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For discussion

Final Report of the Task Force on Special Purpose Entities

Prepared by the Statistics Department

INTERNATIONAL MONETARY FUND

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ACRONYMS

2008 SNA	*System of National Accounts, 2008*
AEG	Advisory Expert Group on National Accounts
BEA	Bureau of Economic Analysis, US
BEPS	Base Erosion Profit Shifting, OECD
BD4	*Benchmark Definition of Foreign Direct Investment*, 4th edition, OECD
BOP	Balance of payments
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
DI	Direct investment
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
FFHC	Foreign-controlled Finance and Holding Companies
FSAP	Financial Sector Assessment Program, IMF
GFSC	Government Finance Statistics Committee, IMF
IIP	International investment position
IMF	International Monetary Fund
ISWGNA	Inter Secretariat Working Group on National Accounts
MFSMCG	*Monetary and Financial Statistics Manual and Compilation Guide*
MNE	Multinational enterprises
OECD	Organization for Economic Cooperation and Development
ONS	Office for National Statistics, UK
SFI	Special Financial Institutions
SPEs	Special purpose entities
STA	Statistics Department, IMF
TFSPE	Task Force on Special Purpose Entities
UK	United Kingdom
US	United States

Executive Summary[1]

In October 2016, the International Monetary Fund's (IMF) Committee on Balance of Payments Statistics (the Committee) supported a stronger involvement of the IMF in improving the coverage of special purpose entities (SPEs) in external sector statistics (ESS) and endorsed the creation of a Task Force on SPEs (TFSPE) with a two-year mandate.[2] This report concludes the work of the TFSPE and presents its recommendations to the Committee for endorsement. The TFSPE proposes an international definition of SPEs in the context of cross-border statistics as well as a data collection framework for cross-country comparable SPE data. In developing its recommendations, the TFSPE has consulted ESS compilers, a range of economies (through a survey), and potential users of SPE data within and outside the Fund. Questions to Committee members are included at the end of the Executive Summary.

In a complex global financial system with increasing cross-border linkages, SPEs play an important role. The use of SPE structures has rocketed in a context of multifaceted and flexible multinational enterprise (MNE) structures, which have become increasingly global and seek to obtain benefits from different legal and tax regimes.

Since the volume of SPE-related cross-border financial flows and positions may hinder the interpretation of macroeconomic statistics, there is a growing demand from users of statistics for separate information on SPE activities. Identifying separately SPE activities is essential for market analysts and policy makers to analyze cross-border interconnectedness and understand the associated risks. However, progress in collecting internationally-comparable detailed cross-border statistics on SPEs has been relatively scarce to date.

Although certain international initiatives have advanced somewhat the availability of separate data on SPEs, the absence of an internationally agreed SPE definition to collect cross-country comparable data needs to be addressed. In the context of collecting and separately identifying SPEs within cross-border statistics, this report is proposing both an international definition of SPEs and a data collection framework for cross-country comparable SPE data.

In formulating a definition of SPEs, the TFSPE (i) took stock of guidance provided in the current statistical manuals; (ii) conducted a survey on SPEs among a range of

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[1] The preparation of the report was primarily undertaken by Ms. Padma Hurree-Gobin and Mr. Theodore Bikoi (both Task Force Secretariat), who coordinated the contributions of the Task Force members. The TFSPE was chaired by Mr. Artak Harutyunyan (2018), Mr. Carlos Sánchez-Muñoz (2017–18), and Mr. Eduardo Valdivia-Velarde (2016–17). The report has benefited from comments by Messrs. Carlos Sánchez-Muñoz and Paul Austin, as well as from consultation within the IMF.

[2] The TFSPE's Terms of Reference, including its primary objective, and membership are presented in Annexes I and II, respectively.

economies, including key offshore centers; and (iii) prepared and examined an inventory of different types of SPEs guided by the current manuals, its members', and other economies' experiences. In a context of increasing globalization, SPEs have evolved beyond those structures anticipated in the current statistical manuals. While originally SPEs were mostly set up by financial institutions, they have evolved to include nonfinancial specialized entities established by MNEs to manage intellectual property rights, research and development, trade, and other activities as part of the group-wide financial and profit maximization strategy.

The TFSPE proposes an SPE definition including an upper limit of up to five employees, while no specific numerical threshold is recommended to account for physical presence and/or physical production. For the purpose of cross-border statistics, SPEs are defined to be directly or indirectly controlled by nonresidents. The possibility of using the same definition of SPEs in other macroeconomic statistics domains should be discussed and agreed with the relevant international statistical bodies.

The definition proposed by the TFSPE is as follows:

An SPE, resident in an economy, is a formally registered and/or incorporated legal entity recognized as an institutional unit, with no or little employment up to maximum of five employees, no or little physical presence and no or little physical production in the host economy.

SPEs are directly or indirectly controlled by nonresidents.

SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services; and/or (ii) isolate owner(s) from financial risks; and/or (iii) reduce regulatory and tax burden; and/or (iv) safeguard confidentiality of their transactions and owner(s).

SPEs transact almost entirely with nonresidents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.

To support the practical implementation of the proposed definition, the TFSPE has developed a decision tree and a typology of SPEs. The decision tree will be used as an operational guidance to assist national compilers in identifying SPEs for ESS purposes, while the typology aims to delineate the different types of SPEs based on their economic functions and relate them to their institutional sector.

In the light of the growing demand from users (as confirmed by extensive consultations), the TFSPE proposes to launch an international data collection with a view to separately identify cross-border transactions and positions for SPEs. The following was considered to make the proposal: (i) perceived costs and benefits of data collection; (ii) current data availability; (iii) specific users' needs; (iv) confidentiality aspects; and (v) the need for gradual implementation and flexibility.

The TFSPE, reflecting on the earlier proposal to consider the feasibility of enhancing the Coordinated Direct Investment Survey (CDIS) to collect data on SPEs, does not recommend doing it in the short term. Consistent with the feedback received from the Committee at its 2017 meeting, increased concern on data confidentiality by reporting countries because of the individual country details of the CDIS points to the impracticality of such a collection at this stage. As a first step, also consistent with the feedback gathered from the Committee, the TFSPE is proposing to launch a separate reporting template for only a reduced number of BOP and IIP components (the ones for which SPE activities are most relevant) to be reported annually. Economic analysis of the external sector will be significantly improved if BOP and IIP data of SPE-hosting economies become available, both including and excluding SPEs.

Based on the SPE survey results, it can be expected to have about two dozen reporters at the launch of the data collection, with about half of them being prominent SPE hosts. This would already be a large leap forward in the availability of separate data on SPE-related flows and positions. Following the approval of the Committee, the launch of the new reporting framework could possibly target the release of 2020 annual data by end-2021.

TASK FORCE RECOMMENDATIONS

The concluding recommendations, reached at the end of Task Force's mandate, are:

- Adopt an international definition of SPEs in the context of ESS, accompanied by a decision tree and a typology, that will assist compilers in their task to collect and report cross-border data. The decision tree will be used as an operational guidance, while the typology aims to delineate the different types of SPEs based on their economic functions and relate them to their institutional sector.

- Launch an international data collection with a view to separately identify cross-border transactions and positions for SPEs. Adopt the separate reporting template for a reduced number of BOP and IIP components, to be reported annually. The proposed template, specifically tailored for resident SPEs, allows two levels of data reporting: a minimum versus an encouraged set of components.

Questions to the Committee:

1. *Do Committee members endorse or have any views on the proposed international definition of SPEs and the accompanying decision tree and typology?*

2. *Do Committee members endorse launching an international data collection using the proposed template?*

3. *Do Committee members agree with the proposed timeline for launching the data collection exercise targeting 2020 data to be released in 2021?*

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 on SPEs (TFSPE) 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 TFSPE was chaired by the IMF and comprised representatives of eight countries and four international organizations (see Annex II).

2. **This report concludes the work of the TFSPE and presents its recommendations to the Committee for endorsement.** In developing its recommendations during the past two years, the TFSPE has (i) widely consulted different stakeholders, (ii) conducted a survey on SPEs, and (iii) consulted various potential users of SPE data within and outside the Fund.

3. **The remainder of this report is organized as follows. Section II** discusses the motivation behind the need to separately identify SPEs in cross-border statistics. It also presents current initiatives and discusses the complexity and evolution of SPEs over time. **Section III** benefits from the findings of the survey conducted by the IMF to inform the proposed international definition of SPEs in the context of cross-border statistics, accompanied by a decision tree and a typology, to support the practical application of the proposed SPE definition. **Section IV** presents a data collection proposal, including a specific data reporting template. **Section V** sets a path for harmonizing the definition and the treatment of SPEs across all macroeconomic statistics, which are proposed to be discussed and agreed with other statistical domains, possibly via the Inter Secretariat Working Group on National Accounts (ISWGNA) and the Advisory Expert Group (AEG) on national accounts, and the Government Finance Statistics Committee (GFSC). The release of supplementary information based on the nationality, or ownership, concept (a complement to the traditional presentation of macroeconomic statistics based on the residency concept) is also discussed.

II. BACKGROUND—THE NEED FOR DATA ON SPES

A. The Need for Identifying SPEs in Macroeconomic Statistics

4. **In a complex global financial system with increased cross-border transactions and positions, SPEs play an important role.** The existence of SPEs is not a new phenomenon. In the upsurge of multifaceted and flexible multinational enterprise (MNE) structures, which have become increasingly global by seeking to obtain benefits from different legal and tax regimes, there has been a widespread use of SPEs. As a result, SPE-related cross-border financial flows and positions have grown significantly, underscoring the need for macroeconomic statistics to untangle their activities from the rest.

5. **Separating out statistics on SPE activities is, therefore, essential for market analysts and policy makers to analyze cross-border interconnectedness and understand the associated risks.** Covering SPE activities in statistics is necessary for a proper recording of international capital flows and positions. At the same time, identifying separately SPE-related cross-border transactions and positions is an important step towards improving the analytical value of statistics, given that these entities' activities usually have no or limited impact on the domestic (host) economy.[3]

6. **There is a growing demand from users to separately identify SPEs in the context of increasing difficulties in analyzing cross-border transactions and positions.** Data on pass-through funds connect the dots from originating countries via pass-through countries to their ultimate destination. For economies which are financial centers hosting SPEs, separately identifying flows and positions related to resident SPEs is important for analyzing pass-through activities, so that users have the opportunity to disentangle these from other flows and positions, which are related to the domestic economy. Blanchard and Acalin (2016), in their analysis, showed that net direct investment (DI) inflows and outflows are highly correlated, suggesting that "measured" DI gross flows may reflect flows through rather than to the country.[4] For countries with low presence of SPEs, such as those with comparatively high taxes or more restrictive capital flow regulations, separately identifying nonresident SPEs may also be of value for improving outward DI statistics.

7. **The growing importance of SPEs is a key factor impacting cross-border financial flows and positions.** Damgaard and Elkjaer (2017) underscored how the strong SPE presence in certain economies is an important reason for decoupling genuine DI from other SPE-associated flows and stocks. Excluding SPEs can provide a better geographic distribution of DI for economies that host a significant number of them because with SPEs included it can appear they are receiving investment from countries whose investors are just passing capital ultimately directed to third countries through SPEs. This is why users are requesting the dissemination of separately identified data on SPEs, so as to improve the understanding of the cross-border flows associated with real economic activities, including DI.

8. **The significant role of SPEs in DI positions is evident in the IMF's Coordinated Direct Investment Survey (CDIS) data.** The CDIS shows that both large and small

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[3] In jurisdictions hosting multiple SPEs, there may be some limited impact on the domestic economy reflected through activities such as contributions to the government revenue through payments of license fees and creating jobs for lawyers and accountants.

[4] Based on data for 25 emerging market countries, Blanchard and Acalin (2016) find a surprisingly high correlation between quarterly DI inflows and outflows and conclude that "measured FDI flows are quite different from true FDI flows and may reflect flows through rather than to the country, with stops due in part to (legal) tax optimization."

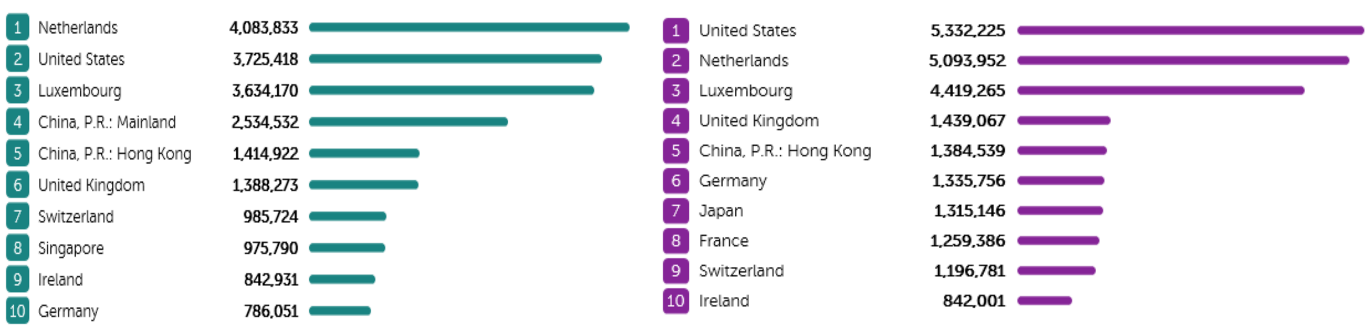
economies in which SPEs have traditionally been located are among the main originators and recipients of DI investment (see Figure 1).

9. **Furthermore, the importance of SPE-related portfolio investment positions is shown in the Coordinated Portfolio Investment Survey (CPIS) data.** As of end-December 2017, CPIS-derived liabilities[5] reveal that the top ten economies include major SPE-hosts, including Luxembourg, Cayman Islands, the Netherlands, and Ireland (see Figure 2).

Figure 1. Top Ten Reporting Economies in the World, US Dollar Millions, as at end-December 2016

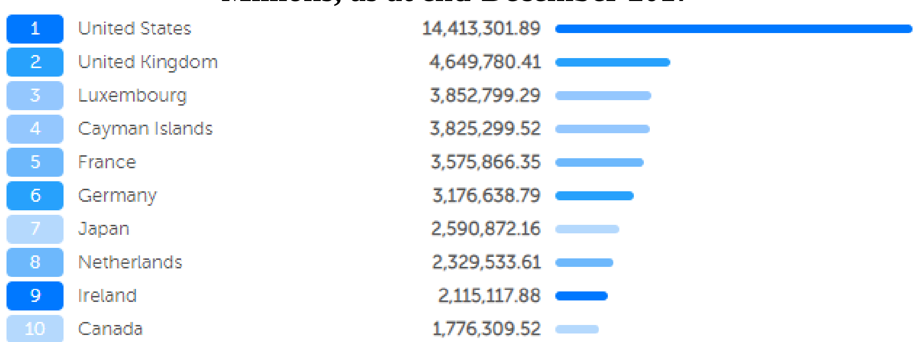
Inward Direct Investment

Outward Direct Investment



Source: CDIS website, IMF

Figure 2. Derived Portfolio Investment Liabilities for Top 10 Economies, US Dollar Millions, as at end-December 2017



Source: CPIS website, IMF

10. **In this setting, progress in collecting internationally-comparable detailed cross-border statistics on SPEs has been relatively scarce.**[6] The lack of adequate cross-border statistics on SPEs hampered the assessment of the retrenchment in cross-border

[5] The CPIS-derived liabilities show, from the perspective of the economy issuing the securities, the value of securities held by nonresidents as "derived" from information reported by the holders of the securities (creditor information).

