

**Eighteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Washington, D.C., June 27–July 1, 2005**

SPEs and Holding Companies

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

OUTCOME PAPER (BOPTTEG) # 9B

JANUARY 2005

(1) Topic: **Sector and Industry Classification of Holding Companies**

(2) Issues – see BOPTTEG Issues Paper # 9B (Netherlands), Background Paper 9B (ECB), IMF Task Force for Coordination of Methodological Issues. See also Issues Papers 9 and 9A from the June 2004 BOPTTEG Meeting.

(3) Recommendations:

(i) If a company undertakes holding company functions as well as production in its own right, it should be classified to institutional sector on the basis of the predominant function.

(ii) If a holding company has the sole function of controlling and directing subsidiaries, a majority concluded that the company should be classified to sector and industry on the basis of the owning or managing function, not on the basis of the activities carried out by its subsidiaries.¹

(iii) A majority supported classifying holding companies to the institutional subsector “other financial intermediaries” (OFIs). The Fund will advise of possible amendments of the definition of OFIs that may be needed if holding companies are to be classified under OFIs. (See Attachment.)

(iv) It was agreed that if holding companies were analytically significant, they should be shown as a subgroup of OFIs.

(v) It was recognized that many users would prefer data on the basis of the sector/industry of ultimate owner or destination, in order to see through a holding company in all cases.

(4) Rejected Alternatives:

None.

¹ Note: In contrast, DITEG concluded that holding companies should be classified on the basis of the activities of its subsidiaries in the same territory. See DITEG Outcome Paper #9.

(5) Questions for WIIS and the Committee:

- (i) *Does the Committee agree that companies undertaking production in addition to holding functions should be classified on the basis of the predominant function?*
- (ii) *Does the Committee agree that holding companies should be classified on the basis of their own economic function as a holding company, rather than on the function of the subsidiaries?*
- (iii) *For sector classification of holding companies, see Attachment.*

Additional Note on Institutional Sector Classification

From the *1993 SNA*:

Other financial intermediaries except insurance corporations and pension funds (S.123)

4.95. This sub-sector consists of all resident corporations and quasi-corporations primarily engaged in financial intermediation except depository corporations, insurance corporations and pension funds. Financial corporations included under the present heading are those which raise funds on financial markets, but not in the form of deposits, and use them to acquire other kinds of financial assets. The types of corporations which may be included under this heading are those engaged in financing investment or capital formation; for example, investment corporations, corporations engaged in financial leasing, hire purchase corporations and other corporations engaged in the provision of personal finance or consumer credit.

Financial auxiliaries (S.124)

4.96. This sub-sector consists of all resident corporations and quasi-corporations engaged primarily in activities closely related to financial intermediation but which do not themselves perform an intermediation role. They consist of corporations such as securities brokers, loan brokers, flotation corporations, insurance brokers, etc. They also include corporations whose principal function is to guarantee, by endorsement, bills or similar instruments intended for discounting or refinancing by financial corporations, and also corporations which arrange hedging instruments such as swaps, options, and futures or other instruments which are continually being developed as a result of wide-ranging financial innovation.

Many holding companies only pass funds among a small number of affiliated companies; in the clearest case, the holding company's balance sheet consists entirely of equity of one owner and one subsidiary. Such cases may fall short of the definitions of "financial intermediation" and "raising funds in financial markets." The OECD Task Force on Financial Services is currently discussing whether the scope of financial intermediation services should include holding equity.

Given the doubts about the extent of financial intermediation and the keeping intermediation as normally understood separate from holding companies, it is proposed that holding companies be identified separately. The item could appear under OFIs, auxiliaries, or in its own right under financial corporations.

Questions for WIIS and the Committee:

(i) If the Committee agrees that holding companies should be classified on their own function, rather than that of the subsidiary, how does the Committee consider that holding companies should be classified?

(a) Included with other OFIs?

(b) Separate heading under OFIs

(c) Included with other financial auxiliaries?

(d) Separate heading under other financial auxiliaries?

(e) Separate heading outside both OFIs and financial auxiliaries?

(Note: The OECD Task Force on Financial Services will meet on May 9-10, 2005 to decide on its proposals to be presented to the AEG. The Committee will be advised of the results of the meeting and may wish to take them into account.);

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

**OUTCOME PAPER #9 (2): SECTOR CLASSIFICATION OF HOLDING COMPANIES THAT ARE
SPECIAL PURPOSE ENTITIES**

FEBRUARY 9, 2005

1. **Topic:** Sector classification of Holding companies that are Special Purpose Entities
2. **Issues:** See DITEG and BOPTEG issue paper #9 ‘The sector classification of special purpose entities’ by Stephan Klinkum and Frank Ouddeken (De Nederlandsche Bank)
3. **Recommendations:**
 - (i) DITEG discussed the sector classification of holding companies that are special purpose entities (SPEs) resident in another economy than the parent company and *not* owning enterprises in the same economy. BOPTEG had agreed in its June meeting that SPEs are separate institutional units and that SPEs in the form of holding companies should be classified on the basis of their own economic function in the host economy as a unit belonging to the financial sector. DITEG was of the opinion and recommends that holding companies that are SPEs should be classified as Other Financial Intermediaries (OFIs), provided that the definition of “intermediation” is modified to take account of the activities of these holding companies.
 - (ii) DITEG also discussed the sector classification of holding companies that are SPEs that are resident in an economy other than that of the parent company and owning companies that are resident in the same economy as the holding company that is an SPE. The following four cases were considered:
 1. *Holding companies that are established as SPEs in an economy for the purpose of owning all the local subsidiaries or production entities in the host economy:* Most members of DITEG felt that the sector of the resident holding company should be based on the predominant activity of the group the “local group”, i.e., those members of the group that are resident in the economy of the holding company that is an SPE, in line with 1993 SNA treatment.
 2. *A holding company that is an SPE that only owns holding companies in the host economy that, in turn, only own subsidiaries in a third economy:* Most members of DITEG felt that the sector of the resident holding company should be classified as an OFI because the predominant activities of that holding company or the entire “local group” are holding activities.
 3. *A holding company that is an SPE that owns subsidiaries in the host economy (both SPEs and nonSPEs) and in another economy:* Most members of DITEG felt that the classification of the holding company that is an SPE should be based on which activity dominates . That is, if the activities of the subsidiaries in the host economy are relatively small compared with the operations of the subsidiaries in another economy, it would be classified as a holding company and as an OFI. If the activities in the host economy are relatively large compared to the operations of the subsidiaries in the other economy, then the holding company that is an SPE should be classified based on the

local group's predominant activities. In effect, the treatment should be the same as in 3(ii)1, and is in line with the 1993 SNA.

4. *A holding company that is an SPE that owns subsidiaries in a third economy and having non-financial sister companies in the host economy:* DITEG agreed and recommends that the holding company that is an SPE should be treated as an OFI, in the same manner as 3(i). The other sister companies' activities would not have a bearing on the classification of the SPE/holding company.
- (iii) However, some members felt that the sector/industry classification of the SPE/holding company should be a holding company in all instances (in line with BOPTEG's recommendation, with the exception of (ii) 5. above). This view was considered to be very important in the case of a currency union as the classification might change between the local economy and the currency union. The reason for this is that the "local group's" predominant activity may not be the same as the group's predominant activity at the currency union level.

4. **Rejected Alternatives:**

- (i) DITEG rejected the alternative to classify holding companies that are SPEs that are resident in another economy than the parent company and *not* owning enterprises in the same economy as financial auxiliaries because the function of these auxiliaries does not comply with the function of these types of holding companies.
- (ii) Although it may be difficult for the resident compiler to determine the sector of a SPE/holding company in a non-resident economy, DITEG rejected the alternative to classify all holding companies as OFIs. A classification of all holding companies as OFIs gives a wrong view of the sectoral breakdown of the economy involved.

5. **Questions for the IMF Committee on Balance of Payments (the Committee) and the OECD Workshop on International Investment Statistics (WIIS):**

- (i) *Do the Committee and the WIIS agree with DITEG's recommendation to classify as Other Financial Intermediaries holding companies that are SPEs and that are resident in an economy other than that of the parent company and that do not own enterprises in the same economy?*
- (ii) *Do the Committee and the WIIS agree with the recommendation to classify to the sector of the predominant activity of the "local" group holding companies that are SPEs, and that have been established in an economy to own all the local subsidiaries or production entities in the host economy?*
- (iii) *Do the Committee and the WIIS agree with DITEG's recommendation to classify holding companies that are SPEs and that own only other SPEs and/or other holding companies in the host economy, and which, in turn, own only subsidiaries in a third economy, as Other Financial Intermediaries?*
- (iv) *Do the Committee and the WIIS agree with DITEG's recommendation to determine the sector of a holding company that is an SPE and which owns both subsidiaries in the host economy (not exclusively SPEs) and in another economy on the basis of the predominant activity, which may either be the activity of the local group or as a holding company,*

depending upon the size of the holding company activity relative to the size of the local group's activities?

- (v) *Do the Committee and the WIIS agree that a holding company that is an SPE and that owns subsidiaries in a third economy and that has non-financial sister companies in the host economy should be classified as an autonomous entity based on its own economic function and should be classified as an OFI if it has no other function than holding shares of its subsidiaries abroad?*

- (vi) *If the Committee and the WIIS agree with the classification of (some) holding companies that SPEs as OFIs do they agree that the definition of "intermediation" may have to be modified to accommodate the somewhat different nature of holding companies' activities from the more standard intermediation functions?*

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

OUTCOME PAPER (DITEG) # 9 (1)

August 6, 2004

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

(2) Issues – see two DITEG Issues Papers #9 (one prepared by the Australian Bureau of Statistics and one by the IMF)

(3) Recommendations:

(i) The group agreed that, in balance of payments statistics, SPEs should be recognized as separate statistical units resident in the economies in which they are located in those instances where they are established in different economies from the enterprise that created them. However, the group also acknowledged that such a treatment, while being the best practical approach (especially to deal with asymmetries), may distort economic interpretation of direct investment transactions and positions, especially for economies with significant SPE activity. In noting that the balance of payments cannot be everything to everyone, the group indicated that even greater distortions may result from trying to capture all aspects of SPEs within the balance of payments framework. Accordingly, the group noted that there may be a need for a separate dataset for direct investment to address these problems. Nonetheless, the group recognized that SPEs represent a real economic phenomenon and need to be covered in economic statistics, accordingly.

