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Preliminary Report of the Task Force on Special Purpose Entities

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Contents ....Page

Tables

Figures

Boxes

Annexes

ACRONYMS

BCA	Brazilian Capitals Abroad (survey), Brazil
BEA	US Bureau of Economic Analysis
BD4	Benchmark Definition of Foreign Direct Investment, 4th edition, OECD
BEPS	Base Erosion Profit Shifting, OECD
BPM5	*Balance of Payments Manual, fifth edition*
BPM6	*Balance of Payments and International Investment Position Manual, sixth edition*
CDIS	Coordinated Direct Investment Survey, IMF
Committee	IMF Committee on Balance of Payments Statistics
CPIS	Coordinated Portfolio Investment Survey, IMF
DGI	Data Gaps Initiative
DNB	De Nederlandsche Bank, the Netherlands
ECB	European Central Bank
ESCB	European System of Central Banks
ESS	External Sector Statistics
Eurostat	Statistical Office of the European Union
FSAP	Financial Sector Assessment Programs, IMF
FSC	Financial Services Commission
IIP	International investment position
IMF	International Monetary Fund
ISIN	International Securities Identification Number
LEI	Legal Entity Identifier
MNB	Magyar Nemzeti Bank, Hungary
MNEs	Multinational Enterprises
OECD	Organization for Economic Cooperation and Development
UIC	Ultimate Investing Country
US	United States
SFIs	Special Financial Institutions
SNA2008	System of National Accounts, 2008
SPEs	Special Purpose Entities
STA	Statistics Department, IMF
UBO	Ultimate beneficial owner
WGIIS	Working Group on International Investment Statistics, OECD
XDP	Extended Directional Principle

Executive Summary

In October 2016, the IMF Committee on Balance of Payments Statistics (the Committee) supported a stronger involvement of the International Monetary Fund (IMF) in improving the coverage of special purpose entities (SPEs) in external sector statistics (ESS). The Committee endorsed the creation of a Task Force with a two-year mandate and the primary objective of developing an appropriate IMF statistical strategy for addressing existing data gaps on SPEs, assessing the data collection approach and the need to disseminate internationally-comparable statistics.[1] *This first Preliminary Report, prepared under the joint responsibility of the Task Force members, responds to that request. Questions to Committee members are included at the end of the Executive Summary.*

Cross-border statistics on SPEs' activities have become essential for market analysts and policy makers in analyzing cross-border interconnectedness. The recent global crisis has focused more attention on SPEs' activities. However, in the absence of granular data on SPEs, it is difficult to assess the complex interlinkages between offshore entities, banking systems, and domestic economies. If not properly accounted, the activities of SPEs may also distort the understanding of domestic and/or regional vulnerabilities.

The Task Force conducted a fact-finding exercise among its members to assess the viability of separate identification of cross-border statistics on SPEs. The Task Force (i) examined practices currently in place to collect cross-border data on SPEs; (ii) prepared an inventory of the different types of SPEs currently existing; (iii) considered alternative arguments to raise awareness of non-IMF members on the importance of producing ESS and separately identifying SPEs activities; and (iv) initiated work to propose a suitable way for disseminating comparable cross-border statistics, taking into consideration that data in which SPEs are not separately identified may be misleading for analysis.

The Task Force found that the collection and dissemination of cross-border statistics on SPEs vary significantly among international organizations. While the IMF's operational guidance promotes coverage of SPE flows and positions in the ESS, the IMF does not collect separately identified cross-border SPE data. The OECD collects separately identified SPE data as part of its direct investment data collection framework. Eurostat includes data on cross-border activity of SPEs in balance of payments and IIP statistics, with separately-identified data on SPEs only for direct investment statistics. Nonetheless, international organizations broadly follow the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*).

For countries participating in the Task Force, the ESS data collection and dissemination approaches regarding SPEs differ. Hungary, Luxembourg, Mauritius,

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[1] The Task Force's Terms of Reference and membership are presented in Annex I and II, respectively.

Netherlands, and Seychelles presently collect and disseminate separately identified cross-border data on resident SPEs broadly through surveys as part of their ESS national data collection framework. Brazil, the United Kingdom, and the United States are mostly concerned with nonresident SPEs (incorporated by domestic entities in nonresident jurisdictions). None of these countries separately identify resident SPEs' cross-border statistics in their national ESS databases, although the United Kingdom provides separate direct investment data on SPEs to both OECD and Eurostat.

The Task Force reviewed the current methodological framework for compiling external sector statistics. Both, the *BPM6* and the fourth edition of *OECD's Benchmark Definition of Foreign Direct Investment (BD4)* identify four distinctive features of SPEs, namely (a) entities incorporated by nonresidents, (b) very little or no physical presence, (c) few or no employees, and (d) balance sheets largely consisting of financial claims on and liabilities to nonresidents.

The Task Force acknowledged that diversion of SPE-related flows towards external debt and portfolio equity funding is happening. Several Task Force members have also identified SPEs as vehicles for portfolio investment and other investment, whose operations may substantially impact the current account. They also underscored that SPEs can be incorporated to have legal ownership of intellectual property rights assets (even though they may be classified as nonfinancial corporations) – this activity is not explicitly recognized in the current statistical manuals. The 2016 OECD metadata survey has also revealed that some countries have SPEs outside of finance, usually wholesale and retail trade.

The Task Force also noted that new business models have appeared in the recent years which go beyond characteristics associated with SPEs. The concept of "near-SPEs" (or "SPE type", "SPE-like") has emerged. Countries have identified some non-SPE companies performing real economic operations, but at the same time, displaying SPE-like characteristics in the sense that they are participating in financial intermediation activities. In addition, the need to employ more staff legally mostly emerged as a result of the Base Erosion Profit Shifting (BEPS)—an initiative to address tax avoidance strategies that exploit tax gaps and mismatches to artificially shift profits to low- or no-tax locations with little or no economic activity. Research & Development intensive firms now have more flexibility to shift profits. Besides royalty companies, SPE-like companies provide other services including operational leasing and re-invoicing.

The Task Force reflected on the possibility of developing a definition of SPEs. The basis for framing a definition may be drawn from *BPM6* (Paragraph 4.50) which conceptualizes SPEs "as labels applied to flexible legal structures in particular jurisdictions, which offer various benefits that may include any or all of low or concessional tax rates, speedy and low-cost incorporation, limited regulatory burdens, and confidentiality". The Task Force recognizes that while SPEs' activities have evolved with time, the main reasons SPEs are being incorporated in certain jurisdiction, have not changed. However, developments in taxation regulatory framework and accounting standards should inform future discussions.

The Task Force recognized the need to adopt a typology of SPEs (including near-SPEs) flexible enough to accommodate changes in business models over time. An internationally comparable typology of SPEs based on features observed worldwide, in addition to the general set of criteria mentioned in the manuals, may assist compilers in identifying SPEs. Based on the evolution of economic activity, the typology for SPEs could, therefore, be updated as appropriate and more frequently than the statistical manuals. Equally since pass-through activities are observed as shifting toward entities not identified as SPEs, from a statistical point of view, the separate identification of these activities may become relevant. Some Task Force members referred to pass-through activities as a separate functional category. The Task Force took note of current national practices in this regard (such as the capital in transit transactions identified in Hungary).

The connection of SPEs with the real domestic economy also brings into discussion the need to reflect on an appropriate institutional sector classification of SPEs. In the context of cross-border statistics, determining the institutional sector for SPEs is key when data collected go beyond direct investment as it is from national accounts perspective for the calculation of value added of SPEs or near-SPEs to GDP. Nonetheless, the Task Force considers further debate and consultation with national accounts experts to determine the broad implication on macroeconomic statistics is necessary.

The Task Force supports the need to develop a suitable IMF strategy to collect and disseminate internationally-comparable statistics separately identifying cross-border data of SPEs. While some Task Force members favored the reporting within the standard ESS templates, including separate SPE identification, other members proposed a gradual approach targeting specific breakdowns. In the short-term, the Task Force favored to discuss the feasibility of enhancing the CDIS templates to collect separately identified direct investment position data to/from SPEs. Consideration may be given for the 2020 CDIS cycle for end-December 2019 reported data.

For key offshore jurisdictions that are not IMF members, the Task Force recommends encouraging their authorities to consider producing ESS. A broader focus on ESS compilation should serve as a segue to the development of separately identifiable SPE data, given the predominance of such activities in these jurisdictions.

The Task Force concluded this first preliminary report in September 2017 and makes preliminary recommendations, for which it is seeking endorsement by the Committee members at its 2017 Committee meeting.

KEY PRELIMINARY RECOMMENDATIONS

The key preliminary recommendations, reached at the mid-term of Task Force's mandate, are as follows:

- Adopt a definition and a typology of SPEs to assist compilers in identifying SPEs, their corresponding institutional unit, and types of transactions (see Annex III). Due to the dynamism of these entities, the typology may be updated more frequently than the statistical manuals. The envisaged typology will follow the basic principles laid down in *SNA 2008* and *BPM6* including residency principle and delineation of institutional units

- Separately identify cross-border transactions and positions for SPEs. The collection and dissemination of SPE data for relevant components of balance of payments and IIP statistics (not only for direct investment) should be integrated within the ESS collection framework.

- Consider the feasibility of enhancing, in the short term, the CDIS to collect direct investment position data to/from SPEs. Consideration may be given for the 2020 CDIS cycle, which shall collect end-December 2019 data.

WORK PROGRAM AND DELIVERABLES DURING YEAR II

As part of its **work program** during the second year of its mandate, the Task Force shall:

a. Advance the discussion on an SPE definition and further develop the typology of SPEs to assist compilers in identifying SPEs, their corresponding institutional unit, and types of transactions.

b. Investigate the feasibility of activity-based measures to identify pass-through activities that do not depend on the application of the SPE label, as a potential complement to the publication of separate data on SPEs.

c. Undertake a comprehensive analysis of SPE data needs covering all functional categories of the financial account as well as the current and capital accounts. SPE data should be collected and disseminated for most relevant components of the balance of payments and IIP (not for direct investment only).

d. Determine whether the above-mentioned data needs should only refer to resident SPEs or whether further breakdowns on cross-border transactions and/or positions vis-à-vis nonresident SPEs or non-SPEs should also be considered.

e. Propose possible collection approaches for consideration by the IMF, whether by including separate items in the standard ESS reporting templates in one step or gradually targeting specific components according to an order of priorities.

f. Discuss the feasibility and advise on the modalities for enhancing the CDIS to collect direct investment position data to/from SPEs. Consideration may be given for the 2020 CDIS cycle.

g. Conduct a brief survey among relevant member countries and non-IMF members (key offshore centers) to gather views that may assist in designing the IMF's collection and dissemination strategy.

h. Focus on how to raise awareness among SPE-hosting economies on the analytical relevance of separately identifying SPE data in ESS.

i. Discuss the scope for enhancing coordination among international organizations in collecting and disseminating SPE data and metadata, with a view to avoiding inconsistencies, reducing respondent burden and circumventing additional data suppressions so as to maintain data confidentiality across different data requests.

RULES OF PROCEDURE

The task force will continue communications by electronic means (i.e., mostly via email, while holding occasional video-conferences). One physical meeting of the Task Force is proposed during the final year of its mandate.

TIME FRAME AND DELIVERABLES

The following timetable and deliverables are currently envisaged for the final year of the Task Force's life (November 2017–September 2018).

November 2017:	Video conference meeting to review the deliberations and decisions of the Committee meeting in response to the Task Force's Preliminary Report. Discussion of the way forward and deliverables during the second year.
February – March 2018:	Conduct the survey (IMF); consolidate and analyze the results.
April 2018:	Draft proposals to enhance the CDIS.
May/June 2018:	Meeting of the Task Force (venue to be determined).
End July 2017:	Draft Final Report to be circulated to Task Force members.
September 2018:	Final report submitted to the 2018 the Committee meeting.

Questions to the Committee:

1. *Do Committee members have any preliminary views on the tentative recommendations of the Task Force?*

2. *Do Committee members agree with the work program and deliverables for the Task Force in its second year?*

Preliminary Report of the Task Force on Special Purpose Entities[2]

I. INTRODUCTION

1. **In October 2016, the Committee on Balance of Payments Statistics (the Committee) supported a stronger involvement of the International Monetary Fund (IMF) in improving the coverage of Special Purpose Entities (SPEs) in external sector statistics (ESS).** The Committee endorsed the creation of a Task Force with a two-year mandate and with the primary objective of developing an appropriate IMF statistical strategy for addressing existing data gaps on SPEs, assessing the data collection approach, and the need to disseminate internationally-comparable statistics (see Annex I). The Task Force is chaired by the IMF and comprises representatives of four international organizations and eight countries (see Annex II).

2. **The report presents progress made since the inception of the Task Force and the conclusions reached during the first year. Section II** summarizes the need to separately identify SPE cross-border statistics and to fill in data gaps. It also presents current initiatives of international organizations on SPEs data. **Section III** focuses on the complexity and changing nature of SPEs and reflects on the need to compromise on the specific features of SPEs. In addition, this section benefits from the fact-finding exercise among Task Force members to describe the collection practices with respect to SPEs. **Section IV** discusses challenges that the IMF confront to collect data from SPE-hosting economies and challenges that IMF member countries may face in compiling cross-border data on SPEs. It proposes an approach that the IMF can further develop during the second year of the Task Force to design an appropriate SPE data collection and dissemination strategy for SPE-hosting economies.

II. CURRENT DATA GAPS AND ONGOING INITIATIVES

A. The Need for Comprehensive and Separately Identifiable Data on SPEs

3. **The existence of SPEs is not a new phenomenon.** With financial globalization, the volume and complexity of SPE structures have increased significantly over the past decades. Economies have become more financially interconnected; with multinational corporations taking advantage of different legal and tax regimes, and becoming increasingly global. The surge in financial flows, which resulted in important cross-border transactions and positions vis-à-vis financial centers, underscored the increasingly important role of SPEs.

4. **While the recent global crisis focused more attention on SPEs' activities, progress in collecting internationally-comparable cross-border statistics on SPEs has**

[2] The preparation of the report was primarily undertaken by Ms. Padma Hurree-Gobin (primary drafter) and Mr. Theo Bikoi (both Task Force Secretariat), who coordinated the contributions of Task Force members. The work was supervised by Mr. Eduardo Valdivia-Velarde (Task Force chair) and benefitted from comments by Messrs. Carlos Sánchez-Muñoz and Paul Austin.

been relatively scarce. The lack of adequate cross-border statistics on SPEs hampered the assessment of the retrenchment in cross-border capital flows caused by the crisis in a context of intense global financial integration (Milesi-Feretti and Tille, 2011). In the absence of official cross-border data from most offshore financial centers, alternative estimates had to be constructed from a variety of sources (Lane and Milesi-Ferretti, 2011, and 2017).

