TECHNICAL

NOTES & MANUALS

Special Purpose Entities

Guidelines for a Data Template to Collect Separate Information on Cross-Border Positions and Flows of Resident Special Purpose Entities

TNM/2022/006

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Guidelines for a Data Template to Collect Separate Information on Cross-Border Positions and Flows of Resident Special Purpose Entities

Special Purpose Entities: Guidelines for a Data Template
IMF Technical Notes and Manuals 2022/006

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ISBN:	979-8-40023-149-0 (Paper) 979-8-40023-261-9 (ePub) 979-8-40023-257-2 (PDF)
JEL Classification Numbers:	F23
Keywords:	globalization, multinationals, host jurisdictions, institutional units, control, cross-border flows and positions
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PREFACE

The *Special Purpose Entities: Guidelines for a Data Template* (the *Guidelines*) have been developed at the request of the IMF Committee on Balance of Payments Statistics (the Committee) to operationalize the agreed definition of special purpose entities (SPEs) with a view to separately identifying their cross-border flows and positions within external sector statistics.

The *Guidelines* were prepared in close consultation with relevant stakeholders, including member countries and international and regional organizations. Several countries have been able to evaluate the SPE definition for cross-border statistics, considering the structures resident in their economies.[1] The results were shared and discussed collectively either through the European Central Bank (ECB) Working Group on External Statistics (WGES) or the Organisation for Economic Co-operation and Development (OECD) Working Group on International Investment Statistics (WGIIS). The *Guidelines* also benefited from inputs obtained through bilateral interactions with some SPE host jurisdictions and countries having experiences with SPEs. The outcomes of these assessments and discussions, combined with the work done earlier by the Task Force on SPEs (TFSPE) set up by the Committee, have served as important inputs into the drafting of the *Guidelines*.

The purpose of the *Guidelines* is to assist compilers in the practical application of the agreed definition to identify resident SPEs in their jurisdictions and in collecting and reporting SPE related cross-border data. To attain this objective, the *Guidelines* provide practical advice on the (1) implementation of the definition of SPEs, (2) possible data sources and processes for collecting and compiling SPE-related statistics, and (3) reporting within the agreed Data Template.

The key concepts such as residence, institutional unit, and control used in the *Guidelines* align with those of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. Further operational guidance is provided on the objectives, the employment criterium, and the criterium on transacting with nonresidents included within the SPE definition. The *Guidelines* provide additional clarifications on specific cases, such as chains of SPEs or SPEs that are part of local enterprise groups.

Additionally, the *Guidelines* provide practical advice on data collection in terms of data sources and processes. The guidance reflects on survey frameworks, other data sources, and institutional collaboration that countries use to compile their statistics. The experience of selected SPE-host economies that are already collecting cross-border SPE statistics has been tapped to further document the collection practices. The objective is to build on the existing knowledge and experience to assist other economies in putting in place a collection system for SPE data. Country examples are provided in an Annex of the *Guidelines*.

[1] Papers were presented by Ireland, Luxembourg, the United Kingdom, and United States at the 2019 World Statistics Congress and the latter three also at the thematic meetings of the European Central Bank Working Group on External Statistics and the Working Group on International Investment Statistics of the Organisation for Economic Co-operation and Development.

Finally, the *Guidelines* set forth the underlying framework of the agreed Data Template and elaborate on data reporting. The proposed data collection framework for compiling separate statistics on resident SPEs targets selected balance of payments and international investment position components, which are explained in the *Guidelines*.

The *Guidelines* are not intended to be a “stand-alone” document. Users of the *Guidelines* should be familiar with the *BPM6* and the *BPM6 Compilation Guide*. The guidance is applicable to circumstances in different economies. With respect to data collection, national compilers should develop and adapt the data sources and compilation methods as appropriate to their national circumstances, by considering the practical and legal constraints in their own economies.

Acknowledgments

The *Guidelines* have been prepared by the IMF Statistics Department (STA), under the overall leadership of STA Deputy Director Mr. Gabriel Quirós-Romero. Ms. Padma S. Hurree Gobin (Senior Economist, Balance of Payments Division, STA) was the primary drafter of the *Guidelines*, who also combined and edited all the contributions. The work was closely supervised by Mr. Artak Harutyunyan (Deputy Chief, Balance of Payments Division, and later Advisor (as from October 2020), STA), under the general direction of Mr. Carlos Sánchez-Muñoz (Assistant Director and Division Chief, Balance of Payments Division, STA). Ms. Fadhila Alfaraj (Special Appointee, Balance of Payments Division, STA) and Ms. Tatiana Carandang (Staff Assistant, Balance of Payments Division, STA) supported the production of the Guidelines.

Within the Balance of Payments Division, the *Guidelines* have benefited from comments provided by Ms. Emma Angulo, Ms. Evrim Bese-Goksu, Mr. Theodore Bikoi, Mr. Kenneth Egesa, Mr. Thomas Elkjaer, Mr. Venkateswarlu Josyula, Ms. Silvia Matei, Ms. Rita Mesias, and Ms. Tamara Razin (all Senior Economists). Staff from other divisions of STA also provided comments, including Financial Institutions Division (Ms. Alicia Hierro, Senior Economist); Government Finance Division (Mr. David Bailey, Mr. Noriaki Kinoshita, Mr. Philip Stokoe, and Mr. Tobias Wickens—all Senior Economists); Real Sector Division (Mr. Robert Dippelsman, Deputy Chief, retired, and Ms. Jennifer Ribarsky, Deputy Chief); and Strategy, Standards, and Review Division (Mr. Michael Stanger, Senior Economist). Within the IMF, contributions to the discussions by Mr. Ruud de Mooij (Division Chief, Fiscal Affairs Department—FAD), Ms. Dinar Prihardini (Economist, FAD), Ms. Antje Pflugbeil (FAD External Appointee), and Mr. Gian Maria Milesi Ferretti (Deputy Director, Research Department) are gratefully acknowledged.

STA wishes to acknowledge, with thanks, for their continued support and contributions all members of the Committee; members of the ECB’s WGES, including ECB staff and its Chair Ms. Olga Monteiro; the OECD’s WGIIS and Ms. Maria Borga (formerly OECD); Ms. Patricia Abaroa (U.S. Bureau of Economic Analysis); Messrs. Krit Carlier and Melle Bijlsma (De Nederlandsche Bank); Mr. Paul Feuvrier (Banque Centrale de Luxembourg); Mr. Patrick Lengg (Swiss National Bank); Mr. Fernando Lemos (Banco Central do Brasil); and Ms. Beata Montvai (Central Bank of Hungary).

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ACRONYMS

2008 SNA	*System of National Accounts 2008*
BEPS	Base Erosion Profit Shifting
BD4	*Benchmark Definition of Foreign Direct Investment*, fourth edition
BPM6	*Balance of Payments and International Investment Position Manual*, sixth edition
BTTs	Bilateral tax treaties
Committee	IMF Committee on Balance of Payments Statistics
DI	Direct investment
ECB	European Central Bank
ESS	External sector statistics
FAD	IMF Fiscal Affairs Department
FDIR	Framework for direct investment relationships
FSB	Financial Stability Board
Guidelines	*Special Purpose Entities: Guidelines for a Data Template*
IFCs	International financial centers
IFs	(Non-money market) investment funds
IIP	International investment position
IMF	International Monetary Fund
LEI	Legal Entity Identifier
MNEs	Multinational enterprises
MOU	Memorandums of understanding
OECD	Organisation for Economic Co-operation and Development
OFCs	Offshore financial centers
SPEs	Special purpose entities
STA	IMF Statistics Department
TFSPE	Task Force on Special Purpose Entities
TPI	Third-party indicators
WGES	Working Group on External Statistics, ECB
WGIIS	Working Group on International Investment Statistics, OECD
WHT	Withholding tax

INTRODUCTION

At the center of statistical challenges related to globalization are multinational enterprises (MNEs) with a wide range of economic activities and extensive use of special purpose entities (SPEs). MNEs increasingly resort to setting up global structures to benefit from different legal and tax regimes, with a view to maximizing their global after-tax profits.

In a complex global financial system with increased cross-border flows and positions, SPEs play an important role. Lane and Milesi-Ferretti (2018) observe that cross-border direct investment (DI) positions have continued to expand, reflecting primarily positions vis-à-vis financial centers, which include an important role for SPEs. The significant growth of SPE-related cross-border financial flows and positions underscores the need for external sector statistics (ESS) to untangle SPE activities from those of other economic agents.

With increasing globalization, SPEs have evolved beyond those structures described in the current statistical manuals. While originally set up by financial institutions and MNEs to carry out financial activities, such as raising capital or holding assets and liabilities, SPEs have evolved to also include nonfinancial specialized entities established by MNEs to manage intellectual property rights, research and development, trade, and other activities as part of the groupwide financial and profit maximization strategy.

In light of their evolving nature and importance, there has been a growing demand from users to separately identify SPEs within ESS with a view to improving the analytical value of cross border statistics. These entities' activities usually have no or limited direct impact on the domestic (host) economy, such that the evolution of SPE flows might not be correlated with the host economies' business cycles. In this context, the need has emerged to further develop international guidance on SPEs beyond what is in the *Balance of Payments and International Investment Position Manual*, sixth edition (*BPM6*), to be able to collect separate data on SPE activities.

Separately identifying SPE cross-border statistics has been a priority for the IMF Committee on Balance of Payments Statistics (the Committee) since 2016.[2] The separate identification within the balance of payments and international investment position (IIP) statistics will help users, including market analysts and policymakers, to better (1) assess the economic impact of cross-border financial flows and positions on the domestic economy, (2) understand the activities of MNEs, (3) identify cross-border vulnerabilities, and (4) gauge data quality and coverage.

The purpose of these *Guidelines* is to assist compilers in the practical implementation of the SPE definition endorsed by the Committee (see next section) with a view to establishing data collection and reporting. With respect to data collection, national compilers should develop and adapt the data sources and compilation methods in ways that are appropriate to their national circumstances, by considering the practical and legal constraints in their own economies.

2 The Committee set up a Task Force on SPEs (TFSPE), which eventually recommended a stronger involvement of the IMF in improving the coverage of SPEs within ESS.

DEFINING SPEs

Although the current manuals provide a valuable starting point for characterizing and identifying SPEs, they provide no internationally agreed standard definition of SPEs. With the constant mutations in response to an evolving financial environment and the need to adapt to changing tax rules, the features of SPEs nowadays have become more diverse. Besides, different legal definitions apply across jurisdictions which host SPEs. While these diverse characteristics substantially complicate the task of developing an encompassing definition, they also highlight why a definition becomes indispensable to ensure adequate cross-country comparability.

The internationally agreed definition of SPEs endorsed by the Committee assists countries/jurisdictions with resident SPEs to identify and treat them in a consistent way (including across national statistical domains). A consistent treatment makes it easier to compare national data excluding SPEs. In addition, for economies who wish and can collect information on nonresident SPEs controlled by their residents, the definition enables comparing statistics on transactions by nonresident SPEs with mirror data on transactions of resident SPEs compiled by SPE-hosts.

The Committee endorsed an internationally agreed definition of SPEs in the context of cross-border statistics[1] at its October 2018 meeting as proposed by the TFSPE.[2] This definition will facilitate the collection of separately identifiable cross-border statistics on SPEs.