(ii) The group agreed that physical presence is not necessary for an SPE to be considered a resident in the economy in which it is incorporated/registered, noting that SPEs should not be “looked through”. The group agreed that employment, production, technology transfer, etc., are not required for a direct investment relationship to be established. Where there is no physical presence, production, etc., the group agreed that it would be appropriate to classify SPEs as nonbank financial institutions.

(iii) The group considered whether it was worth trying to develop an internationally agreed standard definition of SPEs, but agreed that it would be not be realistic in the time available. However, the group felt that, where material, it would be useful if the compilers in territories that are hosts to SPEs were to identify the SPEs separately on the basis of their own national definitions.

(4) Rejected Alternatives:

The meeting rejected the classification of holding companies by institutional sector and industry according to the characteristics of the global group of affiliated enterprises.

(5) Questions for the Committee and the WIIS:

(i) Do the Committee and the WIIS agree that SPEs should be treated as separate institutional units where they are located in different economies from the enterprise that created them? See 3(i) above.

(ii) Do the Committee and the WIIS agree that SPEs should be treated as resident in their territory of incorporation/registration, even in the absence of employment, production, etc.? See 3(ii) above.

(iii) Do the Committee and the WIIS agree with the approach to classify SPEs, where they have no physical presence, employment, or production, to nonbank financial institutions where they are located in different economies from the enterprise that created them? See 3(ii) above.

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

(v) Do the Committee and the WIIS have a view on whether holding companies owning resident enterprises should be classified (a) on the basis of being a holding company or (b) on the basis of the functions of the enterprises it owns? See 3(ii) and 4 above

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

ISSUES PAPER (BOPTTEG) # 9B

THE SECTOR CLASSIFICATION OF SPECIAL PURPOSE ENTITIES

**Prepared by Stephan Klinkum and Frank Ouddeken (De Nederlandsche Bank,
The Netherlands)**

November 2004

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP**ISSUES PAPER (BOPTTEG) # 9A****Issue: The sector classification of SPEs****In particular: SPEs that are holding companies owning enterprises in the host economy****I. Introduction**

This paper has been written as a consequence of the discussion on holding companies at the June 2004 BOPTTEG meeting. In this discussion, the BOPTTEG members agreed that SPEs, resident in another economy than the parent company, should be classified as separate autonomous institutional units on the basis of their own function in that economy. The sector classification of the parent company and affiliated group companies in other (third) economies should not be decisive in this respect. If the holding company owns no enterprises resident in the host economy, the holding company should be included in the financial sector (still to be determined as other financial intermediaries or financial auxiliaries). From the discussions, it did not become clear what the sector classification should be in the case that a holding company owns (also) enterprises resident in the host economy. This issue paper is meant to be a starting point for further discussion on this yet unresolved issue. Two situations will be distinguished: SPE/holding with and without affiliates in the host economy.

II. Sector classification of SPE/holding companies resident in another economy than the parent company and not owning enterprises in the same economy

At the June 2004 BOPTTEG meeting it was already agreed that SPE/holding companies resident in another economy than the parent company not owning enterprises resident in the host economy, should be classified on the basis of their own economic function in the host economy as a unit belonging to the financial sector. The proper sector classification within the financial sector (other financial intermediaries or financial auxiliaries) was still to be determined.

Current international standards for the statistical treatment of the issue

In our view, this kind of holding companies complies with the definition of other financial intermediaries (S.123) according to SNA 4.95 (see also SNA 4.100) based on their function of financial intermediation. Although, SNA 4.42/43/44 states that subsidiaries that are established for tax reasons (artificial units) to perform a special task (for example to act as lease company) only within the group of companies, should be treated as an integral part of the parent as an ancillary corporation within that economy. This does not hold for the type of SPEs treated in this paper, which are holding companies in another economy than the parent

company. Therefore, we are of the opinion that they should be classified in the subsector other financial intermediaries (S.123).

Concerns/shortcomings of the current treatments

With the proposed treatment of these SPEs, SPE/holding companies and ‘normal’ holding companies of the financial sector (holdings with no single type of financial activity clearly predominant in the group¹) would both be classified in the same sector. This could hamper the analysis of the impact of SPE/holding companies on the direct investment figures.

Possible alternative treatments

For analytical purposes, it would be recommendable to classify SPE/holding companies in a separate subsector. The direct investment positions and transactions via these SPEs could then easily be distinguished from other companies in the financial sector.

Points for discussion

- Do BOPTTEG members agree with the classification of these SPE/holding companies in the sector OFIs?
- Do BOPTTEG members agree with the analytical need to distinguish the positions and flows of SPE/holdings from other companies in the financial sector and do BOPTTEG members agree with the recommendation of a separate subsector for SPEs (miscellaneous OFIs)?
- Some of the currency union experts are concerned about classification that is determined with reference to its subsidiaries in a particular economy. For example, it would raise the possibility that a holding company in the Netherlands with subsidiaries in other euro zone countries may be classified to one sector for Netherlands data and another sector for euro zone data. Of course this is caused by the change in the residency status from a national residency criterion into an European euro zone residency criterion. Do BOPTTEG members share this concern?

III. Sector classification for SPE/holding companies resident in another economy than the parent company owning enterprises in the host economy

Current international standards for the statistical treatment of the issue

No specific guidelines are provided in SNA and BPM.

Concerns/shortcomings of the current treatments

There is a clear need for guidance regarding the sector classification of this kind of holding companies.

Possible alternative treatments

In this paragraph, we will treat some different cases from practice with an increasing complexity.

Firstly, the issue is treated whether SPEs should be classified in a sector either as autonomous entity or as non-autonomous entity being part of the group of enterprises in the host economy.

¹ According to the European System of National and Regional Accounts (ESA 95), holding companies which only control and direct a group consisting predominantly of insurance corporations and pension funds, but which are not insurance corporations or pension funds themselves, are classified in sub-sector S.123 (§2.63).

According to SNA 4.42/43/44 each individual corporation, with the exception of ancillary corporations, should be treated as a separate institutional unit. Institutional units are normally classified according to their main activity. However, when institutional units only perform tasks within a group of companies, as is the case with holding corporations, the institutional unit is classified according to the predominant sector of the group (SNA 4.100). When the SPE/holding is resident in an economy without local subsidiaries, with the parent company in another economy, we are of the opinion that the SPE/holding should be considered as an autonomous entity. However, for SPE/holding companies owning enterprises in the host economy, it would be possible, in analogy to 'normal' holding companies, to look at the main activity of the whole group, consisting of that SPE/holding company and its subsidiaries in the host economy. It is not quite clear in such cases whether the whole subgroup of enterprises in the host economy should be classified in the same sector or each entity separately, according to the SNA.

In addition to the SPE/holding company with only subsidiaries in another economy four different cases can be distinguished. First, local holding companies with only subsidiaries in the host economy (SPEs?). Second, SPE/holding companies with (only) other SPEs in the host economy and subsidiaries in another economy. Third, SPEs/ holding companies with both subsidiaries in the same economy and in another economy. Fourth, SPE's/ holding companies with only sister companies in the same economy. These four cases will be explored hereafter

The following cases can be distinguished:

1. *Local holding companies that are established in an economy to own all the local subsidiaries/production entities in the host economy (see annex 1, case 1).* In our view, the sector classification of the holding company should be based on the predominant activity of the group of subsidiaries (for example, a holding company owning subsidiaries (factories) in the food sector, should be classified then in the non-financial sector) in line with the regular classification of holdings.
2. *A SPE/holding company owning (only) SPE/holding companies in the host economy that exclusively own subsidiaries in a third economy (see annex 1, case 2).* In our view, this group should be classified in the sector OFIs (S.123) based on the predominant activity of that entire group, namely holding activities.
3. *A SPE/holding company owning both subsidiaries in the host economy (not exclusively SPEs) and in another economy (see annex 1, case 3).* The treatment of SPEs/ holding companies owning both subsidiaries in the host economy and in another economy is less straight forward. At the one end the SPE/ holding company is a holding of companies in the same economy which would lead to the same conclusion as in case 1. At the other end the SPE/ holding company is a holding of companies in another economy which could lead to the conclusion of an autonomous unit. Two strategies seem possible:
 - a) the SPE/ holding company is always classified in the predominant sector of the subsidiaries in the same economy, or
 - b) on the basis of a number of criteria the SPE/ holding company is classified as autonomous or as part of a group. To determine the predominant activity of such a group, there are a number of relevant criteria that could be used, amongst others:
 - the percentage of foreign assets in the total assets of the SPE/ holding company (for example if foreign assets are more than 75% of the total, the SPE is an autonomous unit);
 - whether the subsidiary in the same economy is of a significant size in terms of personnel or turnover;

- the net asset value of each entity and the value added of each entity to the national economy.

Besides of the difficulty to find the proper criteria, the approach has the disadvantage in case the SPE/holding company is classified as autonomous, that the total cross-border position of the SPE/holding company (including implicitly the value of its participations in the production units) will be included in the inward direct investment position in the sector OFIs. This could give a misleading picture of the sector breakdown in the inward direct investment, in case of substantial non-financial subsidiaries (in the Netherlands, there are some good examples of substantial non-financial subsidiaries of SPE/holding companies). Although this second option seems an acceptable strategy it should be noted that it would imply an innovation with regard to the treatment of holdings in the statistical manuals such as the SNA.