5. **Statistics on SPEs' activities are essential for market analysts and policy makers to analyze cross-border interconnectedness.** Data on pass-through funds connect the dots from originating countries via pass-through countries to their ultimate destination. The Second Phase of the G-20 Data Gaps Initiative (DGI-2) highlights the importance of identifying sectoral interlinkages and balance sheet exposures for assessing financial stability. IMF surveillance teams have underscored that the complex interlinkages between offshore activities, the banking system, and the domestic economy, require a thorough macroprudential policy framework.[3] The IMF Financial Sector Assessment Programs (FSAPs)'s stability assessment reports acknowledge the financial risks associated with SPEs in jurisdictions hosting these entities.[4] Even in countries where SPEs do not play a significant role, it is deemed useful to identify resident SPEs in their statistics so their role can be monitored. Consequently, the availability of external sector data that separately identify SPEs will facilitate comparable and useful data for wide-ranging analysis, including balance sheet risks and spillovers.

B. Current Initiatives of International Organizations

Launch of the Task Force on SPEs

6. **In October 2016, the Committee members reflected on data gaps related to coverage and identification of SPEs in the context of ESS.** To this end, the Committee endorsed the creation of a Task Force to support the IMF in developing an appropriate statistical strategy for addressing existing data gaps on SPEs, assess data collection approaches, and disseminate internationally-comparable statistics.

7. **The Task Force focuses on three broad areas (i) collection, (ii) dissemination, and (iii) methodological guidance.** Attention is given to data collection and dissemination, based on existing practices, challenges faced by countries, and ways to encourage IMF and non-IMF members (key offshore jurisdictions) to start producing ESS with separate identification of SPEs. Nevertheless, in the context of the changing nature of these entities,

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[3] http://www.imf.org/en/Publications/CR/Issues/2016/12/31/Mauritius-2015-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-43821

[4] In jurisdictions with financial sectors deemed by the IMF to be systemically important, FSAPs are a mandatory part of Article IV surveillance, and are to take place every five years.

there is also scope for further conceptual guidance, including the review of possible definitions/characteristics of SPEs.

Synergies with other Existing Initiatives

8. **The Task Force benefited from SPE initiatives taken by other international and regional institutions.** The ECB-Eurostat-OECD Task Force's final report on Head Offices, Holding Companies, and SPEs[5] released in June 2013 examined the definition, typology, and classification of SPEs. There are ongoing discussions at the ECB Working Group on ESS and at the OECD's Working Group on International Investment Statistics (WGIIS), which will also be considered by the Task Force when preparing its final report.

Work Program of the Task Force during its First Year

9. **The Task Force's first year work program encompassed consultations among its members on a regular basis.** The Task Force conducted a fact-finding exercise to learn about members' experiences with SPEs. Frequent interactions by email or telephone took place to share views, experiences, and discuss key issues, including two video conferences held with all Task Force members in January and June 2017. Key actions and outcomes were identified and the findings are set out in the following sections.

III. METHODOLOGICAL ADVICE AND DATA ON SPES

A. Is it Possible to Reach an Internationally-Accepted Definition of SPEs?

10. **The first action of the Task Force was to take stock on the treatment of SPEs based on guidance from the current methodological manuals and guidelines.**[6] While current manuals are largely consistent in their understanding of SPEs activities, there is no internationally-agreed statistical definition of SPEs. Instead, from an ESS perspective, there is a consensus in both *BPM6* and *OECD's Benchmark Definition of Foreign Direct Investment, 4th edition* (*BD4*) that SPEs display certain typical features that help in identifying these companies' structures (see Box 1).

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[5] http://ec.europa.eu/eurostat/documents/737960/738007/Final_Report_Task_Force_SPEs.pdf/9390b392-62d3-45b4-a4ee-fd9ed7a78da2

[6] *The System of National Accounts 2008* (*SNA2008*), *BPM6*, and the *OECD's Benchmark Definition of Foreign Direct Investment* (*BD4*).

Box 1. Features/Characteristics to Identify SPEs as Specified in *BPM6* and *BD4*	
BPM6	***BD4***
(i) Their owners are not resident of the territory of incorporation.	(i) The enterprise is a legal entity, registered with a national authority and subject to fiscal and other legal obligations in the economy in which it resides. (ii) The enterprise is ultimately controlled by a nonresident parent (directly or indirectly).
(ii) A large part of their balance sheet consists of claims on and liabilities to nonresidents.	(iv) Almost all the enterprise's assets and liabilities represent investment in or from other countries.
(iii) They have few or no employees. (iv) They have little or no physical presence.	(iii) The enterprise has few or no employees, little or no production in the host economy, and little or no physical presence in the host economy.
	(v) The core business is group financing and holding activities while managing and directing play only a minor role.

11. **The Task Force acknowledged that while countries are encouraged to use these characteristics in identifying SPEs, some flexibility has been noted in their use.** The metadata survey for direct investment conducted by the OECD in 2016 identified several features used by the OECD's 35 members to classify entities as SPEs (Table 1 below).[7]

Table 1. How do OECD Countries Identify SPEs?

Identification of SPEs	OECD Members
Separate business register for SPEs	4
Based on industry classification	9
Based on number of employees	13
Based on share of foreign assets (liabilities) in total assets (liabilities)	11
Based on turnover	6
Based on foreign control	11
Information from government regulatory and licensing authorities	3
Other criteria	5

Source: OECD metadata survey 2016

12. **The Task Force's second action was to prepare an inventory of different types of SPEs based on its members' experience.** Tax legislations in offshore financial centers have been key drivers for incorporating SPEs. Tax strategies largely determine direct investment diversion through SPEs. Multinationals and other specific corporate structures aiming at

[7] Full results of the survey are available here: http://qdd.oecd.org/subject.aspx?Subject=fdi_metadata.

avoiding corporate taxes, withholding taxes on profits, dividends, and/or capital gains have incorporated investment holding companies or joint ventures in financial centers.

13. **The Task Force observed that SPEs have increasingly become more diverse, and this raises the question whether the criteria set out in the current manuals to identify SPEs may have become too narrow in scope.** It has become evident that SPEs, initially synonymous with pass-through activity and round tripping, have evolved. Country-specific characteristics of SPEs are being used, dependent on the legal and regulatory system of the host economies. The engagement in real economic activities has equally changed the focus of SPEs not being only financial vehicles. Box 2 elaborates on experiences shared by Task Force members.

14. **Tax-avoidance strategies have emerged involving trading besides investment activities.** Research & Development intensive firms have benefited from flexibility to shift profits. For instance, US legislation facilitated the migration of intellectual property to tax-haven affiliates through cost-sharing agreements. Besides royalty companies, SPEs provide other services including operational leasing, re-invoicing, and in some cases even trade in goods.

Box 2. Country Experiences with SPEs

Hungary does not permit nearly any SPE connection with the domestic economy; their activities are predominantly related to the rest of the world. SPEs must be 100 percent owned by a nonresident parent, although as per the *BD4* criteria, it is enough if an SPE is ultimately controlled by a nonresident parent directly or indirectly (see Annex V).

The Netherlands noted that Special Financial Institutions (SFIs) have deviated from its traditional non-domestic production focus, in the sense that they may engage in limited production and financial activities (holding financial assets) within the Netherlands and/or may be subsidiaries of regular domestic production affiliates. Nonetheless, SFIs typically meet the SPEs balance sheet criterion (i.e., that at least 90 percent of assets and liabilities be foreign). Nonfinancial corporations may also play a substantial role in pass-through activities (see Annex V).

Luxembourg: SPEs overall contribute to direct investment. So-called “pure holding” companies only issue capital and hold equities. More sophisticated SPEs may take and grant intercompany loans. Another possible pattern is debt security issuance (portfolio investment liabilities), the proceeds being lent to another group affiliate (direct investment assets – debt instruments). Relatively small “other investment” figures correspond to either bank loans, bank deposits or (rarely) loans vis-à-vis entities outside the group. SPEs may also hold or issue financial derivatives (see Annex VI).

Mauritius: The authorities aim to have SPEs (known as Global Business Companies-GBCs) to tap in the benefits of value addition to various sectors of the economy. SPEs in Mauritius are involved in both financial and nonfinancial activities (e.g., consultancy services, employment services, trading, etc.) mostly related to tax avoidance strategies. Banks’ claims on and liabilities to SPEs, mostly in the form of deposit liabilities are also available. Mauritius includes data from SPEs in the compilation of national accounts, geared toward computing the value addition of the offshore sector to gross domestic output (see Annex VII).

Seychelles: SPEs (identified as Companies Special License-CSLs) may be organized to undertake investment management and advice, offshore banking, offshore insurance and re-insurance, investment services, holding, marketing, intellectual property, franchise, and human resources. SPEs may also participate in international trading in goods and provision of services (see Annex XI).

Hungary and Mauritius noted particularly complicated cases involving some sort of layering whereby a resident SPE is established by another resident SPE. The parent SPE is fully owned by a nonresident parent or by another resident SPE.

15. **The Task Force also discussed the relevance of nonresident SPEs (i.e., from the point of view of investing countries) for external sector statistics in Brazil, the United Kingdom, and the United States** (see Box 3).

Box 3. Country Experiences with Nonresident SPEs

In **Brazil**, only nonresident SPEs are relevant for ESS. Brazilian groups access international markets through subsidiaries abroad, generally SPEs, aiming to raise funds at low cost and on-lend them to resident headquarters. The identification of ultimate investing/host economy for DI liabilities/assets and round tripping activities would be particularly important in the case of pass-through activities (see Annex IV).

The United States: ESS cover transactions and positions with nonresident SPEs, including (a) foreign holding companies (such as intellectual property holding companies), (b) offshore entities associated with U.S. investment funds and/or insurance corporations, and (c) foreign "owners" of domestic firms that have reincorporated abroad (corporate inversions). In the case of hedge funds, the U.S. Bureau of Economic Analysis (BEA) is of the view that although a direct investment relationship may technically exist, the investment bears more characteristics of portfolio investment. Recently, the BEA excluded from direct investment U.S. investment in offshore private funds that meet the technical definition of direct investment but make only portfolio investments. These investments are now included in portfolio investment (see Annex IX).

The United Kingdom: Direct investment surveys contain questions on SPEs identifying both U.K. companies that have SPE affiliates abroad or SPEs that are investing in the UK (see Annex VIII).

16. **Considering the changing nature of SPEs, the Task Force reviewed and discussed the "near-SPE" concept.** The characteristics of SPEs vary not only by countries but also over time within the same country. Within a multinational corporation, affiliates with mixed activities may be formed including both SPE and non-SPE. For instance, **Hungary** does not identify as SPEs those entities that conduct pass-through activity but have some connection to the real economy. Likewise, **the Netherlands** observes an increasing number of SFIs involved in regular production.[8] Box 4 provides an overview of near-SPEs prepared by the Netherlands and Hungary.

[8] See DNB's Experiences with Special Financial Institutions, BOPCOM Paper 16/20, October 2016

Box 4. Near-SPEs—Experiences from the Netherlands and Hungary

The Netherlands and Hungary developed practices to identify pass-through activities outside "pure" SPEs. Differences between the "entity versus activity" are presented in the tables below.

Netherlands

entitiy \ activity	**pass-through activities**	activities related to the domestic
SPE (SFI)	**YES**	NO
Near-SPE (SFI)	**YES**	MAY
non-SPE (non-SFI)	**MAY**	YES

Hungary

entitiy \ activity	**pass-through activities**	activities related to the domestic
SPE	**YES**	NO
non-SPE	**MAY**	YES

Characteristics of pass-through activity outside SPEs

The Netherlands includes "near-SPEs" in the concept of ***SFIs that create some domestic substance in the form of nonfinancial activity***. Typically, these nonfinancial activities used to be employed by a group/company but now are transferred into the holding company (e.g., a sales or legal department with 20 employees). This behavior is fiscally motivated: only entities passing a certain threshold are eligible for so-called "rulings" with the Netherlands fiscal authority. As the international pressure on national taxation policies increases—for instance, in the form of the Base Erosion and Profit Shifting (BEPS[9]) initiative—the Netherlands increasingly observes this form of "near-SPEs." These entities no longer adhere to the requirement that an SPE should have only very limited output and employees. Another ***pass-through activity outside SPEs*** takes the form of legal entities used for pass-through flows, but which are related to a resident production subsidiary and do not meet the conditions of a statistical unit. As part of an ongoing statistical revision, the Netherlands will no longer label the abovementioned "near-SPEs" as SPEs and will reassign them to the nonfinancial corporate sector.

Hungary identifies two forms of pass-through activity that it deems necessary to separate; ***capital in transit*** (when the foreign investor passes through the resident affiliate large amounts from one foreign subsidiary to another within the enterprise group) and ***asset portfolio restructuring transactions*** (when flows recorded under different balance of payments standard components relate to a financial restructuring of some affiliates/activities of a multinational enterprise group). Both forms result in huge asset and liability transactions without any real effect on the domestic economy, misleading users focusing on subparts of the balance of payments. While in Hungary all SPEs are captive financial institutions, entities with pass-through transactions may belong to other sectors as well; including nonfinancial corporations, holdings, or even captive financial institutions. They may have several employees related to the nonfinancial activities, but some have no employees at all.

In both Hungary and the Netherlands, pass-through transactions are mainly recorded as direct investment but may take the form of portfolio investment or other investment as well.

17. **Entities involved in the production of goods and services (including merchanting, intellectual property rights, or operational leasing) may in some circumstances be treated as near-SPEs.** These entities may have moderate or large number

[9] Tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity. In October 2015, G20 Leaders urged its timely implementation and called on the OECD to develop a more inclusive framework with the involvement of interested non-G20 countries and jurisdictions, including developing economies. Currently, over 100 countries and jurisdictions are collaborating to implement the BEPS (http://www.oecd.org/tax/beps/).

of employees and display a near-SPE performance, evidenced, for example, by their increasingly disproportionate revenue per employee or by their involvement in nonfinancial flows. These near-SPEs, involved in merchanting or trading, can be used as "distribution companies" by groups for making sales to any kind of client worldwide. Licensing and royalty SPEs act as intermediaries between the original owner and/or creator of intellectual property and the licensees, both nonresidents of the SPE-hosting economies. These activities have largely emerged in response to the BEPS strategy of MNEs.

Evolution of SPEs

18. **The Task Force considers that the evolution of SPEs requires developing further guidance on the characteristics provided by current manuals.** The current criteria provide a valuable starting point for characterizing and identifying SPEs. However, in practice, for instance little or no physical presence and few or no employees—which implicitly imply low or no production—may be restrictive and can be subject to further examination. There are examples where (i) pass-through funds are also channeled through non-SPE affiliates of MNEs, (ii) SPEs may also be involved in the production of goods and services, (iii) SPEs may be established to carry out functions other than "pass-through" financial activities, such as to own (nonfinancial) intellectual property assets, or (iv) SPEs may have over 10 employees. On the latter point, the employment size of SPEs may likely vary following specific national requirements, especially if legal requirements to employ staff are introduced in response to international proposals to address tax avoidance.

