

## 14<sup>th</sup> Meeting of the Advisory Expert Group on National Accounts, 5-9 October 2020, Virtual Meeting

### Agenda item: 4.3

#### Special Purpose Entities

##### Introduction

As part of the System of National Accounts (SNA) Research Agenda, the Globalization Task Team (GZTT) has been assigned to develop a guidance note (GN) on “Special Purpose Entities (SPEs)”. SPEs, as part of intra-MNE activities, present measurement challenges for both national accounts and balance of payments. The GN analyzes the existing materials and examines ways to identify economic and financial flows of SPEs within macroeconomic statistics with a view to better understand their contribution from both the national and international accounts’ perspective. Drawing on extensive research on SPEs, the GN explores the possible options whether to (i) change the “core” SNA and BPM6 framework or (ii) not, but rather collect supplemental information on SPEs or extend the core framework with complementary presentation of SPEs based on nationality, for consideration during the 2008 SNA and BPM6 updates. For options that leave the “core” framework unchanged, the GN suggests looking into more disaggregated (granular or supplemental) data, as well as the possibility of extending the conceptual framework, by providing alternative concepts. The draft GN summarizes the discussion of the GZTT, underscoring the preference to leave the core SNA and BPM framework unchanged but consider supplemental information. The GN; however, puts forward a definition of SPEs, drawing on the recent work of the IMF Balance of Payments Committee, to include in the updated version of the international statistical standards.

##### Options considered

As part of the SNA Research Agenda, the GZTT considered the recent and past discussions on SPEs to better understand their contribution to economic and financial flows both in the SNA and BPM framework and discuss a way forward. By way of a written consultation, the GZTT acknowledged the measurement challenges, took note of the recent BOPCOM work on defining SPEs and discussed options. The possibilities that were put forward were two-fold: (i) change the core SNA/BPM framework (Option I), and (ii) no change to the core SNA/BPM framework with proposal for supplemental information (Option II) or extension (Option III).

Option I considers changing the core conceptual 2008 SNA and BPM6 framework in which SPEs with non-resident parents would not be treated as separate institutional units but would rather be consolidated with their parents.

Option II proposes to separately identify SPEs as a sub-sector, thereby increasing their visibility within the System of National Accounts and Balance of Payments Statistics and improving the overall analytical usefulness of the macroeconomic accounting standards.

Option III considers an extension to the existing framework – the possibility of adopting nationality-based presentation as an alternative concept without departing from the current statistical SNA/BPM framework.

## Results of consultation

The GZTT consultation showed a general preference for Option II. Option III is very resource demanding and could be discussed and implemented in selected countries, for which they are material (i.e. important enough to justify the costs of compilation) and deemed essential from a policy perspective. Option I was rejected.

## Documentation

- Draft guidance note on Special Purpose Entities. Still be finalized by the GZTT (feedback due Sept. 25, 2020)
- Additional Materials: Feedback of the GZTT consultation is included in Consultation Note of the Globalization Task Team Treatment of multinational enterprises (MNEs), special purpose entities, identifying economic presence and residency and Intra-MNE flow

## Main issues to be discussed

1. AEG to provide its opinion on the GZTT recommendation of no change to the core conceptual 2008 SNA and BPM6 framework for SPEs (e.g. not to treat SPEs with non-resident parents as separate institutional units from their parents).
2. AEG to provide its opinion on the preference for Option II, separately identifying SPEs in the institutional sector accounts.
  - a. Does the AEG agree to align the definition of SPEs based on direct or indirect foreign control? If yes, entities incorporated in the same economic territory as their parents but not consolidated on account of being autonomous (households or securitization vehicles) will not be classified as SPEs for purposes of separate identification or data collection.
  - b. Does the AEG agree to adopt the following definition of SPEs in the SNA for purposes of separate identification in the institutional sector accounts? This is the same definition that has been adopted in the context of external sector statistics.

### **The definition of an SPE is as follows:**

*An SPE, resident in an economy, is a formally registered and/or incorporated legal entity recognized as an institutional unit, with no or little employment up to maximum of five employees, no or little physical presence and no or little physical production in the host economy.*

*SPEs are directly or indirectly controlled by nonresidents.*

*SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services; and/or (ii) isolate owner(s) from financial risks; and/or (iii) reduce regulatory and tax burden; and/or (iv) safeguard confidentiality of their transactions and owner(s).*

*SPEs transact almost entirely with nonresidents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.*

- c. Do members agree with integrating the proposed breakdown of foreign controlled SPEs within the institutional sector accounts (see annex IV of Guidance Note) for countries for which SPEs are significant?
3. AEG to provide its opinion 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)?
4. AEG provide its opinion on the proposal that, from a purely user needs perspective, SPEs cross-border transactions or positions that have immediate resident parents, be identified separately within cross-border statistics and not consolidated with the non-SPE resident, to the extent possible.



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## **Inter-Secretariat Working Group on National Accounts**

### **IMF's Committee on Balance of Payments**

#### **Globalization Task Team<sup>1</sup>**

#### **Special Purpose Entities**

#### ***SNA/BPM6 Update***

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<sup>1</sup> The GZTT consists of both national accounts and balance of payments compilers, from a diverse group of countries. The regional distribution includes Africa (represented by COMESA, that comprehends 21 African States), Asia and Pacific (Australia, China, Japan, and Malaysia), Europe (Ireland, Germany, Luxembourg, Norway, Russia, and United Kingdom), Middle East and Central Asia (Morocco), and Western Hemisphere (Brazil, Canada, United States, and Uruguay). International organizations, namely the ECB, Eurostat, IMF, OECD, UNECE, and UNSD are also represented.

## Guidance Note: Special Purpose Entities<sup>2</sup>

### *Draft*

*As part of the System of National Accounts (SNA) Research Agenda, the Globalization Task Team (GZTT) has been assigned to develop a guidance note (GN) on “Special Purpose Entities (SPEs)”. SPEs, as part of intra-MNE activities, present measurement challenges for both national accounts and balance of payments. The GN analyzes the existing materials and examines ways to identify economic and financial flows of SPEs within macroeconomic statistics with a view to better understand their contribution from both the national and international accounts’ perspective. Drawing on extensive research on SPEs, the GN explores the possible options whether to (i) change the “core” SNA and BPM6 framework or (ii) not, but rather collect supplemental information on SPEs or extend the core framework with complementary presentation of SPEs based on nationality, for consideration during the 2008 SNA and BPM6 updates. For options that leave the “core” framework unchanged, the GN suggests looking into more disaggregated (granular or supplemental) data, as well as the possibility of extending the conceptual framework, by providing alternative concepts. The draft GN<sup>3</sup> summarizes the discussion of the GZTT, underscoring the preference to leave the core SNA and BPM framework unchanged but consider supplemental information. The GN; however, puts forward a definition of SPEs, drawing on the recent work of the IMF Balance of Payments Committee, to include in the updated version of the international statistical standards.*

### 1. INTRODUCTION TO THE ISSUE

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1. **At the center of statistical challenges related to globalization are Multinational enterprises (MNEs) – multifaceted and flexible with their wide range of economic activities – and associated with them the extensive use of Special Purpose Entities (SPEs).** In addition to investment or pass-through activities, SPEs are nowadays being set up, as part of MNEs’ group-wide financial and profit-maximization strategies, to manage intellectual property rights, research and development, trade, and other activities. The aim is to maximize their company-wide global after-tax profits, not necessarily their profits in each of the countries in which they operate.