[6] Eurostat and the OECD are currently collecting SPE-related cross-border data only for DI.

capital flows caused by the global financial 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 2018).

11. **Steps have been taken to identify SPEs in the statistical methodology.** The latest updates of manuals and guidelines—the United Nations' *System of National Accounts 2008 (2008 SNA)*, the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual (BPM6)*, and the *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*, and the Organization for Economic Cooperation and Development's (OECD) 4th edition of the *Benchmark Definition of Foreign Direct Investment (BD4)*—to reflect on the effects of globalization and the increasing role of MNEs, have all paid attention to SPEs (see Annex III). The Second Phase of the G-20 Data Gaps Initiative (DGI-2) has highlighted the importance of identifying sectoral interlinkages and balance sheet exposures for assessing financial stability, and the need for separating data on SPEs has surfaced repeatedly during the DGI-2 discussions.

12. **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.** The IMF Financial Sector Assessment Programs' (FSAPs) stability assessment reports equally acknowledge the financial risks associated with SPEs in jurisdictions hosting these entities. Consequently, the availability of external sector data that separately identify SPEs would facilitate comparable and useful data for wide-ranging analysis, including balance sheet risks and spillovers.

13. **In the context of cross-border statistics, both the *BPM6* and *BD4* have emphasized the need for separately identifying flows and positions of resident SPEs.** Paragraph 4.87 of the *BPM6* states that "in economies with large DI flows through resident SPEs, it is recommended that these flows be shown as a supplementary item, so that they can be identified separately." *BD4* includes the reporting of separate statistics for resident SPEs as standard, rather than supplemental, series for DI statistics. Paragraph 263 of *BD4* states, "Aggregate foreign direct investment statistics on this same asset and liability basis should also be provided separately for resident SPEs."

14. **Notwithstanding the importance of separately identifying the transactions and positions of SPEs for analytical purposes, the IMF currently collects and disseminates SPEs' cross-border activities embedded (i.e., not separately identified) within the respective components of the ESS.** The IMF's methodological advice and operational guidance has focused on the coverage/inclusion of SPE flows and positions in the ESS (not limited to DI components), but so far not on the need to separately identify them even in economies for which they are important.

15. **The OECD, on its part, has initiated in 2014 the collection and dissemination of DI positions and flows for its members according to *BD4* guidelines, where resident SPEs are separately identified.**[7, 8] The collection[9] consists of (i) quarterly aggregate DI statistics on a directional basis with resident SPEs separately identified, and (ii) detailed annual DI statistics on an assets/liabilities basis with and without resident SPEs. The OECD is now also disseminating DI position data by immediate counterpart (immediate investor or host) and by ultimate investor for a limited number of countries.

16. **Eurostat also collects and disseminates DI statistics[10] (flows, positions, and income) for European Union countries separately identifying resident SPEs.**

17. **There are other ongoing initiatives at both regional and international levels that are focusing on SPEs, including data collection.** In 2013, the European Central Bank (ECB)/Eurostat/OECD Task Force on Head Offices, Holding Companies, and SPEs produced a typology of SPEs to assist compilers in identifying SPEs and in determining the appropriate institutional sector and activity classification. This typology was discussed by the joint European System of Central Banks (ESCB)/European Statistical System Task Force on foreign DI in May 2017. The ECB is equally defining a set of reporting requirements for SPEs by its member states, to start on a voluntary basis ideally by end 2018. The scope to collect data beyond DI has been discussed by the ECB Working Group on External Statistics.

18. **Although the above initiatives have advanced somewhat the availability of separate data on SPEs, the absence of an internationally agreed SPE definition and collection of cross-country comparable data need to be addressed.** In the context of collecting and separately identifying SPEs within cross-border statistics, this report is proposing both an international definition of SPEs and a data collection framework for cross-country comparable SPE data. The proposal for the definition and data collection is guided by standard statistical definitions of (i) the economic territory and residency principle, (ii) institutional units, and (iii) institutional sectors.

B. Evolution of SPEs

19. **The financial activities of SPEs have grown continuously since they were first involved in securitization in the 1970s.** On the one hand, tax legislations in offshore financial centers have been key drivers for incorporating SPEs, while on the other hand financial innovation and globalization have spurred SPEs' evolution both in volume and

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[7] The templates and reporting schedules are available at http://www.oecd.org/daf/inv/Reporting-BMD4-FDI-statistics.htm.

[8] See https://www.oecd.org/corporate/FDI-BMD4-brochure.pdf

[9] Currently, three separate datasets of DI 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").

[10] See https://ec.europa.eu/eurostat/web/structural-business-statistics/global-value-chains/fdi.

nature of business. In addition to securitization, they are now used for several applications including but not limited to risk sharing, asset transfer, maintaining the secrecy of owners and activities, management of intellectual property rights, financial engineering, regulatory reasons, property investing, structuring financial derivatives, off-balance sheet purposes, mergers and acquisitions (e.g., leveraged buyouts), research and development, megaprojects delivery, and other purposes. It has become evident that MNEs nowadays do not only establish SPEs to arrange worldwide borrowing and lending activities or to "intermediate" between the ultimate controlling unit and the ultimate beneficiary but also to reallocate the collection and distribution of royalties, license fees, other fees, and profits. Countries with lower tax rates, or providing the opportunity of using fiscal incentives, are very attractive for the establishment of such conduits and vehicles.

20. **While originally SPEs were mostly set up by financial institutions,[11] the term has evolved to include nonfinancial specialized entities established by MNEs involved in research and development, trade, and other activities as part of the group-wide financial and profit maximization strategy.** Consequently, while SPEs were mostly engaged in pass-through activity and round tripping, they are progressively more involved in other financial transactions such as portfolio and other investment, as well as in operations that substantially impact the current and capital accounts. The involvement of SPEs in these kinds of activities has broadened the scope of SPEs which are no longer restricted to financial vehicles. Tax-related strategies have emerged involving trading besides investment activities. Research and development intensive firms have benefited from flexibility to shift profits.[12] Besides royalty companies, SPEs provide other services including operational leasing, re-invoicing, and in some cases even trade in goods.

21. **"Near-SPEs" (or "SPE type", "SPE-like"): these denominations refer to hybrid companies displaying both SPE-like (financial intermediation) and non-SPE-like activities.** For instance, the Netherlands has observed an increasing number of Special Financial Institutions that are involved in regular production.[13] The emergence of near-SPEs arose with the need to employ more staff legally as a result of the OECD's Base Erosion Profit Shifting (BEPS)[14]—an initiative to address tax avoidance strategies that exploit tax gaps and mismatches to artificially shift profits to low- or no-tax locations with no or little economic activity.

22. **In the light of the evolving nature of SPEs, there is a need to develop further guidance on SPEs beyond what is in the current statistical manuals.** Some forms of SPEs are not explicitly recognized in the current statistical manuals—for instance SPEs holding

[11] See for instance Bank for International Settlements (2009).

[12] For instance, changes in the US tax system resulted in migration of intellectual property rights to SPE affiliates located in tax-havens.

[13] See BOPCOM Paper 16/20 (2016c).

[14] See http://www.oecd.org/tax/beps.

legal ownership of intellectual property rights assets, which may be classified as nonfinancial corporations. Whereas the criteria in the current manuals provide a valuable starting point for characterizing and identifying SPEs, there is no internationally agreed standard definition of SPEs, as acknowledged in paragraph 4.50 of the *BPM6.* The TFSPE acknowledges that the features of SPEs have become more diverse, complicating the task of developing a single definition but at the same time increasing the need for such a definition for ensuring adequate cross-country comparability.

23. **With the emergence of near-SPEs and the BEPS initiative, attributes like "little or no physical presence" and "few or no employees"—which imply "low or no production"—need to be more precisely defined.** 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 services, and (iii) SPEs may be established to carry out functions other than "pass-through" financial activities, such as to own nonfinancial assets, notably mobile equipment or intangible assets like intellectual property products. The TFSPE therefore acknowledges that the collection of SPE-related consistent cross-border statistics to fill data gaps requires providing compilers with an internationally consistent definition.

24. **The urgency to develop an international definition of SPEs is substantiated by the need to ensure comprehensive coverage and separate identification of SPE-related cross-border statistics, as well as to achieve an adequate level of international comparability of macroeconomic statistics.**

III. THE PROPOSED DEFINITION AND TYPOLOGY OF SPEs

A. IMF Survey Findings on the SPE Definition and Typology

25. **To better inform the TFSPE proposals, the IMF conducted a survey on SPEs among a range of economies in February 2018, including key offshore centers.** The survey provided important inputs for the definition and typology of SPEs proposed in this report. It targeted 144 economies altogether, including non-IMF members, yielding a very good response rate of 81 percent. The survey[15] sought feedback on (i) the national definition (if any) and types of SPEs; (ii) data collection (if any) and challenges involved; and (iii) involvement with the domestic economy (employment and contribution to domestic output). Annex IV provides survey response rates and summary results.

26. **The survey showed that the guidance provided by the current statistical manuals is not uniformly applied for identifying SPEs, corroborating the view that there is a need for further specific guidance.** The survey prompted respondents to specify if SPEs were identified based on a national definition or in line with paragraph 4.50 of the *BPM6***.** Forty-six respondents mentioned that SPEs could be identified in their economies based on

[15] Providing responses to every survey question was not made mandatory, so as to increase the likelihood of participation.

certain criteria, with only 16 providing specifics on their national/legal definition. Most respondents noted that SPEs are being identified based on the characteristics/features specified in the *BPM6* or *BD4*. Whenever a national definition or legislation was mentioned, SPEs were recognized as entities incorporated to take advantage of the prevailing fiscal regimes, with most assets and liabilities with nonresidents.

27. **The survey collected details on types of SPEs operating in respondent economies.** The survey questionnaires had a pre-populated list, and the results show that holding companies, shell companies, and entities taking and granting intercompany loans are the predominant forms of SPEs set up by nonresidents in the respondent economies.

28. **A sizeable proportion of identified SPEs have employment and engage in production.** Forty respondents mentioned that SPEs directly employed staff. However, only 28 out of the 40 respondents gave out specifics about the number of staff employed. While most SPEs do not have any employees, most respondents, namely 19, indicated that SPEs in their economies employ a maximum of five employees, three mentioned between six and ten employees, and six mentioned some SPEs may employ more than ten staff.

29. **The survey results provide a good basis for formulating an SPE definition.** Common elements found relevant by most respondents were the ‘special’ advantages that the jurisdictions offered for incorporation or registration of these entities, the types of entities that were established, the no or little ‘physical presence’ (determined by employment and production criteria) applying to most SPE cases.

B. The Proposed Definition of SPEs

30. **The following key questions/aspects were considered for preparing the definition:** (i) whether it should be activity- or institution-based; (ii) whether it should cover financial only or also nonfinancial entities; (iii) how employment, physical presence, and physical production should enter the definition; (iv) how to consider residence of the direct or indirect controlling entity; and (v) how to consider the structure of the balance sheet—own only financial or also nonfinancial assets, only cross-border positions or also domestic?

Activity or institution based?

31. **The TFSPE recommends that both the definition of SPEs and the data reporting framework should be based on SPEs as institutional units rather than on a separate category encompassing the so-called “pass-through” activities.** This approach has already been endorsed by the Committee at its October 2017 meeting, considering the need to come up with a practical and well-focused definition of SPEs, as well as the fact that the existing framework for macroeconomic statistics is institutional-unit-based. An activity-based approach would imply forcing compilers to analyze the activities of all agents in the economy and decide case-by-case which ones to classify as “SPE-like.” If at all feasible, this approach would be impractical and very resource-intensive. The Committee noted that

entities use different structures for pass-through funds, be it through SPEs, or through near-SPEs or even regular companies, which could supplement their normal activity with channeling funds on behalf of the owners. The separate identification of SPEs as institutional units within cross-border statistics can be considered as the first step to distinguish financial flows related to real economic activities from the rest. Consequently, it is recognized that pass-through funds channeled through near-SPEs or regular non-SPE entities would remain subsumed in cross-border flows and positions.

Financial corporations only or also nonfinancial?

32. **The SPEs have evolved to include nonfinancial corporations, in addition to traditional financial SPEs.** Types of nonfinancial SPEs include those that are principally engaged in producing nonfinancial services such as those holding intellectual property rights and collecting fees/royalties, engaged in merchanting, and engaged in captive operational leasing. These types of SPEs hold nonfinancial assets in their balance sheets, unlike the earlier traditional SPEs that only own financial assets. The strategic behavior by large MNEs to shift profits between countries to reduce their worldwide tax burden has been largely contributing to this expansion of new SPE typologies.

Employment, physical presence, and physical production

33. **The TFSPE proposes an SPE definition including an upper limit of up to five employees, while no specific numerical threshold is recommended to account for physical presence and/or physical production.**[16] The current statistical manuals are consistent in identifying as one of the main SPE characteristics/criteria, in the language of the *BD4*, that "The enterprise has no or few employees, little or no production in the host economy and little or no physical presence." For practical applicability of the definition, especially with the emergence of the near-SPEs, the TFSPE saw a strong need to have a cut-off rule concerning employment. Given that in practice having no or little physical presence and no or few employees imply no or little physical production, it was decided to establish an upper limit for employment only. Although in principle SPEs are considered to have no employment, the upper limit of the number of employees reported in the survey varies across countries following specific legal requirements for minimum employment that may force SPEs to "artificially" employ a reduced number of staff to comply with national law.

34. **The proposal of establishing an upper limit of up to five employees is informed by country experiences and the results of the IMF SPE survey.** The large majority of respondents (about 80 percent) indicated that SPEs directly employ staff according to their national definition. Although with a lower response rate (31 responses in total), over

[16] Physical production is understood as an activity that uses inputs such as employees (including leased or contractual), physical capital, goods and services to produce outputs that are delivered or supplied to other institutional units.

70 percent of respondents indicated that SPEs in their economies employ a maximum of five employees. While SPEs usually have no employment and no physical presence, the TFSPE favors applying an upper limit of five employees as a practical rule.