19. ***BPM6* and *BD4* state that SPE balance sheets would typically consist of claims on or liabilities to nonresidents.** The OECD through *BD4* [10] further operationalized and reinforced its focus on direct investment by mentioning that core business of SPEs is group-financing and holding activities. *BPM6*, on its part, does not restrict to direct investment. In the context of ESS, the Task Force recognizes other functional categories besides direct investment on SPEs' balance sheets. Corporate functions can be fulfilled by SPEs that are not solely related to intra-group financing, but rather external financing of group activities, or the holding of intangible assets on behalf of the group. This will therefore imply balance sheet components outside the scope of direct investment, although it would likely be direct investment enterprises of those MNEs set up to engage in these activities. Therefore, the Task Force may propose revisions to and/or guidance on how to operationalize further (e.g., through a specific threshold) the balance-sheet guidance currently provided by *BPM6* and *BD4*.

Possibility of Having a Single Definition of SPE

20. **The Task Force reflected on the possibility of coming up with a definition for SPEs.** The basis for framing a definition may be drawn from *BPM6* (Paragraph 4.50) which

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[10] While *BD4* does not establish a specific value, most OECD member countries have chosen 90 percent criterion.

conceptualizes SPEs "as labels applied to flexible legal structures in particular jurisdictions, which offer various benefits that may include any or all of low or concessional tax rates, speedy and low-cost incorporation, limited regulatory burdens, and confidentiality". The Task Force recognizes that while SPE activities have evolved over time, the underlying principles for which SPEs are being incorporated in certain jurisdictions have not changed.

21. **The Task Force acknowledges that the features/characteristics to identify SPEs have gone beyond those provided in *BPM6* and *BD4*.** With the emergence of near-SPEs and the BEPS initiative, attributes like "little or no physical presence" and "few or no employees"—which implicitly imply "low or no production"—have been somewhat relaxed. For instance, a criterion stressing the size and shape of the entity's balance sheet in relation to the size of its economic activity can be added. In that respect, the Task Force foresees the need to extend further the typical features of SPEs, while recognizing that the dynamism of these flexible structures may imply further characteristics changes in the future, as business models change. Adopting a definition of SPEs would require collaboration and coordination with other macroeconomic statistics. The Task Force recommends initiating work on a definition.

Developing an Internationally Comparable Typology of SPEs

22. **To allow for some level of flexibility for the changing nature of SPEs to adapt to new circumstances, the Task Force finds it worthwhile to employ a typology of SPEs.** The development of an internationally comparable typology of SPEs based on features observed worldwide, in addition to the general set of criteria, may assist compilers in identifying SPEs. The typology aims to delineate the different types of SPEs based on their economic functions and relate them to their institutional sector and activity classification (and their corresponding transactions classification).

23. **The typology should, however, not be confused with a definition of SPEs and will not remain fixed and predefined.** The types listed may be SPEs, but not all entities of the types listed are necessarily SPEs. For instance, SPEs may include securitization vehicles, but conversely not all securitization vehicles are SPEs. Based on the evolution of economic activity, the typology for SPEs could, therefore, be updated as appropriate and more frequently than the statistical manuals. As a starting point for the typology, the Task Force took into account work already done in the relevant area.

24. **In 2013, the ECB/Eurostat/OECD Task Force on Head Offices, Holding Companies and SPEs produced a typology of SPEs.** This typology was discussed by the joint ESCB/European Statistical System Task Force on Foreign Direct Investment in May 2017. The typology may assist compilers in identifying SPEs and in determining the appropriate institutional sector and activity classification (see Annex III).

25. **The Task Force, building on these initiatives, reviewed and identified the types of SPEs covered in *BPM6* and few others not explicitly cited.** Box 5 provides a typology of SPEs, including a summary of their references in the manuals.

Box 5. Typology of SPEs

Typology	*SNA2008*	*BPM6*	*BD4*
Shell (Passing-through funds between nonresidents with no operations in the economic territory of incorporation)		*Para 4.50*	*Box 6.1*
Conduit (Issues debt securities for related companies)	*Para 4.59*	*Para 4.51*	*Box 6.1*
Holding/managing wealth for individuals or families	*Para 4.59*	*Para 4.51*	
Holding assets for securitization		*Para 4.51*	
Issuing debt securities on behalf of related companies		*Para 4.51*	*Para 3.13*
Holding companies that own (controlling level of) equity in subsidiaries, without actively directing them	*Para 4.59*	*Para 4.51*	*Box 6.1*
Securitization vehicles	*Para 4.59*	*Para 4.51*	
Ancillary companies in different territory from parent		*Para 4.51*	Annex 7
Entities taking and granting inter-company loans		*Para 4.51*	
Carrying out other financial functions		*Para 4.51*	
Shelf company		*Para 4.50*	*Para 3.13*
Royalty and licensing company			
Captive insurance company		*Para 4.87*	
Captive leasing company, financial		*Para 4.50*	
Captive leasing company, operational		*Para 4.50*	
Merchanting company			
Factoring and invoicing company			
Legal ownership of intangible assets			
SPEs owned by governments for fiscal purposes		*Para 8.24*	

Sources: Joint ESCB/ESS Task Force on Foreign Direct Investment, Frankfurt Meeting, May 2017
Drawn from *BPM6*, Task Force Secretariat

Institutional Sector Classification of SPEs and near-SPEs

26. **SPEs are traditionally attributed to direct investment.** In contrast with other functional categories (portfolio and other investment, and financial derivatives), *BPM6* does not classify direct investment (flows and positions) by institutional sector. However, *BPM6* (paragraph 4.76) states that SPEs by the nature of their transactions could be classified as other financial corporations with respect to portfolio and other investment flows.[11]

[11] Although not mentioned in *BPM6*, SPEs which have legal ownership of intellectual property assets on behalf of the group, subject to further debate, may be considered as nonfinancial corporations.

27. **The criteria to select the institutional sector merits further elaboration.** The institutional unit classification depends on identifying the economic activity undertaken by the unit. A relation needs to be made between the size and shape of the balance sheet in relation to the size of economic activity. The contribution of the output of the near-SPE in comparison to its contribution to the income of the group in fulfilling its special purpose should be a factor in determining the institutional sector, particularly for "near-SPEs."

B. Cross-border Data on SPEs Presently Collected and Disseminated

International Organizations

28. **The third action was to examine the current practices of international organizations represented in the Task Force to collect and disseminate cross-border data on SPEs.**[12] The Task Force found that these practices vary significantly among international organizations. The **IMF**'s methodological advice and operational guidance has focused on the inclusion of SPEs' flows and positions in the ESS (not limited to direct investment components), with less emphasis at this stage on the need to separately identify them even in economies for which they are important. The IMF, thus, currently disseminates SPEs' cross-border activities embedded (i.e., not separately identified) within the respective components of the ESS to the extent that the reporting economies include SPEs flows and/or positions data.

29. **In 2014 the OECD initiated the collection and dissemination of positions and flows for its members according to *BD4* guidelines.**[13] The collection consists of (a) quarterly aggregate direct investment statistics on an assets/liabilities basis with resident SPEs separately identified and (b) detailed annual direct investment statistics on an assets/liabilities basis with and without SPEs. Currently, three separate datasets of direct investment data–one each for financial flows, positions, and income–by immediate partner and by industry are disseminated. Each of these is broken down into all resident units, SPEs, and non-SPEs (also denominated "resident operating units"). In practice, OECD member countries can report statistics for any of the two series, and the OECD will derive the third. This flexibility reduces the reporting burden on countries by allowing them to report to the OECD in a way most closely aligned with their standard dissemination practices. OECD is now also disseminating direct investment position data by immediate counterpart (immediate

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[12] Some international and regional organizations (not participating in the SPEs Task Force) collect and disseminate direct investment statistics that may or not include SPEs data. UNCTAD's Division on Investment and Enterprise covers data on direct investment on operations of transnational corporations, on international production, and global value chains. The Economic Commission for Latin America and the Caribbean (ECLAC) also disseminates direct investment statistics, particularly for its member economies.

[13] Information on resident SPEs is available separately for 15 OECD members (Austria, Chile, Denmark, Hungary, Iceland, Korea, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom). Data for Estonia and Sweden (direct investment flows only) are confidential. The information is not available separately for Canada, Ireland, and Mexico. Resident SPEs are not significant in 14 members (Australia, the Czech Republic, Finland, France, Germany, Greece, Israel, Italy, Japan, New Zealand, the Slovak Republic, Slovenia, Turkey, and the United States).

investor or host) and by ultimate counterpart (ultimate investor or host) for a limited number of countries.

30. **Eurostat also collects and disseminates direct investment statistics for resident SPEs.** Direct investment flows, positions, and income (part of the current account) are reported separately for SPEs. The templates for "all units," including resident SPEs, provide a break down by equity and debt. There is also a further break down to consider reverse investment–direct investment enterprise into direct investor. Reinvestment of earnings is also reported separately as part of direct investment transactions.

31. **The ECB does not currently have a defined template for collecting data on SPEs separately.** The European System of Central Banks (ESCB) is depending on the work of this Task Force to arrive at an internationally agreed definition of SPEs as a precondition for a collection of quarterly data on cross-border positions and transactions of resident SPEs including but not necessarily limited to direct investment.

Countries' Cross-Border Data on SPEs

32. **Data collection and dissemination practices for cross-border data on SPEs vary significantly among countries represented in the Task Force.** From country members' experience, data on SPEs are collected within the ESS collection and compilation framework. Dedicated surveys are used in almost all countries, and the components do not solely pertain to direct investment statistics for some. The table below presents a snapshot of the current practices for these countries.

Table 2. Current Practices Shared by Member Countries in the Task Force

Countries	**Collection Practices**	**Dissemination Practices**	
		SPEs cross-border data separately identified in Own Statistics	Balance of Payments/IIP components
Hungary	Monthly, quarterly, and annual questionnaires sent to a sample of entities.	Yes	The same level of balance of payments and IIP components requested as for normal entities.
Netherlands	Monthly reporting based on a stratified sample approach. Annual benchmark survey. The trust offices report on behalf of the SPEs.	Yes	Most related balance of payments and IIP components.
Luxembourg	Monthly surveys, report on behalf of the SPEs. Accounting firms or provider of corporate services report on behalf of SPEs.	Yes	Most related balance of payments and IIP components.
United Kingdom	Quarterly and annual FDI surveys Annual Financial Institutions Register (FIRS) survey.	No	Direct investment statistics on SPEs collected and provided to the OECD and Eurostat (not available in national website).
United States	BEA's outward direct investment quarterly and annual surveys.	No	The same level of balance of payments and IIP components requested as for non-SPEs.
Brazil	Exchange contracts and data providers (Bloomberg, Reuters, etc.) Register of Financial Operations BCA (assets) and Census (liabilities) direct investment surveys.	No	Estimates of nonresident SPEs direct investment liability flows–nonresident SPEs loans to resident parent company. IIP (liabilities) and external debt intercompany lending; Direct investment liabilities and assets positions (estimates).
Mauritius	Annual sample survey. Management companies report on behalf of SPEs.	Yes	Most related balance of payments and IIP components.
Seychelles	Annual sample survey. The international corporate service providers report on behalf of SPEs.	Yes	Most related balance of payments and IIP components.

33. **The Task Force confronted the need to reconcile two competing principles.** On the one hand, cross-border transactions/positions of resident SPEs should be covered by balance of payments and IIP statistics regardless of their specificities. On the other hand, recording these transactions and positions in the core accounts may highly distort and limit the analytical power of ESS for some economic analysis.

34. **Direct investment financing through SPEs usually involves inflows and outflows considerably larger than those impacting the domestic economy.** These flows do not follow the usual direct investment pattern (i.e., stable flows from abroad to generate economic activity). The evolution of SPE flows is not correlated with the hosting economies' business cycles. Net direct investment of SPEs tend to be close to zero over long periods of time.[14]

35. **The Task Force is of the view that the IMF should separately identify cross-border transactions and positions for SPEs.** For proper decision making and analysis, some countries are separately identifying transactions and positions of SPEs in their ESS. Economic analysis of the external sector can be improved if balance of payments and IIP data of SPE-hosting economies are available, both gross and excluding SPEs. An exception may occur for offshore jurisdictions where the principal economic activity is related to SPEs.

36. **Small international financial centers are highly active in relation to the 'other investment' components of the international balance sheet.** Offshore banks in these jurisdictions make loans and receive deposits, and a significant proportion of their banking activity may be cross-border transactions between affiliates of major international banks.

37. **The Task Force also noted SPEs' involvement primarily in intra-group intermediation of financial resources and the need to consider the relevance of ultimate investing economies**. SPEs are usually not involved in decision making, and the financial risks are mostly carried by their parents. Their parent companies decide on the direction of the funds and even on the amount flowing through them. In most cases, SPEs are not targets of direct investment (compliant with the traditional definition of DI) and only participate in the routing of funds.

SPE Operations Beyond Direct Investment

38. **The significant role of SPEs in direct investment positions is evident in the CDIS data (December 2015) which show that both large and small economies in which SPEs have traditionally been located are among the main direct investment sources and prominent direct investment recipients (see Figure 1)**.

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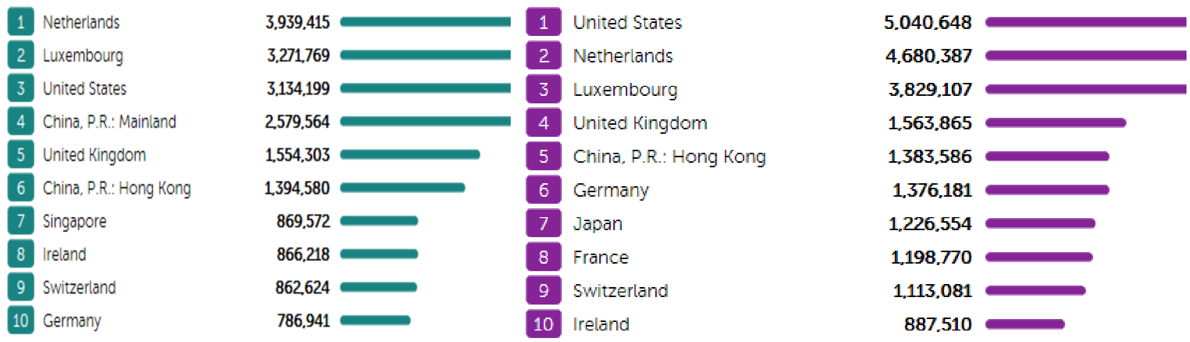
[14] Based on data for 25 emerging market countries, Blanchard and Acalin (2016) point out in their paper "*What does measured-FDI actually measure*" a surprisingly high correlation between quarterly direct investment inflows and outflows, which they conclude is due to the activities of SPEs.

