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
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
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 Caliandro (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

- Number of Affiliates: 78,413
- Industries: 199
- Assets ($T): $25.3
Nonresident SPEs of U.S. MNEs

<table>
<thead>
<tr>
<th>Category</th>
<th>SPE</th>
<th>Non-SPE</th>
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<td>Number of Affiliates</td>
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<td>78,413</td>
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<tr>
<td>Industries</td>
<td>182</td>
<td>199</td>
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<tr>
<td>Assets ($T)</td>
<td>$10.0</td>
<td>$25.3</td>
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</tbody>
</table>
Nonresident SPEs of U.S. MNEs

Number of Affiliates
- SPE: 16,021
- Non-SPE: 78,413
- Total: 7,906

Industries
- SPE: 182
- Non-SPE: 199

Assets ($T)
- SPE: $10.0
- Non-SPE: $25.3

= holding company SPEs
Nonresident SPEs of U.S. MNEs

Nonresident SPE Assets by Selected Country, 2016
(trillions of USD)

- Netherlands: 21.4%
- Luxembourg: 18.7%
- United Kingdom: 11.5%
- Bermuda: 9.7%
- UK Islands, Caribbean: 7.6%
- Other countries: 31.0%

Source: U.S. Bureau of Economic Analysis
Nonresident SPEs of U.S. MNEs

Nonresident Pass-Through Equity by Country, 2016

- Non-SPE pass-through (left axis)
- SPE pass-through (left axis)

Source: U.S. Bureau of Economic Analysis
Nonresident SPEs of U.S. MNEs

Nonresident Pass-Through Equity by Country, 2016

- Non-SPE pass-through (left axis)
- SPE pass-through (left axis)
- Share of country's owner's equity (right axis)

Source: U.S. Bureau of Economic Analysis
U.S. Resident SPEs of Foreign MNEs

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<thead>
<tr>
<th>Category</th>
<th>SPE</th>
<th>Non-SPE</th>
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<tr>
<td>Number of Affiliates</td>
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<td>Assets ($T)</td>
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</table>

= holding company SPEs
U.S. Resident SPEs of Foreign MNEs

Resident SPE Assets by Selected Country of UBO, 2016
(billions of USD)

- United Kingdom: 30.4%
- United States: 27.4%
- Netherlands: 7.8%
- Canada: 5.8%
- Mexico: 5.1%
- Other countries: 23.4%

Source: U.S. Bureau of Economic Analysis
Resident U.S. SPEs of Foreign MNEs

Resident Pass-Through Equity by Country of UBO, 2016

- Non-SPE pass-through (left axis)
- SPE pass-through (left axis)
- Share of owner's equity of country's affiliates (right axis)

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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