2. **Against these practices, macroeconomic statistics – international trade in goods and services, direct investment and other financial flows and positions have been impacted.** Identification of changes in the ownership of goods, non-financial assets, and financial assets and liabilities for the global operation activities of MNEs, encompassing the use of SPEs is challenging. Distortions in macroeconomic aggregates have been disturbing users while measurement challenges have been fretting national compilers.

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<sup>2</sup> The preparation of this Guidance Note (GN) was primarily undertaken by Ms. Padma Hurree-Gobin (primary drafter), and Ms. Jennifer Ribarsky (both Task Team Secretariat, Statistics Department, International Monetary Fund), who coordinated the contributions of the Globalization Task Team (GZTT) members. The work was undertaken under the supervision of Messrs. Michael Connolly (Chair of the Task Team) and Paul Roberts (co-Chair until July 2020). The GN benefitted from comments by Messrs. Carlos Sánchez-Muñoz (Balance of Payments Division), and Jim Tebrake (Real Sector Division) from the IMF Statistics Department.

<sup>3</sup> The detailed consultation within the GZTT is presented in the accompanying supporting document on SPEs and MNEs.

## MEASUREMENT CHALLENGES

3. **Both 2008 SNA and BPM6 posit that the essence of compiling macroeconomic aggregates, when determining economic transactions and other flows, follows the residence<sup>4</sup> concept.** The residence of an institutional unit– the most fundamental unit of observation– is the economic territory in which the unit has its center of predominant economic interest (2008 SNA para. 4.10, and BPM6 para. 4.113). The center of predominant economic interest is generally based on attributes of physical presence; however, for units with few or no attributes of physical presence, residence is determined by the unit’s place of legal incorporation or registration (2008 SNA para. 4.15(f), and BPM6 para. 4.134). Additionally, the SNA underlines that the use of economic territory as the scope of economic statistics means that affiliated enterprises are each resident in the economy of physical or legal location rather than the economy of the group’s head office (2008 SNA para 4.12).

4. **Within this scope lies those transactions that lack economic substance particularly when the MNEs incorporate legal entities – SPEs – that do not engage in production.** For SPEs, location is determined as the economic territory under whose legal jurisdiction the entity is incorporated or registered (2008 SNA para. 4.56, and BPM6 para. 4.50). If the entity is legally incorporated in an economy different from its parent, the entity is recognized as a separate institutional unit. This, therefore, substantiates that international accounts within the SNA include flows and position within MNEs regardless of whether there is artificial production and related income.

5. **The economic relevance of SPEs in terms of their contribution to GDP in the country in which they are located is expected to be small.** SPEs are generally attributed as entities that have few or no employees and little or no physical presence (2008 SNA para. 4.56, and BPM6 para. 4.50) which reinforces the notion of hardly any production. In the host economies, while it is recognized that there is barely any production, SPEs, with minimal employees, purchase services (advisory, audit, risk management, treasury management, renting of offices) on behalf of the parent company or the group, as well as pay taxes to the host jurisdictions. However, with the recent emergence of non-financial SPEs, the proliferation of intra-MNEs transactions has, artificially, depicted production and related income in host economies, which technically lack economic substance.

6. **Cross-border activities of SPEs also present challenges for macroeconomic statistics.** SPEs tend to have large financial stocks and flows associated with large income flows, which when shown in cross-border statistics present challenges in understanding meaningful flows. Empirically, it has been shown that identifying separately SPE activities is essential for market analysts and policymakers to analyze cross-border interconnectedness and to understand the associated risks. Blanchard and Acalin (2016), in their analysis, showed that net DI inflows and outflows are highly correlated, suggesting that “measured” DI gross flows may reflect flows through rather than to the country. Lack of adequate cross-border statistics on SPEs hampered the assessment of the retrenchment in cross-border capital flows caused by the global financial crisis in a context of intense global financial integration (Milesi-Feretti and Tille, 2011). Better data on the real size of international production and its geographic and institutional sector distribution are needed to obtain an accurate picture of direct investment (DI)

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<sup>4</sup> Residence is as defined in the 2008 SNA, paragraphs 4.10–4.15, and Chapter 26, and in the BPM6, paragraphs 4.113–4.144.

(Sauvant, 2017). The strong SPE presence in certain economies is an important reason for decoupling genuine DI from other SPE-associated flows and stocks (Damgaard and Elkjaer, 2017).<sup>5</sup>

7. **The availability of balance of payments and international investment position statistics with and without SPEs would provide a better geographic distribution of DI for economies.** The significant role of SPEs as intermediate steps towards DI and portfolio investment positions is evidenced in the IMF's Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS) data – see Annex 1. In SPEs host jurisdictions, in particular, with SPEs included in cross-border statistics, it can appear they are receiving substantial investment from countries, when those investors are just passing capital ultimately directed to third countries.

8. **The ability to identify SPEs within a general comprehensive reporting frame for the compilation of macroeconomic accounts would better support policy analysis.** Several macroeconomic analyses such as productivity and employment assessments would benefit by the ability to separately report SPEs in the macroeconomic framework. Some important SPEs host jurisdictions with a significant SPE population do provide separate accounts for SPEs within the macro-economic framework.

## 2. EXISTING MATERIAL

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9. **Including and separately identifying SPE activities in macroeconomic statistics is crucial for proper analysis.** The *2008 SNA*, *BPM6*, the *IMF's Monetary and Financial Statistics Manual and Compilation Guide* (MFSMCG), and the OECD's *4th edition of the Benchmark Definition of Foreign Direct Investment* (BD4), with a view to reflect on the effects of globalization and the increasing role of MNEs, have all paid attention to SPEs. While these statistical manuals refer to and are largely consistent in their understanding of SPE activities, there is no internationally agreed standard definition of SPEs, as acknowledged in *2008 SNA* para. 4.55 and *BPM6* para. 4.50. Neither the *2008 SNA* nor *BPM6* have formally made SPEs an identified component of the accounts, or as an institutional sector or subsector.