Figure 1. Top Ten Reporting Economies in the World, U.S. Dollar Millions, as at end December 2015

Inward Direct Investment

Outward Direct Investment



Source: CDIS website, IMF

39. **SPEs have also become vehicles for portfolio investment (both debt and equity instruments), other investment, and even financial derivatives.** Conduits are used to *issue debt securities* and on-lend the funds to foreign parent companies and/or affiliates. In relation to *portfolio equity*, claims on SPEs may take the form of shares in corporations headquartered in SPE-hosting economies or shares in collective investment schemes (mutual or hedge funds) domiciled in these economies. The 2015 CDIS Guide (paragraph 2.17) states that transactions and positions are commonly transformed by SPEs, from debt to equity, long-term to short-term, local currency to foreign currency, etc., and these transformations alter risk characteristics in important ways.

40. **The Task Force plans to undertake in line with *BPM6* a comprehensive analysis of SPE data needs covering all functional categories of the financial account and IIP as well as the current and capital accounts.** A comprehensive understanding of the global financial architecture may be achieved only with countries' buy-in on the value of collecting cross-border statistics on SPEs. Currently, five Task Force members (Hungary, Luxembourg, Mauritius, Netherlands, and Seychelles) collect cross-border statistics on SPEs beyond direct investment.

41. **The importance of SPE-related portfolio investment positions is evidenced in the CPIS data.** As of June 2016, CPIS derived liabilities revealed that the top ten economies include major SPE-hosting economies, including Luxembourg, Cayman Islands, the Netherlands, and Ireland (see Figure 2).

Figure 2. Derived Portfolio Investment Liabilities for Top 10 Economies as at end June 2016, Trillions of US$

Source: CPIS website, IMF

Ultimate Investing Country

42. **The financing structures of MNEs have grown more complex and may obscure the ultimate source of direct investment into a country when direct investment statistics are presented based on the location of the immediate investor.** *BPM6* (paragraph 4.156) states that "as a basic principle, direct investment transactions and positions by partner country should be reported according to the immediate host or investing economy based on the direct relationships between the parties rather than on the residence of the ultimate partner countries." However, *BPM6* (paragraph 4.157) adds that "supplementary data on direct investment positions may be prepared according to ultimate source and host economy, particularly when direct investment is channeled through intermediate entities, such as holding companies or SPEs." In case of round tripping, the ultimate investing economy and ultimate host economy are the same (*BPM6*, paragraph 6.46).

43. ***BD4* recommends that countries compile statistics on the inward direct investment position by the ultimate investing country (UIC).** This presentation allows countries to look through the complex ownership structure to identify the country of the direct investor who ultimately controls the investment and, thus, bears the risks and earns the rewards of the investment.

44. **The OECD currently presents inward direct investment position by the UIC**[15] (as a supplement to the immediate investing economy) for 12 countries as at January 2017. Inward direct investment data broken down by the immediate counterpart investor and the ultimate investing economy reveal significant differences in the geographical breakdown for direct investment between the transiting economies and the ultimate ones. **Eurostat** recently initiated preparatory work to coordinate that EU member states conduct pilot studies for

[15] http://stats.oecd.org//Index.aspx?QueryId=64224

obtaining direct investment data based also on the ultimate ownership concept. Eurostat plans to provide its first report in 2019.

45. **Information on the ultimate destination of funds is useful for data users in some countries.** In the United States, the statistics on the Activities of Multinational Enterprises (AMNE) cover both directly- and indirectly-owned foreign affiliates classified by the country in which the affiliate's physical assets are located or in which its primary activity is carried out. Thus, AMNE statistics more closely reflect the countries in which goods and services are produced by the foreign affiliates than direct investment statistics, which are classified by the country of the affiliate with which the parent company has a direct position or transaction. For U.S. inward direct investment, positions are available by both the country of the foreign parent and of the ultimate beneficial owner (UBO) of the U.S. affiliate are classified by country. For affiliates with more than one foreign parent or UBO, positions are classified by each foreign parent or UBO is classified by country.

Pass-Through Activity of SPEs and Near-SPEs

46. **The Task Force took into consideration some members' specific concern about how to deal with the decreasing overlap between SPEs and pass-through activity.** From a policy perspective, the shift of pass-through activities towards entities not labelled as SPEs means that SPE statistics are likely to become less relevant as a proxy for pass-through activities. Some countries, for instance Netherlands, Hungary, Finland, and Portugal, have been increasingly observing pass-through activity in non-SPE entities.

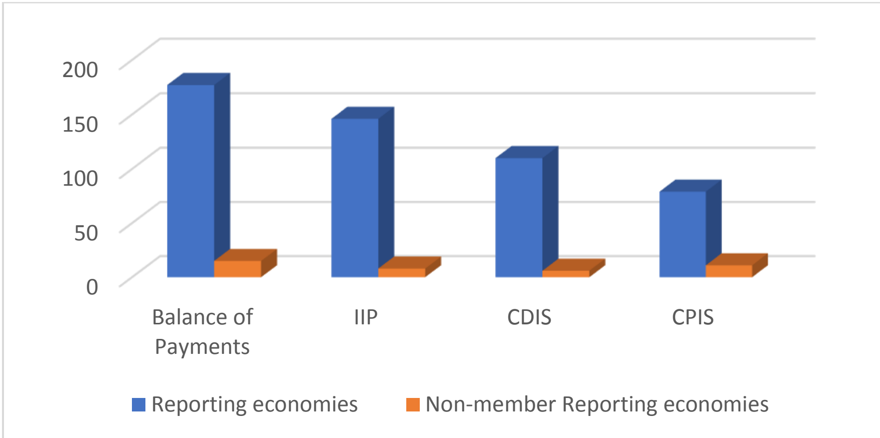
47. **The Task Force recognizes that one way of addressing this issue would be through a definition of SPEs that includes "near SPEs" and their associated pass-through activities.** Some members propose an alternative route treating pass-through activity as a distinct separate category. The way forward would be to investigate other avenues to provide supplementary measures of pass-through capital based on existing data sources.

IV. Appropriate Strategy for the IMF to Address Data Gaps on SPEs

A. The IMF's Data Collection of SPEs – Challenges

48. **While IMF's Articles of Agreement underscore the need to collect data from member countries for surveillance purposes, reporting to the IMF Statistics Department (STA) is voluntary.** STA collects and disseminates quarterly and/or annual external sector statistics for most of the 189 IMF members and other jurisdictions. Currently, data on balance of payments are reported by 177 economies, IIP by 146 economies, CDIS by 110 economies, and CPIS by 79 economies. These numbers include data reported by non-IMF-member economies; namely 15 for balance of payments, eight for IIP, six for CDIS, and 11 for CPIS.

Figure 3. Reporting Economies Including Non-Member Reporting Economies



49. **Currently, STA collects and disseminates cross-border data without a separate distinction of SPEs.** When reported by the host economies, SPEs data are embedded within the respective ESS components. Only a few economies report ESS without SPEs (see table 3 below).

50. **The metadata reported by economies to STA include information on whether ESS contains data on SPEs.** Table 3 summarizes the information provided by 120 IMF members regarding whether SPE data are included in the balance of payments statistics. Seventy-five respondents (63 percent) indicated that SPE data are at least partially covered, 28 respondents (22 percent) noted that SPE data are not covered, while 17 respondents (15 percent) mentioned that they are not aware of the existence of SPEs in their economies.

Table 3. Coverage of SPEs Cross-Border Flows in the Balance of Payments Statistics

Regions	Fully Covered	Partly Covered	Not covered	Unknown
Africa	3	2	11	2
Asia-Pacific	10	6	5	3
Europe	17	17	3	5
Middle East and Central Asia	2	5	-	5
Western Hemisphere	6	7	9	2
Total	**38**	**37**	**28**	**17**

Source: IMF's Balance of Payments Metadata, June 2017 (question 11)

51. **The Task Force fully supports the collection of cross-border statistics on SPEs by the IMF but recognizes that the IMF faces several challenges.** The role of SPEs and the importance given to this sector by country authorities varies significantly across

countries. Reasons gathered from member countries for excluding these entities within the scope of ESS are diverse: (i) lack of statistical capacity (lack of trained staff and appropriate IT infrastructure), (ii) lack of institutional capacity (low level of political support, lack of funds), (iii) poor coordination among institutions (bureaucracy, inadequate collaboration and information sharing), (iv) unavailability of information due to the confidential nature of these entities, and (v) unwillingness of the authorities to invest in data collection and compilation on SPEs due to the limited economic impact of SPEs on their domestic economies or the confidential nature of these entities.

52. **Different types of SPEs, registration obligations, and/or ways of sourcing relevant data mean that economies should find their own way to approach SPEs.** Hungary, Luxembourg, Mauritius, Netherlands, and the United Kingdom identify SPEs and conduct surveys with them using different estimation techniques. However, in many countries, SPEs are not regulated by central banks or statistical offices and a separate register for these entities is not maintained. Therefore, the IMF will need to develop guidance for countries seeking to collect this information that is tailored to their individual circumstances.

53. **The Task Force acknowledges the challenges countries face in producing high-quality statistics on SPEs.** One challenge is to keep an updated register of the population of SPEs, which may be very volatile by nature. Producing high-quality data on these entities may have fewer incentives than doing so on “regular” domestic entities. In that respect, a collection strategy could focus on readily available cross-border data on SPEs and over time through capacity development to improve data coverage. A trade off should be applied between obtaining the data and data quality.

54. **While the Task Force considers that the ESS collection framework for SPEs could ideally be accommodated within the IMF’s balance of payments and IIP reporting forms in the longer term, the resulting increase in reporting burden should be considered.** Indeed, the increased number of lines in *BPM6* reporting forms due to supplementary and memorandum items[16] has generated an ongoing debate in STA on reducing the reporting burden of economies. Actions have been taken for low statistical capacity countries to report only certain key components.[17] Increasing the number of lines in the current STA reporting forms may not be consistent with the medium-term strategy of the IMF.

Enhancing the CDIS as a First Step

55. **The Task Force favors a gradual approach to expanding SPE data collection, which could start by enhancing the CDIS template in the short term to collect**

[16] The supplementary items were included in *BPM6* to address users’ demand for more detailed breakdown, while the memorandum items comprise transactions mainly related to exceptional financing mostly due to the different treatment of arrears in *BPM6* compared to *BPM5*.

[17] See BOPCOM Paper 16/03 - Strategy to Compile External Sector Statistics in Countries with Low Statistical Capacity.

separately-identified SPE data. This would allow users to distinguish SPE-related direct investment positions data and would enhance cross-country data comparability.

B. Way Forward Strategy

56. **The Task Force shall further reflect on the design of an appropriate data collection and dissemination strategy to produce relevant SPE cross-border statistics.** This strategy requires Task Force members to consider the Fund's member countries varying degree of statistical development (combined with the relative importance of SPEs for each reporting country) and the voluntary approach to submitting data to STA. Enhanced data collection and compilation frameworks shall benefit policy analysts and IMF's surveillance needs. The use of balance of payments and IIP figures including or excluding SPEs will be the choice bearing users' objectives.

57. **The Task Force underscores that some economies will need to be convinced of the value of compiling and disseminating cross-border data that separately identify SPEs.** The IMF will need to approach relevant economies to foster the dissemination of internationally-comparable cross-border statistics of meaningful bearing. To make the case to policy makers and statisticians in relevant economies, the IMF will draw their attention on the current asymmetries in the ESS when reporting data devoid of SPEs. The specific sector breakdown of SPEs data must be also encouraged. Greater engagement with offshore centers will help with the success.

58. **Creating SPE registers in hosting economies must be fostered to support SPE data collection.** The central bank and/or statistical offices are usually the institutions responsible for compiling cross-border statistics. However, they may not be usually the institutions regulating or licensing SPEs. In that respect, the Task Force underscores the need for collaboration between the ESS compiling agencies and the SPE regulatory bodies to build a register and conduct surveys. This approach was successfully adopted by Mauritius and Seychelles, two small island financial centers.

59. **Task Force Members suggest using the Legal Entity Identifier (LEI)[18] in the medium term to monitor international asymmetries.** Enhancements of data collected within the LEI framework, including information on the direct and ultimate parents of the legal entities, may support further progress in the DGI-2. Some initiatives consider the mapping of LEI with other identifiers, such as local business registry identifiers, business identifier codes (see Annex X).

60. **The Task Force recommends adopting a gradual approach for countries that need to invest in a collection framework.** A tailored approach towards collecting key

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[18] The Global LEI System is a joint public/private sector initiative endorsed by the G-20 and the Financial Stability Board (FSB) for the unique identification of parties to financial transactions.

aggregates in the short to medium term is recommended. Countries' experiences or current practices must be used extensively to assist other economies.

61. **The Task Force recommends that counterpart positions based on mirror CDIS data for non-IMF members that are key offshore jurisdictions be used when liaising with authorities in such jurisdictions.** The information should be brought to the attention of policy makers and authorities to underscore that data would be of better quality when produced by their own compilers. The perception that producing cross-border statistics on SPEs can show how meaningful these territories are in the global financial architecture must be raised. The IMF should also consider launching a brief survey to selected economies, including key offshore centers, to collect information that may assist to design its strategy in collecting relevant SPE data.

62. **Pending the decision on an internationally-agreed definition of SPEs, the Task Force recommends that the IMF proceed with the collection of SPE cross-border activity based on guidance provided by current manuals for those countries already compiling SPE data.** Countries that may have the statistical capacity to collect supplementary details on near SPE cross-border activities from available data sources can provide the IMF with these data, preferably separating between SPE and near-SPE data.

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ANNEX I. TERMS OF REFERENCE OF THE TASK FORCE

Approved by the Committee in November 2016

Task Force on Compiling Data on Special Purpose Entities

Terms of Reference

I. Background

The discussion during the recent IMF Committee of Balance of Payments Statistics (the Committee) meeting of October 2016 focused on the need to bring to the forefront international comparable cross-border statistics for Special Purpose Entities (SPEs). Important improvements have occurred during the recent years—the IMF has been promoting the collection of data on SPEs; several countries are separately identifying SPEs in their external sector statistics; and the OECD and Eurostat are releasing data with and without SPEs. Notwithstanding these positive developments, challenges remain regarding (i) the collection of cross-border data on SPEs for several IMF members; and (ii) the suitability of existing IMF data reporting formats for analytical purposes. Given the larger outreach of the IMF, the Committee members agreed that a task force (the task force hereafter) be constituted to examine the need for developing broader initiatives to collect and disseminate internationally-comparable statistics on SPEs, and so augment the work of other international institutions.

II. Objectives

The task force will have the primary objective of developing an appropriate IMF statistical strategy for addressing existing data gaps on SPEs, assessing the data collection approach and the need to disseminate internationally-comparable statistics.

Central to achieving this objective, the task force will examine the practices currently in place to collect cross-border data on SPEs. This will require an interaction with countries already compiling data with and without SPEs. The information obtained may allow in specifying statistical development targets for IMF members that are currently not collecting data on SPEs.

The task force is expected to prepare an inventory of the different types of SPEs currently existing based on its members' experience and inputs. During this process, the task force may review possible definitions of SPEs. While it would be desirable, given the changing nature of these institutions, it is not a necessary condition for the task force to come up with a single definition of SPEs.

