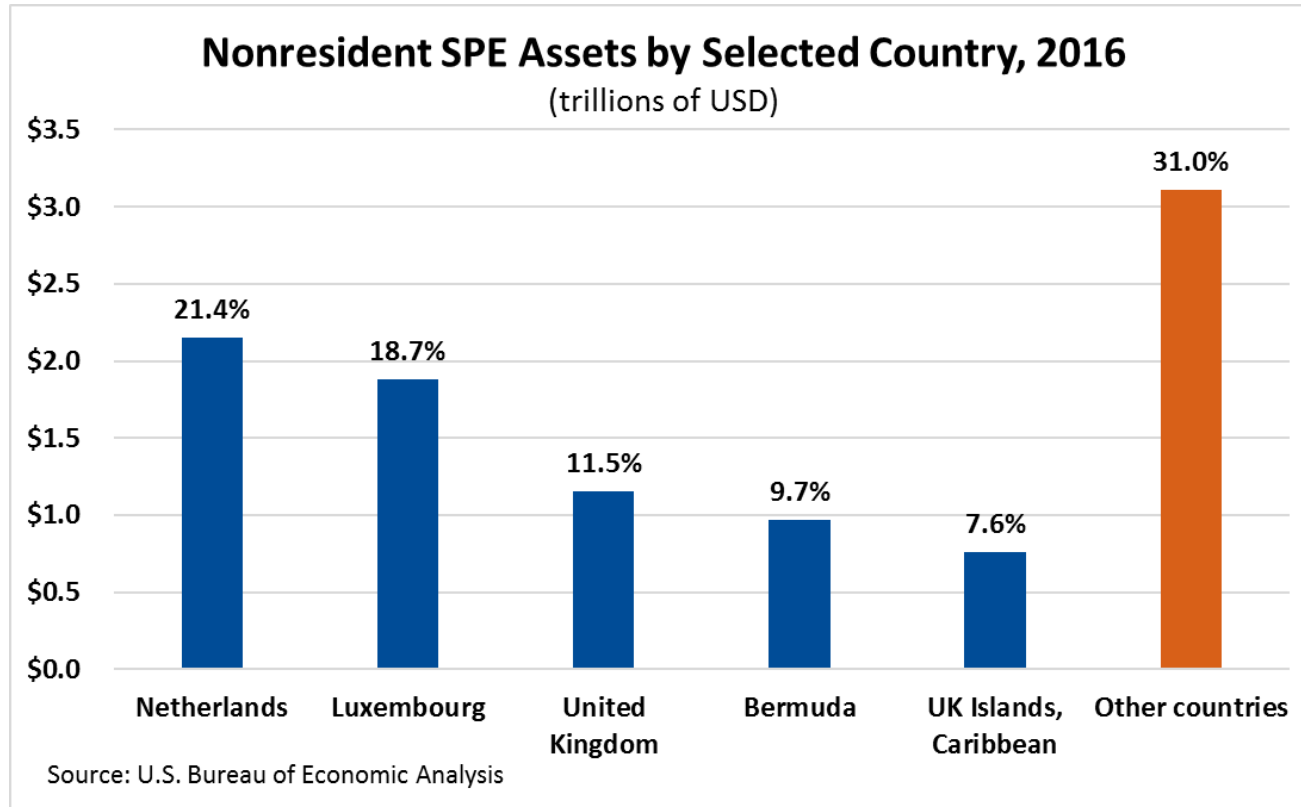


Nonresident SPEs of U.S. MNEs



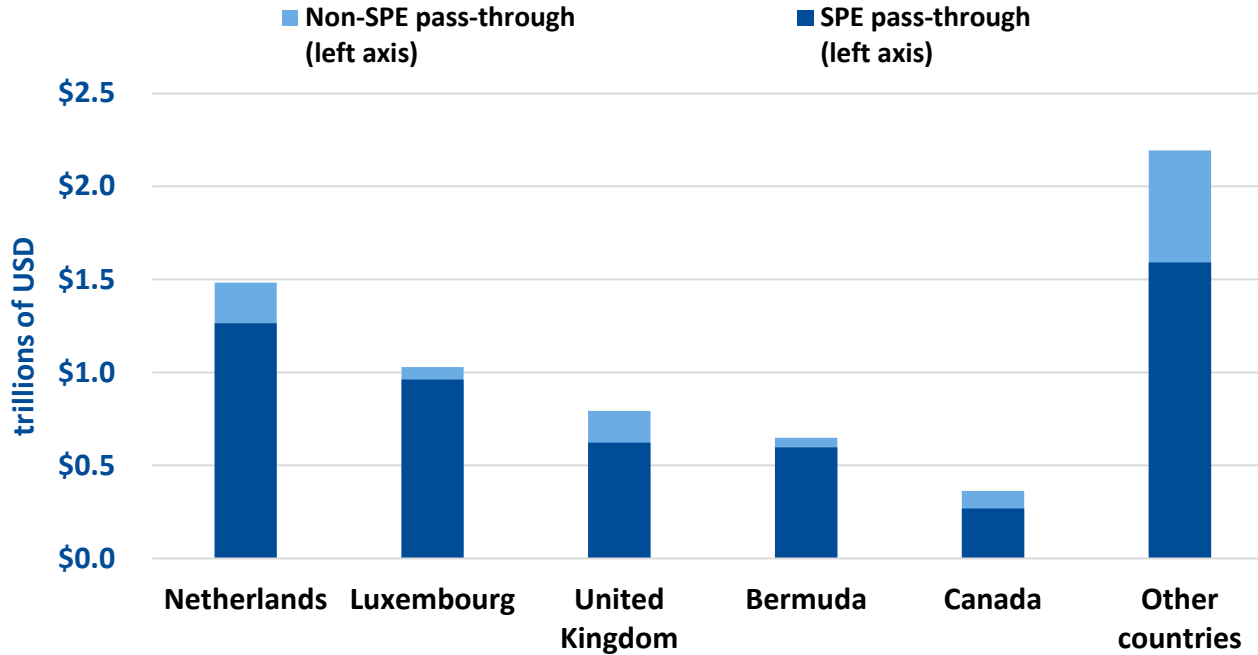
 = holding company SPEs