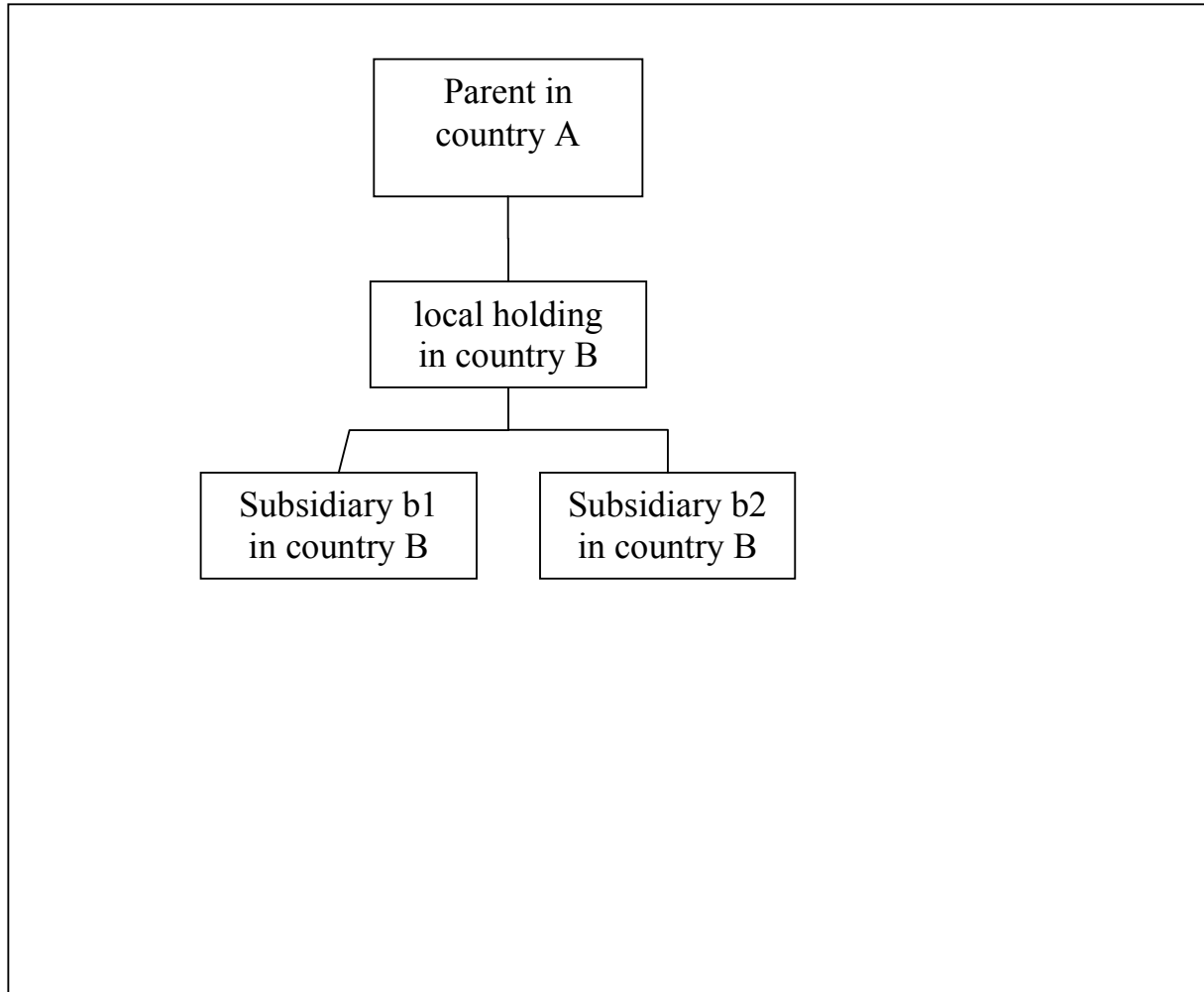
4. *A SPE/holding company owning subsidiaries in a third economy and having non-financial sister companies in the host economy (see annex 1, case 4).* In our view, there is no need to classify them as a group. They should be classified as autonomous entities on basis of its own economic functions.

Points for discussion

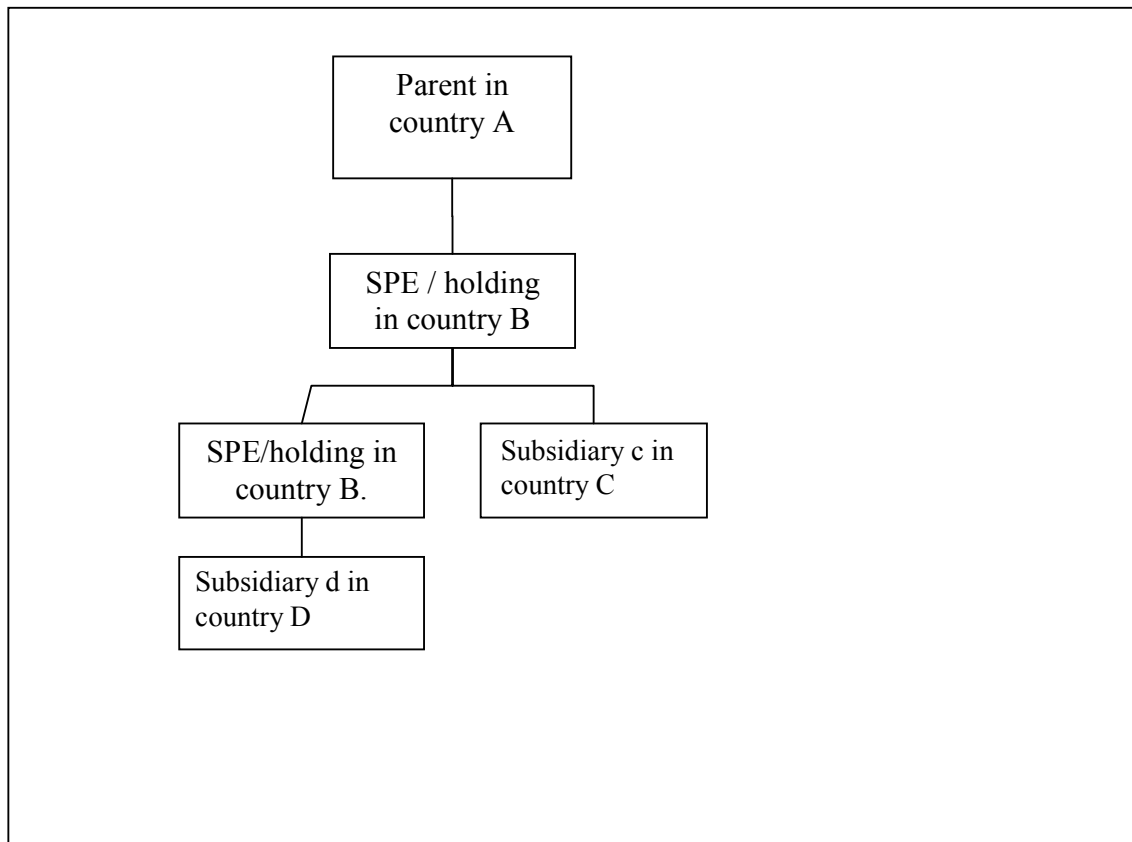
- Do BOPTEG members agree that a classification issue exists if the SPE/holding company owns non-financial entities in the host economy?
- Do BOPTEG members agree that classifying SPEs/ holding companies as autonomous units, even though it has subsidiaries in the same economy, is a proper treatment if they primarily have subsidiaries in an other economy and that this is an innovation to the SNA?
- Do BOPTEG members agree that to classify each individual entity as an autonomous entity has the advantage that the sector classification is rather simple, but has the disadvantage that it can give a misleading picture of the sector breakdown of the total cross-border position of the holding company (including implicitly the value of its participations in the production units)?
- Do BOPTEG members agree that if the SPE/holding company and its subsidiaries within the host economy would be classified as a group, the predominant activity of that group would have to be determined, and that it is not clear how one should do so according to the SNA?
- Do BOPTEG members have an opinion on what criteria could or should be used to determine the predominant activity and how one should balance these different criteria.
- What is the opinion of the BOPTEG members on what should be done if there are no predominant domestic activities in that group?