10. **The 2008 SNA by recognizing an institutional unit<sup>6</sup> based on legal incorporation for SPEs, has introduced an implicit exception.** This exception, born out of necessity for tracking financial transactions, international investment position (IIP) and for monitoring exposure to global financial risks, satisfies the objective of *BPM6* (Rassier, 2017). According to *SNA* para. 4.69, in general, institutional units do not have to be autonomous, but they do have to be responsible, and accountable, for the decisions and actions they take. Because SPEs have legal responsibility for their actions, they can be considered to be accountable for all aspects of economic behavior. Yet, SPEs do not necessarily meet the criterion of autonomy in decision. *2008 SNA*, paragraph 4.61, thereby, states: “*An entity of this type that cannot act independently of its parent and is simply a passive holder of assets and liabilities...is not treated as a separate institutional unit unless it is resident in an economy different from that of its parent...*”. The residence of an SPE is of critical importance to its statistical treatment.

11. **Even if SPEs are controlled by nonresidents and their autonomy of decision could be questioned, to the extent that they are legally independent, they are separate institutional units**

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<sup>5</sup> Excluding SPEs can provide a better geographic distribution of DI for economies that host a significant number of them because with SPEs included it can appear they are receiving investment from countries whose investors are just passing capital ultimately directed to third countries through SPEs.

<sup>6</sup> Institutional unit is defined in *2008 SNA*, paragraphs 2.16, 4.2 and Chapter 26; and in the *BPM6*, paragraphs 4.13–4.52. *An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities*



**from their nonresident parents.** *SNA 2008* (paragraph 2.16) does recognize that legal independence to hold assets and liabilities and autonomous behavior do not always coincide such that SPEs are implicitly in practice responsible, and accountable, for their decisions and actions.

12. ***BPM6* and *BD4* have both laid emphasis on separately identifying flows and positions of resident SPEs, which is somewhat absent within the core framework of the *SNA*.** Paragraph 4.87 of *BPM6* states, “Although there is no internationally standard definition of SPEs, in economies in which they are important they may be identified separately, according to either a national company law definition, or in terms of a functional definition, possibly referring to their limited physical presence and ownership by non-residents.” The same paragraph equally states, “in economies with large direct investment flows through resident SPEs, it is recommended that these flows be shown as a supplementary item, so that they can be identified separately.” *BD4*, because of its uniqueness in addressing direct investment statistics, offers more pronounced recommendations on MNEs, including SPEs, and even underscores that supplemental statistics be provided on SPEs. However, from a practical perspective, in terms of data collection on SPEs within cross-border statistics, not much progress has been made. While Eurostat and the OECD currently collect SPE-related cross-border data only for direct investment, the IMF, on its part, disseminates external sector statistics without a separate distinction of SPEs.<sup>7</sup>

13. **Since the release of the 2008 *SNA* and the *BPM6*, with the evolving nature of SPEs, additional guidance has been provided to assist national statistical compilers with recognizing SPE-related activity.** The UNECE publications on ‘The Impact of Globalization on National Accounts’ (2011) and ‘Guide to Measuring Global Production’ as well as the IMF Committee on Balance of Payments Statistics (BOPCOM) papers have discussed challenges associated with SPEs. The joint ECB-Eurostat-OECD Task Force’s final report on Head Offices, Holding Companies, and SPEs<sup>8</sup> (2013) examined the definition, typology, and classification of SPEs. There have been ongoing discussions at regional levels, of which the ECB Working Group on ESS, the OECD’s Working Group on International Investment Statistics (WGIIIS) and the OECD’s Working Party on Financial Statistics.

14. **The most recent advancement on SPEs discussion was at the October 2018 BOPCOM meeting<sup>9</sup>, where a definition for SPEs in the context of cross-border statistics was endorsed.** The merit of developing a clear definition for SPEs was primarily driven by the need to assist compilers to properly identify SPEs for data collection. In fact, with a view to improve the analytical value of certain components of the balance of payments and IIP, the IMF will undertake data collection for resident SPEs, a decision also endorsed by BOPCOM in 2018.

15. **The current guidance on SPEs in the 2008 *SNA* and *BPM6* allows for flexibility in interpretation, and any strategy for separate data collection and identification of SPEs within cross-border statistics could prove ineffective.** Anecdotal evidence has revealed that the lack of a precise economic definition for SPEs prompt compilers to define these entities based on national legislation or other national considerations. The coverage could differ from economy to economy such that the statistical treatment of SPEs in macroeconomic statistics diverged and could generate bilateral asymmetries between debtor and creditor economies. Also, the treatment and inclusion of SPEs within

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<sup>7</sup> If the economies report cross-border transactions or positions on resident SPEs, their activities are embedded within the respective components of the balance of payments, international investment position (IIP), CDIS or CPIS.

<sup>8</sup> [http://ec.europa.eu/eurostat/documents/737960/738007/Final\\_Report\\_Task\\_Force\\_SPEs.pdf/9390b392-62d3-45b4-a4ee-fd9ed7a78da2](http://ec.europa.eu/eurostat/documents/737960/738007/Final_Report_Task_Force_SPEs.pdf/9390b392-62d3-45b4-a4ee-fd9ed7a78da2)

<sup>9</sup> <https://www.imf.org/external/pubs/ft/bop/2018/pdf/18-03.pdf>

the national business register varies in concept dependent on the authorities' willingness to invest in data collection and compilation due to the difficulties in identifying them, the absence of a national definition, or the perception that these entities have minimal connection with the domestic economy.

16. **In formulating the definition of SPEs, BOPCOM considered several key aspects, the most important one being to remain within the core framework of the SNA and BPM.** The focus has been to: (i) identify SPEs as institutional units; (ii) encompass not only financial but also non-financial entities; and (iii) develop the criteria to be used, e.g. employment, physical presence, production, residence of the direct or indirect controlling entity, balance sheet structure (i.e. only financial or also non-financial assets, only cross-border positions or also domestic).

17. **The definition of an SPE, in the context of external sector statistics (ESS), is as follows:**

*An SPE, resident in an economy, is a formally registered and/or incorporated legal entity recognized as an institutional unit, with no or little employment up to maximum of five employees, no or little physical presence and no or little physical production in the host economy.*

*SPEs are directly or indirectly controlled by nonresidents.*

*SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services; and/or (ii) isolate owner(s) from financial risks; and/or (iii) reduce regulatory and tax burden; and/or (iv) safeguard confidentiality of their transactions and owner(s).*

*SPEs transact almost entirely with nonresidents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.*

18. **To guide national compilers in identifying SPEs resident in their economies, the definition is accompanied by (i) a decision tree, presented in the form of a flow chart (Annex II), and (ii) a typology.** The typology delineates the different types of SPEs and determines their appropriate institutional sector (see Annex III). The typology<sup>10</sup>, on its part, should be used as a complement to the SPE definition and is not meant to be either exhaustive or prescriptive. Such a typology may assist compilers in identifying SPEs, but also may assist compilers in their institutional sector and activity classification (and their corresponding transactions classification) as well as in determining input data requirements for compilation purposes. Due to their dynamism, the typology could be updated more frequently. To further elaborate on the typology, detailed illustrative summary cards for the main types of SPEs, highlighting the main characteristics of each type, have been prepared.