The definition of an SPE, in the context of ESS,[3] 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 a 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 (1) grant its owner(s) access to capital markets or sophisticated financial services; and/or (2) isolate owner(s) from financial risks; and/or (3) 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.*

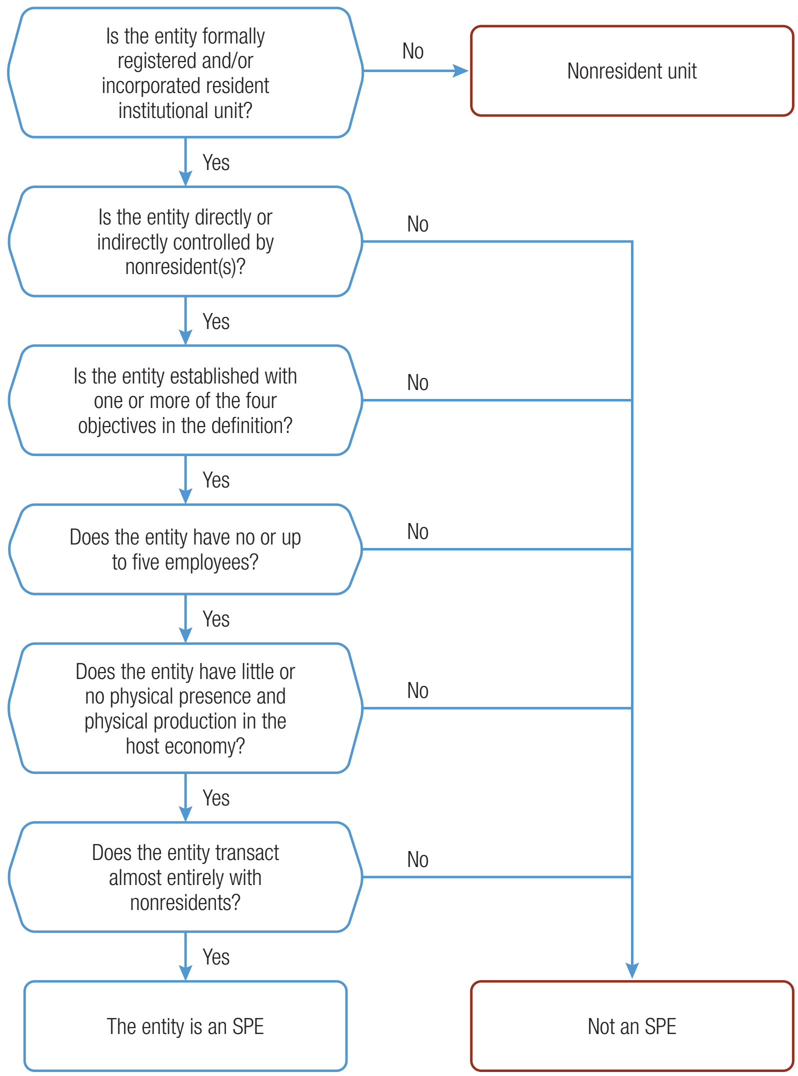
To guide national compilers in identifying SPEs resident in their economies, the definition is accompanied by (1) a decision tree, presented in the form of a flow chart (Figure 1) and (2) a typology to delineate the different types of SPEs and determine their appropriate institutional sector (Annex 1).

1 The update of *BPM6* is expected to incorporate these developments.

2 See IMF Committee on Balance of Payments Statistics (2018).

3 The SPE definition in the ESS context is clearly attributed to SPEs directly or indirectly controlled by nonresidents and does not explicitly cover the possibility of using SPEs in domestic-to-domestic relationships (in those economies which can provide tax-friendly environments within an economic territory), for instance domestic SPEs owned by households or other resident entities.

FIGURE 1. Decision Tree to Identify Resident SPEs for External Sector Statistics



The typology should be used as a complement to the SPE definition and is not meant to be either exhaustive or prescriptive. To further elaborate on the typology, detailed illustrative summary cards for the main types of SPEs, highlighting the main characteristics of each type, are provided in Annex 2. Each card includes a description, general characteristics, and a prototype balance sheet with the main instruments and flows linked to the SPE functions/description.

Underscoring the *BPM6* basis for the identification of SPEs, the concepts of "residence," "institutional unit," and "control" are consistent with those underlying the balance of payments and IIP statistics. The decision tree presented in Figure 1 uses the establishment of "objectives" and the criteria for "employment," "physical presence," and "balance sheet" to facilitate the appropriate identification of a resident SPE. To determine which entities are defined as SPEs, the decision tree should be followed using successive questions and taking into account specific characteristics of the different types of SPEs. The sequential order of the questions in the decision tree could be applied flexibly in cases where the country circumstances warrant different ordering of the questions:

a. Is the entity formally registered and/or an incorporated resident institutional unit? (See paragraphs 13–19 below.) If yes, move on to the next decision point.

b. Is the institutional unit directly or indirectly controlled by nonresident(s)? If yes, move to the next point. (See paragraphs 20–28.)

c. Has the institutional unit been established with one or more of the four objectives stated in the definition? (See paragraphs 31–35.)

d. Does the institutional unit satisfy the criteria of having no or up to five employees? (See paragraphs 39–41.) A positive response would lead to substantiating the other criteria of having little or no physical presence and physical production in the host economy. (See paragraphs 42–44.)

e. Does the institutional unit transact almost entirely with the rest of the world such that the largest part of its financial balance sheet typically consists of cross-border assets and liabilities? (See paragraphs 45–49).

IMPLEMENTING THE SPE DEFINITION

A. Residence

The residence of each institutional unit is within the economic territory with which it has the strongest connection, expressed as its center of predominant economic interest.[4] Each institutional unit is a resident of one and only one economic territory[5] determined by its center of predominant economic interest. Most entities have strong links with only one economy, so their residence is clear, but with increasing international economic openness, a growing number of institutional units have connections to more than one economy. The concepts of economic territory and residence are designed to ensure that each institutional unit is a resident of a single economic territory such that cross-border transactions and positions of each institutional unit are recorded in a single economic territory.

For entities such as SPEs, the residence is determined by their place of incorporation (*BPM6*, paragraph 4.115d). SPEs require particular attention because for an entity with little or no physical presence, its residence is determined according to the economic territory under whose laws it is incorporated or registered (legally constituted or legally domiciled), consistent with paragraph 4.56 of the *System of National Accounts 2008* (*2008 SNA*). According to international statistical guidelines, residence is not based on nationality or legal criteria, contrary to the concepts of residence used in many countries for exchange controls, tax, or other purposes. The concept of residence for SPEs[6] in these guidelines follows the *BPM6* and *2008 SNA* standards.[7] *BPM6* paragraph 4.135 clearly states that the incorporation and registration of such entities represent a substantial degree of connection to the economy, associated with jurisdiction over the enterprise's existence and operations. In contrast, other connections such as ownership, location of assets, or location of managers or administration may be less clear-cut.

B. Institutional Unit

An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.[8] Because they have legal responsibility for their actions, institutional units are considered to have autonomy of decision for all aspects of economic behavior. The concept of an institutional unit is the same in *BPM6* and the *2008 SNA*.

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4 Residence is defined as in the BPM6, paragraphs 4.11 3–4.144, and in the 2008 SNA, paragraphs 4.10–4.15, and Chapter 26.

5 Economic territory, in its broadest sense, can be any geographic area or jurisdiction for which statistics are required. The most commonly used concept of economic territory is the area under the effective economic control of a single government (BPM6 paragraphs 4.3–4.9).

6 The nature and treatment of SPEs and other similar structures are discussed in BPM6 paragraphs 4.50–4.52, 4.87, 4.93, and 4.134–4.135.

7 The concept of residence is consistently defined in all macroeconomic statistical standards, including in the *Monetary and Financial Statistics Manual and Compilation Guide* and the *Government Finance Statistics Manual* (2014).

8 Institutional unit is defined in BPM6, paragraphs 4.13–4.52, and 2008 SNA, paragraphs 2.16, 4.2 and Chapter 26.

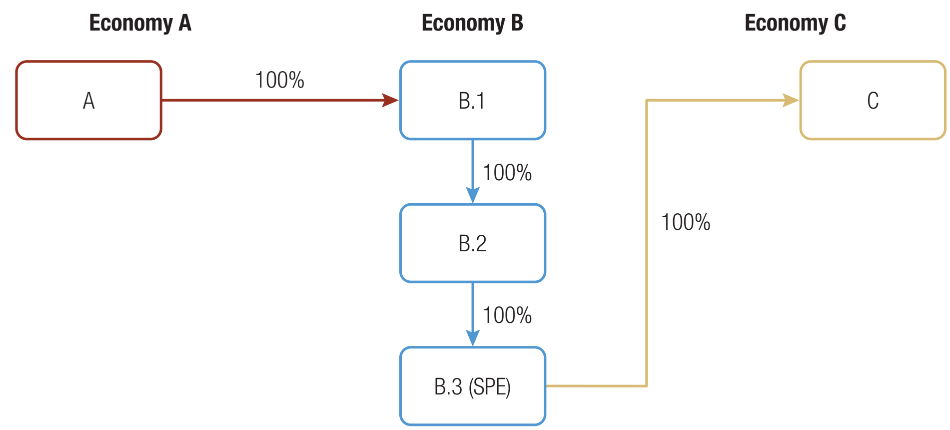
However, there are some special treatments of SPE units in cross-border situations. The general rule, according to the *2008 SNA* paragraph 4.69, is that for being considered as separate institutional units, they have to be responsible and accountable for the decisions and actions they take, that is, they should have autonomy of decision. Consequently, SPEs which do not meet the criterion of autonomy of decision should in principle be regarded as part of the parent and be consolidated with it for statistical purposes. However, paragraph 4.61 of the *2008 SNA* states that [emphasis added] "*An entity of this type that cannot act independently of its parent and is simply a passive holder of assets and liabilities… is not treated as a separate institutional unit* ***unless it is resident in an economy different from that of its parent****… .*" The residence of an SPE is, therefore, of critical importance to its statistical treatment. Also, because SPEs have legal responsibility for their actions, they can be accountable for all aspects of economic behavior.

Therefore, for the purpose of operationalizing the definition, the residence of the SPE is an important factor for its recognition as a separate institutional unit. Based on the current statistical methodological standards (*2008 SNA* and *BPM6*), SPEs controlled by nonresidents meet the definition of an institutional unit and are treated as residents of their territory of incorporation. Although SPEs are controlled by nonresidents and their autonomy of decision could be questioned, to the extent that they are legally independent, they are considered to be separate institutional units from their nonresident parents. The 2008 SNA, paragraph 2.16, does recognize that legal independence to hold assets and liabilities and autonomous behavior do not always coincide such that SPEs are treated implicitly as responsible, and accountable, for their decisions and actions.

SPEs owned and directly controlled by residents in the same economy, even if indirectly controlled by nonresidents, typically would not meet the statistical definition of an institutional unit. In practice, their accounts would be consolidated with those of the resident owners, which may or may not be an SPE. In these instances, the cross-border transactions of the SPE will be consolidated with the resident parent and not be recorded as SPE-related cross-border flows. However, from the perspective of the need to untangle SPE activities from those of other economic agents, the *Guidelines* encourage compilers, to the extent possible, to separately identify the cross-border transactions of these resident SPEs (indirectly controlled by nonresidents) from the resident non-SPE immediate parent. This guidance to compilers is only meant to identify separately SPEs related cross-border transactions or positions from the rest and should not be viewed as an exception to the definition of an institutional unit as laid out in the *2008 SNA*. Figure 2 illustrates an example.