Nonresident SPEs of U.S. MNEs



Nonresident SPEs of U.S. MNEs

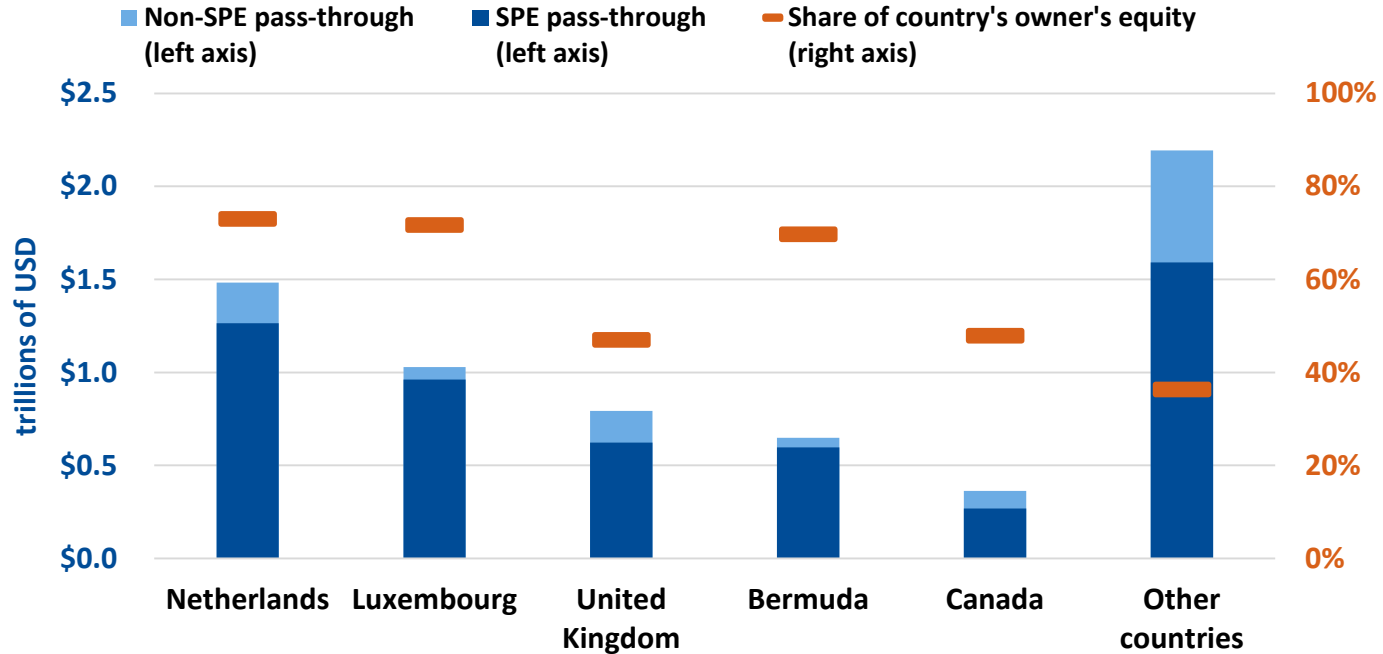
Nonresident Pass-Through Equity by Country, 2016