35. **The TFSPE notes that no or little physical presence implies the absence of physical assets,** such as buildings, land, and sub-soil assets, in the economic territory of incorporation. The physical presence of an SPE, therefore, may be limited to having a physical address, electronic communication addresses, and, if legally required or otherwise necessary, small-scale rented premises. Typically, any nonfinancial assets owned by an SPE are restricted to either intangible or mobile tangible assets.

Residence of the controlling parent

36. **Concerning the residence of the controlling parent,[17] the TFSPE recommends that, for the purpose of collecting cross-border statistics, SPEs should be directly or indirectly controlled by nonresidents.** Most SPEs owned and directly controlled by residents in the same economy would not meet the statistical definition of an institutional unit and thus for statistical purposes their accounts would be consolidated with those of the parent. Annex V provides examples of ownership and control, identifying SPEs that should be covered.

37. **Nonetheless, the TFSPE acknowledges that the proposed definition would exclude entities fully owned and directly controlled by a resident entity or entities that could qualify as institutional units and meet the other elements of the proposed SPE definition.** The TFSPE suggests that national accountants consider how these cases should be treated in national accounts. Among these would be domestic securitization vehicles, SPEs jointly owned by a group of entities, and legal entities established for the purpose of managing personal and family wealth and income.

The structure of the balance sheet

38. **Although the proposed definition of SPEs indicates that a large part of an SPE's financial balance sheet often consists of cross-border assets and liabilities, the TFSPE acknowledges that with the evolution of SPEs, certain SPE types would include nonfinancial assets and positions with residents.** The original criterion that SPE assets and liabilities should be mostly vis-à-vis nonresidents is mainly applicable to the case of pass through DI, but not to other categories of SPEs. It excludes the possibility of nonfinancial assets and does not reflect the fact that portfolio and other investment assets and liabilities can be vis-à-vis many market participants that may also be resident in the domestic economy.

[17] Control is understood as defined in paragraphs 4.68-4.74 and 4.81-4.82 of the *2008 SNA*, and paragraph 6.12 of the *BPM6*, i.e. by combining direct and indirect ownership (the latter through participations via other controlled affiliates).

One example is that of securitization vehicles or conduits, which issue debt securities and have no control over who holds the securities.

The proposed definition of SPEs

39. **Taking into account all the considerations discussed in the above paragraphs, the TFSPE proposes the following definition for an SPE in the context of ESS:**

An SPE resident in an economy, is a formally registered and/or incorporated legal entity recognized as an institutional unit, with no or little employment up to maximum of five employees, no or little physical presence, and no or little physical production in the host economy.

SPEs are directly or indirectly controlled by nonresidents.

SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services; and/or (ii) isolate owner(s) from financial risks; and/or (iii) reduce regulatory and tax burden; and/or (iv) safeguard confidentiality of their transactions and owner(s).

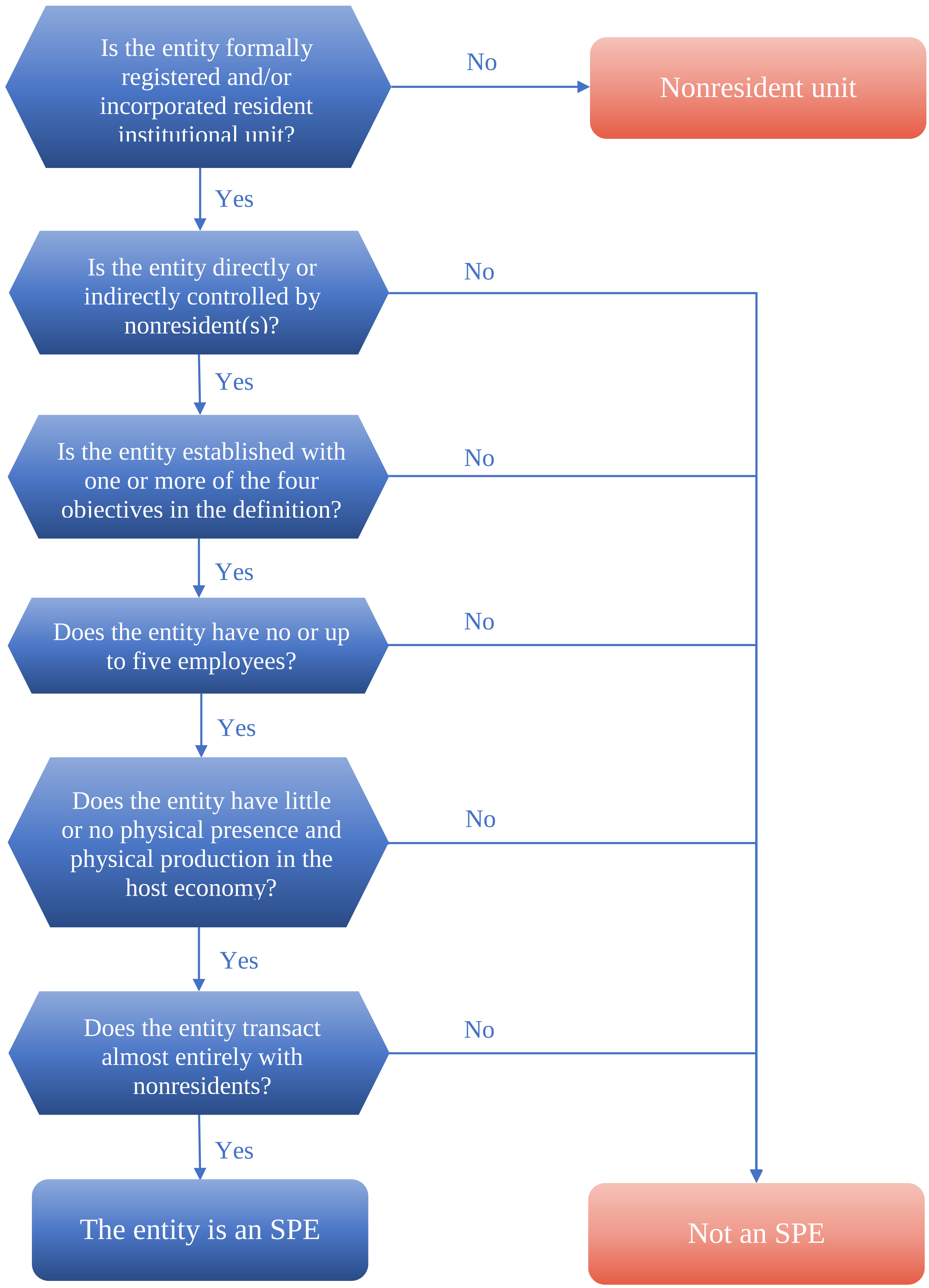
SPEs transact almost entirely with nonresidents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.

40. **To support the practical implementation of the proposed definition, the TFSPE has developed a decision tree.** The decision tree, presented in a form of a flow chart (Figure 3), is to be used as an operational guidance to assist national compilers in identifying SPEs for ESS purposes. Similar decision trees have been developed by national compilers and other international institutions. As an operational tool for national compilers, Statistics Netherlands and De Nederlandsche Bank (DNB) have developed, since 2010, a decision tree to detect SPEs according to agreed criteria.[18] Earlier in 2009, Eurostat presented a decision tree to be used for allocating units between SPEs and non-SPEs.[19] The UK Office for National Statistics (ONS) is also working on a decision tree to help identify resident SPEs present in the UK inward and outward DI populations.

[18] See De Nederlandsche Bank (2013).

[19] Final report of the Task Force on the recording of certain activities of multinationals in national accounts. See Eurostat (2009).

Figure 3. Decision Tree to Identify SPEs for External Sector Statistics



C. Typology of SPEs

41. **In addition to the definition and decision tree, the TFSPE has developed a typology of SPEs.** This will assist compilers in identifying SPEs and in determining their appropriate institutional sector. The typology aims to delineate the different types of SPEs based on their economic functions and relate them to their institutional sector.

42. **The typology should be used as a complement to the definition of SPEs as it is not meant to be either exhaustive or prescriptive.** 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 only those that meet the definition of SPEs. Moreover, based on the evolution of economic activity, the typology for SPEs should be updated as appropriate and more frequently than the statistical manuals. As a starting point for the typology, the TFSPE took into account the work already done in relevant areas.[20]

43. **The TFSPE, building on these initiatives and the outcomes of the IMF SPE survey, reviewed and identified several types of SPEs covered in the statistical manuals, and a few others not explicitly cited.** Table 1 provides a typology of SPEs, including references in the statistical manuals and the appropriate *2008 SNA* institutional sector. To further elaborate on the typology, the TFSPE has prepared illustrative summary cards for the main types of SPEs, highlighting the main characteristics of each type (Annex VI). Each fiche includes a description, general characteristics and a prototype balance sheet with the main instruments and flows linked to the SPEs function/description.

Table 1. Typology of SPEs for External Sector Statistics

No	SPE Type	Description[21]	*2008 SNA*	*BPM6*	*2008 SNA sector*
Category I: Corporate Groups' Captive Financial Entities ***(Those captive entities created by a financial or nonfinancial nonresident corporate to fulfil specific financial activities, other than insurance, for the sponsor)***					
1.1	Conduits	Raising or borrowing funds, often from unrelated enterprises, and remitting those funds to its parent or to another related enterprise. Typically, do not transact on the open markets on the asset side.	Para 4.59	Para 4.51 Para 4.86	S127

[20] 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.

[21] The types listed may be SPEs, but not all entities of the types listed are necessarily SPEs. The definition and the decision tree should assist compilers in determining which entities are SPEs.

No	SPE Type	Description[21]	*2008 SNA*	*BPM6*	*2008 SNA sector*
1.2	Holding companies	Owning a controlling level of equity in subsidiaries, without actively directing them (Passive holding corporations)	Para 4.59	Para 4.51 Para 4.81	S127
1.3	Holding financial assets for securitization			Para 4.51	S127
1.4	Intra group lending companies	Loan funding from and to intra group companies Entities taking and granting inter-company loans		Para 4.51	S127
1.5	Captive factoring and invoicing companies	Concentrating sales claims and invoicing sales.			S127
1.6	Captive financial leasing companies	Engaging in lease-in lease-out agreements or as a financial intermediary in a chain of vehicles in which the end vehicle is involved in the leasing of equipment or fixed assets.		Para 4.83	S127
1.7	Other captive financial companies	Dealing with financial needs of a group, such as financing particular projects and loan origination.		Para 4.87	S127
Category II: Specialized Financial Entities ***(These financial entities, with a degree of operational autonomy, have been specially created to isolate the risks of the parent companies to structure financial transactions for or securitize assets of the parents)***					
2.1	Captive insurance companies	Providing insurance to group enterprises.		Para 4.88	S128
2.2	Securitization vehicles/Financial vehicle corporations	Carrying out securitization transactions in order to isolate the payment obligations of the undertaking from those of the originator, or the insurance or reinsurance undertaking (in the case of insurance-linked securitizations). Repackaging.	Para 4.59	Para 4.51 Para 4.77	S125
2.3	Holding financial and nonfinancial assets (including real estate) for related companies	Holding financial and nonfinancial assets of related companies with the goal of capital appreciation, interest/dividend income, and other income.			S11 and S125
2.4	Companies carrying out other financial functions	Performing factoring, invoicing on open markets, financial leasing on open markets, and other financial assets management.		Para 4.51 Para 4.76	S125

No	SPE Type	Description[21]	*2008 SNA*	*BPM6*	*2008 SNA sector*
Category III: Corporate Groups' Nonfinancial Entities **(*Those SPEs created by a financial or nonfinancial nonresident entity to fulfil specific nonfinancial activities*)**					
3.1	Ancillary companies	Registered or incorporated companies providing ancillary services that are not resident in the same economy as its parent.		Para 4.51	S11
3.2	Operational leasing companies	Holding fixed assets, such as planes, vessels, and machinery, for the purpose of leasing them out.			S11
3.3	Merchanting companies	Purchasing goods from a nonresident and re-selling the goods to another nonresident (merchanting companies have ownership of the goods traded).			S11
3.4	Royalty and licensing companies	Concentrating group receipts concerning royalties and similar flows received from intellectual property rights and trademarks. Such a company of an SPE-type receiving royalties or similar flows for a group of enterprises or individuals is regarded as an independent royalty and licensing company.			S11
3.5	Legal ownership of intangible assets	Holding intangible assets for a related company or group of companies.			S11
Category IV: Wealth management entities **(*Those SPEs created by household entities or groups of individuals to hold or manage wealth or real estates for their owners*)**					
4.1	Companies holding/managing wealth and real estate for individuals and families	Managing family trust funds, foundations, personal holding companies.	Para 4.59	Para 4.51	S11 and S127
Category V: Government Owned Financial Entities **(*Those SPEs created by governments for fiscal activities*)**					
5.1	SPEs owned by governments for fiscal purposes	Raising or borrowing funds on behalf of a nonresident general government.		Para 8.24	S11, S12, or S15
Category VI: Other structures **(*Those SPEs created to conduct any type of transactions other than those covered in the other categories*)**					

No	SPE Type	Description[21]	*2008 SNA*	*BPM6*	*2008 SNA sector*
6.1	Shell companies	Passing-through funds between nonresidents with no operations in the economic territory of incorporation. Shell companies don't have employees, are not traded, and can be kept dormant.		Para 4.50	S11 or S12
6.2	Shelf companies	Empty corporation, registered in advance, minimum assets and liabilities.		Para 4.50	S11 or S12

Sources: Joint ESCB/ESS Task Force on Foreign Direct Investment, Frankfurt Meeting, May 2017.
Drawn from *BPM6*, TFSPE Secretariat.
Institutional sectors are based on Annex 1 in the *2008 SNA.*

IV. Addressing Data Gaps on SPEs

A. IMF Survey Findings on Countries' Data Collection on SPEs

44. **To inform the proposal for the data collection framework for SPEs, the survey undertaken by the IMF also gathered information on data collection practices.** The analysis of the survey results revealed that many of the respondent economies are already collecting some data on SPEs. Around 50 economies have indicated that they are presently collecting cross-border statistics on resident SPEs, largely as part of the ESS data collection framework. In instances where legally SPEs are not treated differently from other resident entities, institutional collaboration between the regulatory/supervisory or licensing institution for SPEs, if existent, is not necessarily required for data collection. However, collaboration is deemed important for those jurisdictions where the SPEs are licensed or supervised by a distinct institution.

45. **The survey results showed that economies usually collect information on SPEs' assets and liabilities, for both flows and positions with nonresidents beyond DI.**[22] Corporate functions can be fulfilled by SPEs that are not solely related to intra-group financing, but rather external financing of group activities, or for profit shifting motive or for the holding of intangible assets on behalf of the group. This implies that SPE-related cross-border positions and flows are not confined to DI.