In Figure 2, B.2 and B.3 resident in the same economy B as their non-SPE parent entity will be consolidated with B.1 for macroeconomic statistics purposes, if both do not qualify as separate institutional units as defined in the 2008 SNA. Subsequently, the cross-border transactions and positions of SPE B.3 will not be separately identified, as the resulting consolidated entity would not meet the definition of SPEs. For the purpose of ESS, compilers are highly encouraged, to the extent possible, to consider the cross-border flows and positions of B.3 as SPE-related, separate from their resident non-SPE parent, B.1. This approach is considered more useful in understanding SPE cross-border activities, particularly in those jurisdictions where SPE activities get combined with non-SPE operating units. It is recognized, however, that in this approach foreign funds that will flow into B.3, through B.1, will not be captured as SPE flows, while the outflows from B.3 will.

FIGURE 2. SPEs within Enterprise Groups



C. Direct or Indirect Control of SPEs by Nonresidents: How to Apply It in Practice?

Control or influence may be achieved directly by owning equity that gives voting power in the enterprise, or indirectly by having voting power in another enterprise that has voting power in the enterprise.[9] *BPM6* and the *Benchmark Definition of Foreign Direct Investmen*t, fourth edition (*BD4*) of the Organisation for Economic Co-operation and Development (OECD) define DI based on control or significant degree of influence on the management of an enterprise.

For SPEs, associated particularly with flexible corporate structure of MNEs, the focus is on the control aspect of the direct investor. According to the definition of SPEs, these entities should be directly or indirectly controlled by nonresidents. Control is determined to exist if the direct investor owns more than 50 percent of the voting power in the DI enterprise either directly or indirectly through a chain of DI relationships.

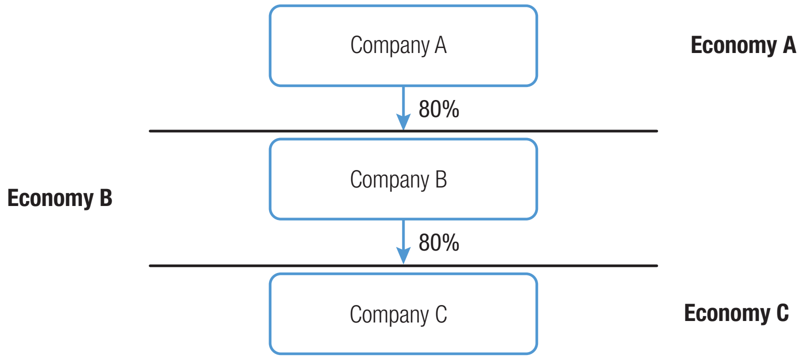
Direct and Indirect Relationship

Control may be obtained directly (for example, company A is the owner of equity of company B that gives control) or indirectly (company A owns equity of company B and company B owns equity of company C, so company A exercises indirect control on company C though company B).

Figure 3 illustrates an example in which Company A controls company B and, because company B controls company C, company A also controls company C. In this example, company A **directly controls** company B, company B in its turn **directly controls** company C, and thus company A **indirectly controls** company C. Indirect control can continue through a series of companies as long as control exists at each stage in the ownership chain.

[9] Control is defined as in paragraphs 6.12–6.14 of *BPM6*, that is, by combining direct and indirect ownership, and paragraphs 4.68–4.74 and 4.81–4.82 of the *2008 SNA*.

FIGURE 3. Indirect Relationship



Framework for Direct Investment Relationships

The framework for DI relationships (FDIR) sets the ***rules for indirect transmission of control and influence*** *through a chain of ownership.*[10] **Control** can be passed down a chain of ownership as long as control exists at each stage or when the investor and its subsidiaries combined own more than 50 percent of the voting power of an enterprise (see cases 4 and 6 in Figure 4).[11] Whereas the FDIR applies a criterion of 10 percent or more of voting power for immediate DI, transmission through chains of ownership is not linked to a particular equity share, but a chain of control. For example, a chain of ownership of enterprises with each link involving 60 percent of the voting power involves a chain of control, even though the indirect equity by the top enterprise is 36 percent at the second level (that is, 60 percent of 60 percent), 21.6 percent at the third level (that is, 60 percent of 36 percent), and so on. The application of these principles is explained in *BPM6*—see Box 6.1.

The flow chart in Figure 4 provides examples of ownership and control, identifying SPEs that meet the definition. The ownership and control of SPEs is liable to the jurisdiction of incorporation of the SPE such that the latter will be required to meet the specific legal, tax, accounting, and regulatory requirements of the relevant jurisdiction. The SPE should be directly or indirectly controlled by a nonresident as emphasized and presented in Figure 4.

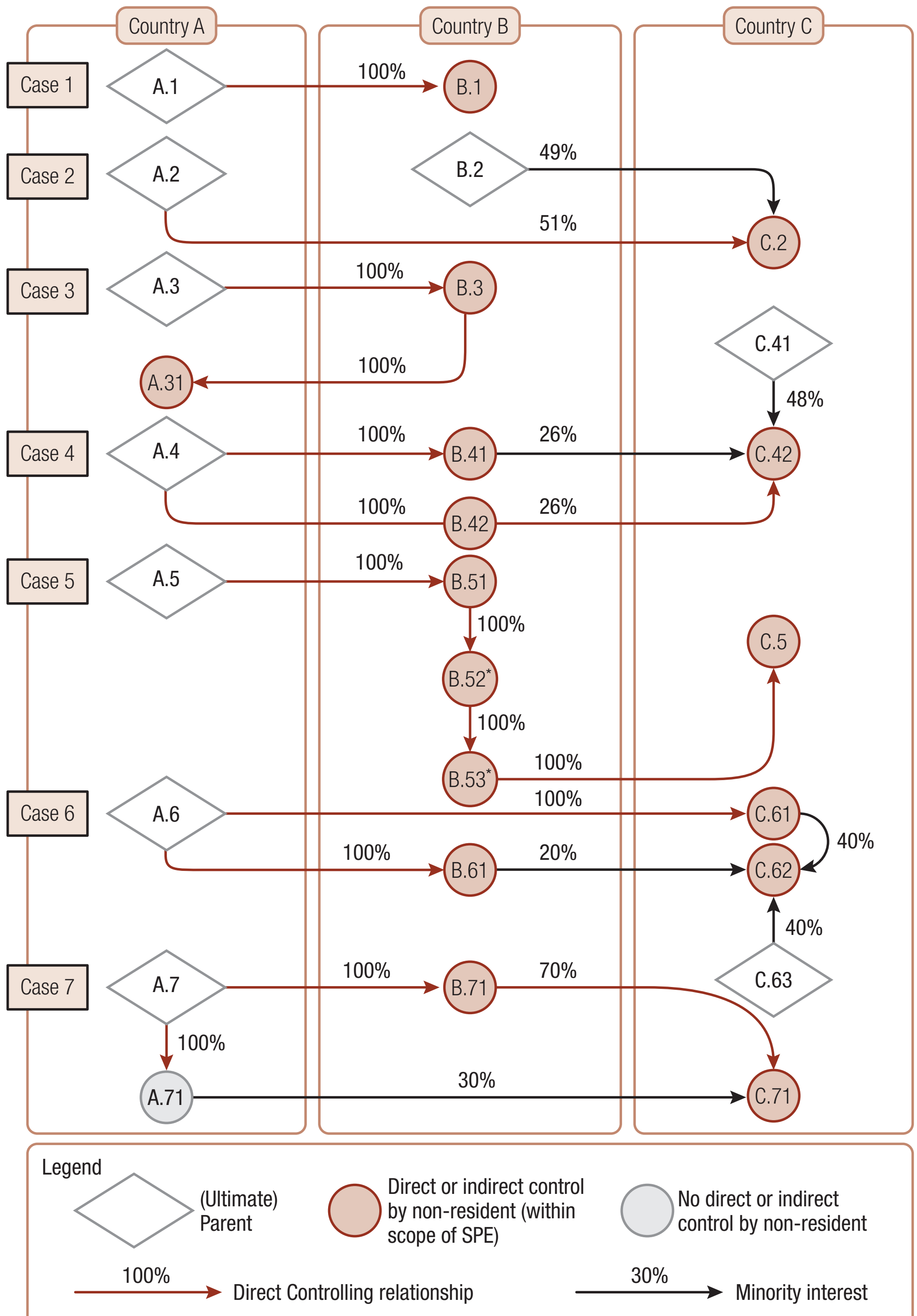
SPEs can also exist within a chain of entities, where the immediate parent and the affiliated SPEs are operating in the same economy. Case 5 presented in Figure 4 depicts this chain and warrants special attention. It showcases the presence of intricate chains involving some sort of layering whereby a resident SPE controlled by nonresidents establishes another resident SPE or there may be a mixture of SPEs and non-SPEs in the chain.

In Case 5, there is a group of SPEs in the same enterprise group controlled by a foreign investor. Units B.52 and B.53, as shown in Figure 4, are directly controlled by residents B.51 (operating unit) and B.52, respectively. The operating SPE unit B.51 is, on its part, controlled by a nonresident entity A.5. Consequently, both units B.52 and B.53 are indirectly controlled by nonresident A.5. B.52, in this case, has a resident parent and has another resident affiliate (B.53). Whereas units B.52 and

10 See *BPM6* paragraphs 6.14–6.16.

11 See OECD's *BD4* Box 3.4.

FIGURE 4. Ownership and Control of SPE



*Note: It is likely that B.52 and B.53 would need to be consolidated with B.51 in a single institutional unit, when meeting the other SPE defining criteria.

Source: IMF Committee on Balance of Payments Statistics (2018); prepared by the ECB.

B.53 have domestic equity capital and B.51 has domestic equity assets, they all may have mostly cross-border assets and liabilities, with very little interaction with the economy of incorporation. In such instances, units B.52 and B.53 would be consolidated with B.51, and the resulting consolidated entity would be classified as an SPE for ESS purposes. This is because all three units altogether fulfil the SPE criteria as described in the definition and have their operations dominantly related to the rest of the world.

In case unit B.51 is a non-SPE in the above example but units B.52 and B.53 meet the definition of SPEs, the guidance provided in paragraphs 18 and 19 should be followed.

National compilers, have recourse to different sources to be able to determine direct/indirect control of entities, of which:

a. Business registers in the context of ESS compilation (DI enterprises) with information on entities with nonresident participation. The adequacy of the registers should, however, be carefully refined when targeting SPEs.

b. Regulatory institutions, which license the SPEs. Usually when incorporated, SPEs should provide information about their shareholding structure and may be required to update it regularly.

c. Local enterprise group surveys, provided the resident SPEs are known. However, this kind of survey-based collection can complicate the identification of SPEs that belong to larger, local enterprise groups (see paragraph 82).

D. Objectives for Establishing SPEs

The SPE definition determines that SPEs are established to obtain specific advantages provided by the host jurisdiction. A key aspect of the SPE, going by its name, is the special purpose with which the entity is incorporated. This special purpose can only be achieved through the registration or incorporation of a legal entity in a given specific jurisdiction by making use of the "special" advantages that this jurisdiction offers. National compilers, in trying to operationalize the objectives included as part of the definition, should therefore direct their efforts toward documenting the legal provisions for SPEs offered by their countries rather than seeking the answers from the entities.

Each national jurisdiction has its own law which governs incorporation of such entities, their operations, and holdings located in that jurisdiction. The presence of host supervisory or regulatory bodies can be an important source of information. Having knowledge of the institutional arrangements between countries can also help—for instance the list of double taxation treaties that exist.

Attractive features in the tax system are also important arrangements. These include relatively generous participation exemption regime and low withholding tax (WHT) rates on dividends, interest, and royalties. In most advanced economies, qualifying dividends and capital gains received from foreign-owned related companies are exempt from corporate income tax to prevent international double taxation. However, the conditions under which such exemptions are granted vary across countries. WHTs on dividends, interest, and royalties are often used by countries to tax passive income at source; or they serve as a safeguard against base-eroding payments by MNEs.