For those key offshore jurisdictions that are not IMF members but are currently participating in the IMF's Coordinated Portfolio Investment Survey, the task force may consider alternative arguments to persuade the authorities about the importance to produce ESS and separately identify SPE activities.

The task force shall equally propose a convenient way for disseminating comparable cross-border statistics, taking into consideration that data with SPEs when not separately identified may be misleading for analysis.

III. Rules of Procedure

The task force will meet and discuss by electronic means (i.e., mostly via email, while occasionally it can also hold video-conferences).

IV. Proposed Composition

The task force would comprise a few Committee Members representing economies and international organizations ideally with an interest and relevant experience in the field, with the IMF chairing and providing secretarial support. Representatives from other non-Committee member economies (e.g., offshore centers) may also be invited to participate in the task force.

V. Timeframe and Deliverables

The work will take place during November 2016–October 2018. The following deliverables and timetable are currently envisaged:

1. Preparation of the work plan including timetable, actions and expected deliverables during January 2017.
2. Preliminary report submitted at the October 2017 Committee meeting (draft report to be prepared by mid-September 2017).
3. Final report to be presented at the October 2018 Committee meeting (draft report to be prepared by mid-September 2018).

ANNEX II. LIST OF MEMBERS OF THE TASK FORCE

Members		Institutions	
1.	Ms. Patricia Abaroa	Bureau of Economic Analysis	USA
2.	Mr. Jitendra Bissessur	Bank of Mauritius	Mauritius
3a.	Mr. Melle Bijlsma	De Nederlandsche Bank	Netherlands
3b.	Mr. Krit Carlier	De Nederlandsche Bank	Netherlands
4.	Ms. Maria Borga	OECD	
5a.	Mr. Paul Feuvrier	Banque Centrale de Luxembourg	Luxembourg
5b.	Mr. Frederic Pierret	Banque Centrale de Luxembourg	Luxembourg
6a.	Mr. Michael Hardie	Office of National Statistics	United Kingdom
6b.	Mr. Sami Hamroush	Office of National Statistics	United Kingdom
7a.	Mr. Tjeerd Jellema	ECB	
7b.	Ms. Carmen Picon-Aguilar	ECB	
8.	Ms. Beáta Montvai	Central Bank of Hungary	Hungary
9a.	Mr. Veijo Ritola	Eurostat	
9b.	Mr. Radoslav Istatkov	Eurostat	
10.	Mr. Fernando Alberto Rocha	Banco Central do Brasil	Brazil
11a.	Mr. Terrence Payet	Central Bank of Seychelles	Seychelles
11b.	Mr. Naddy Marie	Central Bank of Seychelles	Seychelles
12a.	Mr. Eduardo Valdivia-Velarde	IMF (Chair)	
12b.	Ms. Padma S. Hurree-Gobin	IMF (Secretariat)	
12c.	Mr. Theodore Bikoi	IMF (Secretariat)	

ANNEX III. THE NEED FOR A DEFINITION AND TYPOLOGY FOR SPES

Prepared by ECB and Eurostat

1. **With the introduction of the new manuals, special recognition has been given to the concept of SPEs without formally making them an identified component of the accounts, or without formally defining them as an institutional sector or subsector.** Essentially, the lack of a formal definition appears to serve two purposes. First, it clarifies the explicit requirement that SPEs (however defined) should be included in the national macroeconomic aggregates, especially of the external accounts. Secondly, it provides guidance to countries to define SPEs while still providing flexibility to arrive at a concept of SPEs that is suited to the national circumstances.[19]

2. **There is a general agreement in the manuals that SPEs[20] are to be included in the framework of ESS, both in *BPM6* and in *SNA2008*.** In the context of direct investment (OECD Benchmark Definition, 4th edition (*BD4*)), SPEs should be included, however, in the context of the (Extended) Directional Principle (XDP), the recommendation is to present separately resident SPEs to avoid any distortion emanating from pass-through funds. *BD4* further recommends compiling supplementary series looking through nonresident SPEs by partner country and by industry classification.

3. **The need for an internationally-accepted definition is first and foremost driven by the need to have a comprehensive coverage and correct sector/institutional and transactions and positions classifications of such entities in the ESS.** In the context of *BD4*, a further premium is placed on improving the comparability of the SPEs concept across countries, as it would materially impact on the symmetrical recording of direct investment flows and positions per the XDP. Moreover, in the context of the compilation of regional aggregates, such as those for the EU and euro area to ensure comprehensive coverage in the ESS, it is necessary that a clear operational definition is provided for SPEs.

4. **The international statistical manuals provide guidance on how to identify SPEs.** The general approach is that the definition of SPEs would require some level of flexibility and may need to be adapted to local circumstances. Apart from a general set of criteria that can be used to identify and characterize SPEs, **it is worthwhile to employ a typology of SPEs**. Such a typology may assist compilers in identifying SPEs, but also may assist compilers in their institutional sector and activity classification (and their corresponding

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[19] See inter alia: *BPM6 4.51* "…Although these entities do not have a standard international definition, the possibility of recording them separately according to national definitions is discussed in paragraph 4.87."
BPM6 4.87 "… Although there is no international standard definition of SPEs, in economies where they are important they may be identified separately, according to either a national company law definition or in terms of a functional description possibly referring to their limited physical presence and ownership by nonresidents…"

[20] *BPM6* refers to SPEs as "flexible corporate structures with little or no physical presence" (*BPM6, para 4.50*).

transactions classification) as well as in determining input data requirements for compilation purposes. Due to their dynamism, the typology should be updated more frequently than the statistical manuals. A first attempt in defining such a typology was made in the context of the Task Force on Head-offices, Holding Corporations, and SPEs, instituted by the OECD, Eurostat, and the ECB in 2012. The joint European System of Central Banks/European Statistical System Task Force on Foreign Direct Investment discussed this list in May 2017.

5. **The set of clear criteria for SPEs that all manuals agree to are the following:**

1) Are legal entities that are recognized as an institutional unit;
2) Have little or no physical presence;
3) They establish the residency in the economic territory under whose laws they are incorporated or registered (*SNA2008* paragraph 4.56); and
4) Are established to exploit/make use of specific advantages provided by the country of residence/incorporation. Such advantages serve to minimize financial and legal risks and benefits offered would be "...any and all of low or concessional tax rates, speedy and low-cost incorporation, limited regulatory burdens, and confidentiality…" (*BPM6*, paragraph 4.50)

6. **The *first criterion*** makes it explicit that SPEs must have a *legal status***.** SPEs may be registered as limited liability companies or as partnerships and will have a relationship to tax authorities. Moreover, the criterion that SPEs are *institutional units* merits elaboration. First, the manuals have not established an explicit criterion that excludes the possibility that SPEs do not have independence of decision making. It is, therefore, not a priori given that resident SPEs may exist that meet the institutional unit test. Second, it is a sufficient condition for a legal unit to be recognized as an institutional unit if a criterion of foreign ownership or control exists. In the context of ESS, this is the default scenario.

Box 1 Artificial subsidiaries

The *SNA2008* and *BPM6* discuss the existence of "artificial subsidiaries", which are legal entities that have resident parents, fulfil specialized function exclusively for its parent and do not meet the institutional unit test. However, several of the examples[21] given for artificial subsidiaries do not match the key characteristics of SPEs (i.e., no or little physical presence) and the two categories, SPEs and artificial subsidiaries, should not be confused. (e.g., SPEs are not cross-border artificial subsidiaries).

7. ***The second criterion*** that SPEs have lack a physical presence in the economic area of residence is a key characteristic of SPEs. Typically, physical presence bears no relation to the financial size of the corporation, and no physical characteristics can be used to determine its economic center of interest. Due to the lack of physical presence and (possibly single) special purpose in relation to the financial and legal infrastructure of an economic territory

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[21] E.g., subsidiaries to take ownership of building or land, subsidiaries to be the nominal employer of staff, etc.

recognized by the manuals, **the *third criterion*** is the only one for establishing that the economic center of interest for SPEs is the country of incorporation.

8. In suggesting operational criteria, **the *fourth criterion*,** the manuals seem not elaborate the purpose of the SPE as part of the definition. For instance, references to tax planning or tax optimization, or reduction of financial or legal risks and obscuring the links between different entities as the sole reason for establishing a legal entity in a specific domicile are usually omitted from the operational criteria. Part of the justification for this seems to be the specialization that occurs leading to different types of SPEs existing in different domiciles. Additionally, it is justified by the dynamic nature of these entities, thus, reacting in an agile manner to changes in the external environment. As mentioned above, the Task Force on Head-offices developed a typology to assist in the identification of SPEs.

9. **A further, more operational set of criteria are often mentioned but their interpretation and importance seem to vary in the different manuals and appear open to interpretation or even challenge.**

5) Have little or no production and have little or no employment;
6) They are always related to another corporation, often as subsidiary, and SPE's are often resident in a territory other than the territory of the related corporations;
7) Are commonly managed by staff from another corporation that may be a related one;
8) The major part (90%) of assets and liabilities are vis-a-vis nonresidents

10. **Regarding the *fifth criterion*, the first part of little or no production may be subject to scrutiny** as there are several examples where SPEs are involved in the production of goods and services, notably when they are the economic owner of nonfinancial assets and are used to channel related income flows.[22] Specifically, royalties and license fees are service fees for the use of (nonfinancial) intellectual property assets. Examples exist of SPEs specifically established to own these assets in low tax domiciles as part of the corporate tax planning. Likewise, it is conceivable that merchanting operations would be channeled via a specific jurisdiction by means of an entity that fulfils the criteria of an SPE. **The second part of the criterion of little or no employment** appears problematic when non-zero employment is allowed, as it is specified with an absolute threshold (less than 3 employees, less than 10 employees…) but bears no relationship to the financial size of the SPEs. Operational guidance provided by the Task Force on Head-Office relies heavily on employment as a proxy for the criterion for independence of decision making, and thus to the entity being an

[22] This issue is referred to in the DNB note to the Committee "What Shall We Do with Pass-Through?: Report by the Nederlandsche Bank (BOPCOM-16/20)", where royalty and licensing enterprises were considered part of the "Special Financial Institutions" (SFI) sector, but excluded from the SPE definition as they were classified as nonfinancial corporations. See at http://www.imf.org/external/pubs/ft/bop/2016/pdf/16-20.pdf.

institutional unit in its own right. Some non-SPEs do not have themselves employment, but rather depend on a service provider (notary public, fund manager) for decision making.

11. **Regarding the *sixth criterion*, the *SNA2008*** specifies that the owner be always related to another corporation but allows for resident corporations by stating that the related corporations often are in a different territory of residence. ***BPM6*,** however, implies a broader scope of SPEs to entities that are involved in the holding and management of wealth for families and individuals. This implies noncorporate ownership of SPEs. ***BPM6*** on the other hand states that a typical feature of SPEs is that they are foreign owned. ***BD4*** states explicitly that SPEs are controlled directly or indirectly by a (nonresident) ultimate controlling parent.

12. **The *seven criterion* seems a corollary to having no or little employment.** It is listed in the *SNA2008*, but not referred to in *BPM6*.

13. **Regarding *criterion eight, BPM6* and *BD4* state that SPEs balance sheets would typically consist of claims on or liabilities to nonresidents.** Whereas ***BPM6*** places few restrictions on the functional categories associated with direct investment, ***BD4*** is concerned mostly with direct investment. Limiting assets and liabilities to direct investment (as is the practice in some countries) unfortunately excludes several types of SPEs that may occur where the larger part of the assets or the liabilities on the balance sheet would be outside the scope of direct investment. A fact finding in the context of the ECB Working Group of External Statistics made clear that in the context of ESS, most countries recognize other functional categories on SPEs balance sheets, as well as nonfinancial assets. SPEs out of scope of this criterion could include royalty and licensing companies (significant nonfinancial assets) and SPEs involved in merchanting. Captive insurance corporations, conduits, securitization vehicles, and entities set up for private wealth management may also be omitted when a narrower criterion is applied, as these involve other functional categories.

Box 2 Pass Through

The criterion of 90% assets and liabilities vis-a-vis nonresidents as applied in direct investment statistics is intended to isolate SPEs that have the sole purpose of establishing so-called pass-through direct investment, typically passive holding corporations enabling Multinational Enterprises (MNE) groups to pursue tax burden minimization.

Several countries report that pass-through direct investment in Europe does not exclusively occur through SPEs but that significant portions may also occur through "regular" enterprises having a clear physical presence in the economic territory, engaged in regular production[23]. These enterprises have few of the characteristics of SPEs as regards physical presence or special purpose but would provide for pass-through investment. Such entities have been reported in Hungary, the Netherlands, and Finland.

These findings may point at a less than perfect match between the concept of SPEs as implied by criteria two and three above and the concept of pass-through direct investment.

14. **In moving forward, there are several key characteristics of SPEs that are broadly supported by all the methodological manuals, but as one narrows down the scope from national accounts (which recognizes the possibility of resident related enterprises, and recognizes SPEs that may hold nonfinancial intangible assets) to *BPM6*, that exclusively concerns itself with the external sector, to *BD4* an ever-narrower set of criteria are provided**. The work done in the Task Forces on Head-Office and on Foreign Direct Investment in providing a typology of SPEs has been an important step toward addressing the need to operationalize the criterion related to the <u>purpose</u> for which these entities are created.

15. **Important issues that would need to be clarified in defining the typology of SPEs are:**

(1) Relation with the institutional unit test, notably whether SPEs could have independence of decision making, and thus could be a resident institutional unit in their own right.

(2) the precise nature of the relationship of an SPE with related companies, whether such a relation would be only direct control or ownership, or would go in the direction of being the concept of direct and indirect control by the ultimate controlling parent as suggested by BD4, or a broader concept.

(3) the manuals would also need to address whether criteria about the particularities of the balance sheet can be imposed, in view of the dynamic nature of these entities, and whether these can be related to the purpose of the entity.

[23] "How well does foreign direct investment measure real investments by foreign-owned companies? – Firm level analysis". Bank of Finland Research Discussion Papers 12/2014, Leino, Topias & Ali-Yrkkö, Jyrki.

ANNEX IV. SHORTCOMINGS AND CHALLENGES FOR COMPILING SPES IN BRAZILIAN ESS

Prepared by the Banco Central do Brasil

In Brazil, only nonresident Special Purpose Entities (SPEs) are relevant for External Sector Statistics (ESS). For assets, Brazilian groups access international markets through subsidiaries abroad, aiming to raise funds at low cost and lend it to resident headquarters. For liabilities, there are nonresident SPEs owned by direct investment resident units for pass- through and round tripping. Resident SPEs barely exist and are not significant.