B. Data Collection Strategy: Way Forward

46. **The separate identification of SPEs within cross-border statistics has been thoroughly examined, in the light of the growing demand from users.** An outreach has

[22] While recognizing the existence of SPEs in their economies, some respondents perceived that data collection was not essential or remained a challenge. Confidentiality issues associated with SPEs, difficulties in identifying them, the absence of a national definition, or the perception that these entities have no connection with the domestic economy have been indicated as major challenges.

been conducted among relevant departments in the Fund to gauge better understanding of user needs related to the collection and dissemination of cross-border data on SPEs. This information is expected to help users to be able to (i) decouple cross-border financial flows and positions related to real economic activity from those of SPEs; (ii) better understand the activities of MNEs, which frequently resort to SPEs; (iii) better assess the impact of cross-border flows or positions to understand the associated vulnerabilities; and (iv) better gauge data quality and coverage. For instance, the evolution of SPE flows in offshore jurisdictions is usually not correlated with the host economies' business cycles.

47. **The TFSPE proposes to launch an international data collection with a view to separately identify cross-border transactions and positions for SPEs.** Economic analysis of the external sector will be significantly improved if BOP and IIP data of SPE-hosting economies[23] would be available, both gross and excluding SPEs.

48. **Identifying also nonresident SPEs in cross-border statistics may be important in some economies.** The concern for nonresident SPEs is prominent for countries such as Brazil, Russia, the US, and the UK. In some countries, such as Brazil, there is a high correlation between inflows of reverse investment loans and issuance abroad of debt issued by nonresident SPEs. Russia has identified the use of nonresident SPEs as financing conduits.[24] Many US MNEs have DI relationships with SPEs abroad, which 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).[25] The UK includes questions about nonresident SPEs in its FDI surveys.[26, 27]

49. **The TFSPE, while recognizing the benefits and the rationale of collecting separate data on nonresident SPEs established by the residents of an economy, recommends giving priority to initiating international data collection only for resident SPEs at this stage.** Cross-border statistics are compiled based on the residency concept, such that for those economies already collecting data on resident SPEs, separating SPE-related positions and flows would be relatively easier. Given the economic interest and policy needs of those economies whose residents are sponsoring nonresident SPEs, data collection on nonresident SPEs is also encouraged. The possibility of international data collection on

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[23] For better informing policy-related and market decision making, and analysis, some countries are already separately identifying transactions and positions of resident SPEs in their ESS.

[24] See BOPCOM Paper 16/21 (2016b).

[25] 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 (see BOPCOM Paper 17/05 (2017)).

[26] See Annex VIII on "SPEs from a UK Perspective—Initial Geographical Analysis" of BOPCOM Paper 17/05 (2017).

[27] The survey allows compilers to identify both UK companies with nonresident SPE affiliates and nonresident SPEs that are investing in the UK.

nonresident SPEs can be discussed at a later stage, once such data collection is more widespread.

The proposed data reporting template

50. **The TFSPE is proposing to launch a separate reporting template for selected BOP and IIP components.** The proposed template is specifically tailored to SPEs and does not add lines to the current reporting templates.[28] Related cross-border flows (BOP transactions) and stocks (IIP) would only be reported on an annual basis.

51. **The TFSPE therefore is proposing a reporting template (Annex VII) to collect cross-border data for SPEs for a reduced number of BOP and IIP components beyond DI activities.** To guide proper prioritization by the reporting economies, the template allows two levels of data reporting: a minimum versus an encouraged set of components. Activities of SPEs are known to be largely related to DI due to an important part of intra group pass-through flows. In this respect, detailed information regarding DI equity and debt instruments has been included as a minimum requirement. It also covers both transactions in equity and in debt instruments split by DI (i.e., direct investor in DI enterprise (DIE), reverse investment and (eventually—depending on relevance) between fellow enterprises). The reporting template also includes a minimum detail by instrument in portfolio investment, while other investment has been included only as a total, with a short- and long-term breakdown.

52. **In the current account, the investment income by functional category is covered to establish a link with the financial account stocks.** As transactions in goods would be relevant for merchanting SPEs, a separate line for net merchanting by SPEs is included. Regarding services, in addition to the total and other services, four distinct components of services have been included in the reporting list where SPEs can be of relevance: transport, financial services, charges for the use of intellectual property, and other business services. In the capital account, it is considered relevant to identify the gross acquisitions/disposals of nonproduced nonfinancial assets in which the SPEs can be involved.

The implementation process

53. **Robust and timely data are essential for effective surveillance and for meeting users' needs.** Over the past decade, the IMF has been undertaking significant steps in the availability of data collected on cross-border financial flows through the financial account of the BOP, on the related stock positions through the IIP, and initiatives such as the CPIS and the CDIS.

[28] The increased number of lines in *BPM6* reporting forms due to supplementary and memorandum items has generated debate on the need to balance the reporting burden on countries. To address this concern, actions have been taken to allow low statistical capacity countries to report only certain key components (see BOPCOM Paper 16/03 (2016a)).

54. **The Fund has a role to play supporting economies to collect these data.** For those economies that are already collecting data on SPEs, the Fund would either provide guidance to improve data quality or coverage or prompt them to separately identify SPEs within cross-border statistics. The Fund would play a greater role to encourage those economies that channel substantive capital flows to start collecting the related data.

55. **Based on the IMF survey results, it can be expected to have about two dozen reporters at the launch of the data collection, with about half of them being prominent SPE hosts.** This would already be a large leap forward in the availability of separate data on SPE-related flows and positions.

56. **Following the approval of the Committee, the launch of the new reporting framework could possibly target the release of 2020 annual data by end-2021.**

V. SPEs Across Macroeconomic Datasets

57. **The TFSPE recognizes the importance of harmonizing the statistical definition and the treatment of SPEs across all macroeconomic datasets.** Although it has focused its work on SPEs in the context of ESS, the expectation is that its outputs will feed into the discussion for other macroeconomic datasets, especially national accounts. While there are certainly key characteristics of SPEs that exclusively concern ESS, many others are the same for all statistical domains. The merit of developing the proposed definition for cross-border statistics is primarily to assist compilers to properly identify SPEs as opposed to the general guidance already provided in the current statistical manuals, where compilers are challenged with flexibility of interpretation. The TFSPE believes that the principles of the proposed definition for ESS can be adapted/refocused for use in the context of other macroeconomic datasets, for example by relaxing the criteria of having a nonresident direct or indirect controlling parent and/or focusing more closely on the physical production aspects.

58. **The adaptation of the proposed definition by other domains will need to be carried forward by concerned parties, possibly led by the ISWGNA and the AEG on national accounts, and the GFSC on government finance statistics.** The proposed definition for the purpose of collecting ESS would exclude entities fully owned and directly controlled by residents that could qualify as institutional units. To this end, there is a need for national accountants to further investigate the issue to identify whether the criteria in the proposed SPE definition could be equally applied in the case of such entities, save the requirement of nonresident controlling parent(s).

59. **Another important aspect from the national accounts perspective is the sectoral classification of SPEs and the relocation of economic activities generated by MNEs associated with the use of SPEs.** In the context of cross-border statistics, determining the institutional sector for SPEs is important when data collected go beyond DI. In contrast with other functional categories (portfolio and other investment, and financial derivatives), *BPM6* does not classify DI (flows and positions) by institutional sector in the standard presentation.

However, the typology and the fiches developed by the TFSPE can assist compilers in identifying SPEs and in determining the appropriate institutional sector as identified in this report along with the typology. The use of SPEs by MNEs, including within global value chains complicates the allocation of output and value added to economies, which is why it is important to develop further guidance on this for compilers.

60. **The TFSPE also discussed a nationality-based presentation of ESS as complementary to the standard residency-based ESS.** The increased international integration of production poses serious challenges to adequately accounting for domestic activities. While cross-border statistics attribute economic activity to the residence[29] concept, ongoing discussion is about the challenges associated with the allocation of the various economic activities of MNEs to countries. The principle of economic ownership is not necessarily straightforward within MNEs. Amid this debate is the concern to supplement the residency concept with the nationality[30] concept, based on the country of the owner of the economic entity rather than its location. Lipsey (2009, 2010) calls into question the potential effects of separate accounting on measures in the US current account and suggests—but does not develop—an alternative location-based accounting treatment to accompany the residence-based accounting treatment of the *2008 SNA* and *BPM6*. Different alternative ownership-based frameworks for international transactions have been offered in various pieces of research, such as in Landefeld and others (1993), and Baldwin and others (1998).

61. **Associated with the presentation of statistics based on location of the immediate investor, the TFSPE noted the importance of collecting data by ultimate investing economy.** *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). *BD4* recommends that countries compile statistics on the inward DI position by the ultimate investing country (UIC). The OECD currently presents inward DI position by the UIC.[31]

62. **The TFSPE also acknowledges discussions over legal ownership of intangible assets versus economic ownership.** This applies mostly to MNEs shifting intellectual property rights to a structure that commonly has a limited number of employees and is disconnected from the development and risks associated with the intellectual property that they legally own. With the OECD BEPS initiative, the importance of the legal ownership as

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[29] The residency principle identifies where the financial claims and liabilities are created and held.

[30] The nationality concept provides information on who makes the underlying decisions, who reaps the benefits, and who takes on the risks and needs to hold sufficient capital to cover potential losses.

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

well as the rights to the profits derived from the use of the intangibles, despite the existence of legal rights and contractual agreements, are being questioned.

63. **While recognizing that separate identification of SPEs shall permit to have a clearer view of pass-through funds, the TFSPE acknowledges that not all pass-through capital can be captured through identifying and separating SPEs.** In several countries, the phenomenon of pass-through capital also occurs outside SPEs, either captured through near SPEs or in other entities. The possibility of separately identifying pass-through activities not related to domestic activities, regardless of the statistical status of the entities (SPE, near-SPE, or non-SPE), also emerged. One approach for such identification would lie in a further disaggregation of institutional sectors into foreign-controlled and non-foreign controlled entities. This would allow for certain financial flows within foreign controlled entities to be interpreted as pass-through activities. The TFSPE took note of the different approaches used by several countries to distinguish pass-through funds (see Annex VIII).

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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 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 (TFSPE 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 TFSPE 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 to specify statistical development targets for IMF members that are currently not collecting data on SPEs.

The TFSPE 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 TFSPE 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 TF 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 TFSPE force may consider alternative arguments to persuade the authorities about the importance to produce ESS and separately identify SPE activities.

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

IV. Proposed Composition

The TFSPE 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 TFSPE.

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. Membership of the Task Force on Special Purpose Entities (As of September 7, 2018)

Chair
Artak Harutyunyan, 2018
IMF, Statistics Department

Carlos Sánchez-Muñoz, 2017–18
IMF, Statistics Department

Eduardo Valdivia-Velarde, 2016–17
IMF, Statistics Department

Members

Fernando Alberto Rocha
Banco Central do Brasil

Fernando Augusto Lemos, *as from January 2018*
Banco Central do Brasil

Carmen Picon-Aguilar
European Central Bank

Tjeerd Jellema
European Central Bank

Radoslav Istatkov
Eurostat

Veijo Ritola, *until April 2018*
Eurostat

Beáta Montvai
Magyar Nemzeti Bank

Paul Feuvrier
Banque Centrale du Luxembourg

Frederic Pierret
Banque Centrale du Luxembourg

Jitendra Bissessur
Bank of Mauritius

Melle Bijlsma
De Nederlandsche Bank

Krit Carlier
De Nederlandsche Bank

Naddy Marie, *until January 2018*
Central Bank of Seychelles

Terrence Payet
Central Bank of Seychelles

Maria Borga
Organization for Economic Cooperation and Development

Michael Hardie, *until March 2018*
Office of National Statistics
United Kingdom

Sami Hamroush
Office of National Statistics
United Kingdom

Patricia Abaroa
Bureau of Economic Analysis
United States

Secretariat
Padma Hurree Gobin
IMF, Statistics Department

Theodore Bikoi
IMF, Statistics Department

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.[32]

2. **There is a general agreement in the manuals that SPEs[33] are to be included in the framework of ESS, both in *BPM6* and in *SNA2008*.** In the context of DI (OECD's *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 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

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[32] 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…"

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

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[34] 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

[34] 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 percent) 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.[35] 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** can be challenging 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 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.

[35] This issue is referred to in BOPCOM Paper 16/20 (2016c), 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.

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 percent assets and liabilities vis-a-vis nonresidents as applied in DI 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.[36] 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.

[36] ”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.

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-owned entities, 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 purpose for which these entities are created.

ANNEX IV. SUMMARY SPE SURVEY RESULTS

1. **As part of its efforts to support the work of the TFSPE, STA launched an online survey to gather an insight on SPEs from selected economies.** Two questionnaires were used: one with a larger scope since it targeted the IMF's CDIS participants and one with a limited scope intended for offshore jurisdictions that are both members and nonmembers of the IMF. Altogether, the survey targeted 144 economies.

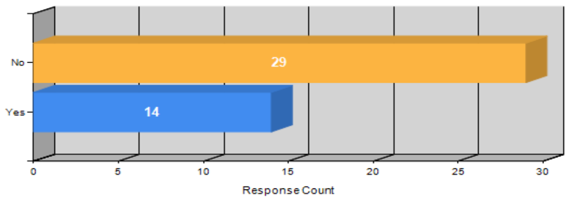
2. **The survey was launched around end-February 2018 and run until mid-April, with several rounds of follow-up.** At the closing of the survey, responses (both complete or in some cases, partial completion) were received from 116 economies. Responses to the survey questions were not made mandatory so as to increase the likelihood of participation. Certain participants deliberately chose to complete the survey questionnaires partially since their economies had limited or no exposure with SPEs. The table below provides a snapshot of the responses.

	CDIS Participants	**Offshore centers**	**Total**
Complete Response	89	10	99
Partial Response	11	6	17
No Response	20	8	28
Total	120	24	144
Response rate	**83%**	**66%**	**81%**

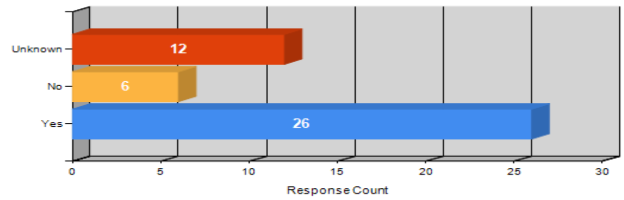
3. **Both questionnaires sought feedback on** (i) definition (national if any) and types of SPEs; (ii) data collection and challenges involved; and (iii) involvement with the domestic economy (employment and contribution to domestic output). Summary results of the surveys are attached.

Questionnaire I for economies participating in the CDIS: Answers to selected questions

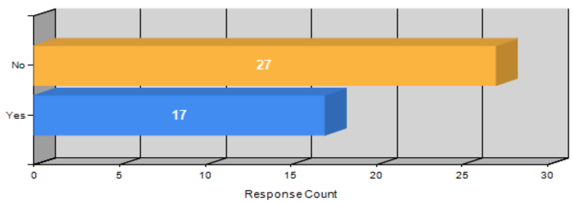
1. Is there a definition of resident SPEs applicable in your economy, for instance as reflected in your national legislation?