Annex 1 Organization chart of the various cases:

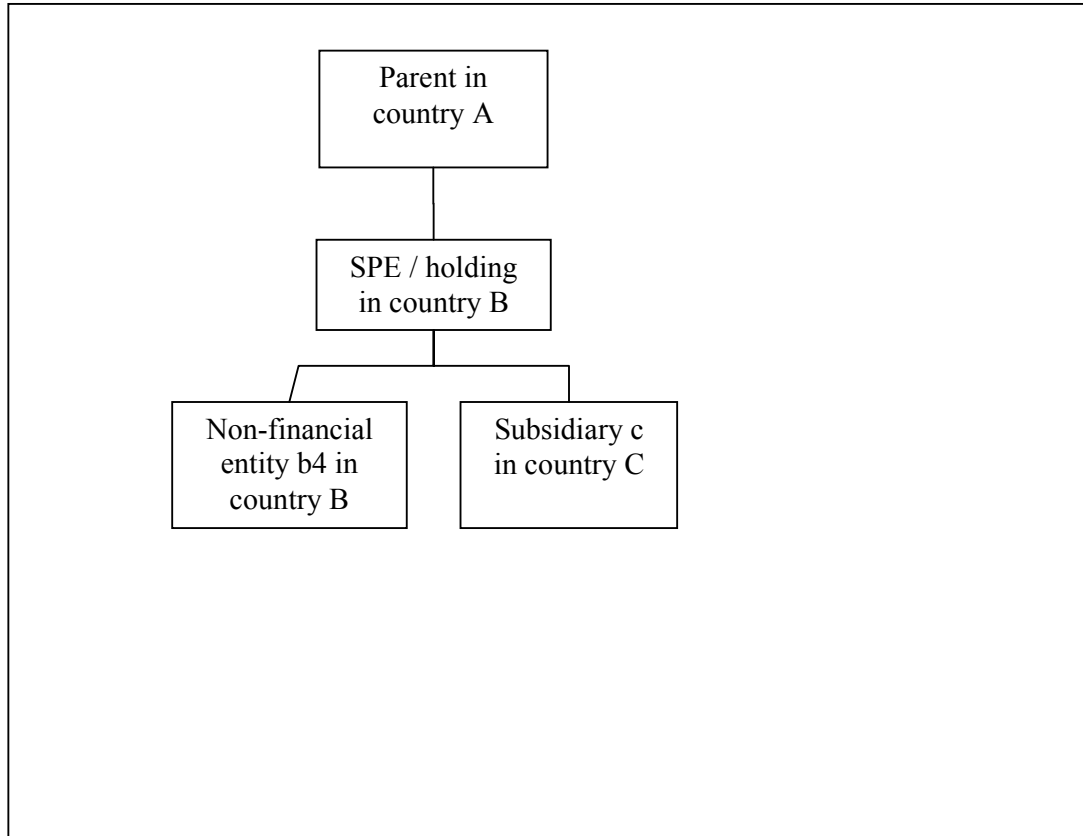
Case 1: local holding and its subsidiaries in the host economy



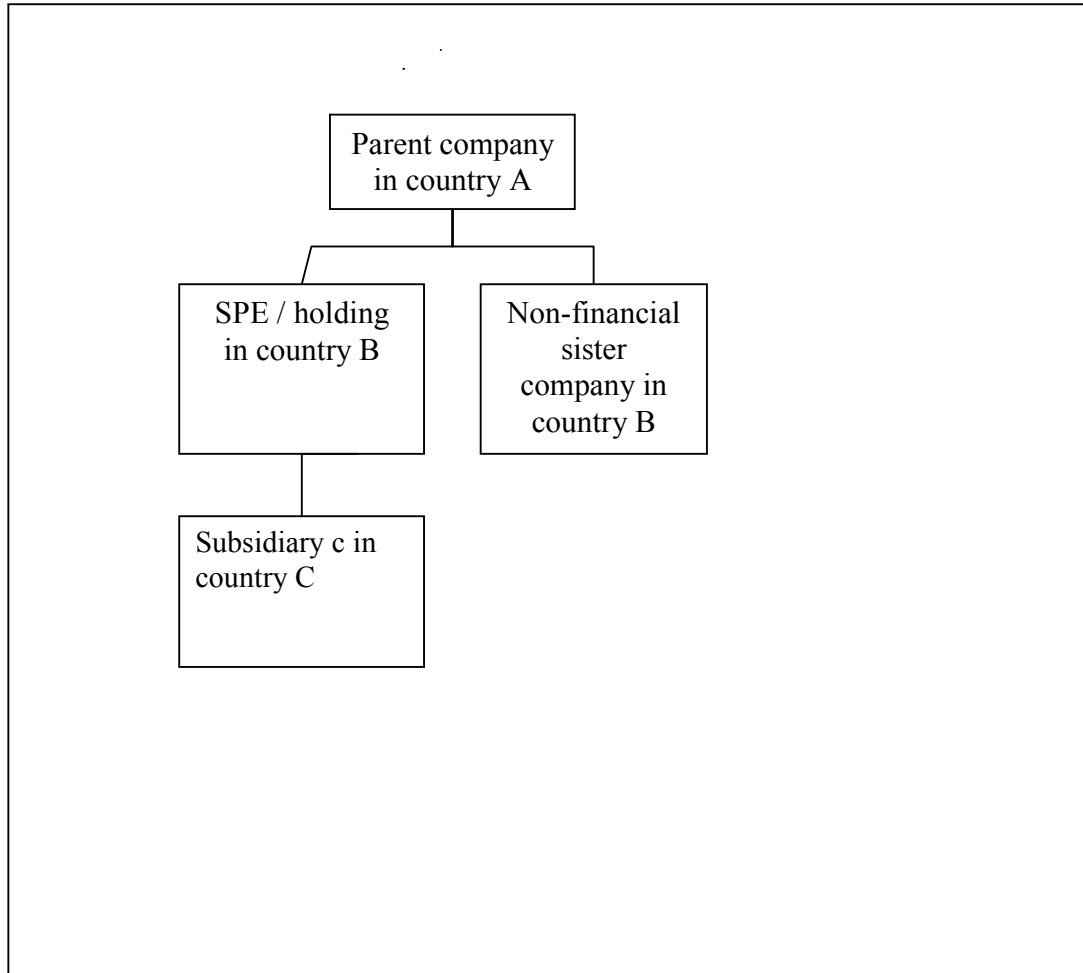
Case 2: SPE/holding company owning holding companies in the host economy that exclusively own subsidiaries in a third economy



Case 3: SPE/holding company owning both subsidiaries in the host economy (not exclusively SPEs) and in another economy



Case 4: SPE/holding company owning subsidiaries in a third economy and having non-financial sister companies in the same economy



IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
DIRECT INVESTMENT TECHNICAL EXPERT GROUP

BACKGROUND PAPER (DITEG) # 9

DEFINITION OF SPECIAL PURPOSE ENTITIES

**Prepared by Balance of Payments and Financial Accounts Department,
De Nederlandsche Bank**

November 2004

Direct Investment Technical Expert Group
Background paper: Definition of Special Purpose Entities

Considering the significant share of cross border transactions and positions of Special Purpose Entities (SPEs) in external statistics, the attention for the statistical treatment of these entities has been growing over the past decade. In the framework of the revision of the Balance of Payments Manual some papers have been presented in both DITEG and BOPTTEG about residency, sector classification and general statistical issues related to SPEs (issue papers #9 and #11); in order to clarify whether or not, and if so, how to include the data of these entities in the IIP and balance of payments. Nevertheless, in present international guidelines a definition of the concept of SPE does not exist. It is imaginable that in the new BPM specific guidelines for the statistical treatment of SPEs will be introduced, which may not be easy to apply in absence of a definition for these entities. As a consequence of different definitions of SPEs used at a bilateral and global level by national compilers, asymmetries may appear. In other words in the absence of a definition, the harmonisation of the statistical treatment of SPEs will not result in eliminating asymmetries between the national statistics, when they are aggregated and consolidated at a multi-country level. The concept of SPE is interpreted in different ways in different jurisdictions, which makes the introduction of a generally accepted definition of SPEs difficult. Nevertheless, this paper is a first attempt to come closer to a common understanding of the concept of SPE and to create a generally accepted definition of SPEs.

I. Current international standards

In the present international guidelines the concept of SPE has not really been defined. However, in some guidelines the term SPE has been used and described.

BPM5 refers to the term SPE within the framework of direct investment. In paragraph 365 different kinds of SPEs like holding companies, base companies or regional headquarters and also different types of activities of SPEs like administration, management of foreign exchange risk or facilitating the financing of investments are mentioned. Furthermore according to the Manual SPEs are “integral part of the structure of direct investment” and their transactions are mainly performed within their own group of companies.

Paragraph 542 of the Balance of Payments Textbook describes SPEs as entities “(1) generally organized or established in economies other than those in which the parent companies are resident and (2) engaged primarily in international transactions but in few or no local operations”.

The OECD Benchmark Definition of Direct Investment refers to SPEs as entities “which facilitate financing of investments for the group from sources both internal and external to the multinational enterprises”. These entities are also engaged in “sale, regional administration including management of foreign exchange risks and other activities aimed at profit maximisation” (paragraph 70).

The SNA does not contain any definition or description of SPEs. Only in the context of the residency of the offshore units a reference is made to the so called “special purpose units” (paragraph 14.24).

II. Shortcomings of the current treatment

None of the present international guidelines provides such a clarification that the concept of SPE could unambiguously be interpreted and applied. Although not contradictory, the above-mentioned paragraphs contain limited general descriptions and indications of SPEs only. Furthermore, considering the possible introduction of a specific treatment of SPEs in the new Manual, it is desirable to approach SPEs as a general issue in external statistics and not only relevant in the context of FDI for the following reasons: Firstly, at the moment it is not clear to what extent in the new Manual transactions and positions of SPEs will be included in the FDI statistics. Secondly, SPEs are considered as “autonomous institutional units” which implies that, for statistical treatment, they are separated from their parent companies. Finally, the sector and industry classification and the residency of SPEs, are beyond the concept of FDI, which is discussed in DITEG and BOPTEG.

All in all, the need for clear guidance on the statistical treatment of SPEs, including a definition within the general BOP framework is desirable.

III. Possible alternative treatment

SPEs are legal entities created and used by multinational companies for particular purposes. SPEs have wide range of activities like finance, managing subsidiaries, holding financial assets and liabilities, securitisation of assets, cash management, managing royalty's and film rights and other asset management activities. For creating a definition of SPEs different criteria could be used based on:

- a) structure,
- b) purpose,
- c) type of activities,
- d) and links with the host economy.

In the framework of the preparation of the OFI statistics and the statistical treatment of Special Purpose Vehicles (SPVs) the European System of Central Banks (ESCB) recommends to specify the sub-sector Other Financial Intermediaries, except insurance corporations and pension funds (OFIs) (S123) by dividing them into the following groupings:

- a) Investment funds (IFs)
- b) Financial vehicle corporations created to be the holders of securitised assets (FVCs)
- c) Financial corporations engaged in lending (FCLs)
- d) financial holding corporations (FHCs)
- e) Security and derivative dealers (SDDs)
- f) And “other” OFIs which contains all other OFIs not covered by the above-mentioned groupings.