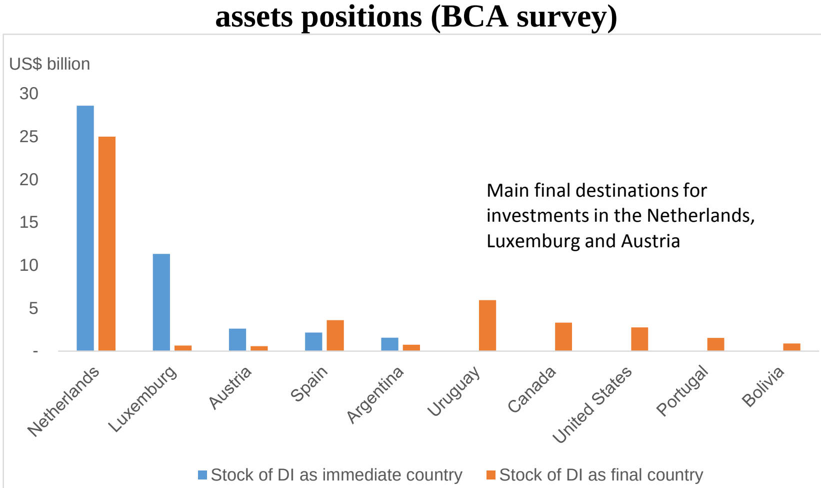
A. Direct investment and the role of SPEs in Brazil's ESS

Assets

1. **Regarding direct investment assets (flows and positions), Brazil shows important participation of direct investment conduit countries as immediate counterparties.** Those initial investments are then rerouted to the actual final destination. In this case, **SPEs function as a "pass-through" destination** as companies try to minimize taxation and other costs. To address this problem, more information on assets held by such SPEs is required for a full picture of Brazilian direct investment assets.

2. **The Brazilian Capitals Abroad (BCA) survey does not have a specific question on identifying nonresident SPEs, however, an attempt has been made to identify the final destination and the sector of economic activity of direct investment assets.** Since 2017Q1, the BCA survey asks if companies abroad control other companies and to identify those that are in the end of the control chain (name, location, final activities and net worth). Preliminary results have shown immediate host countries (like Netherlands, Luxembourg and Austria) as "conduit" countries. Final recipients for direct investment channeled by SPEs are spread in some 40 countries, including Uruguay, Canada, US, and Portugal (see Chart 1).

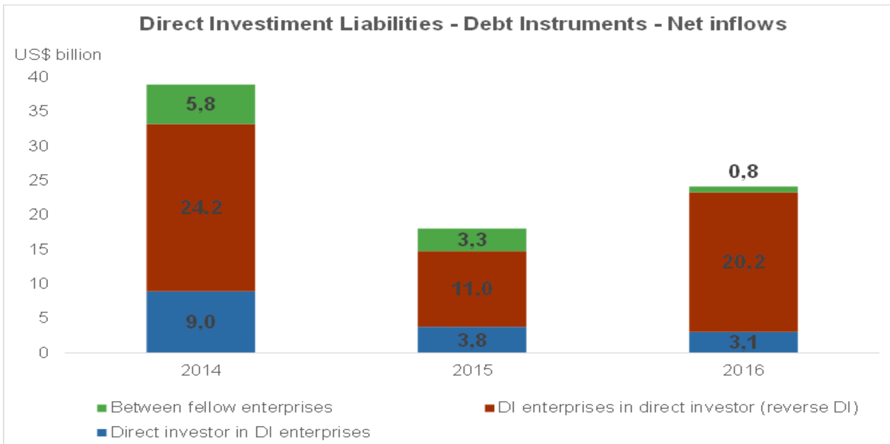
Chart 1: Immediate/final destination countries of Brazilian direct investment assets positions (BCA survey)



Liabilities

3. **The share of intercompany lending in the external debt has risen from 18.3 percent (March 2008) to 35.6 percent (March 2017).** Nonresident SPEs usually issue debt securities in the international markets and on-lend the proceeds to its headquarters in Brazil.[24] **For balance of payments flows, this raises direct investment liabilities' reverse investment** (Chart 2). The information about such issuances is collected monthly using data from international data providers (security-by-security). This aims to track the funding for intercompany lending.

Chart 2: Direct Investment Liabilities Net Inflows by debt instruments



4. **The classification as direct investment debt of those transactions is in accordance with *BPM6*.** Nevertheless, in 2015 both IMF[25] and OECD[26] stated that those flows are "*carrying a risk profile more similar to portfolio debt than other types of FDI inflows*". Criticism regarding direct investment methodology and compilation practices also came from the former IMF's economic counselor and director of the Research Department, Olivier Blanchard[27], and other economists. Blanchard concluded that "*in many countries, a large proportion of measured FDI inflows are just flows going in and out of the country on their way to their final destination with the stop due in part to favorable corporate tax conditions*".

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[24] BCB (2015a). Debt Securities Issued in the International Market by Offshore Subsidiaries of Brazilian Corporations. Inflation Report, March 2015. (only in Portuguese) pg. 64-67. http://www.bcb.gov.br/htms/relinf/port/2015/03/ri201503b5p.pdf.

[25] See paragraph 10 and Appendix I, paragraph 9, of the IMF Country Report 2015/121, May 2015. https://www.imf.org/external/pubs/ft/scr/2015/cr15121.pdf.

[26] OECD Economic Surveys Brazil, pg. 27-28, November 2015. http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-brazil-2015_eco_surveys-bra-2015-en#.WMdfZfnythE#page30

[27] What Does Measured Direct Investment Actually Measure? Policy Brief 16-17, October 2016. https://piie.com/publications/policy-briefs/what-does-measured-fdi-actually-measure.

5. **Regarding direct investment liabilities Brazil is a final destination in pass-through and round-tripping chains.** For example, around 72 percent of the direct investment liabilities inflows received by resident units that have an ultimate controller in China do not come directly from China but are channeled through subsidiaries, possibly SPEs, in countries such as Luxembourg or the Netherlands. As for round tripping, 3.5 percent of the direct investment equity liabilities position in 2014 had an ultimate controller in Brazil itself (8^{th} main country). This share was even higher in 2010, 8 percent.

B. Challenges, Solutions, and Future Work Agenda

CDIS Data

6. **The increasing relevance of SPEs in direct investment chains is reflected on the CDIS bilateral discrepancies found for Brazil.** The existence of complex ownership structures using SPEs cause asymmetries between countries' direct investment bilateral statistics by immediate direct investor. As large investments by Brazilian companies are usually channeled to SPEs that allocate the investment in third countries, counterparty countries face difficulties in accurately compiling inward positions for Brazilian direct investment.

Identification of SPEs as Direct Investors in Brazil and Direct Investment Enterprises Abroad

7. **The survey that collects data on direct investment liabilities position, "Census of Foreign Capitals in Brazil" (Census), includes specific questions about SPEs. Resident direct investment units must respond (a) whether they are SPEs and (b) whether their direct investor or fellow creditor enterprise are SPEs.** Considering nonresident direct investors, less than 1 percent, according to the Census, were claimed by the resident investment enterprises to be SPEs. **The validation process of the question "*The enterprise in Brazil is an SPE y/n?*" revealed to be challenging.** Respondents generally face difficulties in correctly comprehending the concept of SPE. The lack of elements for an internal validation of the responses and the current inexistence of a repository for direct investment enterprises' ownership structures, including the existence of SPEs on the chain, turns to be a problem.

8. **Brazil's ESS are not yet identifying SPEs established abroad by resident companies**. It is feasible to include in the BCA a question, similar to the Census, in the near future. The magnitude of the issue is implied by the fact that, considering immediate destination countries, direct investment assets are concentrated in tax havens (35 percent) and Austria, Netherlands, and Luxembourg (25 percent).

9. **Even after including questions in the surveys, a careful examination of the data on nonresident subsidiaries must be made**. Nonfinancial enterprises respondents usually apply the sector of their economic activity in Brazil to their subsidiaries abroad, even if those subsidiaries are SPEs. For instance, Austria, the second largest host of Brazilian direct

investment, has 58 percent of Brazilian invested enterprises declared as in extractive industries. However, it is known that those enterprises do not perform extractive activities; therefore, one may infer that they are SPEs used to conduit investment. The same happens in the Netherlands, with 64 percent of enterprises declaring to correspond to extractive industries. Luxembourg has 57 percent as declared in manufacturing industries. On the other hand, for Cayman, British Virgin Islands, and Bahamas, subsidiaries of Brazilian companies declared to perform financial activities, which are ultimately direct investment activities. Even in this case, we believe the sectorial reporting is wrong (see Table 1).

Table 1. Direct Investment Liabilities Positions - Census Survey

Country	Economic activity	% of DI in the country	% of total DI assets	SPEs conducting DI to third countries	SPEs in financial intermediation
Cayman	Financial activities	94%	21%		X
Austria	Extractive industries	58%	9%	X	
Netherlands	Extractive industries	64%	9%	X	
British Virgin Islands	Financial activities	63%	6%		X
Bahamas	Financial activities	84%	7%		X
Luxembourg	Manufacturing industries	57%	7%	X	

Future work

10. **The Banco Central do Brasil (BCB) is initiating a corporate project to build a new database to gather and maintain information on the ownership chains between resident and nonresident enterprises.** It will also depict the sector classification of the parties. By consistently sharing this information among our ESS compilation systems, the BCB will enable those datasets to apply the same classifications to each pair of resident/nonresident parties, improving the quality of the published data across our ESS. One crucial feature of this database is an SPE identification.

11. **The BCB also plans to extend to the balance of payments the concept of ultimate investor and ultimate host, which are already compiled for positions.** Currently, it is not feasible to do so because the International Transactions Reporting System (ITRS), the main balance of payments data source, only identifies the immediate origin/destination of the flows. The new database will likely enable us to use such data for the balance of payments compilation process.

Annex V. Current Practice for Dealing with SPEs, Near-SPEs, and Pass-Through Activity

Prepared by De Nederlandsche Bank and Magyar Nemzeti Bank

The Case for the Netherlands

1. **The Netherlands employs the concept of Special Financial Institutions (SFIs)—dating back to the 1950s—to identify pass-through activities.** Currently, about 15 thousand SFI are registered, with a total balance sheet of EUR 4.000 billion. The identification of SFIs is fully integrated in the production process of national accounts, balance of payments, and other statistics through labelling these entities in the Netherlands' business register. The publications of balance of payments and IIP show SFI's data separately.

2. **SFIs are companies or institutions that, irrespectively of their legal form, are resident in the Netherlands and in which nonresidents have–directly or indirectly through shareholders' equity or otherwise—participate or exercise influence and which aim at or which are highly involved in (possibly in combination with other group entities):**

- Holding foreign assets and liabilities;
- Pass through of receipt from intellectual property rights from foreign group companies; and/or
- Generating turnover mainly related to reinvoicing to and from foreign group companies.

3. **The definition of SFIs is translated into a decision tree, jointly developed by DNB and Statistics Netherlands.** Key criteria are:

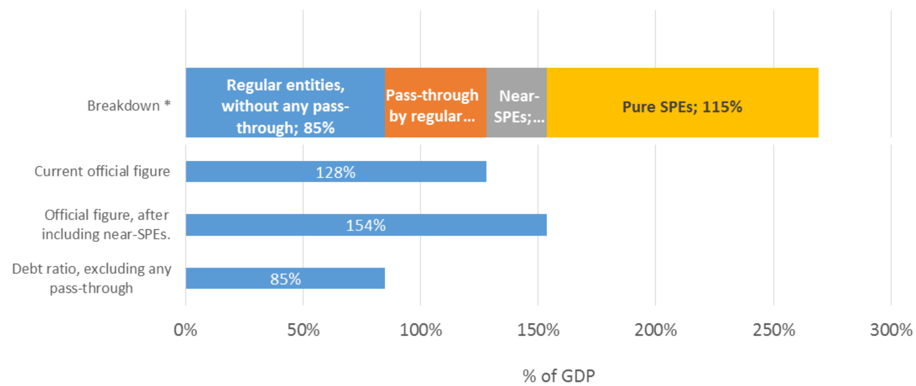
- A SFI should be resident, but ultimately controlled by nonresidents.
- At least 90 percent of a SFI's assets and liabilities should be foreign (for financing companies this criterion is only applied to their assets).
- A royalty and licensing company's revenues from export of royalties and licenses should be at least 90 percent of total turnover.
- A securitization vehicle should be originated by a foreign bank (and at least 90 percent of its assets and liabilities should be foreign).
- The domestic turnover of a SFI should not exceed EUR 25 million.

4. **The concept of SFIs, therefore, adheres to many characteristics of SPEs.** It relates to foreign-controlled entities without much substance, whose balance sheets are dominated by foreign assets and liabilities. Nevertheless, the SFIs concept deviates in some respects. First, it is less stringent concerning nonfinancial activity, accepting more nonfinancial

activity with higher pass-through activity on the balance sheet. Secondly, financing companies with mostly foreign assets and liabilities on their balance sheet are regarded as SFIs even when they do not suffice the criteria for an institutional unit (for instance when these have no employees and are a subsidiary of a domestic nonfinancial corporation).

5. **Despite these efforts, the Netherlands increasingly observe passing-through activity in regular production entities, not labelled SFIs, amounting to around 40 percent of total inward investment (clean from SFIs).** In 2018, the Netherlands will align its practice with the latest statistical manuals. Thus, about EUR 700 billion of foreign assets and liabilities will no longer be identified as SFIs, almost doubling inward investment (corrected for SFIs). Also, key economic indicators such as the corporate debt ratio will be seriously affected, increasing from 128 percent to 154 percent (Chart 1). To accommodate users, the Netherlands envisages adopting a ***nationality concept*** in its publication, separating national entities from foreign entities.

Chart 1. The Netherlands corporate debt ratio, 2015



* This breakdown is based on estimates, not on published figures.

The Case for Hungary

6. **Hungary has identified SPEs for statistical purposes from 2006 onwards.** In line with international statistical requirements, the MNB compiles and publishes balance of payments and IIP statistics including SPEs. However, beyond these requirements, Hungary's balance of payments and IIP are also compiled and published without SPEs for economic analyses.

7. **SPEs in Hungary are resident enterprises that basically perform their activities abroad, and their connection to the domestic economy is minimal.** SPEs are primarily involved in the intra-group intermediation of financial resources; their parent companies decide the direction and the amount of the funds flowing through them. In the balance of payments and IIP statistics (mostly direct) investments and income of these investments are recorded. Their transactions inflate the assets and liabilities in the financial account and in the IIP, recording huge financial flows and stocks having nothing to do with the external financing of the national economy. However, as resident entities they are not targets of direct

investment, their total balance in the balance of payments is close to zero over a long period. SPEs cannot have goods or services recorded under Hungary's current practice.