Bilateral tax treaties (BTTs) typically lower the WHT rates specified in domestic law on a reciprocal basis, facilitating bilateral foreign DI. Certain jurisdictions also offer a preferential treatment of income from intellectual property to stimulate innovation.

These advantages may be known to compilers. Thus, intra-group lending SPEs might domicile in a jurisdiction due to the zero WHT on interest and/or because of the low WHT rates agreed in BTTs with other countries. Holding SPEs may be attracted due to a relatively generous participation exemption and low or zero WHT rates on dividends.

The choice to locate SPEs in certain jurisdictions may also have to do with non tax factors as well. A well-developed international financial center (IFC) with a well-integrated ecosystem providing easy access to its capital market or access to sophisticated financial services, a skilled multilingual workforce, and a stable political and social climate can contribute to a jurisdiction being an attractive hub for international business. Compilers should be able to determine that these investments in financial assets that flow into and out of these jurisdictions usually have limited contribution to the domestic economy.

Numerous institutions, including international organizations, nongovernmental institutions, and private sector firms, publish indicators of the attractiveness of jurisdictions as hosts of SPEs. These third-party indicators (TPIs)[12] may complement compilers own knowledge and efforts, if deemed useful. In using such indicators/lists compilers should, nonetheless, exercise judgment and must be aware of the different challenges that these may present. Some TPIs are based on hard data, while others are based on qualitative assessment by experts, experience, perception, or composites of various underlying data sources. Issues may arise from the opacity of some indicators, their sources and methodologies, and their quality and reliability that are based on perception or value judgment.

Existing literature has referred to different lists of IFCs or offshore centers. The lists change regularly, and a number of organizations publish their own lists, which have been drawn up according to various criteria. The World Bank, the IMF, other regional organizations, and various other nongovernmental organizations are also constantly compiling lists of these economies according to their own criteria.

In practice, lists of offshore financial centers (OFCs) were published more than a decade ago by the IMF[13] and recently by the OECD[14]; they are based on a qualitative assessment of the jurisdictional regulations and taxation frameworks. In contrast to these qualitative approaches, Zoromé (2007) has defined OFC jurisdictions as those that "provide financial services to nonresidents on a scale that is incommensurate with the size and the financing of their domestic economies." Cobham, Jansky, and Meinzer (2015) have used flow data on the exports of financial services to calculate ratios that indicate how significantly a jurisdiction acts as an OFC. Fichtner (2015) further expanded this approach by using stock data on international banking assets, portfolio investment, and foreign DI in relation to the gross domestic product (GDP) of a jurisdiction to calculate an *offshore-intensity ratio.*

12 A TPI is defined in the context of the IMF's work with member countries and essentially means an indicator compiled by organizations other than the IMF. See IMF (2018).

13 IMF Monetary and Exchange Affairs Department (2000).

14 O'Reilly Ramirez, and Stemmer (2019).

The IMF, in practice, has made a distinction in the past between two types of financial centers—OFCs and IFCs. OFCs are usually small jurisdictions, which have very stylized business activity with a view to save on taxes (through low or zero corporate taxes), protect assets, safeguard confidentiality, and provide sophisticated financial services. The bulk of financial sector activity in an OFC is cross-border on both sides of the balance sheet, where the transactions are initiated elsewhere, and where most of the entities involved are controlled by nonresidents. IFCs are countries, with well-developed financial markets and infrastructure, that are widely perceived as attractive intermediate destinations in the routing of investments, and there may be little distinction between on- and offshore business. Typically, these centers have low or zero taxes imposed on the transfer of capital to other countries, either via interest payments, royalties, dividends, or profit repatriation. In this way, profit from one country can be re-invested in another part of the world paying no or little taxes. Countries such as Ireland, Japan, The Netherlands, United Kingdom, and can be considered IFCs. Nowadays this distinction is not made anymore, with the terms OFCs and IFCs somewhat used interchangeably.

E. The Five-Employee Threshold Applied in the Definition

The definition requires that SPEs should have zero or up to a maximum of five employees[15]—a straightforward criterion for countries to implement as long as information about the number of employees is available. In principle, SPEs are considered to have no employment. However, for practical applicability of the definition, a cut off rule of five employees, which also reflects reduced physical presence, was established.

The proposal of establishing an upper limit of up to five employees has been informed by country experiences. Based on a consultation exercise conducted by the IMF in 2018, it came up that following specific legal requirements for minimum employment, in some jurisdictions SPEs may "artificially" employ a reduced number of staff to comply with national law. Applying this criterion, all entities above five employees are not considered as SPEs.

The five-employee threshold allows compilers to distinguish those hybrid companies, which display SPE-like activities, usually referred to as "near-SPEs" (or SPE type or SPE-like) but are not SPEs as they have more than five employees. They may display SPE characteristics, as evidenced by their increasingly disproportionate revenue/balance sheet size per employee. These entities emerged with the legal need to employ more staff as a result of the OECD Base Erosion Profit Shifting (BEPS)[16]—an initiative to address tax avoidance strategies that exploit tax gaps and mismatches to artificially shift profits to low- or no-tax locations with little or no economic activity. With the emergence of these near-SPEs and the OECD BEPS initiative, the definition had to cover this attribute more precisely by establishing the cut off rule concerning employment.

F. No or Little Physical Presence: How to Establish It in Practice?

The definition requires that entities, which are SPEs, should have no or little physical presence and no or little physical production with no specific numerical threshold recommended. Physical production is understood as an activity that uses inputs such as employees, physical capital, and goods and

15 Irrespective of the type of employment, and whether employed directly under their payroll or indirectly via employment agency services.

16 See OECD (2013).

services to produce outputs that are delivered or supplied to other institutional units. Little physical presence implies the absence of physical assets, such as buildings, land, machinery and equipment, and sub-soil assets, in the economic territory of incorporation. The physical presence of an SPE is usually expected to be limited to having a physical address, electronic communication addresses, and, if legally required or otherwise necessary, small-scale premises. Typically, any nonfinancial assets owned by an SPE are restricted to either intangible or mobile tangible assets.

The determination of the existence of little or no physical presence and physical production can be made by using different indicators, such as:

a. computation of several ratios, of which material fixed assets, trade receivables, and turnover to total assets, with a view to measuring links with the domestic economy

b. zero or a minimum turnover with domestic parties in the host economy

c. a minimum cap on the gross book value of property, plant, and equipment

Should national compilers adopt additional specific approaches for added precision for measuring little of no physical presence, these **should come in addition to (that is not instead of) the employment criterion of up to five employees**.

G. Nonresident Share of Total Balance Sheet Criterion

The SPE definition suggests that a large part of an SPE's financial balance sheet typically consists of cross-border assets and liabilities—viewed from the perspective of the compilers of a given economy. It also recognizes that most of the SPEs transactions are carried out with nonresidents. Nonetheless, this does not exclude that SPEs can transact with residents and hold domestic assets or liabilities.

The criterion that SPEs' assets and liabilities should be mostly vis-à-vis nonresidents is mainly applicable in the case of pass-through DI, which therefore makes the identification of SPEs straightforward. However, in addition to financial SPEs—which almost exclusively held financial assets and liabilities—nonfinancial SPEs are also set up to engage in production of nonfinancial services, such as those holding intellectual property rights and collecting fees/royalties, engaged in merchanting, and engaged in captive operational leasing. However, if SPEs that are set up to hold intellectual property rights, for example, mostly collect royalties from residents, they should not be treated as SPEs because of their close links to the domestic economy.

Annex 1 provides a typology of SPEs, which aims to delineate the different types of SPEs based on their economic functions and relates them to the appropriate institutional sector following the *2008 SNA*. The possibility that portfolio and other investment assets and liabilities can be vis à vis many market participants that may be resident in the host economy exists for many types of SPEs. Furthermore, for SPEs that are owned by residents but indirectly controlled by nonresidents, such as the examples in Figure 4 (Case 5), equity on the liabilities side is held by residents. However, these entities may still have large cross-border assets and liabilities.

FIGURE 5. Resident Chains of Entities

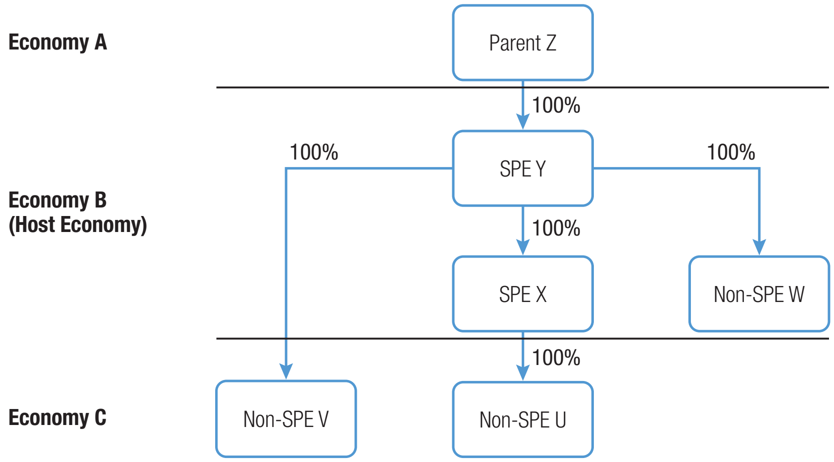


Figure 5 elaborates on a possible case of resident chains of entities, where the compilers should take into account whether assets in resident entities, such as those of Y in X, are relevant to the domestic economy. If not, these entities, if they meet the definition of SPEs, including having large cross-border assets and liabilities, would be considered as SPEs.

A resident entity, directly owned by a nonresident entity, may also hold in the same (domestic) economy both SPEs and operating subsidiaries (Figure 5). Whether the resident enterprise (Y), should be considered as an SPE depends on, among other criteria, the composition of its balance sheet. Although it is directly controlled by a nonresident entity, its assets are partially nonresident and partially resident. The assets include investment in a resident enterprise (both SPE (X) and non-SPE (W)) as well as cross-border assets, which it holds directly in nonresident enterprise (V) and indirectly in nonresident enterprise (U). The bearing of the foreign and domestic assets (not necessarily the relative weight) of Y, in this case, is important in classifying Y as an SPE. This depicts a situation where the compiler is expected to look at the relevance of the balance sheet, where though an entity could be resident, it may have no economic links with the domestic economy.

H. Specific Types of SPEs

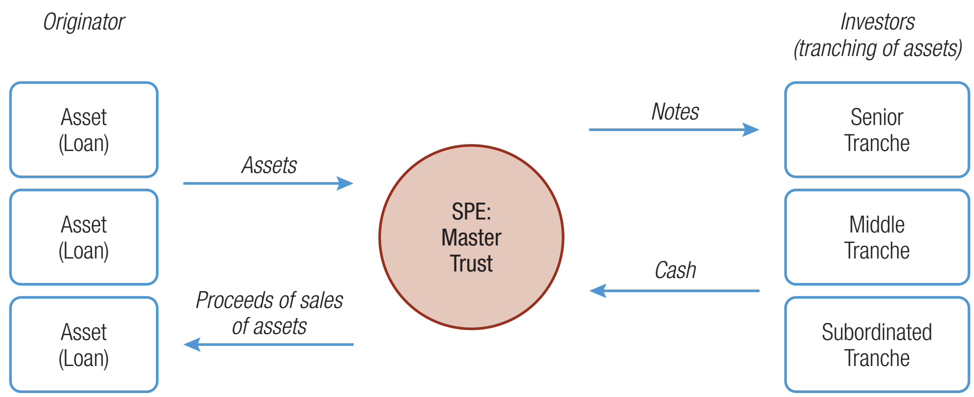
Securitization Vehicles

Securitization vehicles are entities set up to provide structured finance. These entities, if they exhibit all characteristics that meet the SPE definition, should be classified as SPEs, even though, at times, they may display balance sheets composed of foreign assets (typically loans to its parent company) and a mix of foreign and domestic liabilities (typically bonds held by portfolio investors).