The first five groupings are not only described by the ESCB but also defined. Nearly all SPEs in the external statistics can be categorised under OFIs. In the ESCB categorisation, SPEs could be placed in all the groupings except IFs, but the main part of SPEs could be divided into the grouping of “other OFIs”. Unfortunately the category to which most SPEs should be allocated is a rest category and is not defined or even described.

Some international organisations and national compilers have attempted to define or describe SPEs or SPE-like entities. The Netherlands has a legal definition for the so called Special Financial Institutions (SFIs), which are almost synonymous to SPEs. SFIs are defined as in the Netherlands established companies or institutions, regardless of their legal form, whose shares are directly or indirectly held by non-residents and are mainly dealing with receiving funds from non-residents and channelling them to other non-residents. This definition is based on the links of the entities to the host economy and their ownership. Dutch SFIs are identified and registered separately from other entities for their statistical treatment. SPEs in Denmark are defined as holding companies, which do not interact with the local economy and have hardly any employees.

In absence of a definition in the international guidelines, an overview of the features of these entities may be helpful in taking some steps towards the creation of a common understanding of the concept of SPE. The general characteristics of SPEs can be summarised as follows:

- SPEs are legal entities,
- SPEs are a part of a multinational group (company),
- SPEs are hosted in a different country than their parent companies and are separate institutional units,
- SPEs are established for the cost minimisation and tax planning of their own group company,
- SPEs are usually established to take advantage of legal and fiscal regimes in different jurisdictions, rather than real economic incentives in the host economy,
- SPEs perform activities on behalf of, by order of, or on expense of their parent companies,
- SPEs have no or limited links with the economy in which they are hosted,
- SPEs have no or limited physical presence in the host economy,
- SPEs have little or no employees in the host economy,
- SPEs are not engaged in production of manufacturing, services etc. in the host economy,

- SPEs may finance activities of their own group companies by raising and distributing funds within and from outside the group,
- SPEs may be engaged in cash management activities,
- SPEs may hold subsidiaries (mainly outside the host economy),
- SPEs may be engaged in securitisation,
- SPEs may exploit royalties and film rights.

Some of these features of SPEs refer to the type, some to the structure and finally some to the (non-existence of) links of these entities with the host economies. This categorisation of the features of SPEs can be summarised according to the following dimensions:

Types	Structure/purpose	Links with the host economy
+ Financing companies/conduits + Holding companies + Asset securitisation vehicles + Asset management companies + Distribution and sale companies + Royalty and film right companies	+ Autonomous legal entities + Part of a group company + Not hosted in the economy of the parent + Tax planning and cost minimisation + Operating on behalf of the parent	+ No or limited links + No or limited physical presence + No or few employees + Not engaged in production

The question at this stage is which (category) of the features should be decisive in order to set a definition for SPEs. On first thoughts and in order to avoid misinterpretations it seems logical to cover all the three categories in the definition. In this case the following proposal may serve as a first attempt in defining SPEs:

SPEs are autonomous legal entities, directly or indirectly wholly foreign owned, that are part of a group company, without substantial real economic links with the host economy, engaged in a variety of cross-border financial activities, which are aimed at the passing through of all types of financial and non-financial assets, liabilities and related income to third countries.

Of course there are further questions and discussion points that should be answered or discussed before a definition for SPEs can be determined.

IV. Points for discussion

- i) Do DITEG members subscribe to the need for the creation of an SPE definition in the international guidelines?*
- ii) Do DITEG members consider the creation of an SPE definition by combining the presented features attainable?*
- iii) Do DITEG members subscribe to the features of SPEs presented above? Are there features missing? Are there features presented, which do not reflect SPEs in the external statistics?*
- iv) Do DITEG members think the features presented need additional clarification? Should these features be given even weight in the determination of a definition?*
- v) Do DITEG members agree that Royalty and Film Right companies should also be considered SPEs?*
- vi) Assuming that in the new Manual separate guidelines will be introduced for statistical treatment of SPEs: Do DITEG members think that the proposed definition is applicable by all compilers, including the compilers of the countries of the counterparties?*

VI. References

Annotated Outline for the Revision of BPM5, Paragraphs 5.21.

Balance of Payment Manual, fifth edition, Paragraph 365.

Balance of Payments Textbook, Paragraph 542.

OECD Benchmark Definition of Foreign Direct Investment, third edition, Paragraph 70.

Special Purpose Entities and Holding Companies, Issue Paper (BOPTTEG) # 9, prepared by Robert Dippelsman, IMF Statistics Department.

Statistical treatment of Special Purpose Vehicles and related issues, ECB (STC/SDC/SPVS)

Foreign Direct Investment; Task Force Report, ECB, March 2004.

IMF Committee on Balance of Payments Statistics

Balance of Payments Technical Expert Group (BOPTTEG)

BACKGROUND PAPER BOPTTEG ISSUE # 9B

**STATISTICAL TREATMENT OF SPECIAL PURPOSE VEHICLES AND
RELATED ISSUES**

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European Central Bank

October 2004

¹ This note has benefited from helpful comments from colleagues in the ECB's Directorate General Statistics, as well as from the Statistics Committee of the ESCB. However, this note should be regarded as reflecting only the views of its authors.

The statistical treatment of **privatisation, restructuring agencies, securitisation and special purpose vehicles** is one of the issues to be considered during the updating process of the SNA93.² The Task Force on Harmonization of Public Sector Accounting has brought forward this issue, but also the IMF Balance of Payments Committee in the context of the treatment of holding companies, special purpose entities, and trusts. The UN Statistics Department has set up an Electronic Discussion Group on ancillary units.³

This note concentrates on the statistical treatment of **special purpose vehicles (SPVs)**. It deals with their identification as institutional units and their sector classification, and describes the conditions under which SPVs are set up to securitise government assets. These issues are closely linked to the definition of institutional units included in the financial corporation sub-sector **other financial intermediaries, except insurance corporations and pension funds (OFIs)** (S.123).

In this context, **we recommend:**

- (a) To define **SPVs as institutional units**, under the condition that they decide and operate (legally) independently and maintain a balance sheet of their own, and independently of whether they are set up in the same country as their parent company or not. They are to be sectorised according to their principal economic activity (instead of that of their affiliates) within the OFIs sub-sector (S.123);
- (b) To clarify the **treatment of SPVs securitising government assets** with the aim to bring it in line with Eurostat's **ESA95 manual on government deficit and debt**;
- (c) To **split** the OFI sub-sector into two groupings: **investment funds and other OFIs** and to **identify separately**: (a) Investment funds (IF); (b) Financial vehicle corporations as holders of securitised assets (SPVs); (c) Financial holding corporations (FHCs); (d) Security and derivative dealers (SDDs); (e) Financial corporations engaged in lending (FLCs); and (f) Remaining OFIs.
- (d) To classify **investment funds issuing monetary liabilities**, as money market funds to the sub-sector **other depository corporations** (S.122), and not to OFIs (S.123).

It is recognised that the same issue will be discussed by the Task Force on Harmonisation of Public Sector Accounting (TFHPSA), by a sub-group of the Balance of Payments Committee, and by Eurostat's Task Force on updating SNA. This note may serve as an input into these discussions.

2 Issue 25 of the list of items to be reviewed when updating SNA93.

3 The issue is to some extent related to the remaining issues listed under item 25 like a) Ancillary units; b) Institutional units; c) Holding companies, special purpose entities, trusts; d) Treatment of multi-territory enterprises; and e) Recognition of unincorporated branches.

1. Statistical treatment of special purpose vehicles and of related entities in the international statistical standards

The SNA93 and the ESA95 provide not much guidance on the statistical treatment of special purpose vehicles (SPVs).⁴ The SNA93 makes only reference to **ancillary corporations**, and also to **special purpose units**. According to its paragraph 4.44, *‘ancillary corporations are not treated as separate institutional units because they can be regarded as artificial units created to avoid taxes, to minimise liabilities in the event of bankruptcy, or to secure other technical advantages under the tax or corporation legislation in force in a particular country.’* The ESA95 provides only information on the sector classification of **financial vehicle corporations** created to be holders of securitised assets. Its paragraph 2.55f states that such units should be classified as ‘other financial intermediaries, except insurance corporations and pension funds (S.123)’, assuming that they are separate institutional units. In this context, a financial intermediary is seen as a unit, which *‘does not simply act as an agent for other institutional units but places itself at risk by acquiring financial assets and incurring liabilities on its own account’* (paragraph 2.33).

The Government Finance Statistics Manual (GFSM) and the Monetary and Financial Statistics Manual (MFSM) also refer to **ancillary units** and ancillary corporations. The GFSM distinguishes in paragraph 2.38 two cases in which a unit should be treated as an ancillary unit and its activities are consolidated with the other activities of the government unit that controls it: *‘First, if the unit is an internal service organisation that sells its output mainly to other government units, such as a transportation pool, a supply depot, or a munitions factory. Second, in some cases a unit that appears to be a financial corporation is in fact a general government unit. Most typically, a government may establish a central borrowing authority that borrows on the market and then lends only to general government units, generally on commercial terms. Such organisations merely facilitate government borrowing and should be classified as general government units (if it mainly lends to public corporations, then it would be classified as a financial corporation.)’* The MFSM defines in paragraph 71 *‘an ancillary corporation as a subsidiary wholly owned by a parent corporation, whose productive activities are ancillary in nature – that is, activities strictly confined to providing services to the parent corporation, or other ancillary corporations owned by the same parent corporation.’* *‘While domestic ancillaries are treated as integral parts of the parent corporation, rather than as separate institutional units, an ancillary corporation that has its centre of economic interest in a foreign country is treated as a separate, nonresident unit.’*

Special purpose units are described in the SNA93 (chapter XIV on the rest of the world accounts) as *“offshore” units engaged in manufacturing processes (including assembly of components manufactured elsewhere) and are residents of the economy in which they are located. This statement applies regardless*

⁴ Both handbooks provide detailed guidance on the treatment of institutional units in the form of legal or social entities. In particular, the SNA93 distinguishes, among others, between corporation, quasi-corporations and ancillary corporations. Corporations and quasi-corporations are recognised as institutional units and are classified to a sector according to their principal economic activity. On the other hand, ancillary units are not recognised as institutional units, but together with their parent company. SNA93 defines ancillary units as being “subsidiary corporations, wholly owned by a parent corporation, whose productive activities are ancillary in nature: that is, are strictly confined to providing services to the parent corporation, or other ancillary corporations owned by the same parent corporation (par.4.40 SNA93).”

of location in special "zones" of exemption from customs or other regulations or concessions, and also applies to non-manufacturing operations (i.e., trading and financial enterprises), including so-called special purpose units.'