8. **Criteria used in practice for the identification of resident SPEs in Hungary**:

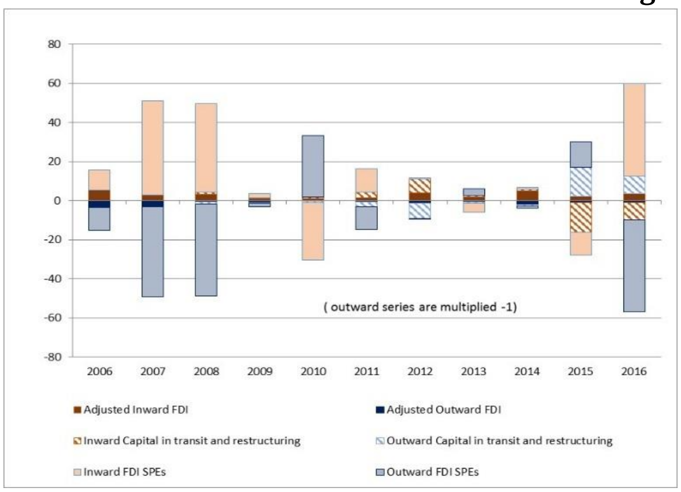
- The enterprise is a legal entity, formally registered in Hungary and subject to fiscal and other legal obligations in Hungary (same as OECD criteria).
- The enterprise is fully owned by a nonresident or its resident investor is also a SPE. The enterprise has no subsidiary in Hungary. However, if the SPE criteria are satisfied for a resident enterprise and its resident subsidiary (i.e., their operations dominantly relate to nonresidents), they are jointly considered SPEs.
- In their balance sheets, the nonfinancial/financial assets ratio is negligible, and financial assets consist mainly of equity, long-term loans, and securities. (same as OECD criteria).
- Turnover derives primarily from export revenue below EUR 2 million annually. (same as OECD criteria; i.e., little or no production in the host economy).
- The number of staff tends to be very low (1–3 persons) (same as OECD criteria).
- The enterprise has high registered capital (or capital reserves), which lend immediately or it purchases equity participations/establish branches abroad (same as OECD criteria).
- The material cost of the enterprise is negligible.
- The name of the enterprise refers to the off-shore nature of the activity.

9. **Besides SPEs, two further types of pass-through "activities" have been identified resulting in huge transactions without any real effect on the domestic economy: (i) capital in transit transactions and (ii) asset portfolio restructuring.** These pass-through transactions are linked to the near-SPE phenomenon and are identified on a case-by-case basis, based on the direct monthly and quarterly company reports for the compilation of balance of payments statistics. The individual transactions themselves are in focus instead of the entities. This micro-level approach (checking related transactions case-by-case) is manageable because the panel of relevant companies includes only 30–40 enterprises with a few pass-through monthly/quarterly transactions. Financial inflows and outflows sometimes in different financial instruments (equity or debt) with almost identical values are identified within a short period. The magnitude of these transactions is often much larger than the value of regular transactions. Pass-through transactions are usually related to special functions of resident affiliates of multinational enterprises. It is important that the foreign owner, and not the resident affiliate, decides whether the special activity is performed through the country.

10. **The other form of pass-through activity identified as such is asset portfolio restructuring (i.e., the statistical consequences of restructuring of a multinational enterprise group on local or global scale), when a multinational corporation realigns its asset portfolio in a cross-border fashion: liquidating one subsidiary, establishing a new**

subsidiary, merging subsidiaries, etc. In these cases, extremely high capital withdrawals and equity investment transactions can be recorded in the balance of payments without any real equity withdrawal from or equity investment into the country. In Hungary, direct investment flows—excluding capital in transit and asset portfolio restructuring transactions—are published on the MNB website on an aggregate basis, and broken down by country and activity as supplementary information of direct investment flows. The different magnitude of SPEs, near-SPEs, and adjusted direct investment flows in Hungary is illustrated in Chart 2.

Chart 2. The impact of SPEs and near-SPEs on FDI flows in Hungary (in EUR Billion)



Implications from the Hungarian and Dutch experience

- The impact of pass-through activities on domestic economic statistics may be large.
- Types of pass-through activity may vary between countries and over time.
- Differences in practices to identify passing-through activities hinder comparability of National figures.
- Main purpose should not be comparable SPE statistics, but comparable domestic economic statistics.
- To strive for comparable statistics corrected for pass-through activity, a common definition of SPEs should be applied, which should be flexible through time to accommodate for eventual changes in the appearance of pass-through activity.
- Irrespective of the definition of SPEs, not all pass-through activity can be covered through an entity based approach.

ANNEX VI. CONTRIBUTION OF SPEs IN LUXEMBOURG'S EXTERNAL SECTOR STATISTICS

Prepared by the Banque Centrale de Luxembourg

1. Luxembourg SPEs overall contribute to direct investment. The so called "pure holdings" only issue capital and hold equities. More sophisticated entities also receive and provide intercompany loans. Another possible pattern is debt security issuance (portfolio investment), which proceeds are on-lent to another group affiliate (direct investment – debt instruments). Relatively small other investment figures correspond to either bank loans, bank deposits, or (rarely) loans vis-à-vis entities outside the group. Lastly, SPEs also hold and/or issue financial derivatives.

2. Most SPEs are affiliates of nonresident MNEs. Those MNEs set up entities in Luxembourg for various reasons but a common pattern is that their "consolidated" contribution to Luxembourg's net IIP is rather small. In other words, large gross asset positions at "group" level are matched by similar liability positions even if many intermediate entities have only resident assets and liabilities.

3. This pattern is also reflected on the current account. SPEs positions carry large investment income credits and debits but small investment income balance.

Table 1: SPEs in Luxembourg – IIP as at end December 2015

Billions of euros

		Total	SPEs	non-SPEs
Assets	**Total**	**9 790**	**5 149**	**4 641**
	Direct Investment	**4 925**	**4 735**	**190**
	Equities	*3 393*	*3 306*	*86*
	Debt instruments	*1 533*	*1 428*	*104*
	Portfolio Investment	**3 449**	**216**	**3 233**
	Other Investment	1 228	181	1 047
	Financial Derivatives	**187**	**17**	**170**
Liabilities	Total	9 772	5 111	4 661
	Direct Investment	**4 413**	**4 189**	**224**
	Equities	*2 884*	*2 721*	*163*
	Debt instruments	*1 529*	*1 468*	*61*
	Portfolio Investment	**4 223**	**665**	**3 558**
	Other Investment	955	241	714
	Financial Derivatives	**180**	**15**	**165**

Source : Banque centrale du Luxembourg

Challenges in compiling SPES cross-border statistics

4. While the CDIS database is broadly speaking a rich and complete source for statistical analysis, three problems bring about cross-border inconsistencies which are reflected in the CDIS database and are difficult to explain to users.

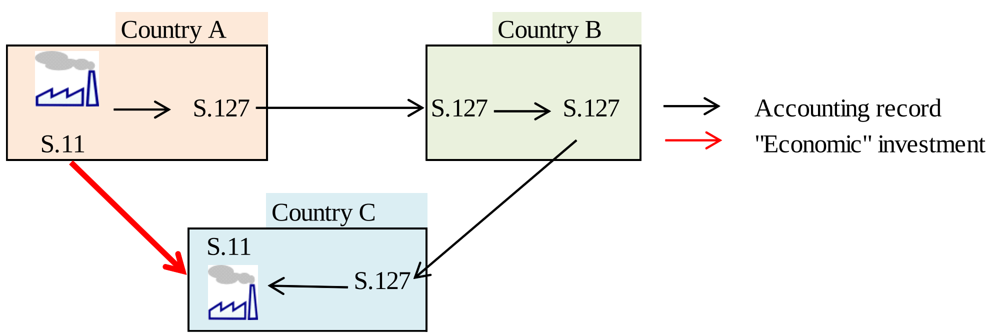
Non-response and data validation problems inherent to any statistical survey

5. Many SPEs, particularly those that do not issue instruments in open markets, are not supervised by the regulator. They usually do not produce quarterly financial statements and overall have ex-ante little experience in filling in statistical forms.

SPEs coverage vs "pass through" rules and ways to perform the institutional unit test

6. The *SNA 2008*, para 4.61 clarifies pass-through rules. An entity that cannot act independently of its parent and is simply a passive holder of assets and liabilities (sometimes described as being on auto-pilot) is not treated as a separate institutional unit <u>unless it is resident in an economy different from that of its parent</u>. Otherwise, the entity is treated as an "artificial subsidiary".

7. The flow chart below illustrates an instance, whereby nonfinancial company in A grants a loan to its nonfinancial affiliate in C via B. In line with *SNA 2008*, B's SPE would record a liability vis-à-vis A. Yet A may (contrary to *SNA 2008* recommendation) look through B, directly record the claim to C's S.11 and therefore generate a mismatch.



Valuation of unlisted equities

8. Even when adopting an international standard for the valuation of unlisted equities, the compiler often has a single source (i.e., the reporter) and no access to accounting details, at least for first quarterly estimates.

ANNEX VII. THE GLOBAL BUSINESS SECTOR IN MAURITIUS

Prepared by Bank of Mauritius

1. Companies incorporated in Mauritius for doing business primarily outside of Mauritius are called **Global Business Companies (GBCs)** and are governed under the Financial Services Act 2007. A GBC may be incorporated as a company limited by shares, guarantees, or by shares and guarantees; as a limited life company, or as an unlimited liability company. These entities are either licensed as **Category 1 ("GBC1")** or **Category 2 ("GBC2")** companies by the Financial Services Commission (FSC). An important component of the GBC sector in Mauritius is the Corporate and Trust Service Providers, known as Management Companies (MCs). These entities are also licensed by FSC and act as company secretary to GBCs. By law, GBCs are required to be administered by a MC[28].

2. Therefore, the identification of GBCs in Mauritius is straightforward given that GBCs are licensed and regulated by the FSC, and managed by a MC. The FSC has a full list of all MCs in operation as well as the GBCs.

3. The number of GBC1s in Mauritius has increased since 2007, while the number of GBC2s has almost halved during the same period (see table below). These developments reflect the vision of authorities to have GBCs of substance for the jurisdiction to tap in the benefits of valued added to various sectors of the economy.

	2007	2017 (As at end May)
GBC1s	8,761	11,499
GBC2s	20,999	10,505
Total	**29,760**	**22,004**

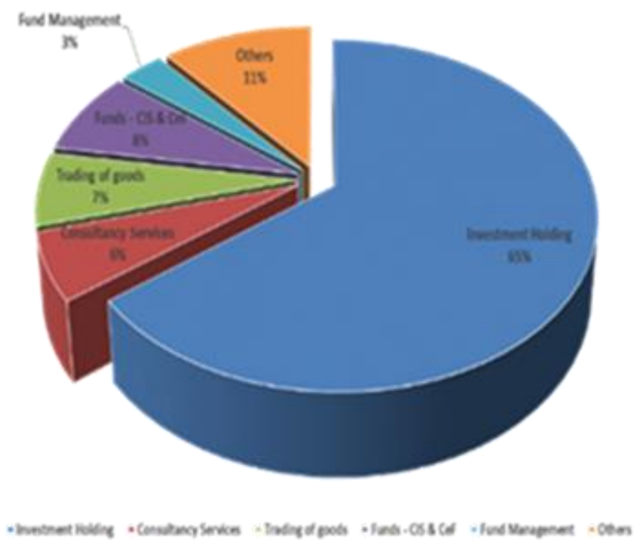
Source: Financial Services Commission (FSC), Mauritius

4. GBCs are involved in both financial and nonfinancial activities, including: aircraft financing and leasing; assets management; consultancy services; employment services; information and communication technologies; insurance; licensing and franchising; logistics and/or marketing; operational headquarters; pension funds; shipping and shipping management; trading; financial services; and other activities as may be approved by the FSC.

[28] Thus, the MC is expected to, among others, (a) prepare and submit applications for Global Business Licenses; (b) conduct proper due diligence on the background and prospective activities of these applicants; (c) advise the Board of Directors of GBCs about regulation they should comply; and (d) act as the main point of contact between the GBCs and the FSC.

5. **GBC1 entities** may be structured as a protected cell company, as an investment company, a fund (a collective investment scheme or a closed-end fund), and a limited partnership. A GBC1 has the following characteristics:

- Access to Mauritius' network of double taxation avoidance treaties[29]
- Tax resident in Mauritius
- Can employ residents, rent offices, and have bank accounts in Mauritius
- May be a private or a public company required to file an annual financial statement with the FSC
- May carry activities such as investment holdings, trading, consultancy, or nonbank financial activities like funds, stock broking, captive insurance, investment adviser/dealer or protected cell companies, and many others
- To conduct a nonbank financial activity, it should seek the relevant "activity" license with the FSC (just like any resident companies) on top of its GBC1 license. The relative proportions of these activities (depicted in the chart below) show that investment holdings make up for nearly two-thirds of all type of activities.



6. **GBC2** entities are not residents for tax purposes and as such do not benefit from tax treaties. GBC2s cannot conduct financial activity. However, they observe a less stringent regulation compared to GBC1s in terms of disclosures and license fees among others. The large majority of GBC2s are investment holding companies.

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[29] Corporate tax in Mauritius is 15 percent and GBC1s are entitled to a tax credit equivalent to the higher of the actual foreign tax or 80 percent of the Mauritius tax on its foreign source income. With a tax rate of 15 percent combined with a foreign tax credit of 12 percent, the effective tax rate for the GBC1 is only 3 percent.

Collecting and disseminating cross-border statistics on GBC1s

7. The Bank of Mauritius conducts an annual survey of GBC1 companies through the MCs, for which it has an operational arrangement with the FSC. The Bank is legally empowered by its Act to prepare the balance of payment accounts and the external assets and liabilities position of Mauritius.

8. The survey information covers cross-border flows and positions data, which form the basis for compiling and disseminating external sector statistics.[30] Data from GBC1s are also included in compilation of national accounts by SM, geared towards computing the value addition of the GBC sector to gross domestic output. The sample for the GBC1 survey involves around 25 MCs and covers about 90 percent of the GBC1s. No grossing up is made for the survey results, given that no census has been undertaken yet.

9. Cross-border data collected from GBCs is by functional category. The main functional categories identified are direct investment and portfolio investment. The questionnaire collects information on financial claims of the surveyed enterprise and its subsidiaries, on nonresidents and the liabilities of the enterprise and its subsidiaries to nonresidents. The survey collects financial transactions (acquisition or disposal of the enterprise's financial claims on, or liabilities to, nonresidents).

10. External sector statistics in Mauritius include the GBC sector, which is identified on an "*of which*" basis. The inclusion of the GBC sector in these statistics have increased their magnitude but thanks to the separate identification of the GBC sector, users can assess the contribution of this sector to external sector statistics.

11. As per survey results, over 75 percent of receipts (credit) and payments (debit) in the income account of the current account pertain to direct investment proceeds.

Challenges in conducting the GBC1 survey

12. Several challenges have been identified in the conduct of the GBC1 survey:

- Despite guidance provided, there is often confusion among reporting of functional categories.
- GBC1 companies may move from one MC to another and this can give rise to double-counting.
- Reporting does not provide for specific details and creates jumps in the data.
- Staff turnover makes it difficult to ensure consistency in reporting.

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[30] ESS include balance of payments, International Investment Position, Quarterly External Debt Statistics, Coordinated Portfolio Investment Survey, and Coordinated Direct Investment Survey.