Securitization involves raising funds by selling a security backed by specific assets or income streams.[17] It is the process where a financial institution or other business converts existing assets or future cash flows into marketable securities, by placing those assets in a structure where the risks and rewards

[17] *BPM6* paragraph 4.78, and the *Handbook on Securities Statistics*.

FIGURE 6. Securitization and the SPE



of owning the assets are transferred to a third party. SPEs are an integral part of many structured finance transactions—securitizations. A securitization vehicle is created for a specific objective, which is to isolate financial risk.

In a cross-border context, a securitization vehicle is, therefore, the SPE that is **directly or indirectly controlled by nonresidents**, usually acts as a subsidiary company to enable an asset and liability structure, and holds up a legal status and secures obligations, on the off chance that the parent company goes bankrupt. Generally, these are the elements to securitization (Figure 6): (1) assets generating the cash flow that are to be securitized (underlying asset), (2) the SPE functioning as the conduit linking the underlying assets and investors, and (3) investors investing in the cash flows (securities) generated by the underlying asset, usually grouped in tranches and sold to meet the credit risk preferences of a wide range of investors. These securities are termed asset-backed securities. In the ESS context, most of the involved flows are cross-border. However, given that those SPEs transact assets and/or liabilities on the open market, the balance sheet can be a mix of cross-border and domestic investors, where the conduits issue debt securities and have no control over who holds the securities.

If the securitization vehicle set up, be it a registered trust or an incorporated company, meets the definition of an SPE, with no employees, is directly or indirectly controlled by a nonresident, and has a large share of its balance sheet with nonresidents, the compilers should include them into the SPEs population. Securitization vehicles are, however, also examples where the functional classification of the cross-border assets and liabilities can vary between DI, other investment, and portfolio investment.

Compilers need to distinguish cases (*BPM6* paragraph 4.78) in which the originator issues asset-backed securities on its own books, then securitization may take place without the creation of a separate entity. When the portfolio is not transformed, or the vehicle does not bear market or credit risks, then it can be combined with its parent (if resident in the same economy) or treated as a captive intermediary (if in a different economy to that of its parent—see typology of SPEs, Annex 1).

Additionally, there are securitization vehicles that are created independent from their parents such that they have no relationship with the originator of the assets. In those instances, the assets are sold to entities, which then become entirely independent of the originator, with the latter holding no share capital. The aspect of control, as defined for DI purposes, is clearly absent in these cases. These entities are usually called "orphan" SPEs with their shares settled on a charitable trust and with professional directors provided by an administration company to ensure that there is no connection with the originator. These securitization vehicles have no employees, but have a manager, who assumes the responsibility of the overall securitization framework, including the liaison between the originator, investors, lenders, and other related parties.

These securitization vehicles have, in these instances, autonomy of decision and are assessed to be institutional units "on their own right." Consequently, based on the current definition of SPEs, these orphan entities would not be SPEs in the host economy as they do not have direct or indirect nonresident control.

Compilers are, therefore, advised to be particularly attentive to understanding the framework of the securitization vehicle and exercising caution when defining the sample of SPEs for securitization. This is important because different terms are used interchangeably in different countries dependent on the forms of SPEs: sponsor, originator, administrator. These concepts/terms can be difficult to understand, when deciding on direct or indirect ownership.

Other Types of SPEs

(Non-money market) investment funds (IFs)

Non-money market investment funds (IFs) are collective investment schemes that raise funds by issuing shares or units to the public.[18] The proceeds are invested predominantly in long term financial assets and nonfinancial assets (usually real estate). Some funds may be limited to certain investors only, whereas others are available to the public generally. In an IF, each investor retains ownership and control of his own shares but has no influence on where the money in the fund is invested. The investment manager decides which assets to buy or sell, how many and when. IFs can include mutual funds, exchange-traded funds and hedge funds, which can be open-ended[19] or closed-ended.[20]

IFs may be constituted: (a) under the law of contract (as common funds managed by management companies), (b) under trust law (as unit trusts), (c) under a statute (as investment companies), or (d) according to any other statement with similar effects. Some IFs invest in other funds ("funds of funds").

Given their nature as collective investment schemes, IFs do not meet the SPE definition and should therefore not be considered as SPEs. *BPM6* mentions that IFs may be direct investors and/or DI enterprises.[21] For example, a "fund of funds" is an IF that invests in other IFs and thus may be a direct investor in one of the funds it invests in. The same applies to large (usually institutional) investors,

[18] *BPM6* paragraph 4.74: "…Investment fund shares or units are generally not close substitutes for deposits. They are not transferable by means of check or third-party payments..."

[19] Open-ended funds or open funds are those whose shares or units are, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking's assets.

[20] Closed-ended, closed, or exchange-traded funds are those with a fixed share capital, where investors entering or leaving the fund must buy or sell existing shares.

[21] *BPM6*, paragraph 6.30.

which may hold above 10 percent of the investment funds shares of a particular fund (particularly in the context of closed-end funds). However, in the context of DI relationship, there is no evidence of nonresident control in the context of IFs, for the latter to be treated as SPEs.

IFs that can be considered as SPEs should technically be created as a subsidiary of a parent company with a view to be financially independent of the parent company and from other SPEs under the parent's umbrella. In that respect, the IF is formed with a clear and limited scope—as a subsidiary with limited liability, each time a portfolio is added to the marketplace of the parent company. The SPE created, thus, serves for the specific and limited purpose of funding specific assets listed in a single portfolio.

Other SPEs

SPEs may be established to carry out functions other than "pass-through" financial activities, for instance to own nonfinancial assets. The types of activities that are carried out by SPEs depend on the legal jurisdiction under which they are incorporated, and at times as approved by the regulator. SPEs can include nonfinancial specialized entities holding intellectual property rights to intangible assets or involved in trade and other activities as part of group-wide financial and profit maximization strategy. SPEs are also used for real estate holding and succession planning purposes, benefitting from asset protection and tax deferral features and keeping the whole family estate in a single ownership structure (see typology of SPEs in Annex 1).

Tax-related strategies have emerged involving trading alongside investment activities, nonfinancial in conjunction with financial activities. Research and development intensive firms have benefited from flexibility to shift profits. In addition to holding intellectual property rights and collecting fees/royalties,[22] SPEs provide other services including operational leasing, re invoicing, consultancy services, employment services, information and communication technologies, logistics and/or marketing, shipping and shipping management, and in some cases even trade in goods.

SPEs incorporated to have legal ownership of intellectual property rights (even though they may be classified as nonfinancial corporations) or to conduct ancillary activities have not been explicitly recognized in the current statistical manuals. These SPEs fall under the SPE definition and are now included in the typology that accompanies the definition of SPEs and the decision tree. The typology includes a broad range of entities, encompassing those already present in the *BPM6* and adding a variety of entities. Compilers are, therefore, expected to be conscious of the activities when identifying SPEs. Annex 2 provides summary cards for each type of SPE as listed out in the typology and should be used for reference.

SPEs, resident in another territory, can be created by government units to be used for fiscal purposes (*BPM6*, paragraphs 8.24–8.26). Special rules apply to an entity owned or controlled by general government when that entity is used for fiscal purposes. Such entities are resident in their economy of incorporation or registration, and not in the economy of their owner. As an example, a government may use a special purpose or other entity to issue securities to fund its expenditure. Fiscal purposes refer to the distinctive motivation of the general government sector, as discussed in *BPM6*,

[22] This issue is referred to the DNB note to the IMF Committee on Balance of Payments Statistics (BOPCOM) (2016b)," 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.

paragraphs 4.91–4.92 and 8.24–8.26. Fiscal purposes can be distinguished from commercial purposes, because fiscal purposes are always oriented to serving the objectives for the government's home territory. As a general rule, a government controlled SPE is likely to serve fiscal purposes and should be covered in the data reporting for SPEs as category 5.1 in Annex 1.

SPE DATA COLLECTION PRACTICES

This section provides practical guidance for collecting SPEs-related cross-border statistics. It provides advice on how to familiarize the relevant agencies with the requirements and provide the necessary information; how to centralize and organize information from different sources; and how to liaise with the agencies that collect data. Annex 3 presents a snapshot of the current practices for selected countries, which collect and compile cross-border statistics on SPEs. Data collection and dissemination practices for cross-border data on SPEs vary among countries, ranging from monthly or quarterly to annual collection.

A. Collaboration Between the Respective Regulatory Body and the ESS Compiling Agency

Each host economy/jurisdiction has its regime to license/regulate SPEs, with specific agencies, procedures, legal basis, means and protocols such that different types of data can be made available and collected. Some countries may have a political or administrative structure that complicates their data collection process (for example, complex jurisdictions or federations); other countries may simply not have the capacity to collect data in the first place.

As indicated in the metadata produced and through consultation with compilers, in countries already compiling cross-border data on SPE activities, in general, the latter are collected as part of the general balance of payments data collection framework. Collecting data from SPEs, in these reporting countries, is associated with exposing confidential data. In this respect, legal arrangements along with the adoption of memorandums of understanding (MOUs) between institutions help preserve the confidentiality of information and facilitate data sharing (Annex 3).

For Countries Without a Systematic Process for Collecting Data on Resident SPEs

Designating a lead agency, an inter-institutional working group or a coordination mechanism

For these countries, at the outset, it is helpful to either determine which national agency is going to lead the data collection process, and/or create an inter-institutional working group or a coordination mechanism specifically for this purpose. In some countries, the ESS are produced by one institution be it the central bank or the statistical office, but the resident SPEs are regulated or licensed by a different institution. In that respect, inter-institutional working group and collaboration is key.

Legal arrangements facilitate the process of collecting data even when institutional collaboration exists. Examples are a statistical law or other formal provision (for example, inter-agency protocol or executive decree, supranational legislation) assigning primary responsibility as well as the authority to an agency (agencies) for the collection, processing, and dissemination of these statistics. Additionally, if the lead agency/working group/coordination mechanism enjoy adequate high-level support, it will facilitate the process. High-level endorsement often encourages more effective and timely collaboration with all other agencies involved.

The host economies may find it useful to designate the ESS compiling institution as the lead agency, given that it may be mandated by the law already to collect cross-border statistics from private entities. Subsequently all stakeholders involved in the SPE-related business should be part of the specialized inter-institutional working group to oversee the data collection process. A systematic procedure within jurisdictions would avoid duplication of efforts and assist in taking stock of the data that are already collected or maintained by different agencies—either regularly or on a case-by-case basis—and that can inform an assessment for adequate data collection.

There are several challenges that countries may face and should deal with when initiating the data collection effort:

a. **Multiple stakeholders**. For example, financial intelligence units (FIUs), law enforcement agencies (LEAs), regulators, policymakers, and private sector entities. It is imperative for all concerned stakeholders to understand the rationale behind this exercise and the importance of having best estimates for the purpose of compiling macroeconomic statistics.

b. **Definitional issue**s. There is at times lack of clear and nationally (or internationally) accepted definitions. Statistical definitions vary significantly between countries, and sometimes even between agencies within a country. As an example, the residence concept in macroeconomic statistics differs from the concept for fiscal purposes. In order to facilitate an adequate understanding and assessment of data, it is important for the lead agency to explicitly provide exact definitions of certain terms for statistical purposes, as articulated in these Guidelines.

c. **Incompatible data**. Different data collection systems used by different agencies may result in similar or related types of data being reported in different ways, making data consolidation at the national level difficult or even impossible. It may be challenging to harmonize the way agencies collect data. However, countries need to find a way to present data from different agencies in a consistent manner, even when agencies' procedures, counting or compilation methods differ.