Paragraph 79 of the BPM5 (see also paragraph 381) is almost identical to this paragraph. However, the term **special purpose enterprises** is used instead of special purpose units. The paragraph also refers to paragraphs 365 and 372, in which the concept of **special purpose entities (SPEs)** is introduced. Paragraph 365 says that *"it is recommended that so-called special purpose entities (SPEs) be included as direct investment enterprises if the entities meet the criteria stated in previous paragraphs. Whatever the structure (e.g., holding company, base company, regional headquarters) or purpose (e.g., administration, management of foreign exchange risk, facilitation of financing of investments), SPEs are an integral part of the structure of the direct investment network as are, for the most part, SPE transactions with other members of the group. However, for SPEs with a sole purpose of serving in a financial intermediary capacity (as is the case for banks and other financial intermediaries such as security dealers), transactions recorded under direct investment are limited to those associated with permanent debt and equity. For countries employing other treatments of SPEs and countries employing the recommended treatment, the value of SPE transactions as a group should be separately identified in terms of standard components to permit consistent international comparisons.'*

More details on the definition of such units including **SPVs** are found in the MFSM. It indicates in its paragraph 72 that *'various trusts, special purpose vehicles, and other arrangements are treated in the same way as ancillary corporations if these entities merely hold financial assets or liabilities for parent corporations and do not act as financial intermediaries or provide other market-oriented services to units outside the parent corporation. Similarly, financial offices that passively serve as conduits for financial flows are considered ancillary to other functions of the parent corporation and should be treated as part of the parent. In contrast, financial subsidiaries that are owned by corporations and that transact with the public or other units are not ancillaries; these are classified as financial corporations.'* In paragraph 100, which provide examples of units belonging to the financial corporation sub-sector (s.123) **vehicle companies** are also listed. They are described as *'financial entities created to be holders of securitized assets or assets that have been removed from the balance sheets of corporations or government units. They are organised as trusts or special purpose vehicles created solely to hold specific portfolios of assets or liabilities.'* It further elaborates that *'if the vehicle company (repackaging the portfolio and selling investment interests in the portfolio to institutional or other investors) is acting as a financial intermediary and – as long as a full set of accounts is available for the company – it is deemed to be a separate institutional unit. If the vehicle company does not sell a new financial asset representing an interest in the portfolio, the company has not effectively transformed or intermediated the portfolio and thus is not deemed to be a financial intermediary.'*

The ESA95 manual on government deficit and debt (MGDD) refers to SPVs in the context of securitisation operations undertaken by general government.⁵ SPVs as securitisation units are described as rather passive. They are seen just as the ultimate beneficial recipients of receipts collected by government units. For example, for bank loan securitisation, the effective management of loans often remains with the originator and is not outsourced by the purchaser to specialised non-financial units. However, the manual states that *‘experience shows that in almost all cases units involved in government securitisation can be considered as institutional units.’* It further concludes in section V.2.1 that *‘if the SPV meets the condition to be considered as a separate unit actively managing the assets and liabilities, and bearing risk, it should be classified as a corporation. The resident securitisation unit would normally be included in the sub-sector S.123 except in some cases, where non-financial assets are transferred to an existing non-financial corporation for which the securitisation arrangement is a minor part of its whole activity.’* The following table provides an overview of the terms used in the different international statistical standards.

Table 1: Overview of terms for special purpose vehicles used in international statistical standards

	SNA93	ESA95	BPM5	GFSM	MFSM	MGDD
Special purpose vehicle (SPV)					Like ancillary corporation (passive role); institutional unit if active management of portfolio (72)	Institutional unit if active management of portfolio; places itself at risk (ESA95: 2.33, 2.55)
Vehicle company					Like SPV	
Financial vehicle corporation (FVC)		Like SPV				
Special purpose unit	Non-resident institutional unit (XIV)					
Special purpose enterprise			Non-resident institutional unit (79)			
Special purpose entity (SPE)			Non-resident institutional unit (365)			
Ancillary corporation	No institutional unit (4.44)				No institutional unit if resident, but institutional unit if non-resident (71)	
Ancillary unit				No institutional unit, if non-financial, but institutional unit, if financial (2.38)		

The same colour shading indicates broadly similar statistical treatment.

As a conclusion, the recognition of SPVs as institutional units depends on their role in the context of their own activities in financial intermediation. They are treated as institutional units if they carry out an active management of their portfolio and place them themselves at risk. The terms SPV, vehicle company, FVC, special purpose unit, special purpose enterprise, or SPE are often used interchangeably in the standards,

⁵ Eurostat, ESA95 manual on government deficit and debt, Securitisation operations undertaken by general government (Part V), Luxembourg 2003. See also ESA95, paragraph 2.55f, referring to financial vehicle corporations created to be holders of securitised assets as discussed earlier.

always covering a subgroup of other financial intermediaries (S.123). Their sector classification is seen as straightforward due to the type of activities they do. While special purpose units, special purpose enterprises and SPEs abroad are already described as non-resident institutional units (to be classified within the non-resident sector S.123, which is usually not separately identified in the balance of payments statistics), SPVs, vehicle companies and FVCs are also classified in S.123 assuming that they are institutional units.

2. Proposals

2.1 Definition and sector classification of financial vehicle corporations (FVCs) and financial holding corporations (FHCs)

The different treatment of SPVs, dependent on their residence relative to their parent company (or the companies they control in case of holdings), is conceptually not seen as satisfactory, in particular when statistics are aggregated and consolidated at a multi-country level as regularly done by the ECB. The aim is a consistent treatment of SPVs, easy to implement in operational terms. It is therefore proposed to recognise (and sectorise) consistently SPVs as institutional units under the condition that they are deciding and operating (legally) independently, and that they maintain a balance sheet of their own. This recognition would be independent from the fact whether the SPV is resident in the same economy or area as its parents or not. More strict criteria would apply for SPVs securitising government assets, as explained in section 2.2. below.

The United Nations Statistics Division has established an Electronic Discussion Group (EDG) to explore alternative ways of treating ancillary units to facilitate the compilation of regional accounts. The issues note posted on that forum raises the point to recognise ancillary units as separate establishments to permit the proper compilation of regional accounts. Furthermore, such treatment would show the structural development of moving activities out of the parent company and into an ancillary unit.⁶

Until now, no internationally accepted definition of SPVs has been developed. In any case, it has to cover various types of specialised financial entities. The definitions proposed by the ECB are currently still provisional and are based on its work undertaken to develop sector statistics on other financial intermediaries, except insurance corporations and pension funds as included in S.123 (OFIs). In this context, the European System of Central Banks (ESCB) is considering to positively define five groupings of institutional units belonging to this sub-sector. The institutional units of S.123 not covered by the five groupings are allocated in a remaining grouping as “other”. The five positively defined groupings are investment funds (IFs), financial vehicle corporations created to be the holders of securitised assets (FVCs), financial corporations engaged in lending (FCLs), financial holding corporations (FHCs), and security and derivative dealers (SDDs). Their current working definitions are attached to this note in

⁶ See “Treatment of ancillary units in the 1993 SNA: a review”, prepared by Viet Vu.

Annex 2. Two of the groupings, **FVCs** and **FHCs** are considered to belong to the broader category of SPEs as identified by the BOPTTEG proposal.⁷

IMF Balance of Payments Committee’s BOPTTEG has identified a broader coverage of corporations belonging to SPEs. In addition to FVCs and FHCs, two further groupings are mentioned: **Conduits** (raising funds on behalf of a parent as described in the MFSM, paragraph 72) and **SPEs** (for other asset management functions, including holding business and family wealth, with or without liabilities). The institutions are not separately identified in the ESCB OFI definitions as some of these are considered as financial auxiliaries (hence excluded from the OFI sector) and other are considered as belonging to the OFI grouping “investment funds” .

Table 2: Link between the ECB proposal for the OFI groupings FVC and FHC and the BOPTTEG SPEs

	Securitisation vehicles	Financial Holding corporations	Conduits⁸	Other asset management companies
ECB OFI statistics	FVCs (S.123)	FHCs (S.123)	FVCs (S.123)	Partly in investment funds (S.123), partly in financial auxiliaries (S.124)
BOPTTEG proposal	SPEs			

2.2 Treatment of special purpose vehicles to securitise government assets

As outlined in the previous section FVCs (created to be holders of securitised assets) are seen as SPVs and have to be classified in S.123. This complies with the proposed treatment of such units in the ESA95 manual on government deficit and debt.

The manual defines the necessary conditions to be fulfilled to classify units securitising government assets as SPVs.⁹ According to this manual, the government assets to be sold to the SPV must exist in the government’s balance sheet before the arrangement starts. To be treated as a “true sale” the SPV has to take over the full risks of the assets.