Source: U.S. Bureau of Economic Analysis

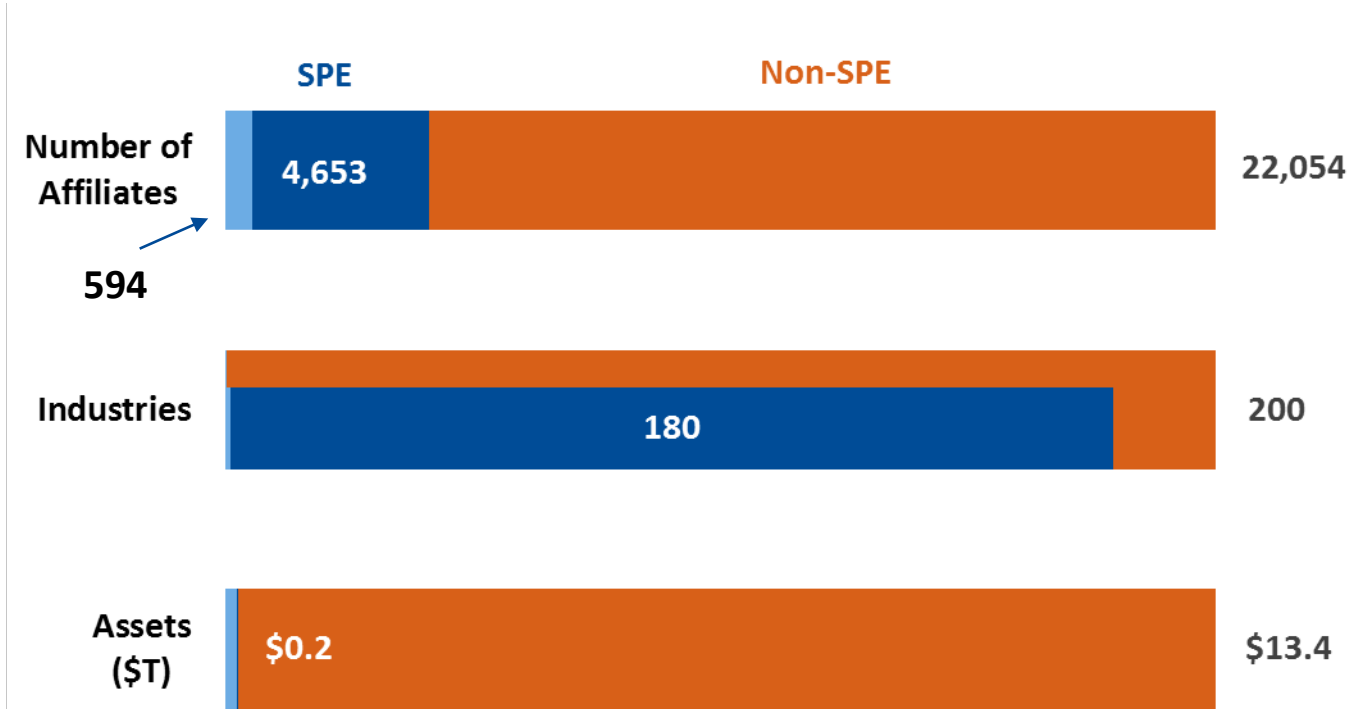
Nonresident SPEs of U.S. MNEs


