



# **Globalization TT: Treatment of Special Purpose Entities**

**OCTOBER 6, 2020**

**14th Meeting of the Advisory Expert Group on  
National Accounts**

**Michael Connolly (Ireland CSO, co-chair GZTT)**

# Outline

## ■ Context

## ■ Options under consideration

- ✓ Proposal to change the core conceptual *2008 SNA* and *BPM6* framework for SPEs.

- ✓ Proposal to separately identify SPEs within the SNA framework using the institutional sector accounts.

- The need for a common definition and recommendation put forward by the GZTT

- ✓ Proposal to extend the existing framework, adopting the nationality-based presentation as alternative concept.

## ■ Questions

## Context: Growing Importance and Complexity of SPEs

- Not a new phenomenon: described in both *BPM6* and *2008 SNA*
- However, the number, size and complexity of SPEs has substantially increased with:
  - ✓ Innovation, globalization
  - ✓ The regulatory and tax advantages (including confidentiality) offered by some jurisdictions
  - ✓ Evolving strategies of multinational enterprises (MNEs)

# Growing Importance and Complexity of SPEs

## Traditional typology (*BPM6* and *2008 SNA*)

Mostly set up by financial institutions for financial activities

Arrange worldwide borrowing and lending activities for MNEs

Narrow, specific financial activities, such as securitization

Mostly engaged in pass-through and round-tripping direct investment



## Currently

Also **nonfinancial entities** involved in R&D, trade, and other activities for group-wide profit maximization

Reallocate the collection and distribution of royalties, license and other fees, **profits**, intellectual property products, etc.

Broad range of financial and **non-financial** activities, even some not “SPE-like”

Direct, **portfolio and other investment**, as well as **current and capital account** transactions

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# Treatment of SPEs: Options considered

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**Option 1: Proposal to change the core conceptual 2008 SNA and BPM6 framework for SPEs.**

- **No preference for this option. Not enough progress has been made on data exchange to warrant this**
  - Confidentiality remains a challenge for most countries.
  - Significant practical impact on compiling the statistics, amid the complexity of international data, and high costs this entail for countries.
  - Acknowledgement of recent BOPCOM work in defining SPEs and identifying them as institutional units.
  - Any modification of the conceptual core might hinder progress made in producing/releasing data on SPEs within the foreseeable future.

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options  
considered

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# Treatment of SPEs: Options Considered

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**Option 2: Proposal to separately identify SPEs by increasing the granularity and supplementary data provided within the SNA framework using the institutional sector accounts (ISAs).**

- Builds on Rassier's proposal (2017) of creating a framework that breaks entities into operating entities and SPEs.
- **Preference** on the GZTT for this option. **While it does not modify core concepts, slight changes are needed to the institutional sector breakdowns shown in 2008 SNA Annex 1.**
  - Strong preference for this option. The proposal does not change the core conceptual framework
  - Adding a subsector for foreign controlled SPEs to the institutional sector accounts framework would be beneficial.
  - Supplemental statistics on resident foreign controlled SPEs as recommended in *BPM6*.
  - Aligns with the IMF's upcoming data collection on separately identifying resident SPEs in cross-border statistics to help data users.

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# G20 (DGI-2) Institutional Sector Accounts (Financial and Nonfinancial Corporations)

Non-Financial Corporations							
Total	Domestically controlled non-financial corporations					Foreign-controlled non-financial corporations <sup>1</sup>	
	Total	Public non-financial corporations	Of which:	National private non-financial corporations	Of which:	SPEs	
			Public non-financial corporations, which are part of domestic multinationals		National private non-financial corporations, which are part of domestic multinationals		
S11	S11DO	S11001	S110011	S11002	S110021	S11003	

Financial Corporations							
Total	Domestically controlled financial corporations					Foreign-controlled financial corporations <sup>2</sup>	
	Total	Public financial corporations	Of which:	National private financial corporations	Of which:	SPEs	
			Public financial corporations, which are part of domestic multinationals		National private financial corporations, which are part of domestic multinationals		
S12	S12DO	S12001	S120011	S12002	S120021	S12003	
				= Target			
				= Encouraged			

- ✓ ESS are already moving towards collecting data on resident SPEs that have foreign parents.
- ✓ Consideration could be given to take those units identified for ESS and identify same within the ISAs.
- ✓ This presentation provides the sequence of accounts from production through to saving and net lending and borrowing.
- ✓ They include both financial and non-financial flows and balance sheet data.
- ✓ Informative in terms of pass through investment, capital investment activities - particularly intellectual property and other aspects of SPE activities.