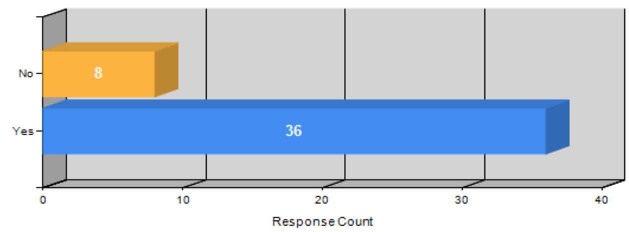
2. Do some of the SPEs resident in your economy have transactions (other than goods and services) or positions with other resident institutional units?



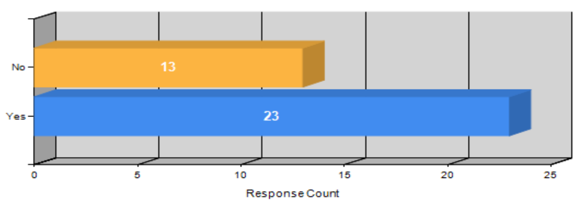
3. Are resident SPEs licensed/supervised or regulated by a local institution/organization?



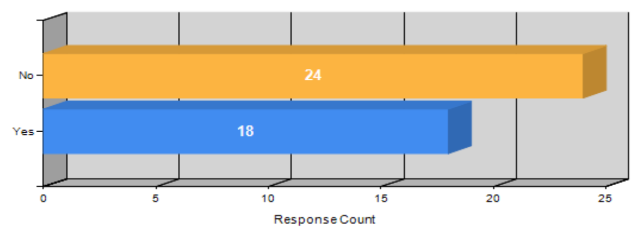
4. Does your institution collect data on cross-border positions and flows on resident SPEs?



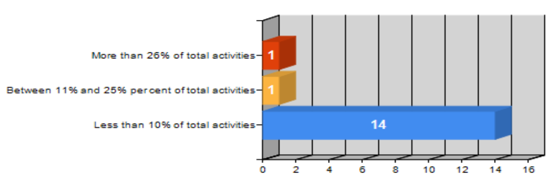
5. Can the data on resident SPEs be separately identified within the external sector statistics?



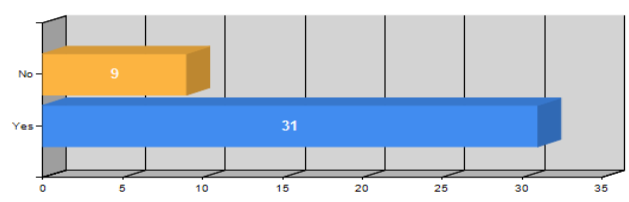
6. Are SPEs involved in any domestic production in your economy?



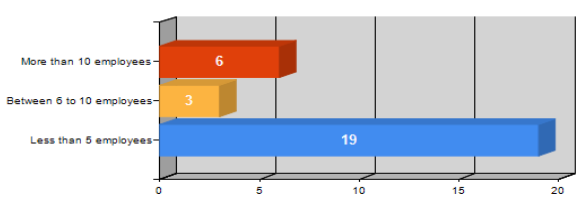
7. Please, provide your best estimate of the total domestic output of SPEs as a percentage of its total (cross-border and domestic) activities.



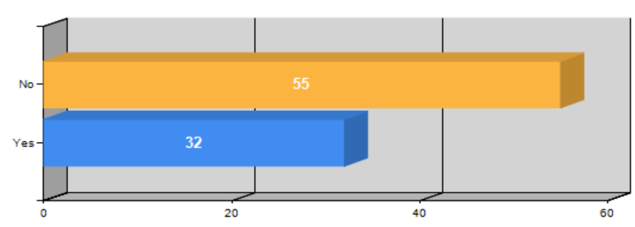
8. May resident SPEs according to your national definition directly employ staff?



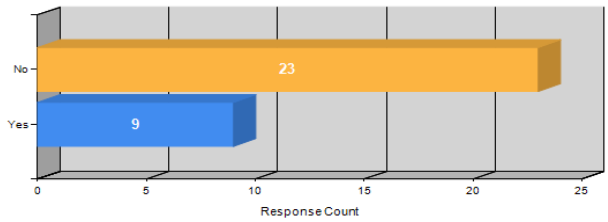
9. Please provide your best estimate of the average number of employees of a resident SPE.



10. Does your institution collect data on cross-border positions and flows on nonresident SPEs?



11. Can the data on nonresident SPEs be separately identified within the external sector statistics?

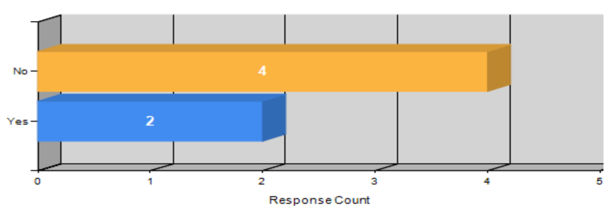


12. Please list the main types of (resident) SPEs observed in your economy. (select all that apply)

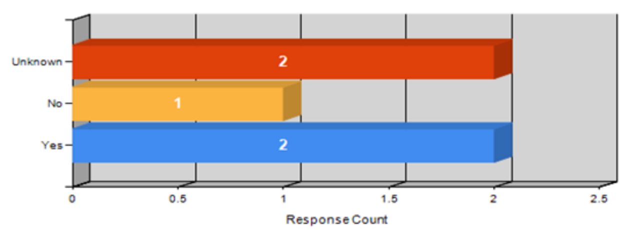
	Choice	Resp. %	Resp. Total
1	Passing-through funds between nonresidents with no operations in the economic territory of incorporation (shell company)	67.44%	29
2	Issuing debt for or on behalf of related companies	48.84%	21
3	Holding and managing wealth (financial and non-financial assets), for individuals or families	32.56%	14
4	Holding assets of subsidiary corporations on behalf of its parent without undertaking any management activities (holding company)	69.77%	30
5	Purchasing assets while issuing securities such as asset backed securities (ABS) and asset backed commercial paper (ABCP) or acquiring loans originated by other units (securitization company/vehicles)	25.58%	11
6	Raising or borrowing funds, often from unrelated enterprises, and remitting those funds to its parent or to another related enterprise (conduit)	34.88%	15
7	Providing services to the parent corporation or other affiliates owned by the same parent corporation (ancillary companies)	32.56%	14
8	Taking or granting intercompany loans	55.81%	24
9	Carrying out other financial functions (such as dealing with financial needs of a group, financing particular projects	32.56%	14
10	Concentrating group receipts concerning royalties and similar flows received from intellectual property rights and trademarks (royalty and licensing company)	18.60%	8
11	Other	20.93%	9

Questionnaire II for selected offshore economies: Answers to selected questions

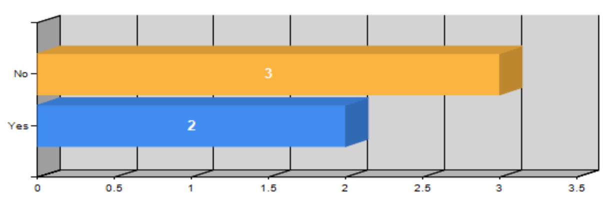
1. Is there a definition of SPEs applicable in your economy, for instance as reflected in your national legislation?



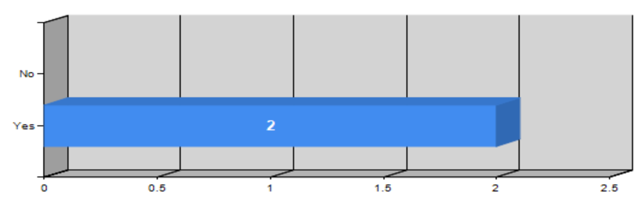
2. Do some of the SPEs resident in your economy have transactions (other than goods and services) or positions with other resident institutional units?



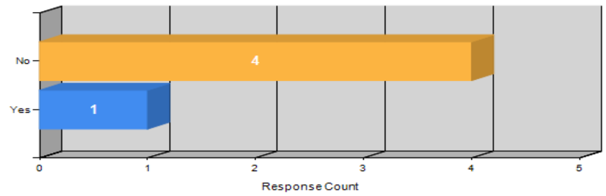
3. Does your institution collect data on cross-border positions and flows on resident SPEs?



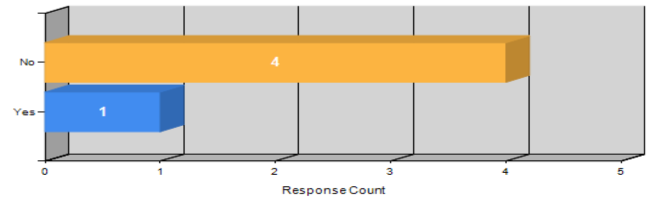
4. Can the data on SPEs be separately identified within the external sector statistics?



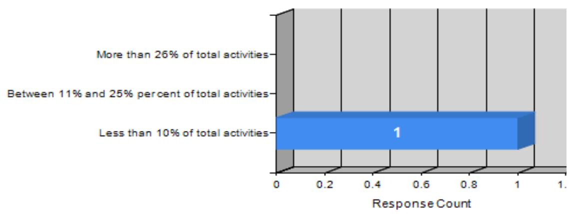
5. Is there any other collection in your economy (by your or another institution) of resident SPE-data other than cross-border, for example on production activities, domestic positions and transactions or any other type of data?



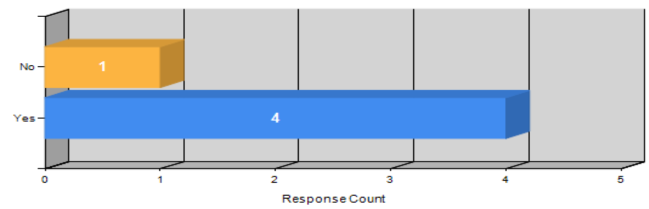
6. Are SPEs involved in any domestic production in your economy?



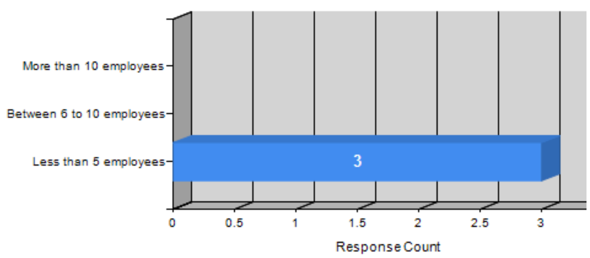
7. Please, provide your best estimate of the total domestic output of SPEs as a percentage of its total (cross-border and domestic) activities.



8. May SPEs according to your national definition directly employ staff?



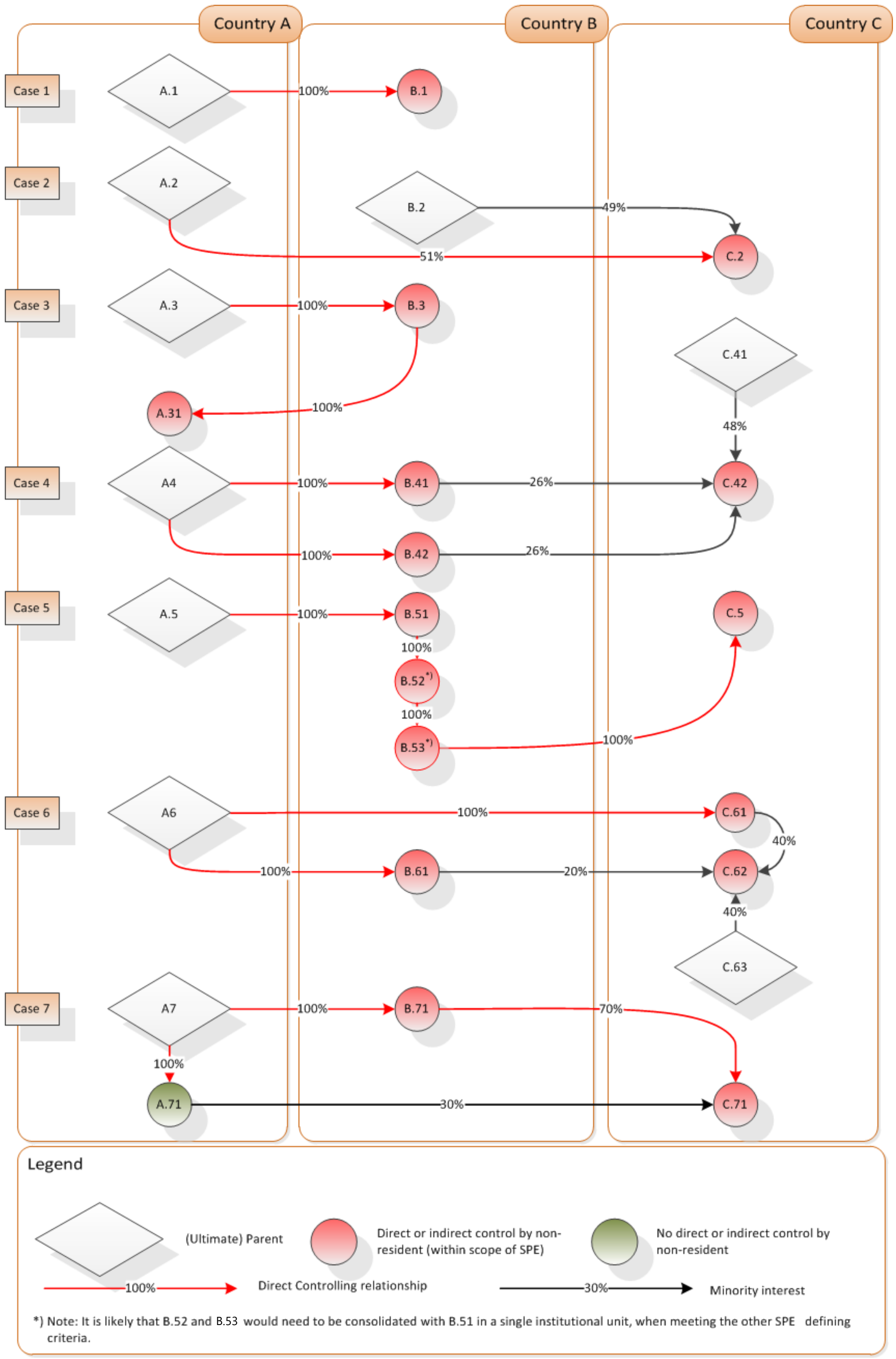
9. Please provide your best estimate of the average number of employees of a resident SPE.