ANNEX VIII. SPEs FROM A UK PERSPECTIVE – INITIAL GEOGRAPHICAL ANALYSIS

Prepared by Office of National Statistics, United Kingdom

The Office for National Statistics' direct investment surveys include questions to identify whether a U.K. business receives investment from or invests in nonresident SPEs. Initial research confirms that financial centers play a particularly important role for SPE inward direct investment in the UK. Exploring these data helps to deepen the understanding of SPEs involving the UK and to identify areas for further development.

The UK collects information on SPEs involving U.K. companies

1. The UK's direct investment surveys contain questions on SPEs, with the view of identifying U.K. companies that have nonresident SPE affiliates and/or nonresident SPEs that are investing in the UK. Analysis of these data is ongoing, so no results have been published yet.

2. The survey records the partner country for each direct investment transaction, and results may be aggregated to regions as defined by Eurostat. Financial centers are identified as those located "offshore" in the same source. In addition, the analysis considers Luxembourg and the Netherlands as EU-based financial centers. Financial centers are separated from their specific geographical region in this note.

3. Excluding financial centers, the EU was the largest destination for UK-owned nonresident SPEs, followed by the North Americas. The highest number of SPEs in the EU were in France, Germany, and Ireland while the US is the country with the highest individual number of UK-owned SPEs overall. Many UK-owned SPEs are also in Australia.

4. Financial centers accounted for just over one-third of the SPEs outward direct investment of the UK, of which about half were located in the Netherlands and Luxembourg. Jersey and Guernsey have the highest number of SPEs among non-EU European economies whereas Bermuda and the Cayman Islands had the highest number in South and Central America.

5. Financial centers play a much bigger role with SPEs inward investment to the UK than UK-owned SPEs abroad. Close to 60 percent of SPEs investing in the UK were from a financial center, where EU financial centers (Netherlands and Luxembourg) accounted for 40 percent of SPEs immediate parents. Indeed, most SPEs immediate parents are located in the Netherlands, followed by the US Bermuda, Barbados and Jersey.

6. For SPEs located outside financial centers, North America has the highest share, followed by the EU. The same three EU countries for outward SPEs (France, Germany and Ireland) had the highest number of SPEs immediate parents in to the UK. Furthermore, all SPEs immediate parents from South and Central America and Africa are located in their

respective financial centers, while the proportions for Asia and Asian financial centers were relatively similar for inward FDI.

7. The analysis above focused upon the numbers of SPEs for outward and inward direct investment in the UK. It can be extended by looking at asset values, implied rates of return, and categorizing by industry and continent. Separate research can also look at information on resident SPEs in the UK. Taken together, this will deepen the understanding of SPEs and inform the development of direct investment statistics.

ANNEX IX. FOREIGN SPECIAL PURPOSE ENTITIES IN THE U.S. INTERNATIONAL ACCOUNTS

Prepared by US Bureau of Economic Analysis

Many U.S. multinational enterprises (MNEs) have direct investment relationships with SPEs abroad. These SPEs include foreign holding companies (including intellectual property holding companies), offshore entities associated with investment funds or insurance, and the foreign "owners" of domestic firms that have reincorporated abroad (corporate inversions). The Bureau of Economic Analysis (BEA) includes transactions with these foreign SPEs in the international economic accounts but data for SPEs are not separately collected or identified in the statistics. BEA has been able to identify some SPEs in the survey data it collects on direct investment based on the characteristics of the entities. This annex reviews the various types of foreign SPEs that are observed through the direct investment and MNE statistics, their activities, and cross-border transactions.

1. Many MNEs own their foreign operations through holding companies incorporated offshore. In BEA's statistics these entities are classified in the industry category "holding companies, except bank holding companies." Statistics for this category are separately available so that data users can see how much investment flows through holding companies. In 2015, holding companies accounted for more than half of the U.S. direct investment position abroad, primarily in the Netherlands, Luxembourg, the United Kingdom (which in BEA's statistics includes the Channel Islands), the Caribbean, and Ireland. These entities have minimal physical presence and employment (0.3 percent of foreign affiliate net property, plant, and equipment and 0.1 percent of employment in 2014). While it is useful to know the amount of U.S. investment abroad that is channeled through pass-through entities, many BEA data users prefer information on the ultimate destination of the funds that pass through the holding companies.

2. MNEs also use holding companies to hold intellectual property that they create elsewhere, typically at U.S. headquarters. They can use cost sharing agreements, or some other technique, to legally transfer the intellectual property from the U.S. parent company to the foreign holding company. Once the intellectual property is in a country offering tax advantages, it can be licensed to affiliated parties in other countries.

3. Offshore entities are also used for channeling the investments of U.S. hedge funds, private equity funds, and other investment funds. The foreign entities have little or no physical presence and employment. They serve to pool investor funds in a jurisdiction that has tax and legal advantages for the investors and channel the funds to the assets that they are ultimately invested in. Often the investors have little or no voting interest in the funds, which are controlled by investment managers. The relationship between a U.S. investment manager and an offshore investment fund entity (such as a master fund) may meet the definition of direct investment. The fund entities may make portfolio investments (in the case of hedge funds and mutual funds) or direct investments in operating companies (these are typically

private equity funds). In the case of hedge funds, BEA believes that even though a direct investment relationship may technically exist, the investment bears more characteristics of portfolio investment. Recently, BEA began to exclude from direct investment those U.S. investments in offshore private funds that meet the technical definition of direct investment but make only portfolio investments. Instead, these investments are included in portfolio investment. Investments in offshore entities that make direct investments in operating companies, such as private equity funds, remain in direct investment. In BEA's statistics these entities are classified in the industry category "funds, trusts, and other financial vehicles." This category is separately available for data users, but may include some entities that would not be considered SPEs.

4. Another type of U.S.-owned foreign SPE in BEA's direct investment data are entities associated with reinsurance. Anecdotally, we have noted many of these entities are registered in the Caribbean and associated with U.S. car dealerships reinsuring primary insurance products sold to U.S. car buyers. Some Caribbean countries offer financial advantages for these types of entities. They have no physical presence.

5. BEA's statistics of inward direct investment are affected by corporate inversions. A corporate inversion occurs when a U.S. corporation that is the ultimate owner of its worldwide operations takes steps to become a wholly-owned subsidiary of a foreign corporation. A U.S. corporation can initiate an inversion either by creating a foreign corporation to be its new parent or by merging with an existing foreign corporation and ceding control. In this situation, the domestic entity is an operating company and the foreign direct investor may be an SPE or an operating company. A U.S. business can also choose to initially incorporate in a low tax country by creating an SPE in that country as its foreign parent. These companies are, in a sense, "born inverted." BEA includes transactions associated with inversions in direct investment because they give rise to a U.S. company becoming foreign-owned; but they are undertaken for different reasons from traditional direct investments and, in most cases, do not appear to bring the same benefits (such as financial or intangible assets) to the host economy as traditional direct investment.

6. BEA includes SPEs in the standard direct investment components. SPEs are combined with operating companies in the published data, but separate industry categories for finance companies (especially "funds, trusts, and other financial vehicles") and for holding companies are helpful for assessing the impact of SPEs on the statistics.

7. SPEs may also report on BEA's surveys of international trade in services. There may be international transactions related to intellectual property, insurance, and financial services associated with SPEs. For example, when a foreign affiliate makes payments under an intellectual property cost sharing arrangement with its U.S. parent, these payments should be reported on BEA surveys as U.S. exports of R&D services. BEA is not able to separately identify the services transactions of SPEs. BEA's services transactions are classified by type of service, not by industry. Data users have expressed interest in data on trade in services by

industry of the exporter/importer and BEA is investigating how to produce those statistics. Such a series may be helpful in assessing the participation of domestic SPEs in cross-border services trade.

8. There are international financial transactions in portfolio investment and other investment associated with SPEs. These are collected together with non-SPE transactions and are not separately identifiable.

ANNEX X. LEGAL ENTITY IDENTIFIER

Prepared by Banque Centrale de Luxembourg

The Legal Entity Identifier (LEI)[31] is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. The publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace. The drivers of the LEI initiative (i.e., the Group of 20, the FSB, and many regulators around the world) have emphasized the need to make the LEI a broad public good.

Around 450,000 LEIs have been issued in some 200 jurisdictions by a network of 30 issuers federated by the Global LEI Foundation under the oversight of 70 public sector body members of the LEI Regulatory Oversight Committee (https://www.leiroc.org/).

The LEI will turn out to be useful when it becomes "readily available", for instance when either SPEs themselves or provider of financial services performing the statistical reporting on behalf of the clients have a direct access to the LEI of counterparts. An instance of "readily available" information useful for macroeconomic statistics is the ISIN standard for portfolio investment instruments. Even though more and more LEIs are issued, the standard is not yet "readily available" in the financial sector, not to speak about the nonfinancial one.

Nonetheless, in the long run, the LEI might help statisticians linking financial entities at national and international level and remains as such a promising tool.

[31] https://www.gleif.org/en/about-lei/introducing-the-legal-entity-identifier-lei

ANNEX XI. IMPACT OF THE OFFSHORE ACTIVITY ON THE BALANCE OF PAYMENTS AND IIP

Prepared by the Central Bank of Seychelles

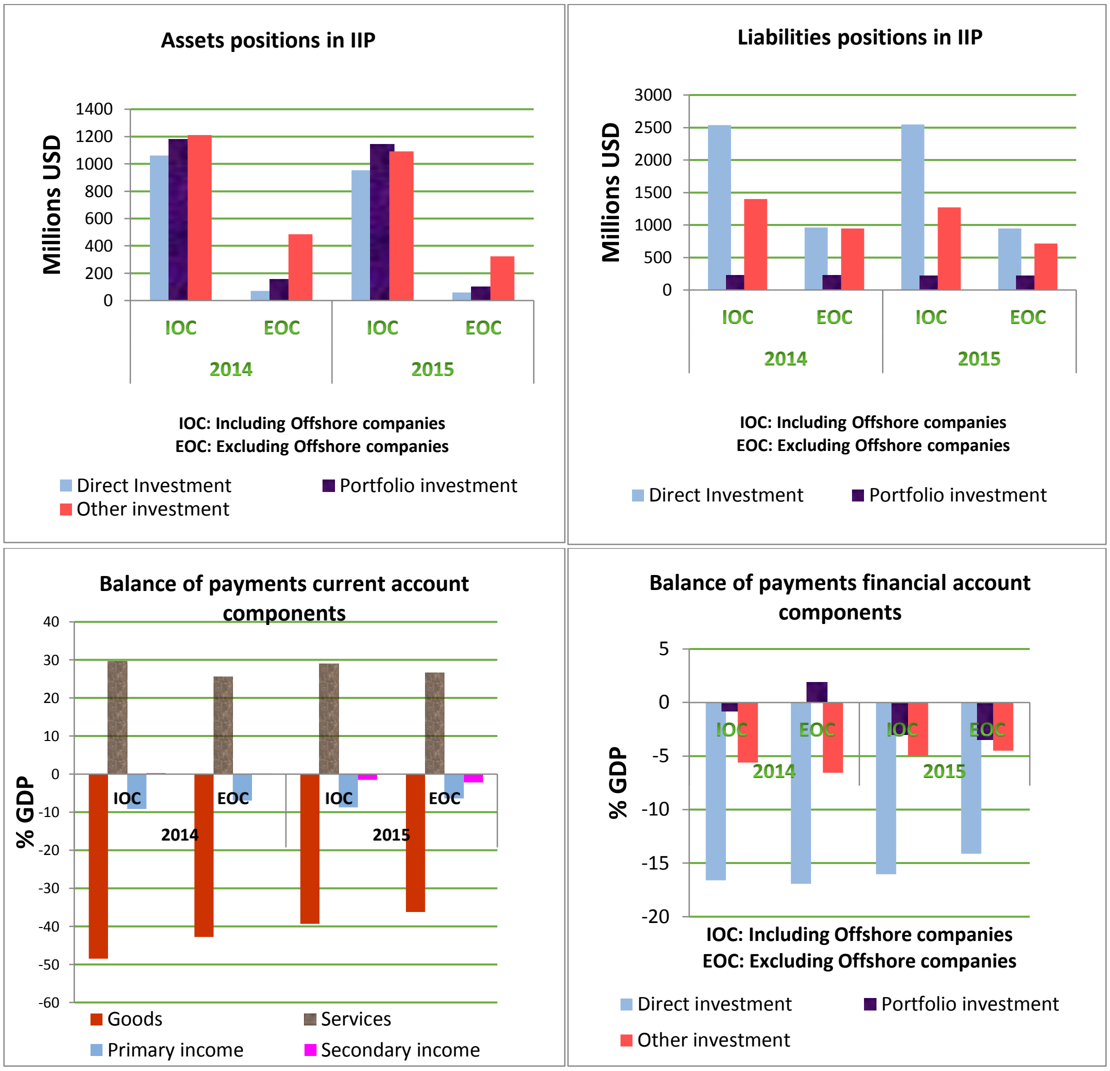
1. Although for balance of payments and IIP purposes SPEs registered in Seychelles are considered as residents, they generally operate in what we term in Seychelles as the "Offshore Sector". The regulatory body for offshore activity in Seychelles is the Financial Services Authority (FSA). Entities operating in this sector are registered under a separate company register which is managed by the FSA.

2. In the case of Seychelles, data are collected on a specific type of SPEs called Companies Special License (CSL). According to the Companies (Special License) Act 2003, CSLs (formally considered as tax-residents in Seychelles) are low-tax companies and are also able to access and use the growing number of international Double Taxation Avoidance Treaties (DTAs) concluded by Seychelles. The CSLs may be organized to undertake the business of investment management and advice, offshore banking, offshore insurance and re-insurance, investment services, holding, marketing, intellectual property and franchise, human resources, and they may also be used for any international trading in goods and provision of services. The CSL are requested to keep balance sheet records and to provide annual financial statements to FSA.

3. A Memorandum of Understanding on data sharing and confidentiality requirements was signed between the CBS and FSA under which FSA coordinates a survey for the collection of cross border statistics on one type of SPE namely CSLs on behalf the Central Bank. The survey is conducted on an annual basis usually between June and September of every year. The data collection, which is conducted via the cross-border statistics framework, covers positions, flows, and all the functional categories stipulated in the ***BPM6*.** The cross-border data on SPEs are being used for analytical purposes as the Central Bank incorporates some of the statistics collected in its policy decisions.

4. The inclusion of data on the offshore activity in the ESS has a large impact on the external assets and liabilities of the country. Reliable data are essential for informed-economic policy-making by the authorities. The Figure below shows the impact of the offshore activity on different components of balance of payments and IIP of Seychelles. The most significant impact is on position data, where it affects three assets components—direct, portfolio, and other investment; on the liability side, the impact is mostly on direct investment. Balance of payment transactions are also affected but to a lesser extent. To better serve users' needs, Seychelles disseminates balance of payments and IIP data both including and excluding data on offshore activities.

ESS Datasets Including and Excluding Offshore Companies



Source: IMF TA Report, April 2017