### 3. OPTIONS CONSIDERED

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19. **As part of the SNA Research Agenda, the GZTT considered the recent and past discussions on SPEs to better understand their contribution to economic and financial flows both in the SNA and BPM framework and discuss a way forward.** By way of a written consultation<sup>11</sup>, the GZTT acknowledged the measurement challenges, took note of the recent BOPCOM work on defining SPEs and discussed options. The possibilities that were put forward were two-fold: (i) change the core

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<sup>10</sup> A first attempt in defining such a typology was made in the context of the Task Force on Head-offices, Holding Corporations, and SPEs, instituted by the OECD, Eurostat, and the ECB in 2012.

<sup>11</sup> Please refer to the Consultation Note on MNEs and SPEs for a review of the exercise

SNA/BPM framework (Option I), and (ii) no change to the core SNA/BPM framework with proposal for supplemental information (Option II) or extension (Option III).

I. CHANGE IN THE CURRENT SNA/BPM FRAMEWORK: CONSOLIDATING SPES WITH THEIR PARENTS, IRRESPECTIVE OF THE RESIDENCE OF THE SPE

20. **Option I considers changing the core conceptual 2008 SNA and BPM6 framework for SPEs, not to treat SPEs with non-resident parents as separate institutional units from their parents.** This is based on the premise that SPEs are only legal units, that are controlled by parent companies with no independent decision-making such that consolidation with parents seems logical. However, the consultation exercise showed no preference for this approach.

21. **SPEs, resident in another territory, can be created by the government to be used for fiscal purposes (BPM6, paragraphs 8.24–8.26).** These entities, incorporated by governments, are resident in their economy of incorporation or registration, and not in the economy of the government. As an example, a government may use a special purpose<sup>12</sup> or other entity to issue securities to fund its expenditure. It may be noted that the Direct Investment Task Team as part of the *BPM6* update will discuss the elimination of imputations for an entity owned or controlled by general government that is used for fiscal purposes. The outcome of this deliberation will be shared with the GZTT for consultation if it has impacts on this guidance note.

II. NO CHANGE IN THE CURRENT SNA/BPM FRAMEWORK: INCORPORATE SUPPLEMENTAL INFORMATION AND ALTERNATIVE CONCEPTS WITHIN

22. **Option II proposes to separately identify SPEs by increasing the granularity and supplementary data provided within the SNA framework using the institutional sector accounts (ISAs).** Rassier (2017) proposed creating a framework that breaks entities into operating entities and SPEs. Rassier's proposal contrasts with Harrison (2014), Jellema (2018) and the G20 DGI recommendation 8 that focuses on additional breakouts of MNEs more generally. Some countries have demonstrated the possibility of supplemental measures on resident SPEs in DI statistics. Taking into consideration this work, the GZTT considered whether adding a subsector for foreign controlled SPEs to the institutional sector accounts framework would be beneficial. This would provide supplemental statistics on resident foreign controlled SPEs as recommended in *BPM6* and *BD4* and aligns with the IMF's upcoming data collection on separately identifying resident SPEs in cross-border statistics to help data users. The proposal does not change the core conceptual framework.

23. **Option III considers an extension to the existing framework – the possibility of adopting nationality-based presentation as alternative concept without departing from the current statistical SNA/BPM framework.** Rassier (2017) proposed reclassifying SPEs from their countries of legal incorporation to the countries of their parents so that flows of SPEs are consolidated with the other flows of parents in an alternative presentation to the core SNA framework. This reclassification alternative would give users an idea of the effects of pass-through flows within MNEs on SNA core measures. Borga and Caliendo (2018), on their part, proposed a nationality-based framework for direct investment (DI) statistics that consolidates pass-through funds by nationality of an MNE to provide information on who makes decisions, reaps benefits, and bears risks associated with the funds. The nationality-based framework would complement the existing residence-based framework, which identifies where financial

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<sup>12</sup> Fiscal purposes refer to the distinctive motivation of the general government sector, as discussed in *BPM6*, paragraphs 4.91–4.92. Fiscal purposes can be distinguished from commercial purposes, because fiscal purposes are always oriented to serving the objectives for the government's home territory.

claims and liabilities are held. Those two proposals would change the attribution of pass-through flows from legal residence to ultimate owner.

24. **Changes suggested by Borga and Caliandro (2018) and Rassier (2017), if implemented as supplemental presentations<sup>13</sup>, would yield meaningful enough departures from current practice.**

This would, therefore, entail careful consideration by national compilers of practical matters before implementation is feasible. For instance, although the SPE is located (and reported) in another jurisdiction from the DI owner, the DI owner of the SPE would have to record all the balance sheet positions and transactions for the SPE. Thus, if the proposal would be implemented for DI statistics, a similar proposal such as Rassier (2017) could keep the SNA consistent with companion guidelines.

#### 4. RECOMMENDED APPROACH—CONCEPTUAL ASPECTS

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The GZTT consultation showed a **general preference for Option II, considered that Option III could be discussed and implemented in selected countries**, for which they are material (i.e. important enough to justify the costs of compilation) and deemed essential from a policy perspective, but **rejected Option I**.

25. **The GZTT rejected Option I, noting that not enough progress has been made on data exchange to warrant changing the current standards to consolidate SPEs with their non-resident parents.** At the moment, the practical and legal problems of international data exchange mentioned in Moulton and van de Ven (2018) are still valid. Among the concerns raised for not opening the discussion again is acknowledgement of the recent work of BOPCOM in defining SPEs and identifying them as institutional units. IMF's data collection on resident SPEs is expected to begin in 2021. Any modification of the conceptual core might hinder progress made in this respect within the foreseeable future. What is needed is to arrive at a meaningful and harmonized balance of payments-national accounts definition and classification of such units. The possibility to present supplemental information on them to show separately the importance of this phenomenon if it is relevant for the country can be considered without bringing any change in the core framework.

26. **The GZTT consultation clearly preferred to look into the possibility to separately identifying an SPE institutional subsector in the SNA.** The external sector statistics are already moving towards collecting data on resident SPEs that have foreign parents. Consideration could, therefore, be given to take those units identified for external sector statistics and identify the same units within the institutional sector accounts (ISAs). This approach will link the ISAs with the international accounts breakdown and allow to have a complete picture of the economy.<sup>14</sup> 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. This would be very informative in terms of pass through investment, capital investment activities - particularly intellectual property and other aspects of SPE activities.