10. Please list the main types of SPEs legally incorporated or registered in your economy.

	Choice	Resp. %	Resp. Total
1	Passing-through funds between non-residents with no operations in the economic territory of incorporation (shell company)	0.00%	0
2	Issuing debt for or on behalf of related companies	66.67%	2
3	Holding and managing wealth (financial and non-financial assets), for individuals or families	33.33%	1
4	Holding assets of subsidiary corporations on behalf of its parent without undertaking any management activities (holding company)	66.67%	2
5	Purchasing assets while issuing securities such as asset backed securities (ABS) and asset backed commercial paper (ABCP) or acquiring loans originated by other units (securitization company/vehicles)	33.33%	1
6	Raising or borrowing funds, often from unrelated enterprises, and remitting those funds to its parent or to another related enterprise (conduit)	33.33%	1
7	Providing services to the parent corporation or other affiliates owned by the same parent corporation (ancillary companies)	33.33%	1
8	Taking or granting intercompany loans	33.33%	1
9	Carrying out other financial functions (such as dealing with financial needs of a group, financing particular projects	33.33%	1
10	Concentrating group receipts concerning royalties and similar flows received from intellectual property rights and trademarks (royalty and licensing company)	33.33%	1
11	Other (specify below)	33.33%	1

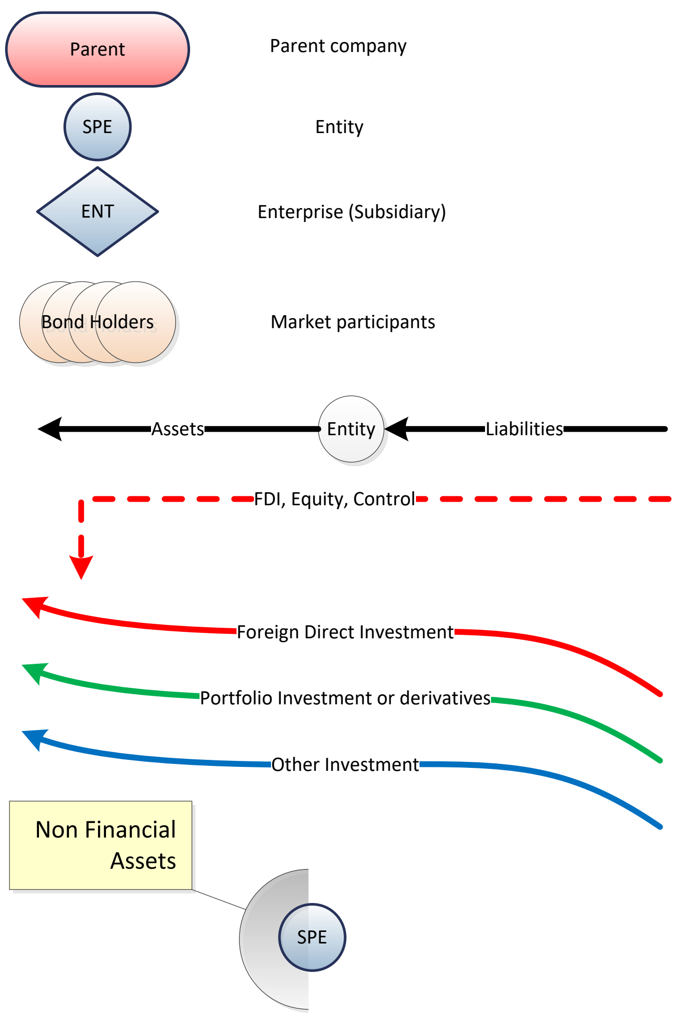
ANNEX V. OWNERSHIP AND CONTROL OF SPES



ANNEX VI. ILLUSTRATIVE SUMMARY CARDS FOR EACH TYPE OF SPEs IN THE TYPOLOGY

Prepared by ECB[37]

Legend:



[37] The elaborated typology of entities benefited from discussion with Ireland, Luxembourg and Netherlands.

Contents

1. Conduit

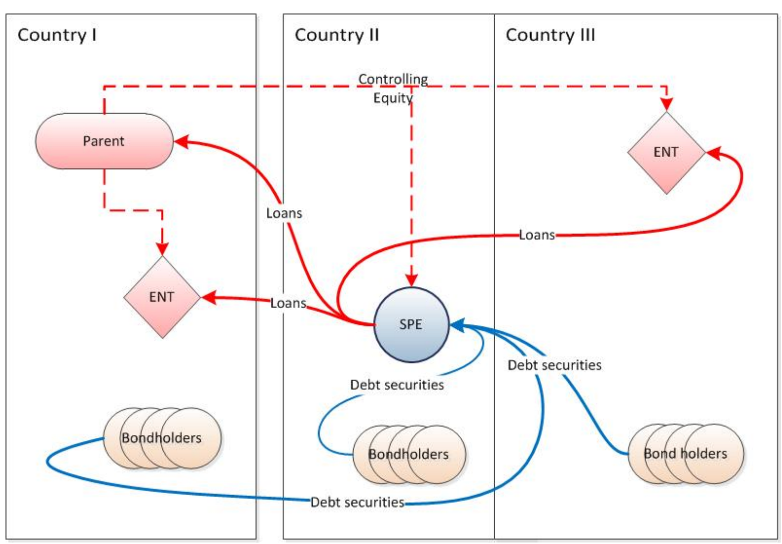
Description/Function
Raising or borrowing funds from unrelated enterprises or open market, and remitting those funds to its parent or to other related enterprises. According to SNA 2008, para 4.114 c, conduits should be classified in S.127 (captive financial institutions) if they qualify as institutional units and raise funds in open markets to be used by their parent corporation. Conduits typically do not transact on the open markets on the asset side. Synonym: External financing

General Characteristics	
Institutional Sector	S127 - Captive financial institutions and money lenders
Activity Code	ISIC Section K 6499
Can have resident parent?	NO
Can have production?	NO
FDI Pass through investment	NO

Prototype Balance Sheet			
Assets			Liabilities
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Currency & Deposits			
Loans		Loans	

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example



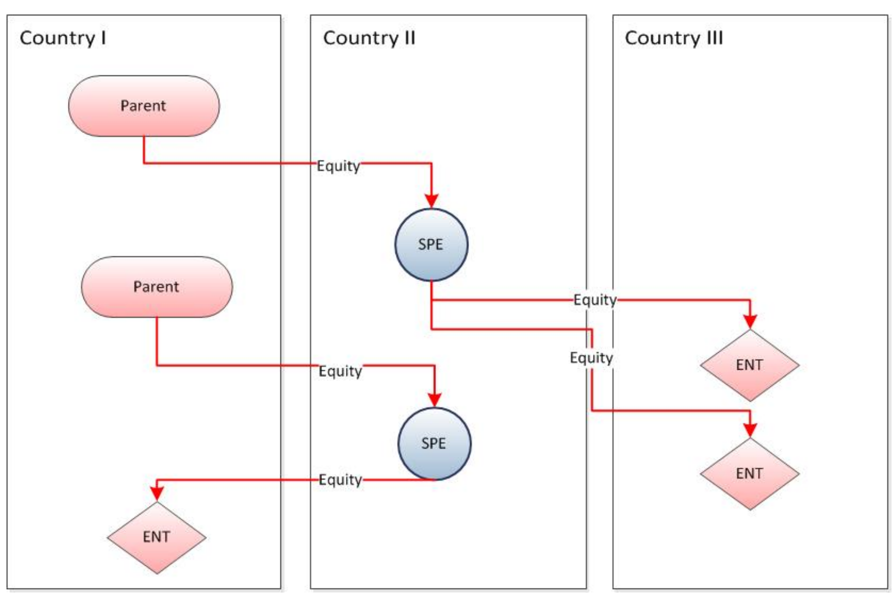
2. Holding Corporation

Description/Function	
Holding the assets (owning controlling level of equity) of subsidiary corporations (ENT) <u>on behalf of its parent</u> without undertaking any management activities. Passive holdings would be merged with the direct parent entity, unless the parent is non-resident.	
General Characteristics	
Institutional Sector	S127 - Captive financial institutions and money lenders
Activity Code	ISIC Section K 6420
Can have resident parent?	NO
Can have production?	NO
FDI Pass through investment	YES

Prototype Balance Sheet			
Assets		Liabilities	
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Currency & Deposits			
Loans		Loans	

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example

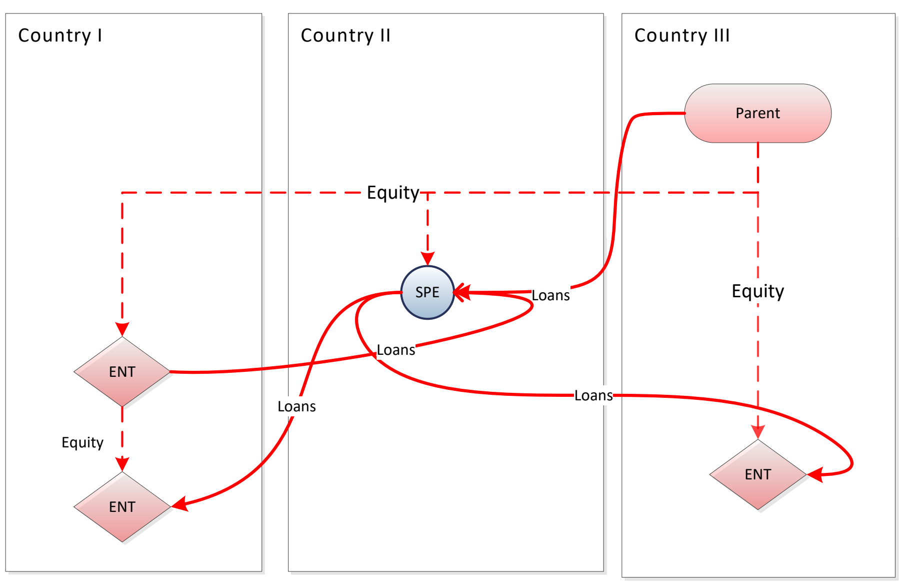


3. Intragroup lending

Description/Function			
Lending from and to related companies Covers all debt instruments			
General Characteristics			
Institutional Sector		S127 - Captive financial institutions and money lenders	
Activity Code		ISIC Section K 6420	
Can have resident parent?		NO	
Can have production?		NO	
FDI Pass through investment		YES	
Prototype Balance Sheet			
Assets			Liabilities
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Currency & Deposits			
Loans		Loans	

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example



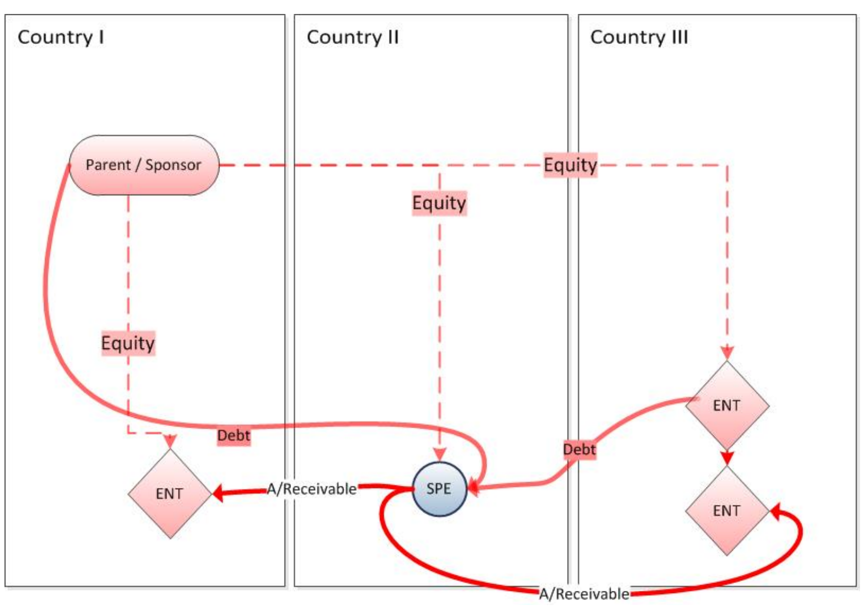
4. Captive Factoring and Invoicing

Description/Function	
Concentrating sales claims. It involves the sale of sales claims to a company called the factor. An SPE-type of entity providing factoring and invoicing services **within a group** is classified as captive financial institutions (S127). If the unit deals with counterparties on the open markets, it should be rather classified under (S125)	
General Characteristics	
Institutional Sector	S.125 – Other Financial Institutions S.127 - Captive Financial Institutions
Activity Code	ISIC Section
Can have resident parent?	NO
Can have production?	NO
FDI Pass through investment	NO

Prototype Balance Sheet			
Assets			Liabilities
Non-Financial Assets	Yes		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency and Deposits			

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example:

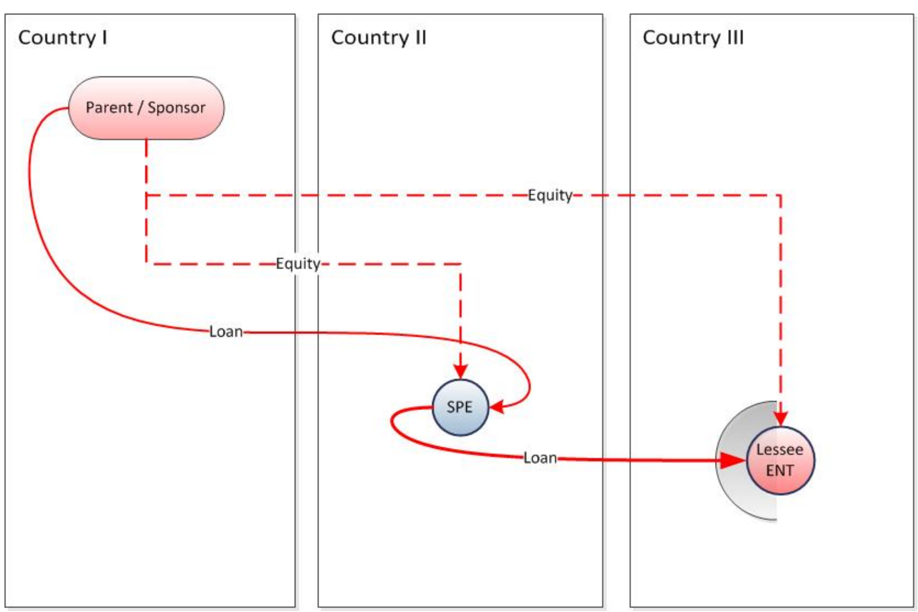


5. Captive Financial Leasing

Description/Function			
Engaged in lease-in lease-out agreements, or as a financial intermediary in a chain of vehicles in which the end vehicle is involved in the leasing of equipment or fixed asset The Lessee is considered to have ownership of the asset.			
General Characteristics			
Institutional Sector		S.127 – Captive Financial Institutions	
Activity Code		ISIC Section K 6491	
Can have resident parent?		NO	
Can have production?		YES	
FDI Pass through investment		NO	
Prototype Balance Sheet			
Assets			Liabilities
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency and Deposits			