Nonresident Pass-Through Equity by Country, 2016



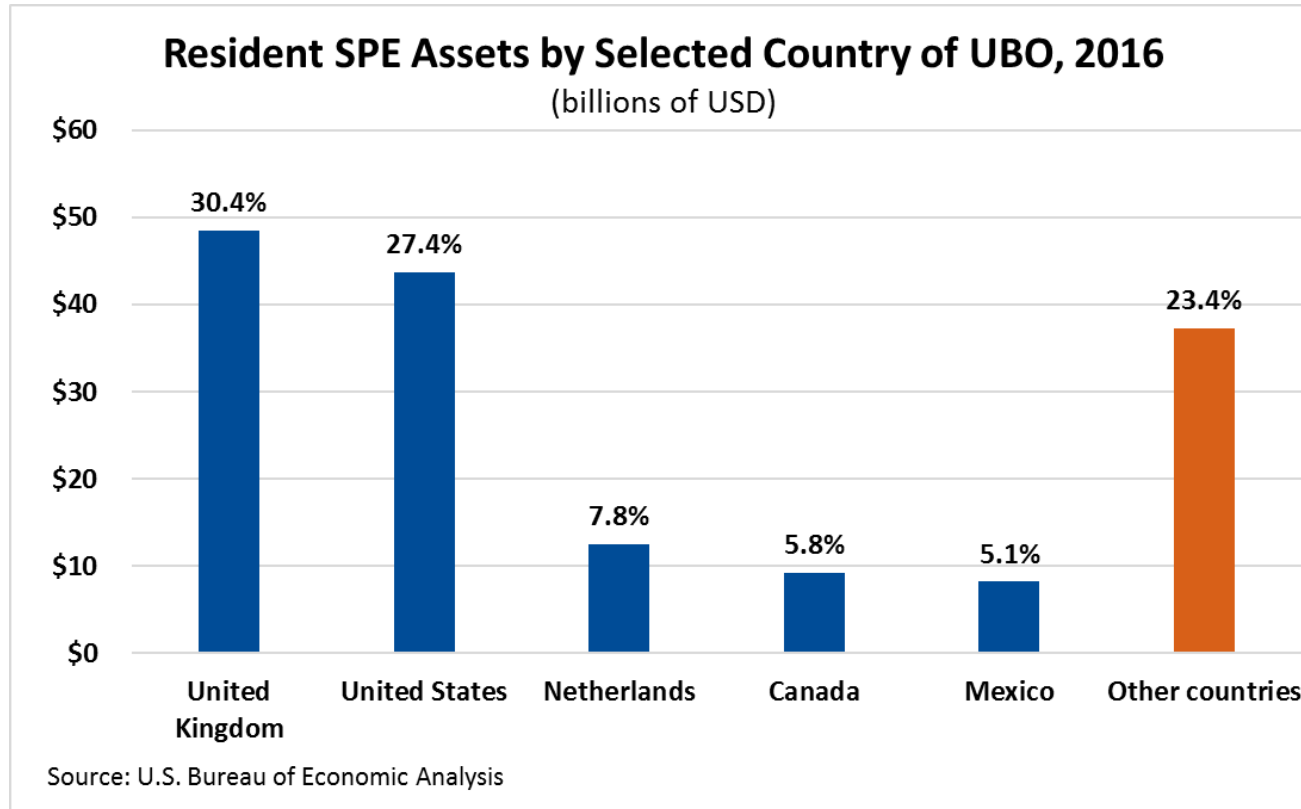
Source: U.S. Bureau of Economic Analysis