# I. Sectorization Aspect

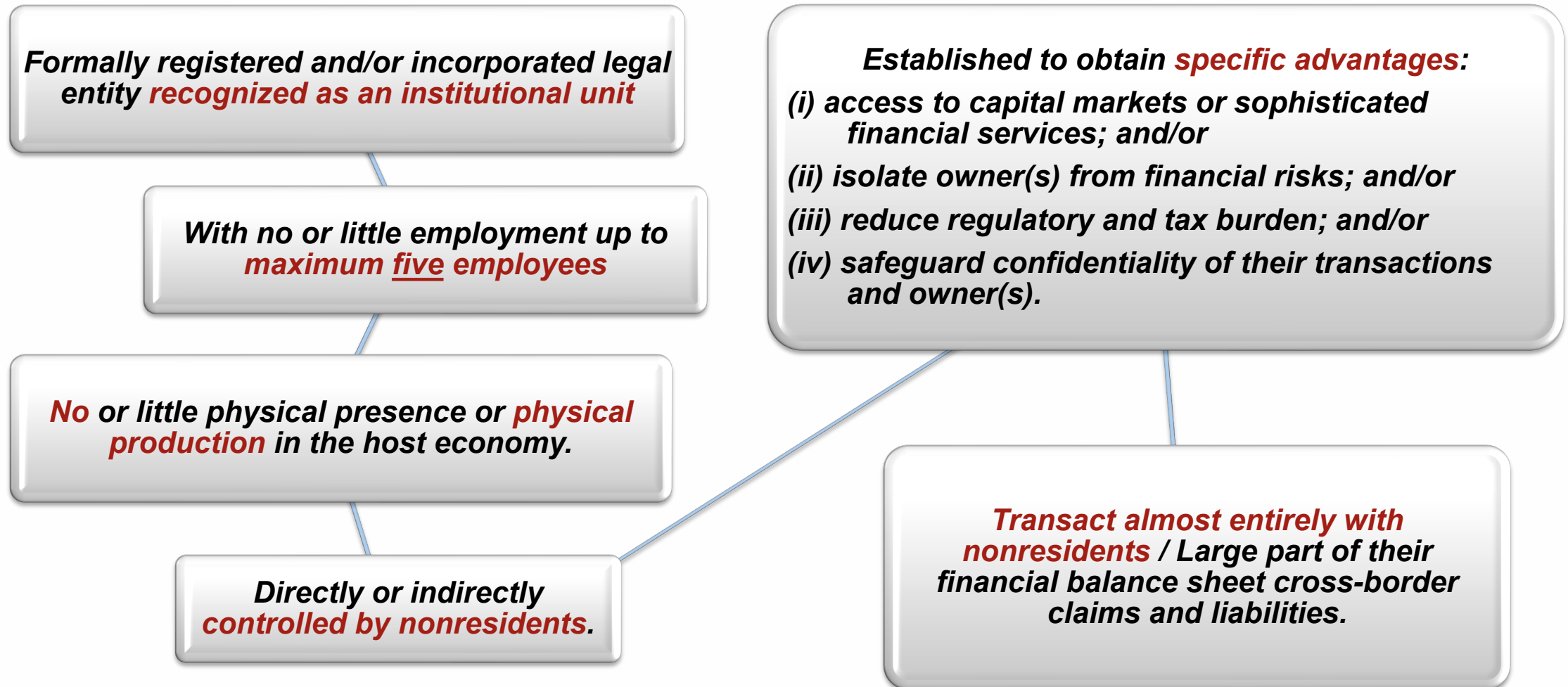
- ✓ To the extent that SPEs may be important in some economies, the separate identification of an SPE institutional subsector could be established as a recommended encouraged sub-sectorization.
- ✓ Proposal is to include SPEs as a subsector of S.12x (financial corporations).
- ✓ As not all SPEs are financial, there would need to be an S.11x (non-financial corporations) SPE subsector (*2008 SNA Annex I*).
- ✓ The feasibility of this sub sectoring should be further examined.
- ✓ Taking the example of the redomiciled corporations in Ireland, consideration could be given to separately identifying SPEs— in countries where these entities are particularly prevalent— through the whole sequence of accounts.