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example

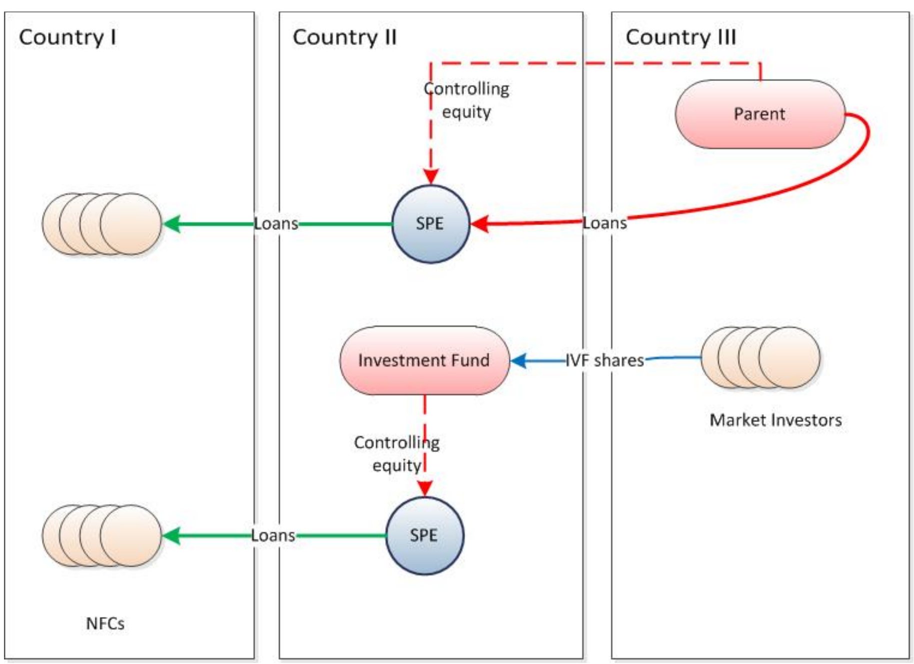


6. Loan origination

Description/Function			
Funding obtained from the parent or from related enterprises and furthered to external entities (companies). The entity is classified as S.127, Captive Financial Institution The entity may be linked to S124 investment funds, where it is considered that the entity is a separate institutional unit. (Example LU)			
General Characteristics			
Institutional Sector		S127 - Captive financial institutions and money lenders	
Activity Code		ISIC Section K64	
Can have resident parent?		YES/NO	
Can have production?		NO	
FDI Pass through investment		NO	
Prototype Balance Sheet			
Assets			Liabilities
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Currency & Deposits			
Loans		Loans	

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example



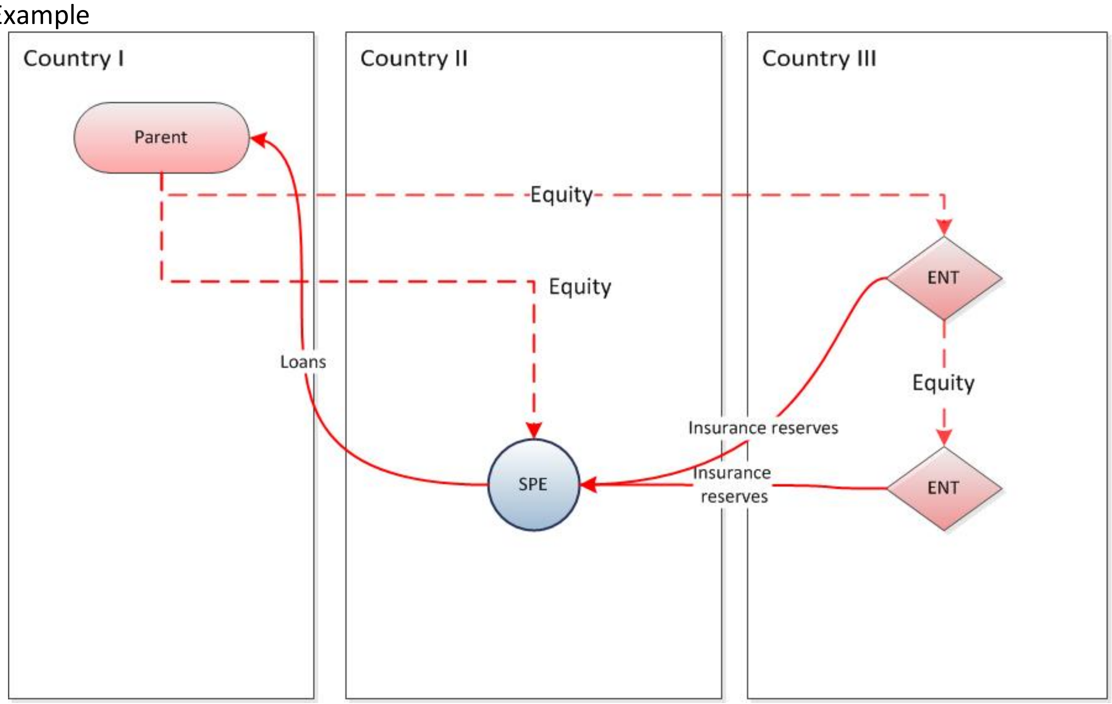
7. Captive insurance corporation

Description/Function	
Providing insurance to group enterprises According to SNA 2008, para 4.115, captive insurance, which serves only its Owners, is to be classified as part of insurance corporations.	
General Characteristics	
Institutional Sector	S.128 – Insurance Corporations
Activity Code	ISIC Section K 65.1, K65.2, K 65.3
Can have resident parent?	NO
Can have production?	YES
FDI Pass through investment	NO

Prototype Balance Sheet			
Assets			Liabilities
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	F61
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency and Deposits			

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example



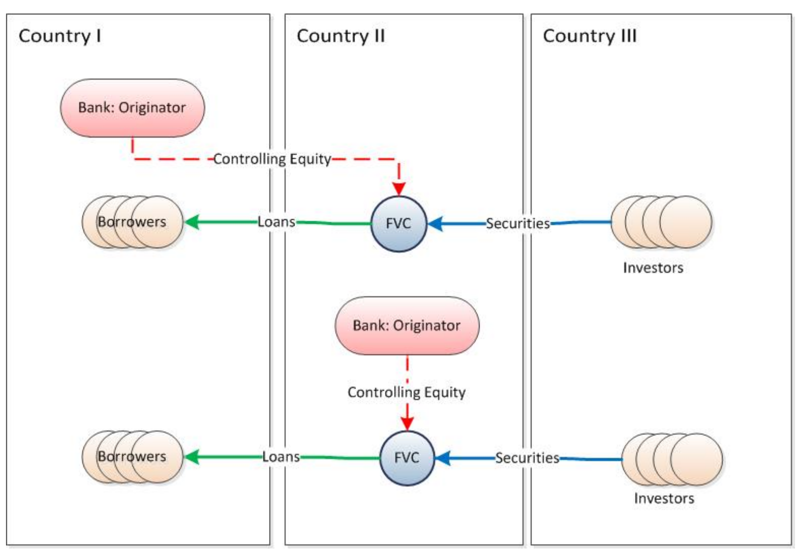
8. Securitization Vehicles/ Financial Vehicle Corporations

Description/Function	
FVC carry out securitisation transactions and its structure is intended to isolate the payment obligations of the undertaking from those of the originator, or the insurance or reinsurance undertaking (in the case of insurance-linked securitisations); It issues debt securities, other debt instruments, securitisation fund units, and/or financial derivatives and/or legally or economically owns assets underlying the issue of these financing instruments that are offered for sale to the public or sold on the basis of private placements. Repackaging (securitization of securities) are a sub-group group of this category.	
General Characteristics	
Institutional Sector	S.125 – Other Financial Institutions S.127 – Captive Financial Institutions
Activity Code	ISIC Section 6499
Can have resident parent?	YES
Can have production?	NO
FDI Pass through investment	NO

Prototype Balance Sheet	
Assets	Liabilities
Non-Financial Assets	
Direct (Foreign) Investment	Direct (Foreign) Investment
Equity	Equity
Debt	Debt
Portfolio Investment	Portfolio Investment
Equity	Equity
Debt	Debt
Other Investment	Other Investment
Loans	Loans
Currency and Deposits	

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example

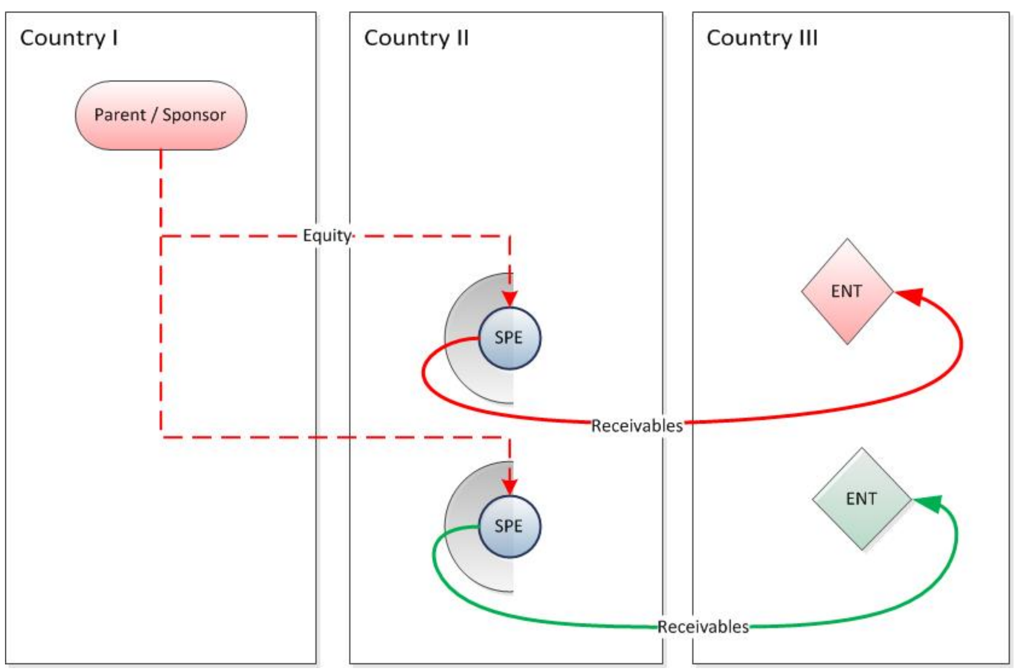


9. Operational Leasing Companies

Description/Function			
Hold fixed assets, such as plane and machinery, for the purpose of leasing them out Operational leasing company should be classified as non-financial corporations (S11). (Including mobile equipment renting company)			
General Characteristics			
Institutional Sector		S.11 – Non – financial enterprises	
Activity Code		ISIC Section N 7730	
Can have resident parent?		NO	
Can have production?		YES	
FDI Pass through investment		NO	
Prototype Balance Sheet			
Assets			Liabilities
Non-Financial Assets	YES		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency and Deposits			

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example



10. Merchanting

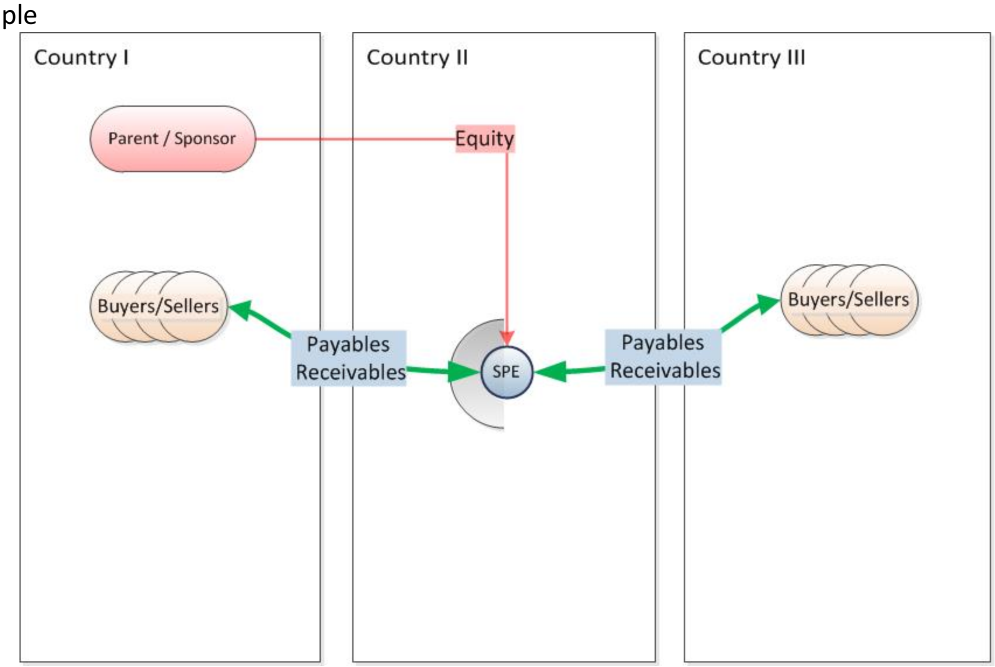
Description/Function
Purchasing goods from non-residents and re-selling the goods to non-residents. A defining feature is that merchanting companies own the goods traded. Thus, they are distinguished from invoicing companies, which perform the service of billing, and factoring companies that acquire accounts receivable. Merchanting companies are classified as S11.