U.S. Resident SPEs of Foreign MNEs



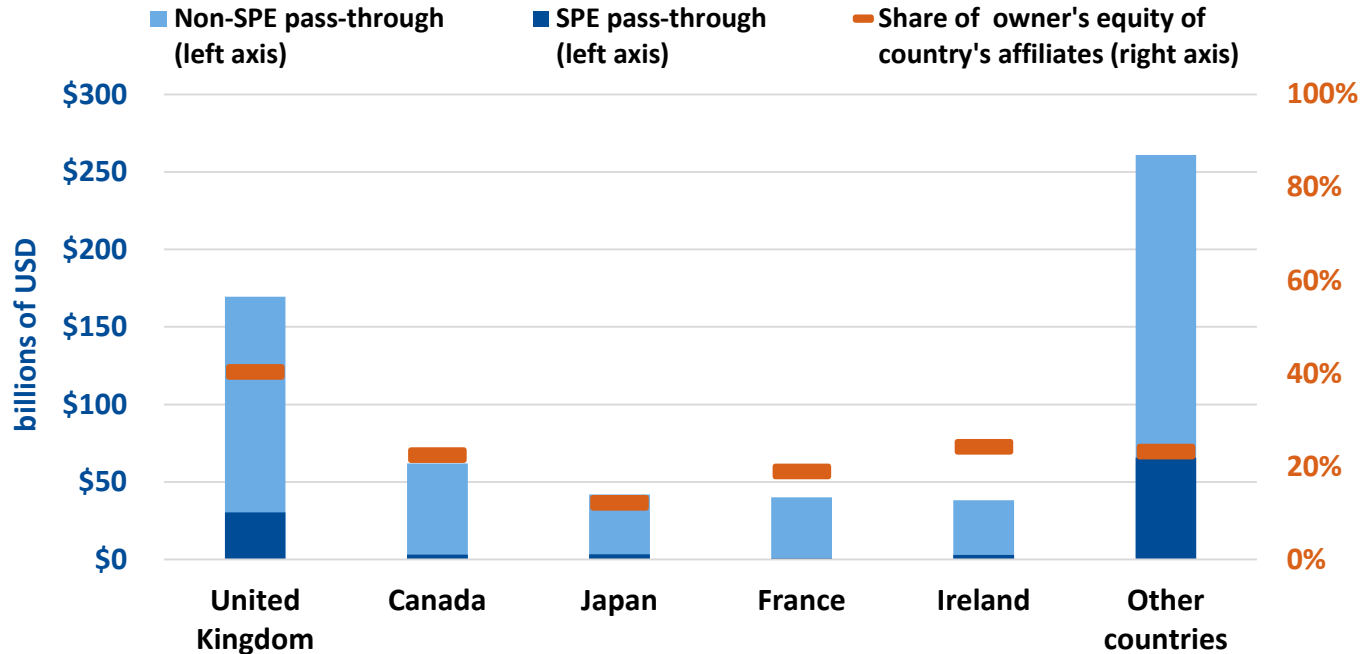
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U.S. Resident SPEs of Foreign MNEs



Resident U.S. SPEs of Foreign MNEs

Resident Pass-Through Equity by Country of UBO, 2016



Source: U.S. Bureau of Economic Analysis

Discussion and Next Steps

- As expected, U.S.-related SPE activity concentrated in outward FDI
- Close relationship, especially in outward FDI, between SPEs and pass-through demonstrates the effectiveness of the SPE definition
- Measurement challenges and next steps:
 - Identify proxy for “specific advantage”
 - Evaluate feasibility of “pushing down” positions to UHC

Thank you!

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