

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

OUTCOME PAPER (BOPTTEG) # 9 AND 10

JUNE 2004

(1) Topic: **Special Purpose Entities (SPEs) and Holding Companies**

(2) Issues – see BOPTTEG Issues Papers #9, #9A, and 10

(3) Recommendations:

(i) The group agreed that SPEs should be treated as separate institutional units.

(ii) The group agreed that SPEs should be classified according to the territory of incorporation or legal domicile. The group urged that the new manual be written to take into account the possible permutations of arrangements identified in Issues Paper #10. There was a general view that it would be useful to give a fuller definition of terms like “territory of incorporation” and “legal domicile”.

(iii) The group did not pursue the idea of an internationally standard definition of SPEs, but agreed that it would be useful if territories that are hosts to SPEs were to identify them separately on the basis of their own definitions. The group agreed that SPEs were used for several different functions and that the institutional sector of SPEs should be determined with reference to the economic function carried out, rather than SPEs being regarded as a separate subsector.

(iv) The group agreed that holding companies should be classified as to institutional sector and industry on the basis of their own activity in that economy, rather than activities in affiliated enterprises in other economies. This decision was supported on both conceptual grounds (that the classification should reflect the role in the economy concerned) and practical reasons (that information about activities in other territories would be more difficult to obtain for multinational group with complex structures and operation in many territories).

- If a holding company owns no enterprises resident in the same economy, the holding company should be included in the financial sector.
 - Further consultation would be needed to determine whether holding companies should be classified as “other financial intermediaries” or “financial auxiliaries.”
- If a holding company owns enterprises resident in the same economy, it was considered that further investigation was needed. The Netherlands and IMF will prepare an issues paper for discussion at the next BOPTTEG meeting.

(4) Rejected Alternatives:

The meeting rejected classification of holding companies by institutional sector and industry according to the characteristics of the global group of affiliated enterprises. It was noted that the current SNA/BPM standards are based on a primary concept of economic territory and that a change in the standards would be required before global group approach could be justified.

(5) Questions for the Committee:

(i) Does the Committee agree that SPEs should be treated as separate institutional units? See 3(i) above.

(ii) Does the Committee agree that SPEs should be treated as resident in their territory of incorporation? See 3(ii) above.

(iii) Does the Committee agree with the approach to separately identifying SPEs on the basis of national definitions as needed, but not having a standard definition or SPE subsector? See 3(iii) above.

(iv) Does the Committee agree with the approach to classifying the institutional sector and industry proposed for holding companies?

(a) Does the Committee have a view on whether holding companies owning resident enterprises should be classified (1) on the basis of its status as a holding company or (2) on the basis of the functions of its affiliated enterprises?

(b) If the answer to question (a) is (1), does the Committee have a view on whether holding companies functions should be classified as (1) other financial intermediaries or (2) financial auxiliaries?

(c) If the answer to question (a) is (2), does the Committee have a view on whether these are related only to the enterprises in the same economy? Or only to enterprises it owns or owns indirectly?

See 3(iv) above.