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## II. SPE Definition: The step taken so far

How has SPE been defined in the Context of External Sector Statistics?  
– endorsed by BOPCOM



## Definition: What has the GZTT discussed?

- ✓ BOPCOM acknowledges that the proposed definition exclude entities fully owned and directly controlled by a resident entity or entities that qualify as institutional units and meet the other elements of the proposed SPE definition.
- ✓ GZTT acknowledges that the proposed definition in the context of ESS brings in more precision.
- ✓ GZTT agrees that the associated proposed typology of an SPE is useful for helping national accountants identify SPEs and their institutional sector.
- ✓ GZTT recognizes the IMF's international data collection separately identifying resident SPEs cross-border flows/positions on a separate reporting template going beyond DI.
- ✓ **Currently the definition is focused on ESS (e.g. units controlled by non-resident only). For the purposes of separately identifying SPEs in the ISAs is this sufficient?**

# Definition: Should we drop the element of direct or indirect control?

- ✓ The possibility of using SPEs in domestic-to-domestic relationships.
  - ✓ Households may own corporate entities in the same economic territory that fulfil the SPE description, barring the foreign control factor. [Example: a domestic SPE could be owned by a domestic household and that SPE could have international transactions]
  - ✓ Securitization vehicles may equally be set up by resident entities, with a special purpose and having autonomy of decision (in managing the asset portfolio and in structuring the type of securitization debt instruments)
- ✓ On account of the possibility of having SPEs with resident parents, GZTT recognizes both the challenge to have a definition meaningful, and the benefit of having a common definition.

# Definition of SPEs: GZTT's Proposal for a common one

- ✓ SPEs created by MNEs or non-resident parent entities – the **institutional independence** and the **control aspect** are **important**
  - ✓ The standard SNA criteria for an institutional unit, and the definition of control as defined in the context of MNEs should be applied.
- ✓ Entities displaying all elements in the SPE definition **except the attribution** to non-resident ownership and control
  - ✓ Could these entities **not be considered as SPEs** for the purpose of separately identifying SPEs in the institutional sector accounts?
- ✓ Shall we identify SPEs having domestic parents differently, under a different name? Can we exclude them from the SPE population?
- ✓ This would imply **using the definition** put forward by BOPCOM in the context of ESS as an **internationally agreed definition for SPEs**.

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# Treatment of SPEs: Options considered

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**Option 3: Proposal to extend the existing framework, adopting the nationality-based presentation as alternative concept, without departing from the current statistical *SNA/BPM* framework.**

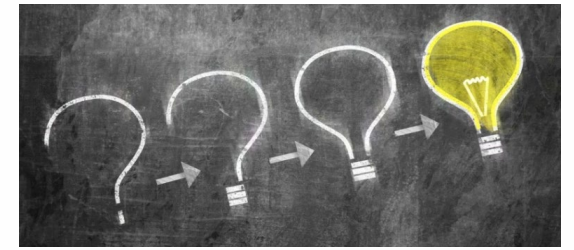
- Changes suggested by Borga and Caliendo (2018) and Rassier (2017), if implemented as supplemental presentations, could yield meaningful enough departures from current practice.
- **Views** that this be considered on a **supplemental basis** to complement **residence-based statistics**. **A viable option only for countries for which SPEs were deemed important**
  - Would give rise to country specific practicality issue of implementation – too ambitious and resource intensive.
  - To undertake this approach, data sharing agreements will become a priority.
  - Nonetheless, both approaches as complements will meet the practicalities and policy needs of countries for which these presentations would bring value addition to analysts or policymakers.
  - Nationality-based framework would complement the existing residence-based framework, which identifies where financial claims and liabilities are held.

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# Questions for discussion



1. **AEG to provide its opinion on the GZTT recommendation of no change to the core conceptual 2008 SNA and BPM6 framework for SPEs.**
2. **Do members agree to align the definition of SPEs, based on direct or indirect foreign control?**
3. **Do members agree to adopt the proposed definition of SPEs (aligns with ESS definition), to be included in the SNA and used for separate identification of SPEs within the ISAs?**
4. **Do members agree with integrating the proposed breakdown of foreign controlled SPEs within the ISAs for countries for which SPEs are significant [Option 2]?**
5. **Do members agree that countries, which have information on nonresident SPEs (i.e. domestic parents that own SPEs in foreign countries) can consolidate them with their parents and compile these statistics as an extension to the core framework (complementary statistics to the residency principle) [Option 3]?**
6. **Do members agree that, from a purely user needs perspective, SPEs cross-border flows/positions that have immediate resident parents, be identified separately within cross-border statistics and not be consolidated with the non-SPE resident?**

**END**

**Thank you!**