2.3 Further sectoral split of ‘other financial intermediaries, except insurance corporations and pension funds’

As mentioned above, six sub-groupings have been specified for S.123 in the context of preparing OFI statistics. Because of their different type of business and of their importance, it is proposed to include investment funds into a new ‘sub-sub-sector’, reducing the “other” financial intermediaries’ sub-sub-

7 Financial corporations are classified as financial auxiliaries (S.124) when they undertake financial activity on behalf of third parties. The FVCs and FHCs undertake primarily activity on their own account and take the risk of their financial activity. They shall therefore be allocated to sector S.123.

8 Several types of conduits are classified as FVCs. However, further investigations on the type of activity undertaken by conduits as identified by the BOPTTEG should be made to validate this classification

9 See ESA95 manual on government deficit and debt, section V.2.

sector in size. For the remaining OFIs, the work undertaken by the ESCB on the harmonised OFI statistics could be used as a starting point for listing and defining categories of institutions to be classified in this sub-sector

The OFI sub-categories as considered by the ESCB may be used to derive, in the context of the SNA93 update, a more concise definition of the sub-sector S.123 based on an appropriate grouping of the institutional units belonging to it. This would allow to increase the institutional sub-sectors positively defined and would reduce at the same time the sector of the “remaining” financial intermediaries.

Table 3: Proposal for a split of the sub-sector S.123 into various groups

Sub-sector S.123 (Other financial intermediaries, except insurance corporations and pension funds (OFIs))					
Investment funds	Other financial intermediaries (OFIs)				
IFs	FHCs	FVCs	SDDs	FLCs	Remaining OFIs

2.4 Investment funds issuing monetary liabilities

Borderline cases may exist between the OFI sub-sector and the sub-sector of other depository corporations (S.122). This has gained some relevance in connection with the classification of specific types of investment funds, which are money market funds issuing monetary liabilities. The SNA93 recognises investment corporations as institutional units included in sub-sector S.123 without defining them further.¹⁰ It also mentions that corporations issuing liabilities, which are close substitutes for deposits would have to be classified as “other other” depository corporations in sector S.1222.¹¹ It could be argued that money market funds would already be covered by this definition.

The ESA95 classifies investment funds as institutional units either as other monetary financial institutions (other MFI, S.122) or as OFI (S.123), depending on the liquidity of the funds they collect from the public.¹² BPM5 does not explicitly mention investment funds as institutional units, but may implicitly include them as “banks” or as “other sectors.”¹³ The MFSM generally classifies investment pools as units belonging to the OFI sector but recommends classifying them as other depository corporations if their liabilities are so liquid that they are included in broad money.¹⁴

It is proposed to include in the SNA93 a reference to funds issuing monetary liabilities. The amendment should clarify that investment funds issuing liabilities of a monetary nature (money market funds units) should be classified as other depository corporations (S.122) and not as OFI (S.123). This proposal would affect paragraph 4.94 of the SNA93. Reference should also be made to the definition of investment funds as part of the OFI sub-sector.

10 See SNA93, paragraph 4.95.

11 See SNA93, paragraph 4.94.

12 See ESA95, paragraph 2.51.

13 See BPM5, paragraph 365.

14 See MFSM, paragraph 100.

References

Australian Bureau of Statistics (International and Financial Account Branch), *Special purpose entities*, IMF Committee on Balance of Payments Statistics, BOPTEG, Issue paper 9A, May 2004

De Nederlandsche Bank *Residency of special purpose entities*, IMF Committee on Balance of Payments Statistics, BOPTEG, Issue paper 10, May 2004

Dippelsman, R., *Special purpose entities and holdings companies*, IMF Committee on Balance of Payments Statistics, Balance of Payments Technical Group (BOPTEG), Issue paper 9, IMF Statistics Department, April 2004

Viet Vu, *Treatment of ancillary units in the 1993 SNA: a review*, United Nations Statistics Division, July 2004

Regulation (EC) No 2423/2001 of the European Central Bank of 22 November 2001, concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2001/13)

Annex XV of the Guideline of the ECB on money and banking statistics (ECB/2003/2, as amended by ECB/2004/1)

Eurostat, *Securitisation operations undertaken by general government*, ESA95 manual on government deficit and debt (Part V), Luxembourg 2003.

Annex I

1) SNA93

2. Ancillary corporations

4.43. Ancillary corporations are not treated as separate institutional units in the System. When a parent corporation has created a single ancillary corporation, the ancillary corporation should be treated as an integral part of the parent and its accounts consolidated with those of the parent. When a parent corporation has created several ancillary corporations, they should all be combined with the parent corporation to form a single institutional unit.

4.44. Ancillary corporations are not treated as separate institutional units because they can be regarded as artificial units created to avoid taxes, to minimize liabilities in the event of bankruptcy, or to secure other technical advantages under the tax or corporation legislation in force in a particular country.

ANNEX I. Changes from the 1968 System of National Accounts

B. SNA revisions

2. Further specifications of statistical units, revisions in the sectoring and introduction of multiple sub-sectoring

Definitions of institutional units and establishments

Reference: chapter II, paragraphs 2.19. to 2.21. and 2.43. to 2.45.; chapter IV, paragraphs 4.1. to 4.5.; Chapter V, paragraphs 5.21. to 5.24.; chapter VII, paragraphs 7.118. to 7.121.; chapter XV, paragraphs 15.13. to 15.19.

13. The 1993 SNA defines an institutional unit as 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 units. Corporations providing ancillary-type services to a parent corporation are merged with the parent corporation into one single institutional unit. Also included in the corporate sectors as separate institutional units are quasi-corporations - i.e., unincorporated enterprises owned by households, government or non-resident units that behave like corporations and have complete sets of accounts, including information on withdrawals of entrepreneurial income analogous to the payments of dividends in the case of a corporation. In the 1993 SNA, the family of enterprises is not used as a statistical unit. The 1968 SNA did not include explicit definitions for institutional units but made reference to one criterion - availability of complete accounts. It did not make reference to the requirement that information on withdrawals of entrepreneurial income had to be available.

XIV. THE REST OF THE WORLD ACCOUNT (EXTERNAL TRANSACTIONS ACCOUNT)

B. Residence

4. The residence of corporations and quasi-corporations

Attribution of production

14.24. "Offshore" units engaged in manufacturing processes (including assembly of components manufactured elsewhere) are residents of the economy in which they are located. This statement applies regardless of location in special "zones" of exemption from customs or other regulations or concessions, and also applies to non-manufacturing operations (i.e., trading and financial enterprises), including so-called special purpose units.

2) BPM

Special purpose entities (SPEs): 79; 365, 381; 372

Transactions through SPEs: 373

3) MFSM

70, 71, 72, 100

Annex 2

Definitions of institutional units belonging to sub-sector S.123

Investment funds (IF)

“Investment funds shall mean all collective investment undertakings (CIU) investing in financial and non-financial assets to the extent that their sole objective is the investment of capital raised from the public.¹⁵ For the purpose of this definition, CIU shall include those undertakings the units/shares of which are, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking’s assets and those undertakings, the shares of which are fixed, and the holders entering or leaving the fund have to buy or sell existing shares. CIU within the meaning of this definition shall be constituted either: (i) under the law of contract (as common funds managed by management companies, or (ii) trust law (as unit trusts), or (iii) under a statute (as investment companies), or (iv) according to any other statement with similar effects.

This definition shall exclude pension funds. This definition shall also exclude investment funds issuing highly liquid liabilities of a monetary nature. The latter institutions, known as money market funds, would be classified in the sub-sector ‘other depository corporations’ (S.122).

Financial vehicle corporations created to be the holders of securitised assets (FVC)

“Financial Vehicle Corporations created to be the holder of securitised assets” (FVC) shall mean an undertaking that predominantly carries out one or more securitisations, the structure of which serves to isolate the FVC and the credit risk of the originator from each other.

FVC within the meaning of this definition shall be constituted either: (i) under the law of contract (as common funds managed by management companies), or (ii) under trust law, or (iii) under a statute (as a public limited company¹⁶), or (iv) according to any other arrangement with similar effects.

Within and for the purposes of this definition, securitisation means a financial transaction or scheme involving the transfer of assets or of risks underlying assets to a FVC created to hold securitised assets and to issue securities. In case of transferring government assets, these have to exist in the government’s balance sheet before the arrangement starts and the transfer has to cover all risks contained in these assets. In case of a transfer of future receipts or in case when a full risk transfer does not take place, the respective securitisation vehicle would remain classified within the government sector.

Securities issues by FVC shall be open to the public or the securities are sold on the basis of a private placement.

This definition shall exclude depository corporations

Financial holding corporations (FHC)

“Financial holding corporations (FHC) shall mean entities principally engaged in controlling financial corporations or groups of subsidiary financial corporations that are not conducting business of such financial corporations themselves. For the purpose of this definition, an FHC secures control over a corporation by owning more than half of the voting shares, or by controlling more than half of the shareholders’ voting power, or by otherwise being able to determine the general corporate policy, or by controlling entities which control financial corporations or groups of subsidiary financial corporations. The criteria applied in order to identify FHC shall be derived from the instruments of incorporation, established statutes or by-laws, contracts, statutory financial reports or any other statement with similar effect of the FHC according to national regulatory provisions.”

Security and derivative dealers (SDD)

¹⁵ Investment funds can be set up as “funds” and as “companies”.

¹⁶ The term public applies here in the meaning of commercial law, different from the statistical concept of public sector.

“Security and derivative dealers”, classified as OFI, shall consist of all investment firms which provide investment services for third parties by investing in securities on own account as their main business. For the purpose of this definition, investment services are defined as follows:

Trading of new or outstanding financial instruments through the acquisition and sale of those financial instruments for the account and/or risk of the “Security and derivative dealer” for the exclusive purpose of benefiting from the margin between the acquisition and selling price; this also includes market making activities;

These Security and Derivative Dealers shall be constituted according to national regulatory provisions¹⁷.”