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<sup>13</sup> Another supplemental data presentation concerns DI data being compiled by ultimate investing country or ultimate host economy. This analysis complements the supplemental country analysis and is currently being discussed by the Direct Investment Task Team in light of the *BPM6* update.

<sup>14</sup> 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.

27. **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 (non-mandatory) sub-sectorization.** The proposal is to include SPEs as a subsector of S.12x (financial corporations), however, as not all SPEs are financial, there would need to be an S.11x (non-financial corporations) SPE subsector and an S.13x (general government) for SPEs in the government sector<sup>15</sup> (2008 SNA Annex I). However, the feasibility of this sub sectoring should be further examined.

28. **The GZTT took note of the BOPCOM-endorsed SPE definition in the context of cross-border statistics and acknowledged that it is suitable for identifying SPEs that are part of MNEs for national accounts purposes.** The proposed definition is accompanied by a decision tree and a typology brings in more precision and clarity. The typology, which determines the appropriate institutional sector for the different types of SPEs (see Annex III) provides the link between the balance of payments and the current SNA institutional sectors. Alignment between the BPM and SNA is key for the different sector allocation. The IMF will be releasing, at the end of 2020, an operational guideline that should help compilers identify SPEs.

29. **The benefit of a common definition of SPE is relevant in the context of data comprehensiveness, quality and comparability.** The element of direct or indirect control from a non-resident serves well in the definition for SPEs when it comes to cross-border statistics. The presence of a non-resident owner is a sufficient condition in passing the institutional unit test. Importantly, when it comes to residence, the 2008 SNA states clearly that entities are institutional units when resident in a different economic territory from the related enterprises. The SPE definition, in the context of external sector statistics, is clearly attributed to SPEs as part of enterprise groups, or belonging to non-resident owners, but does not explicitly acknowledge the possibility of using SPEs in domestic-to-domestic relationships (in those economies<sup>16</sup> which can provide tax-friendly environments within an economic territory), for instance SPEs owned by households or other resident entities.

30. **These entities meet all the criteria of the ESS definition except that they do not have non-resident parents, examples of which are households and securitization vehicles.** Households<sup>17</sup> may own corporate entities in the same economic territory that fulfil the SPE description, barring the foreign control factor. Incorporated entities owned by households are always as separate institutional units from the household (*BPM6* paragraph 4.14), as this reflects the fundamental distinction between social and legal entities on the one hand and households composed of natural persons on the other. The 2008 SNA paragraph 24.75 underscores that family trusts<sup>18</sup> are owned by households, though some trusts may be owned by a number of households collectively possibly including non-resident households. These trusts

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<sup>15</sup> Although SPEs are predominantly classified in the subsector 'Captive Financial Institutions', they have evolved in nature and are found in other specific financial subsectors, such as other financial institutions, insurance enterprises, as well as in the sector non-financial enterprises.

<sup>16</sup> For example, in the US, the federal structure allows different jurisdictions applicable at the state level as regards company law. The state of Delaware has specialized in providing for 'flexible corporate structures' that allow natural persons as well as corporations resident in the U.S. as well as non-residents to establish limited liability companies (LLC's) for among others tax planning purposes.

<sup>17</sup> In the US, as example, a domestic SPE could be owned by a domestic household and that the SPE could have international transactions.

<sup>18</sup> Trusts may be set up to protect wealth until a beneficiary comes of age or meets another criterion, they may be set up to preserve family estates and so on.

should be treated as quasi-corporations and included in the financial corporations sector as captive financial institutions.

31. **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). These entities, although located in the same residence as their parents, cannot be treated as ‘artificial subsidiaries’ since they are not passive holdings.<sup>19</sup> The *2008 SNA* (paragraph 4.60) mentions that to assess independence of action from the parent, it would suffice for an SPE to have some control over assets and liabilities or bearing the risk and reaping the rewards from the assets and liabilities. As regards control over assets and liabilities, the key feature for these types of entities is that it is not exercised by the parent but be exercised on the parent entities behalf by a third party. As regards bearing the risk and reaping the benefits, the SPEs (securitization vehicles) are incorporated with the aim to specifically isolate the parent from (financial) risks, and thus by implication would have independence of action.

32. **On account of the possibility of having SPEs with resident parents, it seems challenging to have a definition meaningful only for ESS purposes.** The proposed typology, endorsed by BOPCOM, implies that resident parents are a possibility. These entities somewhat dispute the consideration that SPEs are treated as separate institutional units only if resident in an economy different from its parent.

33. **BOPCOM did discuss the importance of harmonizing the statistical definition and treatment of SPEs across all macroeconomic datasets, particularly coordinating the work with national accounts.** It was clearly acknowledged in the final report of the TFSPE that although the work has focused on SPEs in the context of ESS, the principles of the proposed definition for ESS may be able to be adapted/refocused for use in the context of other macroeconomic datasets, of which national accounts.

34. **To that effect, the GZTT proposes to bring in clarity to the definition of SPEs.** On the issue of SPEs created by MNEs or non-resident parent entities, the institutional independence of the entity, as well as the control aspect should be determined. To this end, the standard SNA criteria for an institutional unit, and the definition of control as defined in the context of MNEs<sup>20</sup> should be applied. On the second issue relating to entities displaying all elements in the SPE definition except the attribution to non-resident ownership and control, the GZTT proposes that these entities are not considered as SPEs for the purpose of separately identifying SPEs in the institutional sector accounts.

35. **The GZTT discussed that the definition put forward by BOPCOM in the context of ESS can be used as an internationally agreed definition for SPEs.** SPEs are entities that are subject primarily to foreign direct or indirect control. The GZTT believes that it would be a powerful tool to have a consistent definition of SPEs in both the ESS and national accounts. This will allow tracking SPEs impact in both ESS and national accounts consistently.

36. **The option of extending the core framework with a supplemental presentation of SPEs re-classified from their countries of legal incorporation to the countries of their parents – was viewed**

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<sup>19</sup> The ECB-Eurostat-OECD Task Force Report on Head-offices, Holding corporations and SPEs points out that passive holdings cannot easily be extended to a broader group of SPEs.

<sup>20</sup> The Guidance Note on MNEs and the operational guideline for SPEs provide clear guidance on the control aspect, which re-join the Framework for Direct Investment Relationship as stated in BPM6 and BD4.

**as a viable option but only for countries for which SPEs were deemed important.** The consensus view was that this complementary approach of compiling macroeconomic aggregates remained too ambitious and resource intensive to implement consistently across countries. For countries where there are legal arrangements to collect information on all resident entities in their economic territory and on all units (foreign and domestic) belonging to domestically owned MNEs, data exchange can be of a lesser issue. In that respect, supplemental measures on resident SPEs and on non-resident SPEs, which are subject to practical caveats, should be considered a model for future changes to the treatment of SPEs in both the national accounts and balance of payments.

