

**16th Meeting of the Advisory Expert Group on National Accounts,
12-14 July 2021, Remote Meeting**

Agenda item: 5.3

This document outlines the results of the BOP public consultation of Guidance note D.5 Eliminating Imputations for an Entity Owned or Controlled by General Government that is Used for Fiscal Purposes.

D.5 Eliminating Imputations for an Entity Owned or Controlled by General Government that is Used for Fiscal Purposes: Outcome of the Public Consultation¹

The public consultation strongly supports keeping the main System of National Accounts 2008 and Balance of Payments and International Investment Position Manual, sixth edition guidance unchanged but enhancing the imputations necessary to adequately reflect the proper nature, value, and counterpart of relevant flows and positions in the government accounts. When considering the practical implementation of the recommended imputations, several respondents highlighted the difficulties in the collection of disaggregated information for the adequate compilation of transactions and positions of special purpose entities under government control. Absence of guidance in the international statistical standards and confidentiality and transparency issues, mainly from governments, were mentioned as additional difficulties. There is a very limited presence of direct investment enterprises that carry out fiscal activities in the economies that participated in this public consultation.

In view of the broad agreement received during the public consultation, this Guidance Note (GN) is proposed to be considered by the Committee for final decision.

1. **The public consultation² strongly supports retaining the System of National Accounts 2008 (2008 SNA) and Balance of Payments and International Investment Position Manual, sixth edition (BPM6) treatments, but enhancing imputations to adequately reflect the proper nature, value and counterpart of relevant flows and positions in the government accounts (Option 3).** The main reason for supporting Option 3 is that it maintains the statistical standards for residency and institutional units already defined in the manuals while still reflecting the activities of these entities in the government account. A respondent raised concern over the implications for financial intermediation services indirectly measured (FISIM) associated with the recommendation *to record interest expenditure on the imputed debt of government (instead of the current recording of current transfer), against withdrawal of equity in the special purpose entities (SPEs) (i.e., implying recording interest revenue of the SPE, as a mirror to the SPE interest expenditure on the debt levied)* as part of Option 3, that may need to be explored. The minority opposing views indicated that Option 1, *eliminating all imputations and consider*

¹ Prepared by Ms. Rita Mesias (IMF), and Ms. Francesca Spinelli (OECD), both DITT Secretariat

² Nineteen responses were received from public consultation. See detailed results in Annex II.

these entities as part of the controlling government, is generally preferred for government finance statistics (GFS) in EU economies and its implementation is easier because it does not require imputations and thus, will not present additional efforts from GFS and external sector statistics compilers. They also mentioned that SPEs do not have the power to act independently and are restricted in the range of transactions they can engage in, and they do not carry the risks and rewards associated with the assets and liabilities they hold.

2. Respondents, while supporting Option 3, acknowledged the challenges in implementation.

The following concerns were raised: (i) difficulties in the collection of detailed information on the flows and positions of SPEs linked to a particular government; (ii) absence of practical examples in the international statistical guidance; and (iii) confidentiality issues and lack of government transparency regarding the information on SPEs.

3. There was unanimous agreement that the classification, valuation and recording of the imputed government debt towards the SPE abroad be further discussed by GFS experts. This is to guarantee consistency among statistical standards and to provide a broader perspective to the imputations to be developed.

4. The consultation has revealed significant support to establishing a new convention where the imputed debt of government would follow the same classification/recording as the SPE debts.

The majority of respondents agreed to use the same convention to impute government debt as for other SPEs, mainly because it enhances macroeconomic statistics consistency.

Annex I. WGIIS Consultation on GN D.5

As part of the BPM6 and BD4³ update process, the OECD Working Group on International Investment Statistics (WGIIS) Secretariat, consulted with WGIIS delegates⁴ on the DITT GN D.5 to gauge their support and preferences. The OECD also organized a webinar⁵ on June 1, 2021, to discuss the outcomes of the consultation and gather additional insights on the feasibility of the proposed approaches.

- 1. None of the respondents currently identify cases when a government unit in their economy creates and uses an SPE abroad to carry out fiscal activities on its behalf.** There was strong support (from 20 respondents) for retaining the 2008 SNA/BPM6 treatment that government SPEs abroad remain institutional units (like all other SPEs abroad), but with more enhanced imputations of the SPE transactions and positions in the government accounts. According to respondents, this would improve the government's balance sheet while maintaining the consistency of treatment with other types of SPEs following the residency principle.
- 2. There was also strong support (by 22 respondents) for further discussing the classification, valuation, and recording of the imputed government debt towards the SPE abroad with GFS experts.** Some indicated that although these imputations might provide a better picture of the government balance sheet, the recording is not evident and requires further guidelines. GFS experts have insights into how public sector statistics are compiled and can provide advice on how to reconcile these with FDI concepts. There were concerns that governments might not always be transparent about their overseas activities conducted for fiscal purposes and it could therefore be challenging to identify non-government SPEs abroad and to make accurate imputations of the SPEs activities in government accounts. It was considered important that GFS experts take this issue of transparency into consideration when further developing the required imputations.
- 3. There was less clear support (from 11 respondents only) for establishing a new convention where the imputed debt of government would follow the same classification or recording as the SPE debts.** This share might be driven by the fact that many respondents are not sufficiently familiar with this topic and do not currently identify government SPEs. Some indicated that additional examples would be useful to understand the impact of a new convention on DI statistics.
- 4. Although strong support was expressed for introducing enhanced imputations of the SPE transactions and positions in the government accounts, many concerns were expressed as regards the feasibility of identifying government SPEs in general.** Some indicated a lack of availability of data to gather information on the activities of the non-resident SPE, and in particular, government SPEs. During the webinar, a member flagged the risk of confidentiality restrictions as