Financial corporations engaged in lending (FLC)

“Financial corporations engaged in lending (FCL) shall mean entities specialised in lending. For the purpose of this definition, lending activity comprises financial leasing¹⁸, factoring, mortgage lending, mutual guarantee, consumer lending and other type of lending as defined according to national regulatory provisions. FCL may be constituted under the legal form of a joint-stock company or limited liabilities company subject to a specialised legal national framework. Alternatively, the criteria applied in order to identify FCL shall be derived from the instruments of incorporation, established statutes or by-laws, contracts, statutory financial reports or any other statement with similar effect of the FCL.

This definition shall exclude intermediaries classified as depository corporations.”

¹⁷ This definition shall exclude depository corporations

¹⁸ For statistical purposes, leasing is defined as financial leasing when the leasing period covers all or most of the economic lifetime of the durable good. At the end of the leasing period, the lessee often has the option to buy the good at a nominal price (ESA 95, Annex II).

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD
WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS**

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

BACKGROUND PAPER ISSUES # 9 AND 11

SPECIAL PURPOSE ENTITIES

**Prepared by Balance of Payments and Financial Accounts Department,
De Nederlandsche Bank**

May 2004

Direct Investment Technical Expert Group

Background paper on Special Purpose Entities

I. Introduction

Special Purpose Entities (SPEs) are, for the time being, not defined in the international guidelines. Nevertheless SPEs can be described as entities:

- a) hosted in an economy other than the economy in which the parent company resides;
- b) without strong links with the host economy;
- c) involved in group financing or holding activities;
- d) hosted in an economy because of the fiscal regimes and advantages in the host economy or in the country of the parent company;
- e) and finally with a very limited role of management in the daily activities.

A variety of issues regarding the statistical treatment of SPEs, like residency, inclusion of the transactions and positions in direct investment data, institutional unit and institutional sector, are subject of discussion in the Balance of Payments Technical Experts Group (BOPTeG) and Direct Investment Technical Experts Group (DITeG). This background paper has been prepared within the framework of DITeG. The subjects of this paper are the statistical treatment of SPEs in the Netherlands and the need for a separate treatment of the transactions of these entities.

II. Dutch Special Financial Institutions

Special Purpose Entities or, as they are called in the Netherlands, Special Financial Institutions (SFIs) are in the Netherlands established companies or institutions, regardless their legal form, whose shares are directly or indirectly held by non-residents and are mainly dealing with receiving funds from non-residents and channelling them to non-residents. SFIs may also be involved in managing participations outside the Netherlands on behalf of the parent company. There are three conditions that should be met by an entity to be considered an SFI:

- a) the entity should be a resident;
- b) the shares should be directly or indirectly in hands of non-residents;
- c) and the funds should be mainly raised from non-residents and handed over to non-residents.

All SFIs established in the Netherlands are considered as residents. By the end of 2003 over 9,000 SFIs were registered at De Nederlandsche Bank (DNB). In the Netherlands, the concepts of *shell companies* and *offshore enterprises* are not defined and consequently they are considered as residents.

In the Netherlands, SFIs have other reporting obligations than non-SFIs. Whilst SFIs only have to report transactions on a monthly basis, non-SFIs are obligated to report on a fully reconciled statement of positions and transactions for each Balance of payments item separately (Except for the reporting of FDI-capital participations). A fully reconciled statement including positions is reported by the SFIs once a year only. A significant part of SFIs not being selected as reporters, report their annual positions through the annual benchmark reporting. This group represent some 10% of financial transactions of all SFIs. This benchmark serves firstly as a basis for updating the population of *reporters* and secondly as a source for levelling up the SFI-statistics to annual totals.

III. Types of Dutch SFIs

Depending on their activities, in the Netherlands three types of SFIs can be distinguished.

- *Financing companies* are engaged in taking up and on-lending funds within and outside their own group companies almost entirely outside the Netherlands at the international capital market. These SFIs channel these funds mainly to their own group companies outside the Netherlands.
- *(Sub-) Holding companies* manage the participations outside the Netherlands, distribute dividends gained from these participations to their parent companies and perform acquisitions on behalf of their parent companies. Considering their high investment positions, the relative share of these enterprises in the IIP statistics is much higher than in the balance of payments statistics.
- *Royalty and Film right companies* concern a limited number of SFIs with a small share in the total transactions and positions of SFIs. They exploit the licences, patents and film rights for their parent companies or shareholders.

Beside these three main types, different varieties of SFIs can be distinguished as a combination of two or more of the above mentioned types. Considering the magnitude of their cross-border transactions the financing companies are the largest type of SFIs, followed by holding companies.

IV. Separate identification of SPE

With regard to the activities of SFIs, the Netherlands can be considered as a transit country for their transactions. In principle, the net outcome of the incoming and outgoing transactions should be equal or close to zero. This should be the case for each individual SFI as well as for the total of the transactions of the whole population of SFIs. In practice, however, a small net outcome may result for limited periods of time, mainly due to time differences.

There are currently two reasons to exclude the SFI transactions and positions in the national balance of payments and the IIP. First, the transactions of these entities are hardly linked with the Dutch economy and consequently almost irrelevant for the Netherlands. Second, including these transactions would blow up the balance of payments and the IIP figures, thereby hampering the analysis of the development of the external sector. For the same reasons SFI-transactions are, for the time being, not included in the National Accounts compiled by Statistics Netherlands.

To give an impression of the magnitude of the SFI transactions relatively to the non-SFI transactions, the balance of payments of the Netherlands for 2003 including SFIs is presented in the table below. Especially direct investment data of SFIs blow up the figures; they are even higher than non-SFI direct investments. The inclusion of the SFI data in direct investment means an increase of some 140% to 180%. A similar effect can be caused by inclusion of the SFI data in the IIP. The exclusion of the transactions and positions of SFIs results in the so-called “cleaning” of the Dutch balance of payments and the IIP, for the sake of analytical value of these statistics at national level.

As other countries do include SFI transactions from and to the Netherlands in their Balance of payments as, respectively, inward and outward *Direct Investment (and Portfolio Investment)*, the regularly published data by DNB of bilateral investment flows from and to the Netherlands cannot be compared with the investment statistics compiled in other countries. This comparability problem occurs also between the IIP published by DNB and the IIP published by the rest of the world. Considering the magnitude of the transactions and positions of the SFIs and their share in

the cross border financial activities, it is important to avoid discrepancies in different sets of data published by different compilers. Inclusion of the SFI data in the balance of payments and the IIP reported to the international organisations seems to be the solution for this problem.

Balance of Payments of the Netherlands in 2003			
EUR million			
	<u>Non-SFI</u>	<u>SFI</u>	<u>Total</u>
Balance on goods	23,220	0	23,220
Balance on services	-973	-268	-1,241
Received income	41,634	38,473	80,107
Expended income	<u>43,783</u>	<u>38,205</u>	<u>81,988</u>
Balance on income	-2,149	268	-1,881
Balance on current transfers	-6,850	0	-6,850
Balance on current account	13,245	0	13,245
Balance of capital transfers account	-1,879	0	-1,879
Direct investment abroad	-31,979	-44,933	-75,752
Direct investment in the Netherlands	<u>17,432</u>	<u>32,663</u>	<u>43,607</u>
Net direct investment	-14,546	-12,270	-32,144
Foreign securities	-50,249	36	-50,213
Dutch securities	<u>74,208</u>	<u>24,384</u>	<u>98,592</u>
Net portfolio investment	23,960	24,420	48,380
Assets	111,133	2,571	113,704
Liabilities	<u>-111,673</u>	<u>-1,986</u>	<u>-113,659</u>
Net financial derivatives	-537	585	48
Assets	-57,555	-18,183	-75,727
Liabilities	<u>29,704</u>	<u>9,502</u>	<u>39,580</u>
Net other investment	-27,853	-8,681	-36,149
Net financial account excluding official reserves	-18,979	-4,056	-19,868

To enable the ECB to compile the balance of payments and the IIP for the Euro-area, DNB reports data including transactions and positions of SFIs to the ECB. However, DNB is intending to include the SFI statistics in the reported balance of payments and IIP data to other international organisations like EUROSTAT and the OECD, enabling them to compile data for the EU and the OECD. Besides this intention of DNB, Statistics Netherlands is also intending to include the SFI transactions in the National Accounts.

Summing up it may be said that on one hand it is desirable to exclude the SFI data from the national external statistics because of the analytical usefulness. On the other hand it is unavoidable to include the SFI data in the reported balance of payments and the IIP data to international organisations, for the sake of consolidation of data of the Euro/EU-area and compilation of internationally comparable data.

V. Conclusion

Considering the magnitude of the activities of SPEs in/from some economies in the world, the transactions and positions of these entities should be included in external sector statistics like balance of payments and IIP, without netting out the incoming and outgoing transactions and positions. This inclusion is also due to the compilation of international comparable statistics and to avoid possible discrepancies in the statistics published by different countries. At the same time, the analytical value of the statistics should be safeguarded by avoiding the blowing up of the data, as a result of the inclusion of SPE data in an unrecognisable way. In this regard the following two options for the compilation of SPE data can be proposed:

- Compiling two sets of data; one including and one excluding the transactions and positions of SPEs.
- Including the SPE data in the existing sets of data but as a separately identifiable institutional sub-sector.

Furthermore the absence of a definition for SPEs in international guidelines could be an obstacle in the separate identification of SPEs and their transactions and positions. Considering the importance of compilation of international comparable statistics, the need for a harmonised and generally accepted definition in the new international guidelines like the BPM6 and the OECD Benchmark Definition is obvious. Such a definition should at least contain the main characteristics of SPEs; for example no or limited physical presence and no employees in the host country, no or limited links with the host economy and residency in an economy other than the economy of the parent company.