37. **In a broader view encompassing both SPEs and MNEs, the GZTT favoured looking into a more detailed institutional sector account with breakdown for foreign controlled corporation, domestic MNEs (i.e., parents), and purely domestic companies<sup>21</sup> taking precedence over supplemental presentation on SPEs.** Priority could be given to the breakdown by control/ownership proposed in the extended supply and use table (domestic MNEs, other domestic firms, foreign controlled affiliates) in addition to more detailed institutional sector accounts.

## 5. RECOMMENDED APPROACH—PRACTICAL ASPECTS

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38. **Confidentiality still remains a challenge for most countries.** Proponents of no change in the current standards within the GZTT, unanimously, recognized that any departure from the current standards would have a significant practical impact on compiling the statistics, amid the complexity of international data exchange. Discussion on how to deal with the practical and legal issues should continue in parallel with any discussion on concepts – DGI recommendation on data sharing. This exercise would require particularly extensive data exchange and coordination among countries. Within the EU, there are already some possibilities for data exchange. Also, it was still questionable as to whether a change in the standards would improve data quality and provide a more rigorous conceptual basis to the results in both countries. In addition, most members believed that should a change in the SNA be opted, practically it would be difficult to implement because of several challenges, mostly associated with the data compilation and the high costs it would entail. Also, the non-comparability of macroeconomic aggregates across countries, should not all countries follow the recommendations, could be a concern.

39. **Rassier’s proposal of providing supplemental data that breaks the full sequence of accounts into SPEs and operating entities was considered a concept hard to implement in practice.** However, within the GZTT, some members did recognize the value added for countries and global aggregates to identify separately SPEs’ activities, and that in spite of the practical difficulties associated with confidentiality issues, data sources, or data management, amongst others. It was also highlighted that since SPEs are currently treated as separate institutional units in some countries, data sources are presumably well developed for the type of split proposed by Rassier (2017), which seems to be supported by *BD4*. On a practical angle, additional research is required for the full sequence of accounts. This kind of change requires a thoughtful way to proceed, starting from a needed internationally agreed definition of SPEs to help with cross-country comparability.

40. **The GZTT recognized that the option of extending the SNA or BPM core framework (i.e., SPEs should be reclassified to the economies of its parents) be considered on a supplemental**

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<sup>21</sup> Refer to the discussion in the Guidance Note on MNEs.

**basis, would give rise to country specific practicality issue of implementation.** Also, the complementary presentations could be informative for certain economies. This approach, being resource intensive, could potentially give rise to extensive data exchange and coordination among countries, considerable imputations by compilers, which could ultimately result in asymmetries and a potential degradation of data quality, if not done properly. To undertake this approach, data sharing agreements will become a priority, although any data exchange may be subject to confidentiality issues and may be hindered by technical, administrative, or legal obstacles. 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.

41. **From the external sector perspective, the IMF has launched its international data collection to separately identify cross-border transactions and positions for resident SPEs within the balance of payments and IIP based on a separate reporting template.** The IMF's data collection on SPEs goes beyond direct investment, recognizing that SPEs have evolved to include nonfinancial specialized entities established by MNEs. As transactions in goods would be relevant for merchanting<sup>22</sup> SPEs, a separate line for net merchanting by SPEs is included. Regarding services, four distinct components of services have been included in the reporting list where SPEs can be of relevance: transport, financial services, charges for the use of intellectual property, and other business services. In addition to the more detailed service components the template also encourages direct investment data to be further disaggregated to distinguish income by the residency of the ultimate controlling parent. Such additional information can assist in compiling the supplemental statistics on who ultimately receives the income, although this template does not collect any geographical breakdown.

42. **The IMF data collection targets the release of 2020 annual data by end of 2021.** The IMF will also release operational guidelines for implementing national data collection frameworks during 2020. At this stage, the IMF is currently giving priority to initiating international data collection only for resident SPEs, although it recognizes the benefits and the rationale of collecting separate data on non-resident SPEs. Once data collection is more widespread the possibility of international data collection on non-resident SPEs may be revisited.

43. **The IMF's data collection strategy has drawn attention to the existence of intricate cases when identifying SPEs.** Layering can exist along the chain whereby a resident SPE is established by another resident SPE or there may be a mixture of SPEs and non-SPEs. Cases of mixed groups of SPEs and non-SPEs is also presented in Annex 7 of *BD4* to assist compilers to identify SPEs. SPEs owned and directly controlled by residents in the same economy, even if indirectly controlled by nonresidents, would not meet the statistical definition of an institutional unit. Thus, their accounts would be consolidated with those of the resident owners, which may or may not be an SPE. In these instances, the cross-border transactions of the SPE will be consolidated with the resident parent, and not be recorded as SPE cross-border flows. However, from user needs perspective, the IMF is encouraging compilers to avoid consolidating the cross-border transactions of resident SPEs with resident immediate parent, which can also be any other operating unit within the group, to the extent possible, while avoiding double counting. This guidance to compilers, if agreed, will only be meant to identify separately SPEs transactions or positions from cross-border statistics and should not be viewed as an exception to the rule of establishing an institutional unit as laid out in the SNA.

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<sup>22</sup> Merchanting is defined as the purchase of goods by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being present in the compiling economy.



44. **While acknowledging that separate identification of SPEs shall permit to have a clearer view of pass-through funds, BOPCOM as well as the GZTT noted that not all pass-through capital can be captured through identifying and separating SPEs.** In several countries, the phenomenon of pass-through capital also occurs outside SPEs, either captured through near SPEs or in other entities. The possibility of separately identifying pass-through activities not related to domestic activities, regardless of the statistical status of the entities (SPE, near-SPE, or non-SPE), also emerged. One approach for such identification would lie in a further disaggregation of institutional sectors into foreign-controlled and non-foreign controlled entities, which re-joins the idea of adding sub-sectors in the current framework.<sup>23</sup> This would allow for certain financial flows within foreign controlled entities to be interpreted as pass-through activities. This recommendation aligns with the G20 DGI-2 recommendation 8 on institutional sector accounts, which is presented in the Guidance Note on MNEs and represented in Annex IV.

## 6. Changes required to the 2008 SNA and other statistical domains

Elaborate which parts of the 2008 SNA and BPM6 will be changed. (To be drafted at a later stage)

### 45. Important issues that would need to be clarified in the manuals:

- Definition of SPEs.
- Relation with the institutional unit test, notably whether SPEs could have independence of decision making, and thus could be a resident institutional unit in their own right, when having resident parents.
- The precise nature of the relationship of an SPE with related companies, whether such a relation would be only direct control and indirect control.
- The particularities of the balance sheet can be imposed, in view of the dynamic nature of these entities, and whether these can be related to the purpose of the entity.

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<sup>23</sup> Refer to the discussion in the Guidance Note on MNEs.