Once the lead agency and/or the inter-institutional working group is identified, the lead agency may wish to be proactive in initiating contacts with the other stakeholders, in order to facilitate their cooperation. For its part, the lead agency can contribute to a productive cooperation by explaining the process in more detail:

a. The purpose of the data collection exercise

b. The rationale behind asking for certain types of data

c. That all agencies are involved on an equal footing—this is a team effort and not a single agency's project or responsibility

d. That the requested cooperation does not undermine an agency's capacity to collect data in the way it currently does, but that the establishment of certain common protocols and definitions will benefit all

For the smooth operation of the inter-institutional working group, if identified, it will be helpful if each institution or agency that will be providing statistics to designate a contact point. That person will be responsible for providing the relevant data and information in accordance with established timelines and procedures, as well as for centralizing any communications with the lead agency. To facilitate the information exchange, the contact point may for instance be a unit with full access to the data requested or otherwise capable to obtain this information from other parts of the agency. A complete list of contact points designated by the agencies would be helpful for a successful data collection process.

At the same time, each contact point may need to inform the lead agency about any circumstances that may impact this process, such as specific characteristics of the institution's data compilation process, possible gaps in the information needed for the assessment process, difficulties in obtaining or providing certain types of data, etc. Continuous communication with the contact points will facilitate the aggregation and centralization of the data from different sources by the lead agency. Institutional arrangements by way of an MOU also facilitate data sharing when confidentiality aspects get into the discussions and ensure that the individual reporters' information is treated in confidence and only aggregate data are disseminated.

Determining data needed to compile SPE-related cross-border statistics

Statistics are needed to assist policymakers to make informed decisions. The lead agency shall identify the required data types, existing templates, and/or matrices for data collection. It is also useful for the lead agency to clarify the statistical definitions and terms to be used throughout the assessment.

In undertaking this task, the lead agency may discuss and agree with all the agencies various aspects such as definitional issues; the types of data needed (for example, indicators, or specific data sets); and if there are any controversial points to be aware of.

B. Data Collection Process

The lead agency would be the unit responsible for establishing timelines, procedures, and templates for collecting and compiling data. Whenever a working group is constituted with all involved institutions, these steps can be undertaken with the lead agency issuing clear guidance to all others with detailed and easy-to-follow instructions. The contact points, in turn, are responsible for completing and returning (or uploading to a common website or platform) the requested information in a timely manner.

In addition to providing the raw data, the contact points may have to properly aggregate the information from different sources of the same agency or institution; to ensure there is no double counting; to include notes or explanations where necessary; and, in the context of mutual evaluations, to provide additional clarifications to the assessment team as needed.

Data collection and dissemination practices for cross-border data on SPEs vary significantly among countries. From some country members' experience (see Annex 3), data on SPEs are collected within the ESS collection and compilation framework. Dedicated surveys[23] are used in almost all countries, and the components do not solely pertain to DI statistics for some.

[23] For more details on how to conduct a survey, refer to the *BPM6 Compilation Guide*, Chapter 2.

Linking the SPE data collection to existing data sources—such as to business registers used in conducting DI surveys and other administrative data sources—offers additional benefits to countries in terms of potential cost savings and improvements to survey methodology as it allows using a proper sampling frame and techniques to achieve adequate coverage. The possibility to link with additional data sources can provide further insights into foreign-owned firms in the economy.

Possibility of under coverage of SPEs would depend on the variables used in selecting the survey sample or in setting the reporting thresholds. Because SPEs tend to be small in terms of employment, infrastructures, etc., countries using these criteria—as opposed to the size of financial assets and liabilities—to select their samples may not actually be surveying a significant number of SPEs. The sample selection, if possible, could be stratified by type of activity in order to cover the most significant representatives in each type.

Countries should consider the importance of having reliable estimates when developing their survey systems to capture SPEs-related cross-border statistics. For instance, in Mauritius[24] when SPEs' data collection was initiated, the authorities ruled out the option of having a census survey but rather a sample survey, given the magnitude of the task. The survey frame included twelve resident management companies that administered 70 percent of the SPEs' total assets and in turn the management companies reported cross-border data on 75 percent of the total balance sheet of SPEs they administered. The survey results were later grossed up, although it is recognized that for these types of entities, grossing up remains challenging.

In developing a survey system, it is important that compilers consider using a survey frame of individual SPEs. Some countries collect data based on the local enterprise group; this ensures, for example, that they collect transactions and income with all directly and indirectly held foreign affiliates in their economy. However, this complicates the identification of SPEs that belong to larger, local enterprise groups. If an SPE is part of a group to which other companies with significant domestic economic activity belong, surveying individual SPEs proves difficult. When using local enterprise group, SPEs are usually consolidated with the domestic parent, which may not be an SPE. In these cases, DI by the SPE will be included under the industry to which the group controlling the SPE belongs and will not be identified separately. Hence the share of SPEs in DI statistics can be underestimated.

Creating SPE registers in hosting economies can support SPE data collection. As noted above, the lead agency usually responsible for compiling cross-border statistics, may not necessarily be the institution regulating or licensing SPEs. In this respect, there is a need for collaboration between the ESS compiling agency and the SPE regulatory bodies, as highlighted earlier, to build a timely register and conduct surveys. Keeping such registers up to date is critical, as timely identification of major new players will ensure appropriate coverage of SPEs. This approach was successfully adopted by Mauritius and Seychelles, two small island financial centers.

24 See IMF, *BPM6 Compilation Guide*, Annex 4 and Box A4.1 Compiling Data on Special Purpose Entities in Mauritius.

Enhancements of data collected within the Legal Entity Identifier (LEI)[25] framework, including information on the direct and ultimate parents of the legal entities, may support further progress in the construction of appropriate registers. The drivers of the LEI initiative (that is, the Group of 20, the FSB, and many regulators around the world) have emphasized the need to make the LEI a broad public good. The LEI will turn out to be useful when it becomes “readily available,” for instance when either SPEs themselves or providers of financial services performing the statistical reporting on behalf of the clients have a direct access to the LEI of counterparts. An instance of “readily available” information useful for macroeconomic statistics is the ISIN standard for portfolio investment instruments. Even though more and more LEIs are issued, the standard is not yet “readily available” in the financial sector, let alone for the nonfinancial sector. In the long term, the LEI might help statisticians link financial entities at national and international level and remains a promising tool.

[25] The Global LEI System is a joint public/private sector initiative endorsed by the G20 and the Financial Stability Board (FSB) for the unique identification of parties to financial transactions.

DATA REPORTING

The reporting template has been designed in consultation with international organizations and country authorities, as well as discussed with compilers. It was endorsed by the Committee at its meeting in October 2018. The template calls for compiling SPE-related cross-border statistics with a view to providing internationally comparable separately identified data to the user community.

The template is designed to collect cross-border data for SPEs for a reduced number of balance of payments and IIP components. The underlying framework of the template is built on cross-border flows (balance of payments transactions) and cross-border positions (international investment position). The reporting template is specifically tailored to SPEs and uses the same lines as for the current balance of payments and IIP *BPM6* standard reporting templates. In terms of components, the template target only selected components relevant for SPEs for both transactions and positions. To guide proper prioritization by the reporting economies, the template allows two levels of data reporting: a minimum (*yellow-colored cells*) versus an encouraged set of components (*blue-colored cells*).

With respect to the financial account (Table 1), activities of SPEs go beyond the DI activities. SPEs have been known to be largely related to DI due to their importance in 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 (that is, direct investor in DI enterprise (DIE), reverse investment and (eventually depending on relevance) between fellow enterprises).

Beyond DI, the reporting template includes portfolio investment, with a split between equity and debt securities. *Portfolio investment is defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets.*[26] A minimum detail by instrument in portfolio investment has been considered necessary due to differences in terms of risk and financing costs (equity securities versus debt securities). A maturity breakdown is requested for debt securities as encouraged components.

Other investment has been included only as a total, as minimum required, and with a short- and long-term breakdown, as encouraged components as well as financial derivatives separately identified. *Other investment is a residual category that includes positions and transactions other than those included in DI, portfolio investment, financial derivatives and employee stock options, and reserve assets.*[27]

In the capital account (Table 2), the template separately identifies the gross acquisitions/disposals of non-produced nonfinancial assets in which the SPEs can be involved, which takes care of those entities that are involved in legal ownership of intellectual property rights. *Acquisitions/disposals of non-produced nonfinancial assets consist of: (a) natural resources; (b) contracts, leases, and licenses; and (c) marketing assets (and goodwill).*[28]

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[26] *BPM6*, paragraphs 6.54–6.58; Portfolio investment. See also *Coordinated Portfolio Investment Survey Guide.*

[27] *BPM6*, paragraphs 6.61–6.63.

[28] *BPM6*, paragraphs 13.9–13.21.

Table 1. Financial Account Components [Flows and Positions Data]

		Balance of Payments		International Investment Position	
		Flows during the current year 20XX		Position as at end of current year 20XX	
		Net Acquisition of Assets	Net Incurrence of Liabilities	Assets	Liabilities
	I. Financial Account (related to SPEs)				
	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]				
1.1.1	Equity other than reinvestment of earnings				
1.1.1.1	Direct investor in direct investment enterprises				
1.1.1.2	Direct investment enterprises in direct investor (reverse investment)				
1.1.1.3	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				
1.2.1	Direct investor in direct investment enterprises				
1.2.2	Direct investment enterprises in direct investor (reverse investment)				
1.2.3	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**				

[1] The total for IIP for this line is equal to the sum of 1.1.1.1, 1.1.1.2, and 1.1.1.3.

Minimum

Encouraged

Transactions in goods are relevant for merchanting SPEs. *Merchanting is defined as the purchase of goods by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being present in the compiling economy.*[29] Merchanting occurs for transactions involving goods where physical possession of the goods by the owner is unnecessary for the process to occur. A separate line for net merchanting by SPEs is included within the current account.

29 *BPM6*, paragraphs 10.41–10.49.

Table 2. Capital and Current Account Components [Flows Data]

	Flows during the current year	Balance of Payments	
		Credit	Debit
	II. Capital Account (related to SPEs)		
	Gross acquisitions (Dr)/disposals (Cr) of non produced nonfinancial assets as reported in BOP	**Total to be drawn from BOP**	
5	**Of which: Gross acquisitions (Dr)/disposals (Cr) of non produced nonfinancial assets related to SPEs**		
	III. Current Account (related to SPEs)		
6	**Goods related to SPEs**		
	Of which: Net exports of goods under merchanting by resident SPEs		
7	**Services related to SPEs**		
	Of which: 7.1 Transport		
	Of which: 7.2 Financial services		
	Of which: 7.3 Charges for the use of intellectual property		
	Of which: 7.4 Other business services		
	IV. Primary Income (related to SPEs)		
	Investment income as reported in BOP	**Total to be drawn from BOP**	
8	**Of which: 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		
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 income as reported in BOP	**Total to be drawn from BOP**	
8.3	**Other investment income related to SPEs**		
8.3.1	Of which: Interest		
	V. Secondary Income (related to SPEs)		

Minimum
Encouraged

Regarding cross-border services, four distinct components of services that can be of relevance for SPEs have been included in the reporting:

a. transport

Transport is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services.[30]

b. financial services

Financial services include those usually provided by banks and other financial corporations.[31]

c. charges for the use of intellectual property n.i.e

Charges for the use of intellectual property that includes: (a) charges for the use of proprietary rights, that can arise from research and development, as well as from marketing; and (b) charges for licenses to reproduce or distribute (or both) intellectual property embodied in produced originals or prototypes.[32]

30 *BPM6*, paragraphs 10.74–10.81.

