

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

OUTCOME PAPER (DITEG) # 9 (1)

August 6, 2004

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

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

(3) Recommendations:

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

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

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

(4) Rejected Alternatives:

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

(5) Questions for the Committee and the WIIS:

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

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

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

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

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