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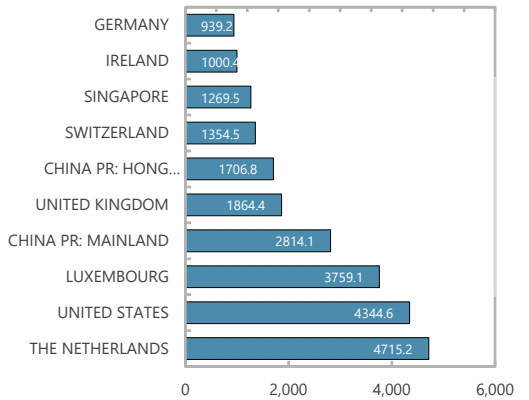
## ANNEX 1

The significant role of SPEs as intermediate steps towards DI and portfolio investment positions is evidenced in the IMF's Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS) data. The latest CDIS data, as at December 2018, show that both large and small economies in which SPEs have traditionally been located are among the main originators and recipients of DI investment. Countries like Ireland, Luxembourg, and Netherlands are portrayed as origin and destination for DI, while for the most part they only have an intermediating role (Figures 1a and 1b).

**Figures 1a and 1b. Direct Investment Positions**

### Inward Direct Investment:

Top Ten Reporting Economies in the World

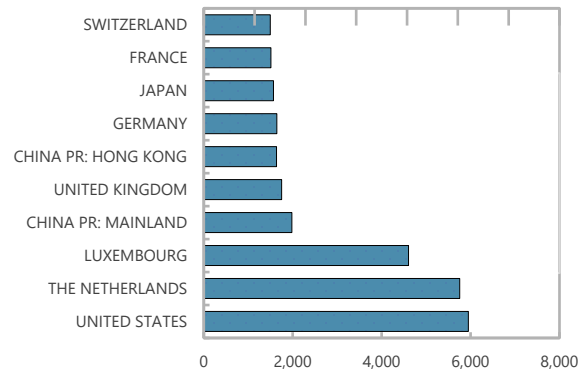


Position as at end December 2018 (US\$ billions)

Source: CDIS database, www.imf.org.

### Outward Direct Investment:

Top Ten Reporting Economies in the World



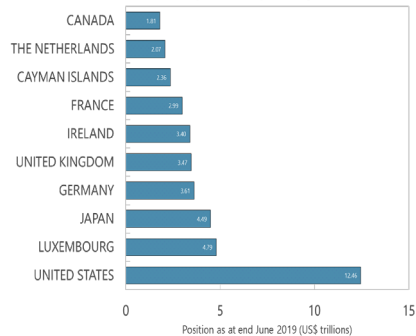
Position as at end December 2018 (US\$ billions)

Source: CDIS database, www.imf.org.

**CPIS-derived liabilities reveal the same picture.** The latest CPIS data as of end June 2019 show that the top ten investor and investee economies include major SPE-hosts like Luxembourg, Cayman Islands, and the Netherlands (Figures 2a and 2b).

**Figures 2a and 2b. Portfolio Investment Positions**

### Total Portfolio Assets - Top Ten Reporting Countries

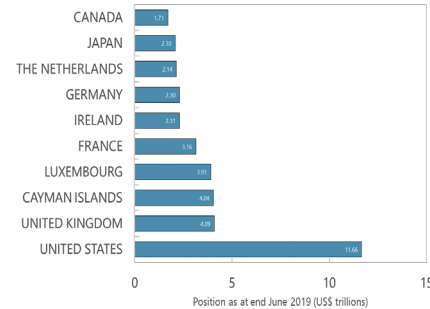


Position as at end June 2019 (US\$ trillions)

Source: CPIS database, www.imf.org.

### Derived Total Portfolio Liabilities: Top Ten Economies

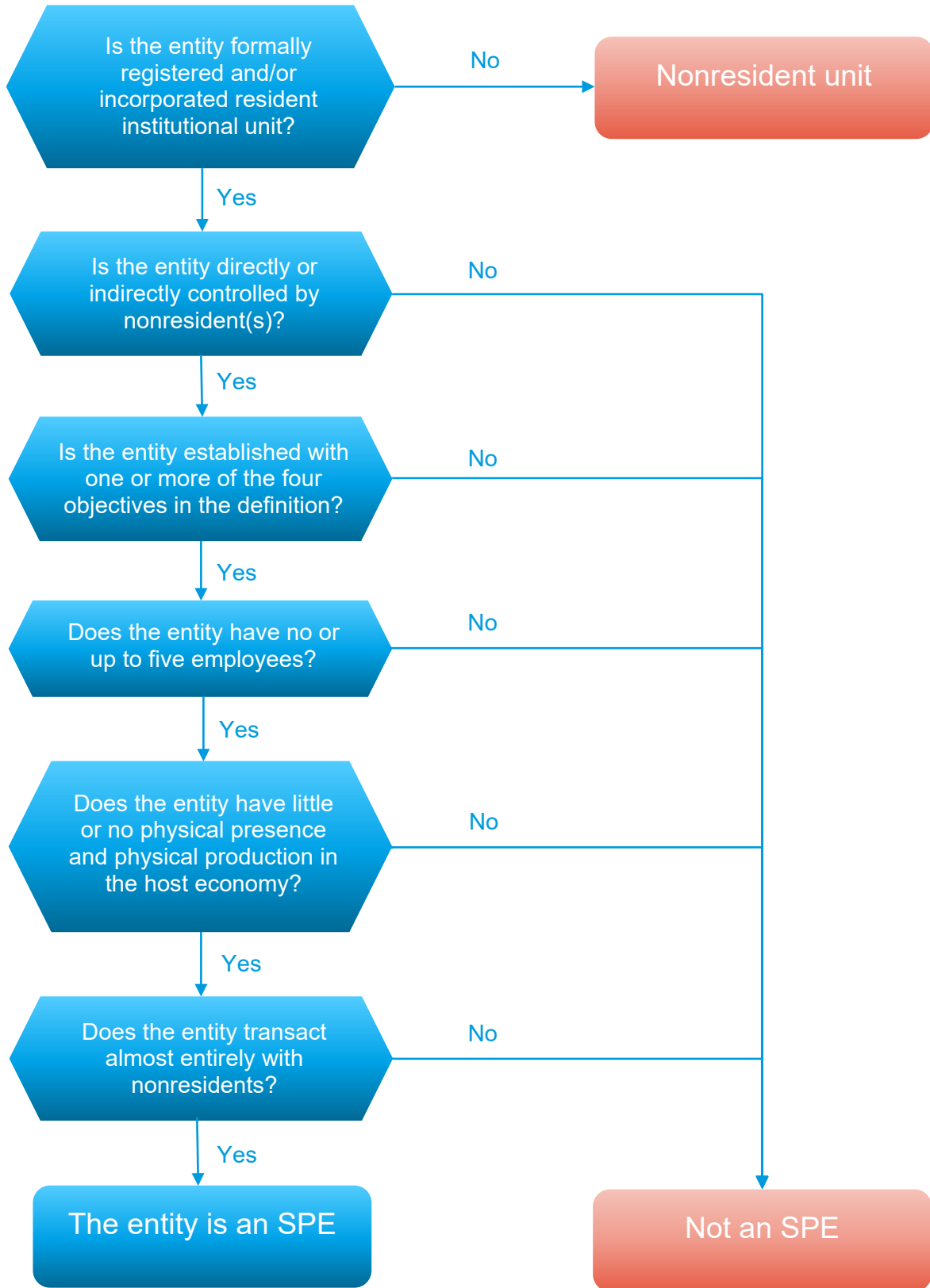
(Drawn from creditor data)



Position as at end June 2019 (US\$ trillions)

Source: CPIS database, www.imf.org.