31 *BPM6*, paragraphs 10.118–10.136.

32 *BPM6*, paragraphs 10.137–10.140.

d. other business services.[33]

In addition to goods and services, both the primary income and secondary income related to SPEs are also included in the template. *Primary income represents the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units.*[34] The investment income by functional category within the primary income is requested to establish a better link to the financial account stocks. However, investment income components related to DI are requested for minimum reporting, the remaining is encouraged.

The secondary income account shows current transfers between residents and nonresidents.[35] In the event that SPEs incur transfers or pay taxes to nonresidents, these transactions will be recorded in the related line within the current account of the balance of payments. Current taxes on income, wealth, etc., in the international accounts consist mostly of taxes levied on the income earned by nonresidents from the provision of their labor or financial assets, taxes on capital gains arising from assets of nonresidents, taxes on financial transactions (such as taxes on payable by nonresidents, amongst others.

[33] *BPM6*, paragraphs 10.147–10.160.

[34] *BPM6*, paragraphs 11.24–11.73.

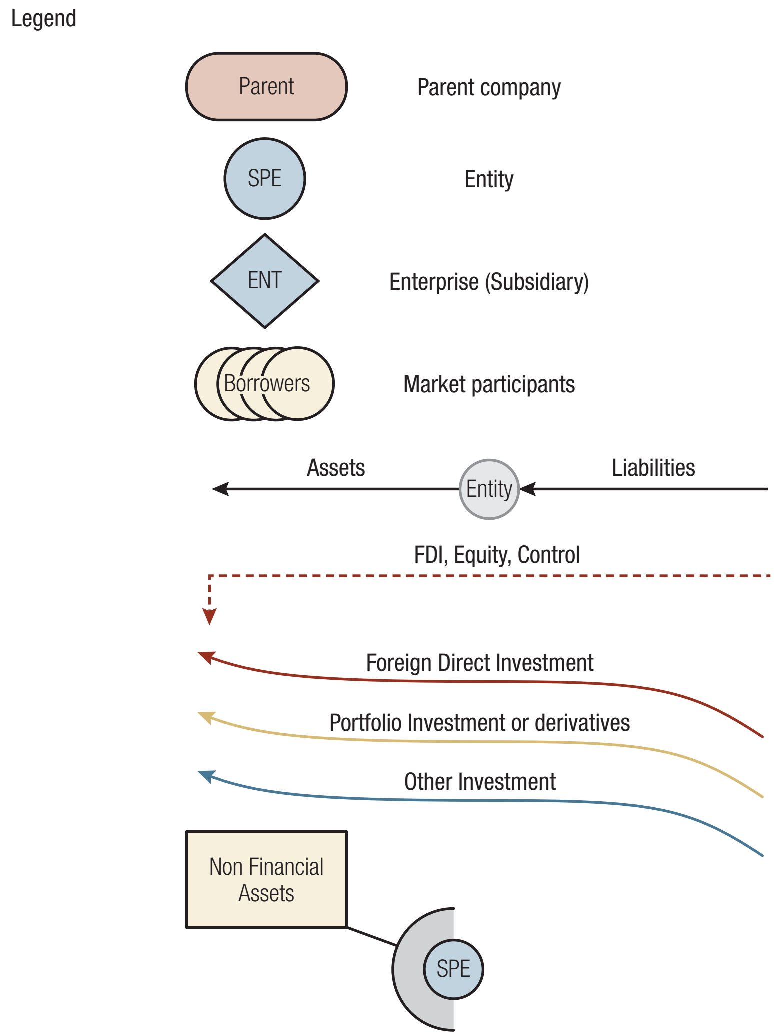
[35] *BPM6*, Chapter 12.

ANNEX 1. TYPOLOGY OF SPES FOR EXTERNAL SECTOR STATISTICS

No	SPE Type	Description[1]	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
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 4.84	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
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)					

[1] 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.

ANNEX 2. ILLUSTRATIVE SUMMARY CARDS FOR EACH TYPE OF SPEs IN THE TYPOLOGY[1]



Summary Cards

[1] The illustrative summary cards were prepared by the ECB with inputs from Ireland, Luxembourg, and The Netherlands

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 2008 SNA, 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

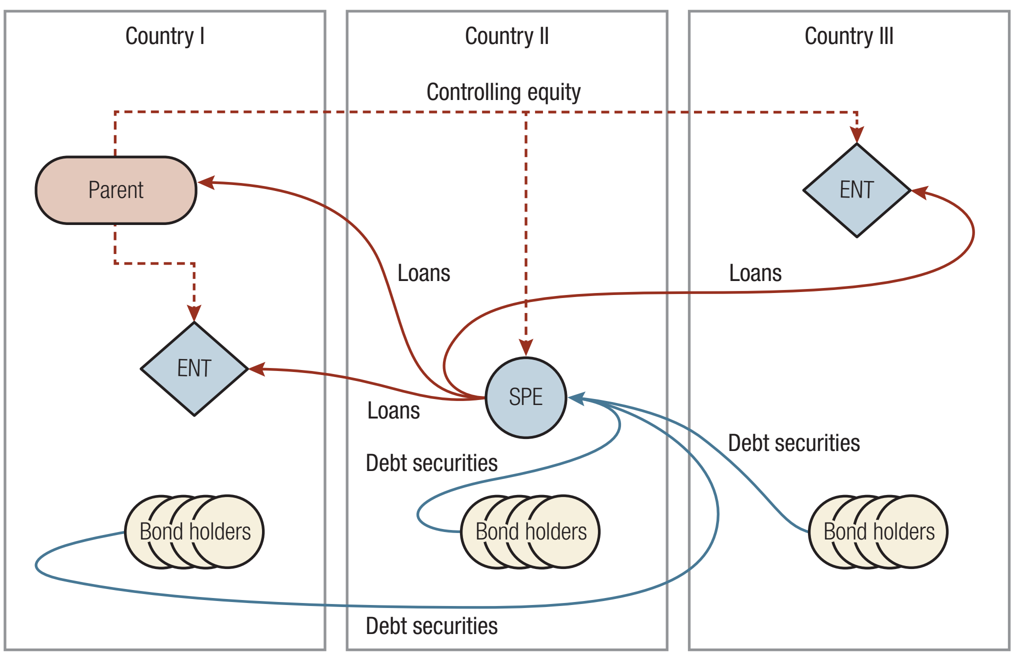
General Characteristics	
Institutional Sector	S127 - Captive financial institutions and money lenders
Activity Code	ISIC Section K 6499
Can have resident parent?	NO
Can have production?	NO
FDI Pass through investment	NO

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

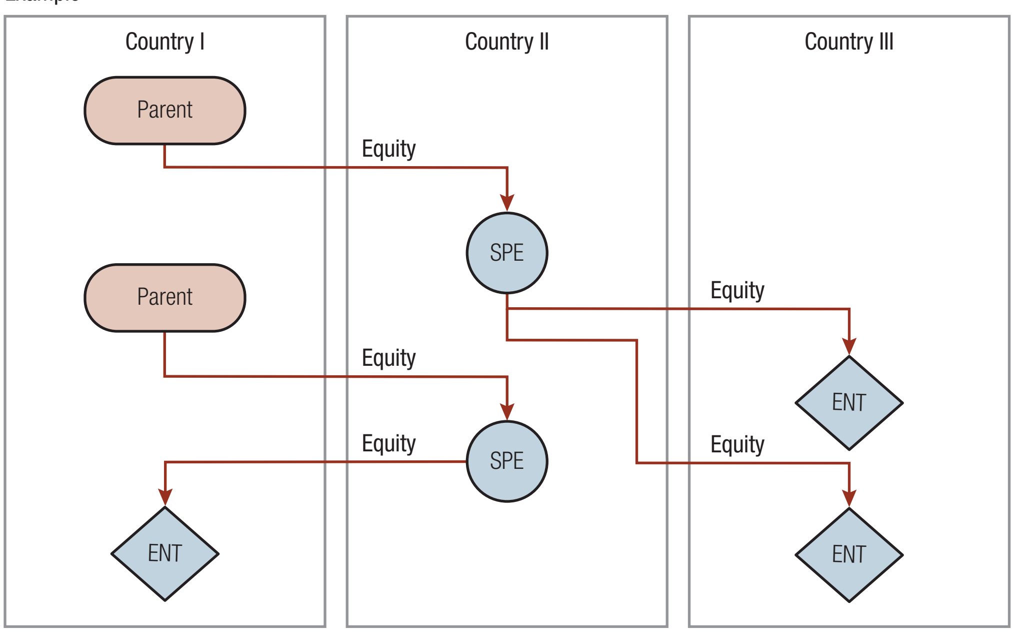
Description/Function	
Holding the assets (owning controlling level of equity) of subsidiary corporations (ENT) <u>on behalf of its parent</u> without undertaking any management activities. Passive holdings would be merged with the direct parent entity, unless the parent is nonresident.	
General Characteristics	
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