General Characteristics	
Institutional Sector	S.11 - Non-financial corporations
Activity Code	ISIC Section G 4600
Can have resident parent?	NO
Can have production?	YES
FDI Pass through investment	NO

Prototype Balance Sheet			
Assets			Liabilities
Non-Financial Assets	Yes		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency and Deposits			

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example



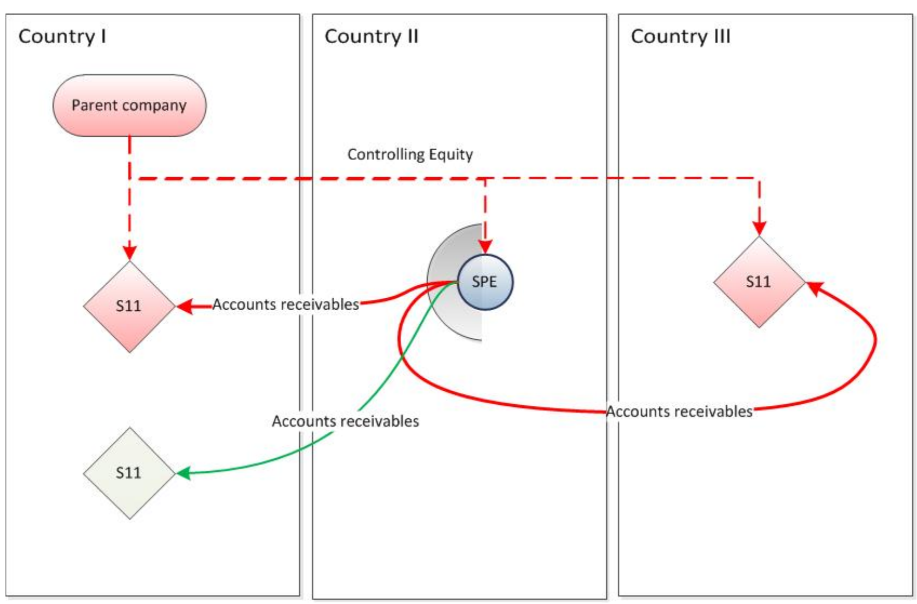
11. Royalty and Licensing

Description/Function	
Concentrating group receipts concerning royalties and similar flows received from intellectual property rights and trademarks. An SPE-type of entity holding intellectual property rights or trademarks and receiving royalties or similar flows for a group of enterprises or individuals is regarded as an independent royalty and licensing company. The issue of economic ownership of the relevant non-financial assets needs further discussion.	
General Characteristics	
Institutional Sector	S.11 - Non-financial corporations
Activity Code	
Can have resident parent?	YES
Can have production?	YES
FDI Pass through investment	NO

Prototype Balance Sheet			
Assets			Liabilities
Non-Financial Assets	Yes		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency and Deposits			

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example



12. Companies established to manage personal and family wealth

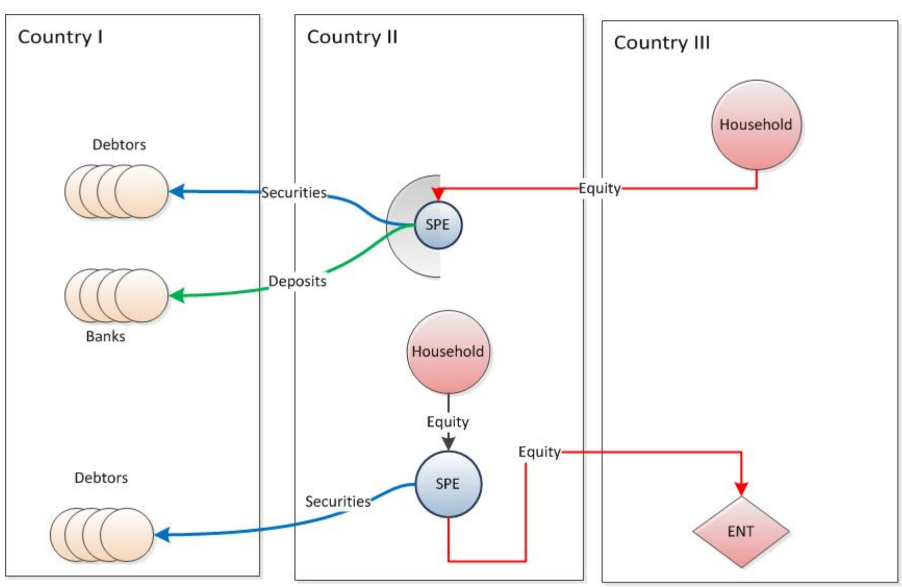
1. Description/Function
Entities registered or incorporated to manage personal wealth. (individual or family wealth management). This would encompass foundations, limited liability companies etc. Trusts are treated as quasi corporations. According to the 2008 SNA, family trusts are to be treated as captive financial institutions (S127). However, if a trust deals with individuals and families on the **open market**, it should be classified under the appropriate financial subsector, for example, as Non-MMF investment funds (S124). Incorporated legal entities are recognised as institutional units in their own right when they are owned by a household.

General Characteristics	
Institutional Sector	S.127
Activity Code	ISIC Section K 6430
Can have resident parent?	YES
Can have production?	NO
FDI Pass through investment	NO

Prototype Balance Sheet			
Assets			Liabilities
Non-Financial Assets	YES		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency and Deposits			

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example



13. Special purpose units of general government

Description/Function
Government entity raising or borrowing funds on behalf of general government. Requires non-resident parent. According to paragraph 8.25 of BPM6, a special approach for government entities of this kind is to be used due to the fact that the non-resident entity undertakes functions at the behest of general government for public policy, not commercial purposes. At the time of borrowing: a transaction creating a debt liability of the government to the borrowing entity is imputed equal to the amount of the borrowing (The corresponding entry is an increase in the government's equity in the borrowing entity.). At the time funds (or resources acquired with the funds) are passed to the government (as applicable): the flow of funds is shown as a transaction, matched by a reduction of the government's equity in the borrowing entity by the same amount.

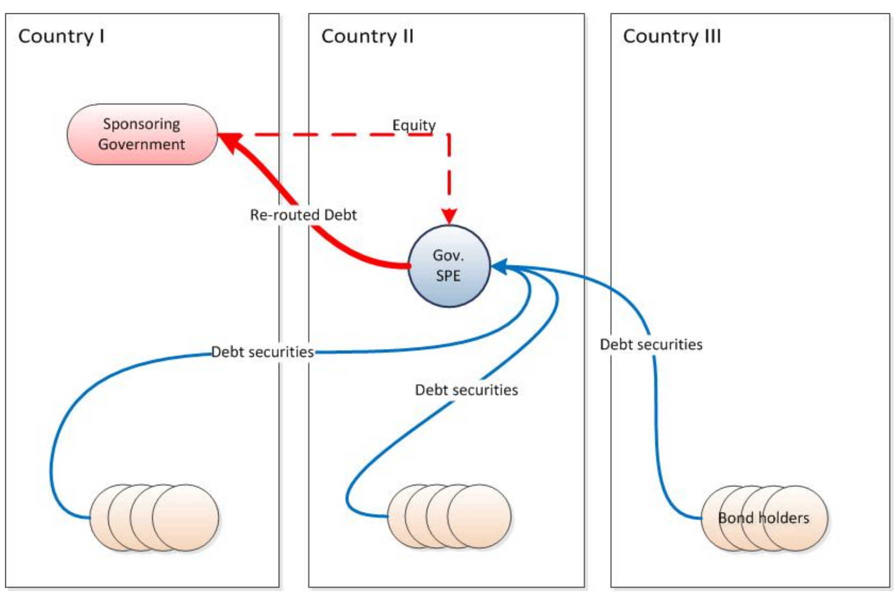
General Characteristics	
Institutional Sector	S127
Activity Code	K
Can have resident parent?	NO
Can have production?	NO
FDI Pass through investment	NO

Prototype Balance Sheet

Assets	Liabilities
Non-Financial Assets	
Direct (Foreign) Investment	Direct (Foreign) Investment
Equity	Equity
Debt	Debt
Portfolio Investment	Portfolio Investment
Equity	Equity
Debt	Debt
Other Investment	Other Investment
Loans	Loans
Currency and Deposits	

Note: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Example



ANNEX VII. PROPOSED TEMPLATE FOR RESIDENT SPE DATA COLLECTION

Resident Special Purpose Entities: Cross Border Flows and Positions Template

Minimum
Encouraged

Annual Reporting

	Balance of Payments		International Investment Position	
	Flows during the current year 20XX		Positions as at end of current year 20XX	
I. Selected Financial Account Components	Net Acquisition of Assets	Net Incurrence of Liabilities	Assets	Liabilities
Direct Investment as reported in BOP and IIP	Total to be drawn from BOP		Total to be drawn from IIP	
1 **Direct Investment related to SPEs**				
1.1 Equity and investment fund shares				
1.1.1 Equity other than reinvestment of earnings				
Direct investor in direct investment enterprises				
Direct investment enterprises in direct investor (reverse investment)				
Between fellow enterprises				
if ultimate controlling parent is resident				
if ultimate controlling parent is nonresident				
if ultimate controlling parent is unknown				
1.1.2 Reinvestment of earnings				
1.2 Debt instruments				
Direct investor in direct investment enterprises				
Direct investment enterprises in direct investor (reverse investment)				
Between fellow enterprises				
if ultimate controlling parent is resident				
if ultimate controlling parent is nonresident				
if ultimate controlling parent is unknown				
Portfolio Investment as reported in BOP and IIP	Total to be drawn from BOP		Total to be drawn from IIP	
2 **Portfolio investment related to SPEs**				
2.1 Equity and investment fund shares				
2.2 Debt securities				
Short-term				

Long-term				
Other Investment as reported in BOP and IIP	**Total to be drawn from BOP**		**Total to be drawn from IIP**	
3 Other investment related to SPEs				
Short-term				
Long-term				
Financial Derivatives as reported in BOP and IIP	**Total to be drawn from BOP**		**Total to be drawn from IIP**	
4 Financial derivatives related to SPEs				
II. Selected Capital Account Components	**Credit**	**Debit**		
Gross acquisitions (Dr)/disposals(Cr) of nonproduced nonfinancial assets as reported in BOP	**Total to be drawn from BOP**			
5 Gross acquisitions (Dr)/disposals(Cr) of nonproduced nonfinancial assets related to SPEs				
III. Selected Current Account Components	**Credit**	**Debit**		
6 Net exports of goods under merchanting by resident SPEs				
7 Selected services				
7.1 Transport				
7.2 Financial services				
7.3 Charges for the use of intellectual property				
7.4 Other business services				
7.5 Other services				
Investment income as reported in BOP	**Total to be drawn from BOP**			
8 Investment income related to SPEs				
Direct investment income as reported in BOP	**Total to be drawn from BOP**			
8.1 Direct investment income related to SPEs				
8.1.1 Dividends				
8.1.1.1 Direct investor in direct investment enterprises				
8.1.1.2 Direct investment enterprises in direct investor (reverse investment)				
8.1.1.3 Between fellow enterprises				
8.1.2 Reinvested earnings				
8.1.3 Interest related to SPEs				
8.1.3.1 Direct investor in direct investment enterprises				
8.1.3.2 Direct investment enterprises in direct investor (reverse investment)				
8.1.3.3 Between fellow enterprises				

	Portfolio investment income as reported in BOP	Total to be drawn from BOP			
8.2	**Portfolio investment income related to SPEs**				
8.2.1	Dividends				
8.2.2	Reinvested earnings				
8.2.3	Interest				
	Other investment as reported in BOP	**Total to be drawn from BOP**			
8.3	**Other investment related to SPEs**				
8.3.1	Interest				

ANNEX VIII. CURRENT APPROACHES IN IDENTIFYING PASS-THROUGH CAPITAL BESIDES SEPARATING SPES

Prepared by Magyar Nemzeti Bank

1. **The Netherlands Approach:** Entities known as Special Financial Institutions (SFIs) are concerned with pass-through funds. SFIs[38] exist in all shapes and sizes. Some are stand-alone, others are part of 'clusters', or broader groups of entities with one ultimate controlling institution abroad. Several types[39] of SFIs are distinguished—but whether a new entity should be classified as SFI (or an existing entity reclassified as such) is determined based on a decision tree. Once identified, SFIs are pooled into a separate subsector within the financial sector statistics. Pass-through flows are observed by assuming that all SFIs exclusively engage in pass-through activities, while other types of entities do not engage at all. Under this assumption, the sectoral totals for SFIs thus represent the observed pass-through flows in the Netherlands. However, in the Netherlands, although collection of statistics from SFIs allows identifying pass-through, the picture is incomplete. Foreign multinational corporations also channel funds through the Netherlands via balance sheets of local production affiliates, which are classified as non-financial corporations rather than SFIs. According to estimates approximately one-third of the debt of Dutch non-financial corporations, equal to 40 percent of Dutch GDP, consists of pass-through funds. Although the size of these funds is relatively small compared to the balance sheets of Dutch SFI, they still result in a sizeable distortion of non-SFI balance sheet statistics.

2. **The Suisse Approach:** The Swiss direct investment statistics use a separate concept to estimate pass-through capital—the concept of foreign controlled finance and holding companies (FFHCs). Like SPEs, FFHCs are identified based on the SPE-criteria set by the OECD, however, two of these criteria (almost all assets/liabilities of the domestic group are nonresident, and no or little employment) are applied less restrictively for FFHCs than for SPEs. Domestic assets and liabilities may be substantial for FFHCs and staff numbers at FFHCs may also be significant domestically. Nonetheless, a group is classified as FFHC if its cross-border capital linkages are large compared to the number of its domestic employees. Accordingly, SPEs are a subset of FFHCs and are thus reported as an 'of which' item under FFHCs in Switzerland's direct investment statistics. Since 2004, it has published adjusted totals for transactions and stocks both including and excluding FFHCs.

3. **The Finnish Approach:** In his paper Leino Topias suggests a general alternative approach to separate all pass-through funding, irrespective of identifying entities related. The

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[38] For now, more than fifteen thousand SFIs are reporting to DNB which is far more than in any other Dutch ESA-sector.

[39] Financing companies issuing securities, borrowing from banks and attracting inter-company loans to provide financing to foreign subsidiaries; Holding companies owning shares of foreign subsidiaries; Royalty and licensing companies paying and receiving (sub-)licensing fees for the cross-border rights to use intellectual property (and similar intangible assets); Vehicles securitizing portfolios of foreign loans.

idea is to compare inward and outward FDI figures of each enterprise, choose for each enterprise the one out of those figures that is closer to zero and then designate that amount, or a portion of it, as pass-through funding in that enterprise. These steps are applied to all enterprises where both the inward and out-ward FDI figure are greater than or equal to zero or both negative. He also refines this method with variations, including the share of FDI in total financing, furthermore for the case of passing through funds in chains of enterprises. The alternative method produces significantly different estimates of pass-through funding than the SPE-method. Concerning FDI positions in Finland, in 2011 instead of 10 percent, around 30 percent of inward FDI stock at end-2011 can be regarded as pass-through funding. This method can be applicable to any country with or without presence of SPEs. However, as it concerns stocks, it cannot be guaranteed that only those pass-through funds are eliminated, which are not related to the domestic economy.

4. **The Hungarian approach:** In Hungary, for separating these type of pass-through activity, the individual pass-through transactions themselves are in focus instead of entities. Two types of pass-through "activities" have been identified resulting huge transactions without any effect on the domestic economy: one is called capital in transit transactions and the other is linked to asset portfolio restructuring[40] of affiliates of MNEs. These transactions are identified on a case-by-case basis based on company reports for the compilation of balance of payments statistics. This micro-level approach is manageable because the panel of relevant companies includes only 30–40 enterprises and there are only a few pass-through transactions quarterly. FDI flows excluding capital in transit and asset portfolio restructuring transactions are published as supplements on an aggregate basis, as well as in country and activity breakdown enable the analysis of FDI data.

[40] The other form of pass-through activity is asset portfolio restructuring, 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, outstanding capital withdrawal and equity investment transactions are recorded in the balance of payments without any real capital withdrawal from or equity investment into the country.