**Decision Tree to Identify SPEs for External Sector Statistics**



## ANNEX III

### Typology of SPEs for External Sector Statistics

No	SPE Type	Description <sup>24</sup>	2008 SNA	BPM6	2008 SNA sector
<b>Category I: Corporate Groups' Captive Financial Entities</b> <i>(Those captive entities created by a financial or nonfinancial nonresident corporate to fulfil specific financial activities, other than insurance, for the sponsor)</i>					
1.1	Conduits	Raising or borrowing funds, often from unrelated enterprises, and remitting those funds to its parent or to another related enterprise. Typically, do not transact on the open markets on the asset side.	Para 4.59	Para 4.51 Para 4.86	S127
1.2	Holding companies	Owning a controlling level of equity in subsidiaries, without actively directing them (Passive holding corporations)	Para 4.59	Para 4.51 Para 4.81	S127
1.3	Holding financial assets for securitization			Para 4.51	S127
1.4	Intra group lending companies	Loan funding from and to intra group companies Entities taking and granting inter-company loans		Para 4.51	S127
1.5	Captive factoring and invoicing companies	Concentrating sales claims and invoicing sales.			S127
1.6	Captive financial leasing companies	Engaging in lease-in lease-out agreements or as a financial intermediary in a chain of vehicles in which the end vehicle is involved in the leasing of equipment or fixed assets.		Para 4.83	S127
1.7	Other captive financial companies	Dealing with financial needs of a group, such as financing particular projects and loan origination.		Para 4.87	S127

<sup>24</sup> The types listed may be SPEs, but not all entities of the types listed are necessarily SPEs. The definition and the decision tree should assist compilers in determining which entities are SPEs.

No	SPE Type	Description <sup>24</sup>	2008 SNA	BPM6	2008 SNA sector
<b>Category II: Specialized Financial Entities</b>					
<i>(These financial entities, with a degree of operational autonomy, have been specially created to isolate the risks of the parent companies to structure financial transactions for or securitize assets of the parents)</i>					
2.1	Captive insurance companies	Providing insurance to group enterprises.		Para 4.88	S128
2.2	Securitization vehicles/Financial vehicle corporations	Carrying out securitization transactions in order to isolate the payment obligations of the undertaking from those of the originator, or the insurance or reinsurance undertaking (in the case of insurance-linked securitizations). Repackaging.	Para 4.59	Para 4.51 Para 4.77	S125
2.3	Holding financial and nonfinancial assets (including real estate) for related companies	Holding financial and nonfinancial assets of related companies with the goal of capital appreciation, interest/dividend income, and other income.			S11 and S125
2.4	Companies carrying out other financial functions	Performing factoring, invoicing on open markets, financial leasing on open markets, and other financial assets management.		Para 4.51 Para 4.76	S125
<b>Category III: Corporate Groups' Nonfinancial Entities</b>					
<i>(Those SPEs created by a financial or nonfinancial nonresident entity to fulfil specific nonfinancial activities)</i>					
3.1	Ancillary companies	Registered or incorporated companies providing ancillary services that are not resident in the same economy as its parent.		Para 4.51	S11
3.2	Operational leasing companies	Holding fixed assets, such as planes, vessels, and machinery, for the purpose of leasing them out.			S11
3.3	Merchanting companies	Purchasing goods from a nonresident and re-selling the goods to another nonresident (merchanting companies have ownership of the goods traded).			S11
3.4	Royalty and licensing companies	Concentrating group receipts concerning royalties and similar flows received from intellectual property rights and trademarks. Such a company of an SPE-type receiving royalties or similar flows for a group of			S11

No	SPE Type	Description <sup>24</sup>	2008 SNA	BPM6	2008 SNA sector
		enterprises or individuals is regarded as an independent royalty and licensing company.			
3.5	Legal ownership of intangible assets	Holding intangible assets for a related company or group of companies.			S11
<b>Category IV: Wealth management entities</b> <i>(Those SPEs created by household entities or groups of individuals to hold or manage wealth or real estates for their owners)</i>					
4.1	Companies holding/managing wealth and real estate for individuals and families	Managing family trust funds, foundations, personal holding companies.	Para 4.59	Para 24.75	S11 and S127
<b>Category V: Government Owned Financial Entities</b> <i>(Those SPEs created by governments for fiscal activities)</i>					
5.1	SPEs owned by governments for fiscal purposes	Raising or borrowing funds on behalf of a nonresident general government.		Para 8.24	S11, S12, or S15
<b>Category VI: Other structures</b> <i>(Those SPEs created to conduct any type of transactions other than those covered in the other categories)</i>					
6.1	Shell companies	Passing-through funds between nonresidents with no operations in the economic territory of incorporation. Shell companies don't have employees, are not traded, and can be kept dormant.		Para 4.50	S11 or S12
6.2	Shelf companies	Empty corporation, registered in advance, minimum assets and liabilities.		Para 4.50	S11 or S12

Sources: Joint ESCB/ESS Task Force on Foreign Direct Investment, Frankfurt Meeting, May 2017.

Drawn from *BPM6*, TFSPE Secretariat.

Institutional sectors are based on Annex 1 in the *2008 SNA*.



## ANNEX IV: G20 DATA GAPS INITIATIVE-2 (DGI-2) INSTITUTIONAL SECTOR ACCOUNTS (FINANCIAL AND NONFINANCIAL CORPORATIONS)

DGI-2 recommendation 8 requires all G20 economies compile and disseminate institutional sector accounts, on a quarterly and annual frequency. This is based on the internationally agreed template. The template provides minimum and encouraged breakdowns by sector and instrument.

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

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

<sup>i</sup> Foreign-controlled non-financial corporations shall include SPEs (non-financial) incorporated by Government and Households.

<sup>ii</sup> Foreign-controlled financial corporations shall include SPEs (financial) incorporated by Government and Households.