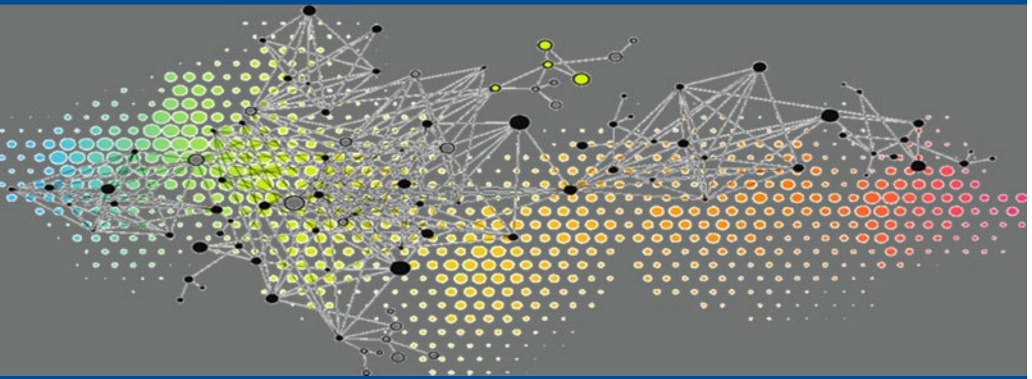

STATISTICS

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

AEG Meeting

July 13, 2021

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Background

- A government can create and use a direct investment enterprise (DIE), typically a special purpose entity (SPE), resident in another economic territory, to carry out **fiscal activities** on its behalf.
- Current methodological standards
    - *BPM6,* paragraphs 4.93 and 8.24–8.26
    - *2008 SNA,* paragraphs 4.67, 22.23, and 26.43,
    - *GFSM 2014*, paragraphs 2.137–2.139.
- Any entity created by a parent under the laws of another jurisdiction is treated as a separate institutional unit, **by convention**, resident in the host jurisdiction. This convention is also applicable when the parent is a government unit.
- In sum, these entities are currently not treated in the same way as embassies and other territorial enclaves (*BPM6*, paragraph 4.93)

Current Guidance and Imputations

- To ensure that any **fiscal operations** undertaken through nonresident entities are reflected in the home government accounts, **special imputations** of transactions and stock positions between the government and the SPE abroad are needed:
  - The transactions carried out by a nonresident SPE are recorded in the host territory, but imputed "mirror" transactions are added between the SPE and the “parent” government.
- *BPM6*, paragraphs 8.24–8.26, state that multiple imputation entries are required notably to avoid distortions in the government balance sheet, including debt statistics.
- These imputations are made symmetrically for both the government and the nonresident DIE/SPE.
- They, however, do not affect the transactions or positions between the borrowing entity and its creditors or other third parties, which are recorded as they occur.

Why these Imputations?

- The reason for having a special approach for government entities is that, **unlike the private sector, government-owned or controlled entities function on the behest of the controlling government for fiscal purposes, not for commercial reasons**.
- Fiscal purposes should be distinguished from commercial purposes because they are always oriented to serving the objectives for the government's home territory.
- The special imputations enable a transparent presentation of government finance statistics.
- Without the imputations, a misleading picture of government expenditure or/and debt would arise.
- Unlike other DIEs, these government-owned entities, when they are used solely for fiscal purposes, do not give rise to reinvested earnings (*BPM6*, paragraph 11.40).

Treatment of SPEs/DIEs Incorporated by Governments: Eliminate the Imputations

1

Options Considered

Option 1: Eliminate all imputations and consider these entities as part of the controlling government. This option modifies the core concept.

- The impact of such a proposal would be that the notion of general government would comprise both resident and some legally nonresident units.
- **Rationale:** These entities abroad serve primarily strategic fiscal considerations, with no economic autonomy. They do not exhibit behavior of a market producer; rather they serve the needs of a nonmarket producer.

▪ **GN Discussion**

- The IMF's Balance of Payments Committee, when endorsing the SPE definition in 2018 maintained SPEs incorporated in an economic territory other than any of its owners as separate institutional units.
- The same treatment for SPEs is currently being applied by the GZTT GN G.4 "Treatment of Special Purpose Entities and Residency".
- For countries that have information, the GZTT proposes producing complementary statistics based on nationality as an extension to residency-based statistics, with the underlying core framework for macroeconomic statistics remaining unchanged.

Treatment of SPEs/DIEs Incorporated by Governments: No Change in Current *BPM6* Treatment

Options Considered

2

Option 2: Proposal for no changes in the current *BPM6* treatment.

- **Discussion in the GN** on this option.
  - The current imputation practices broadly ensure a better recording for the government accounts (main indicators: deficit, debt).
  - *BPM6* current standards have been useful in addressing concerns raised about the possibility of concealing the government debt or expenditure when SPEs are used for government fiscal operations. The proposal does not change the core conceptual framework
  - They prevented any serious misrepresentation of the fiscal operations of general government.

Issues Raised with Current Treatment

- *BPM6* does not specify the exact instrument to be imputed as debt of government, one can presume it is a loan.
  - Valuation for loans is at nominal value; valuation for debt securities issued by the SPE is at market value: thus, the SPE liability position will not be fully reflected in government's accounts, without further adjustments.

- *BPM6* prescribes recording current or capital transfers to the SPE rather than according to the nature and counterpart of the expenditure. This would mean that no interest expenditure incurred on the SPE debt (imputed government debt) is recorded, which is anomalous.

- *BPM6* current guidance neglects that SPEs may collect revenue (this can occur notably in certain cases of securitization): should these be recorded as current transfer revenue of government from the SPE?