³ The IMF and the OECD are collaborating in the work of the Direct Investment Task Team (DITT), serving as co-Chairs and in the DITT Secretariat. The OECD's *Benchmark Definition of Foreign Direct Investment, fourth edition (BD4)*, which is being updated, provides detailed guidance on the compilation of direct investment (DI) statistics in line with the IMF's *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*. The WGIIS reviews the guidance notes produced by the DITT and provides feedback at different stages.

⁴ Twenty-three countries responded to an online survey set up by the OECD, but not all countries responded to all questions. Includes answers provided by two countries during the earlier WGIIS/BPTT consultation exercise conducted in December 2020.

⁵ There were more than 70 participants, and no dissenting opinions emerged during the discussion.

governments may establish SPEs abroad just for a single operation. Some stressed that estimating statistics for domestic government non-resident SPEs could be easier than identifying resident SPEs of foreign governments and that it will be important to distinguish if the new convention applies to inward, outward, or both directions in guidance and communication. There was a question on whether the IMF decision tree could be used to identify government SPEs as those might not transact mainly with non-residents. The IMF clarified at the webinar that the operational guidelines on SPEs do acknowledge the possible existence of some domestic assets and liabilities on the balance sheets of selected SPEs.

5. **During the webinar, one member proposed to consider an “of which” section in the government’s accounts as this would serve the analytical needs**, while at the same time reduce the risks of increased asymmetries in external sector statistics that may arise from imputations.

6. Table 1 below reports the distribution of the answers received to the questions included in the online survey filled in by WGIIS delegates.

Table 1. Results of the WGIIS Consultation

	Yes	No
Q1. Do you currently identify cases when a government unit in your economy creates and uses a direct investment enterprise (DIE), typically a special purpose entity (SPE), resident in another economic territory, to carry out fiscal activities on its behalf?	0	23

	A1	A2	A3	No strong opinion
Q2. The guidance note presents three options and recommends that option 3 be included in the update of the BPM. Please indicate if you have a preference for one of the three options?	2	0	20	1

	Yes	No
Q3. Do you agree that the classification, valuation and recording of the imputed government debt towards the SPE abroad, be further discussed by GFS experts?	22	1
Q4. Do you see potential merit in establishing a new convention where the imputed debt of government would follow the same classification/recording as the SPE debts? (only 17 respondents answered the question)	11	6

Annex II. Summary Results of the GN D.5 Public Consultation

Question 1: The GN presents three options and recommends that option 3 be included in the update of the manual. Do you have a preference for one of the three options and please indicate why you support any option?			
	Responses (%)		
• Option 1: Eliminate all imputations and consider these entities as part of the controlling government	3 (16%)		
• Option 2: No changes in the current <i>BPM6</i> treatment.	2 (10%)		
• Option 3: Retain the 2008 <i>SNA/BPM6</i> treatment, that government SPEs abroad remain institutional units (like all other SPEs abroad) but with more enhanced imputations of the SPE transactions and positions in the government accounts (proper nature, value and counterpart of relevant flows and positions)	14 (74%)		
Total (Of which 15 (79%) provided detailed responses)	19 (100%)		
Question 2: Do you agree that the classification, valuation and recording of the imputed government debt towards the SPE abroad, be further discussed by GFS experts?			
	Yes	No	Total
Responses (Of which 12 (67%) provided detailed responses)	19 (100%)	0 (0%)	19
Question 3: Do you see potential merit in establishing a new convention where the imputed debt of government would follow the same classification/recording as the SPE debts?			
Responses (Of which 12 (63%) provided detailed responses)	15 (79%)	4 (21%)	19
Question 4a: Do you currently identify cases when a government unit in your economy creates and uses a direct investment enterprise (DIE), typically a special purpose entity (SPE), resident in another economic territory, to carry out fiscal activities on its behalf?			
	yes	No	absence
Responses	2 (11%)	16 (84%)	1 (5%)
Question 4b: Can you provide an estimation of direct investment positions between such entities in your total outward FDI positions, or any other indication of the significance of those cases in your economy?			
Responses	1		
Question 5: From your perspective, what are the practical issues that should be considered when adopting Option 3? Please specify.			
Responses	11		
Any other comments/suggestions, please specify.			
Responses	8		