Treatment of SPEs/DIEs Incorporated by Governments: Retain *2008 SNA/BPM6* Treatment, with more Appropriately Defined Imputations

Options Considered

3

Option 3: Retain the *2008 SNA/BPM6* treatment, but with a more appropriately defined imputations necessary to adequately reflect the proper nature, value and counterpart of relevant flows and positions in the government accounts.

- Builds on the weaknesses identified.

- **Discussion in the GN** on this option. Option 3 considers some new imputations.
- Recording **interest expenditure** on imputed debt of government (instead of current recording of current transfer), against withdrawal of equity in SPE (implying recording interest revenue of SPE, as a mirror to the SPE interest expenditure on the debt levied).
- Recording directly **the SPE expenditure as government expenditure** according to nature and counterpart (e.g., capitals transfer to public corporations), against withdrawal of equity in the SPE.
- Recording **acquisition of assets (like loans or equity)** in government accounts, against withdrawal of equity in the SPE.
- Recording any/main **SPE revenue (e.g., some cases of securitization) directly as government revenue**, against an increase in equity in SPE (ultimately reduction in debt).

DITT Discussion

- **Large support** for Option 3 in the update**.**
  - Remains aligned to the *BPM6/2008 SNA* standards by maintaining the treatment of SPE incorporated in a different jurisdiction than the parents as an institutional unit.
  - Reinforces the discussion on SPEs currently undertaken by the GZTT.
  - Entails an enhanced imputation supporting better fiscal analysis.
- Practical difficulties that may be associated with implementing Option 3 were noted.
- **Minority support** for Option 1.
- **Large agreement that the classification as well as the valuation of the imputed government debt towards the SPE abroad be further discussed by GFS community.**
  - Additionally, many saw the potential merit in establishing a new convention where the imputed debt of government would follow the same classification/recording as the SPE debts.
  - The practicality of the recording of the imputed debt of government towards the SPE (classification and valuation) was seen as important.

Different Consultations Outcomes

GZTT Consultation – Outcome

- **Equal inclination between Option 3 and Option 1** [Four members commented]**.**
- **Favoring Option 3:**
  - Maintain the treatment of these SPEs incorporated in a different jurisdiction than the Government parent as institutional units, aligned with the *BPM6* and *2008 SNA* standards.
  - Avoids establishing an "exception within an exception," as these units meet the same definition as the other nonresident SPEs.
- Favoring Option 1:
  - Underscore the practicability of its implementation, although they recognized that Option 3 is an improvement of the current representation of government flows and stocks.
- Additionally, agreement that the discussion regarding the classification, valuation, and recording of the imputed government debt towards the SPE abroad be further maintained by the GFS community.
- It was also proposed to extend the discussion to the "counterpart" of the debt.

Public Consultation – Outcome

- Strong support for **Option 3**
  - Maintains the current definitions of residency and institutional units while adequately capturing the activities of these entities in the government accounts.
  - Implications for FISIM on the recommendation to record interest expenditure
- Minority support for Option 1
  - Preference for GFS in EU, easier implementation, SPEs do not have the power to act independently and are restricted in range of transactions which they can engage.
- From a practical perspective, implementation of Option 3 may be fraught with difficulties:
  a. Collection of disaggregated information for the adequate compilation of transactions/positions of SPEs under government control,
  b. Confidentiality and transparency issues, mainly from governments.
- Majority agreement to use same convention to impute government debt as the case for SPEs although lack of ***sufficient information to provide a definitive answer.***
- Respondents also mentioned that there is a ***very limited presence or experience of DIEs that carry out fiscal activities in their economies.***

OECD-WGIIS Outcome

- Majority support for Option 3
- None of the respondents could identify cases when a government unit creates and uses an SPE abroad to carry out fiscal activities on its behalf.
- Large agreement for further discussing the classification, valuation and recording of the imputed government debt towards the SPE abroad with Government Finance Statistics (GFS) experts.
- Proposal by one member to consider an “*of which*” section in the government’s accounts as this would serve the analytical needs.

Committee on Balance of Payments Statistics Discussion Outcome

Summary of Discussion

- Agreement with proposed Option 3
    - General recognition that consolidating such nonresident entities with their parent government for compiling macroeconomic statistics would depart from core *BPM* and *SNA* concepts of residency and institutional unit.
- Support towards consulting the GFS and national accounts communities (via the GFSAC and the AEG).
    - Consultation should be based on a more concise and focused proposal preserving the general principles of residence and institutional units (i.e., Option 3, as agreed by Committee members) towards the proposed enhancements to the recording, valuation, and classification of the imputed government debt towards the SPE abroad.

Next Steps:

- Revise GN stating Committee's approved option and providing more details on proposed enhancements to the imputations between the SPE and the parent government for inclusion in updated *BPM7*.
- Submit to the GFSAC and the AEG for consultation.
- Send to Committee, after including comments received, for final approval via written procedure.

Questions for the AEG

1. *Do the AEG members agree with including Option 3 in the update of the manual, implying keeping the current 2008 SNA/BPM6 standards 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?*
   - This is in line with what the GZTT is recommending in its GN G.4 on '*Treatment of SPEs and Residence*'. GN G.4, however, also proposes 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 meant to be constructed only for countries which deemed SPEs important.
2. *Do the AEG members agree that the classification, valuation and recording of the imputed government debt towards the SPE abroad, be further discussed by GFS experts?*
3. *Do the AEG members see potential merit in establishing a new convention where the imputed debt of government would follow the same classification/recording as the SPE debts?*