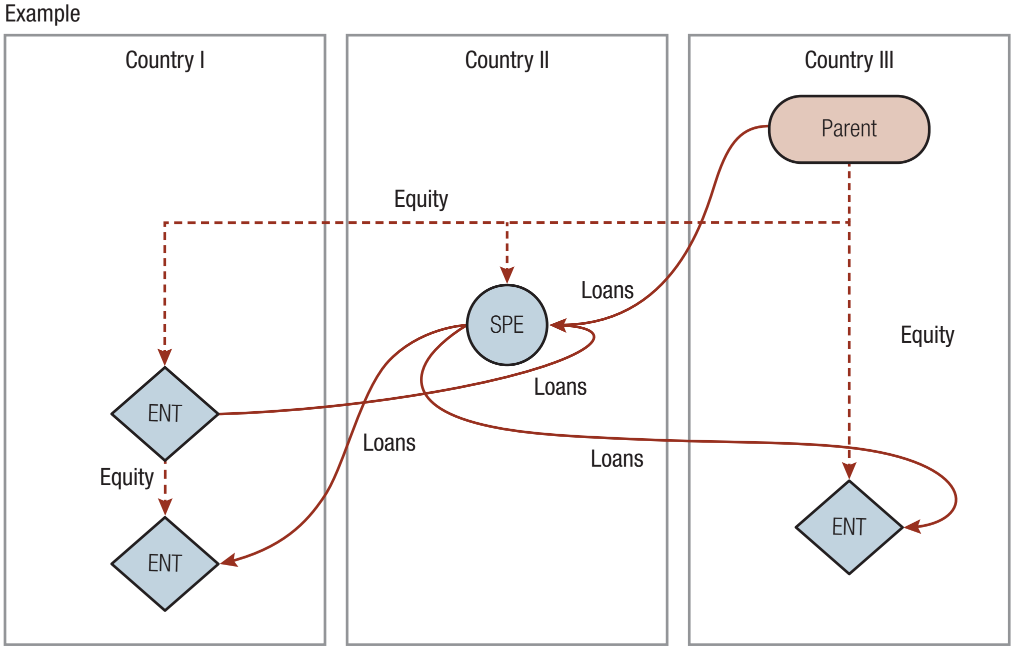
3. Intragroup Lending

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



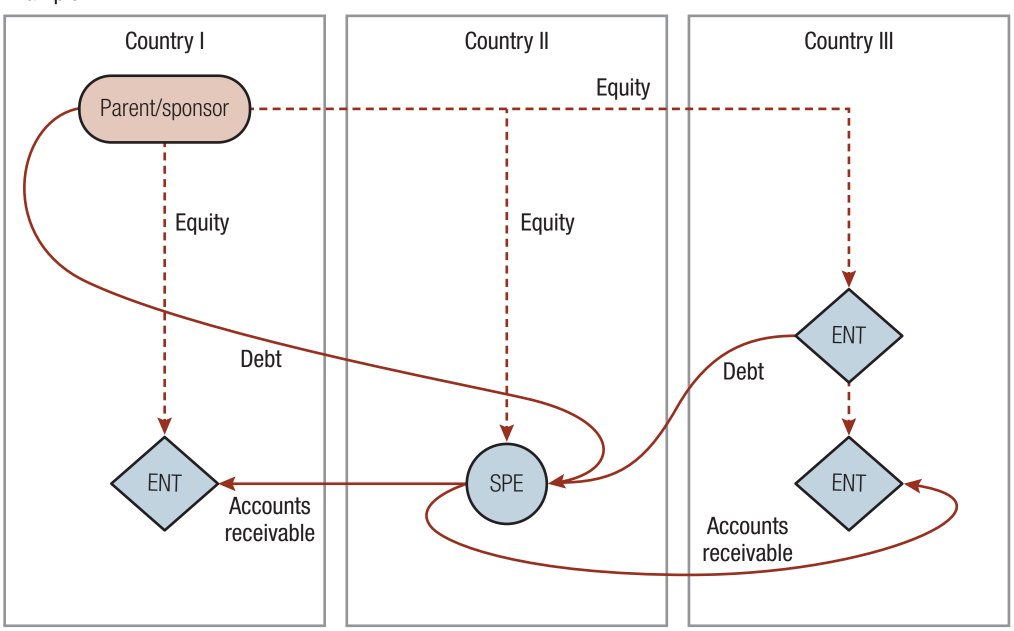
4. Captive Factoring and Invoicing

Description/Function	
Concentrating sales claims. It involves the sale of sales claims (sales of account receivables) 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



Note: The diagram focuses on a different scenario relative to the balance sheet. The balance sheet depicts a larger picture.

5. Captive Financial Leasing

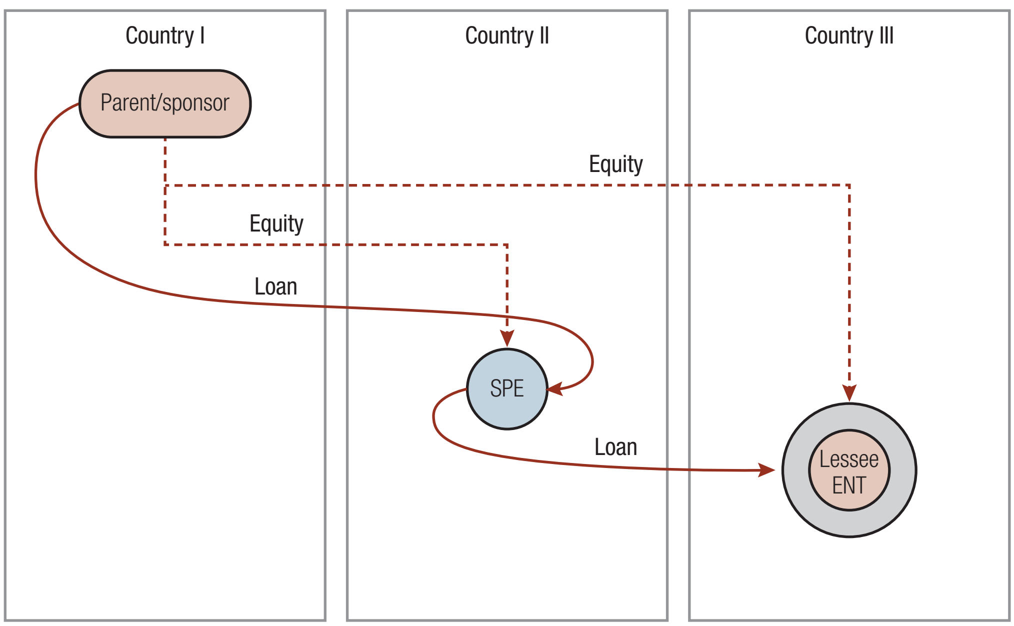
Description/Function
Engaged in lease-in lease-out agreements, or as a financial intermediary in a chain of vehicles in which the end vehicle is involved in the leasing of equipment or fixed asset The Lessee is considered to have ownership of the asset.

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

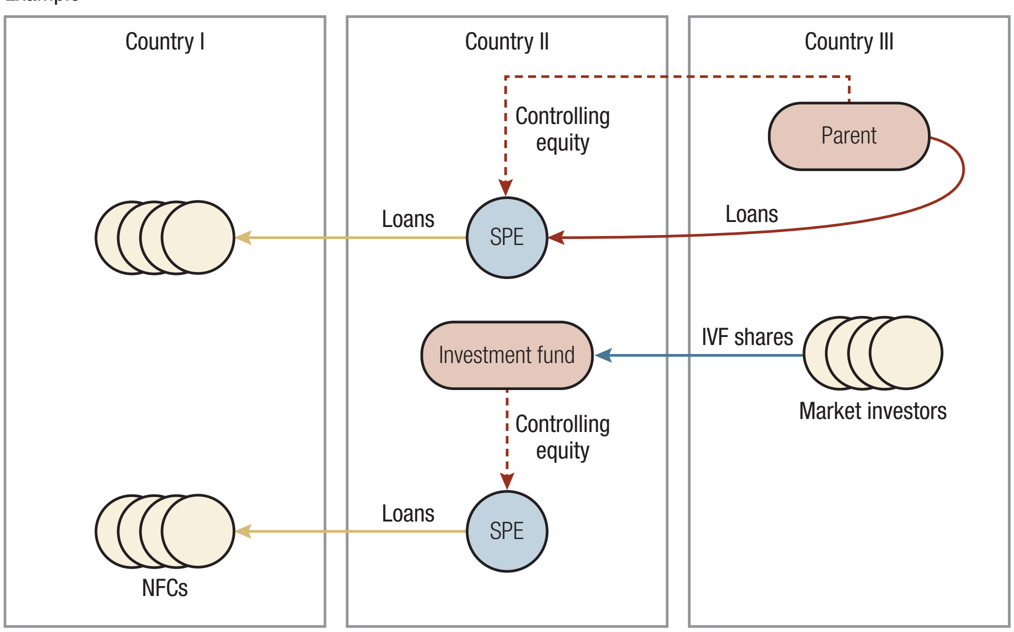
Description/Function	
Funding obtained from the parent or from related enterprises and furthered to external entities (companies). The entity is classified as S.127, Captive Financial Institution The entity may be linked to S124 investment funds, where it is considered that the entity is a separate institutional 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

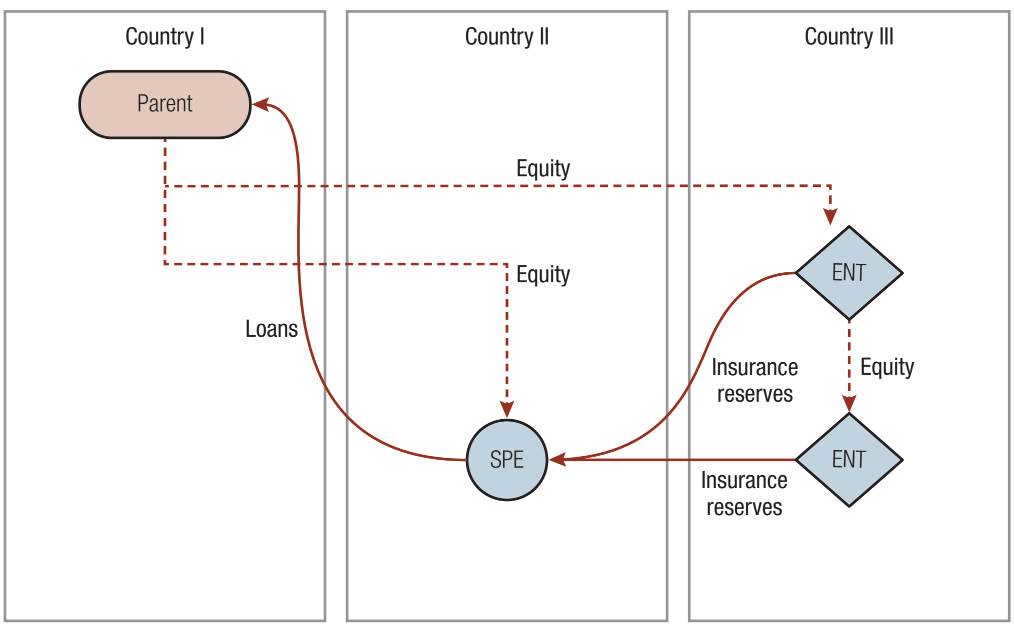
Description/Function	
Providing insurance to group enterprises According to 2008 SNA, para 4.115, captive insurance, which serves only its Owners, is to be classified as part of insurance corporations.	
General Characteristics	
Institutional Sector	S.128 – Insurance Corporations
Activity Code	ISIC Section 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



Note: The diagram focuses on a different scenario relative to the balance sheet. The balance sheet depicts a larger picture

8. Securitization Vehicles/ Financial Vehicle Corporations

Description/Function
FVC carry out securitisation transactions and its structure are 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.

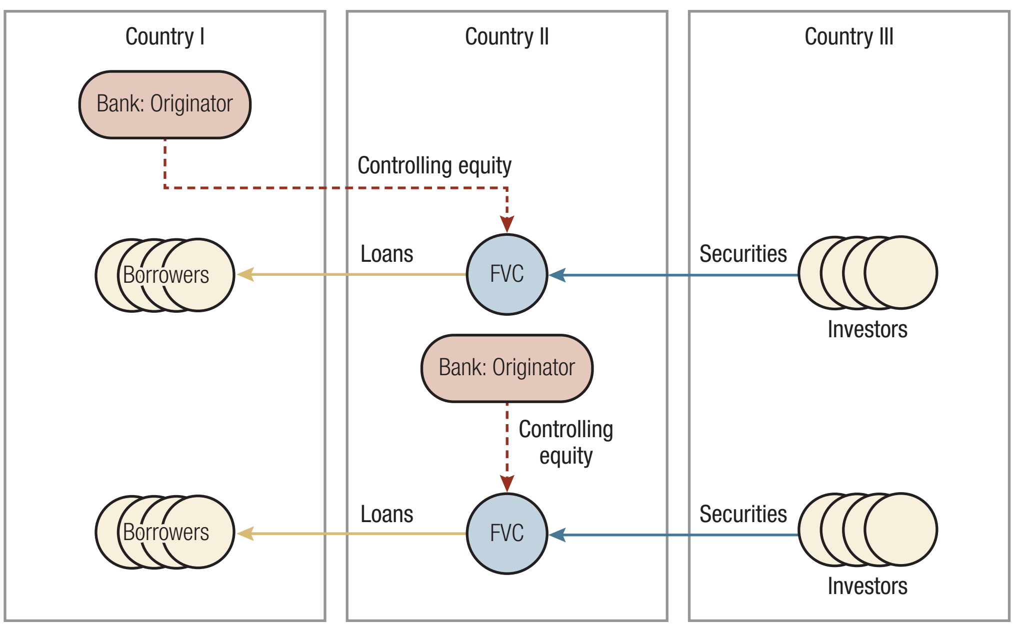
General Characteristics	
Institutional Sector	S.125 – Other Financial Institutions S.127 – Captive Financial Institutions
Activity Code	ISIC Section 6499
Can have resident parent?	YES
Can have production?	NO
FDI Pass through investment	NO

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



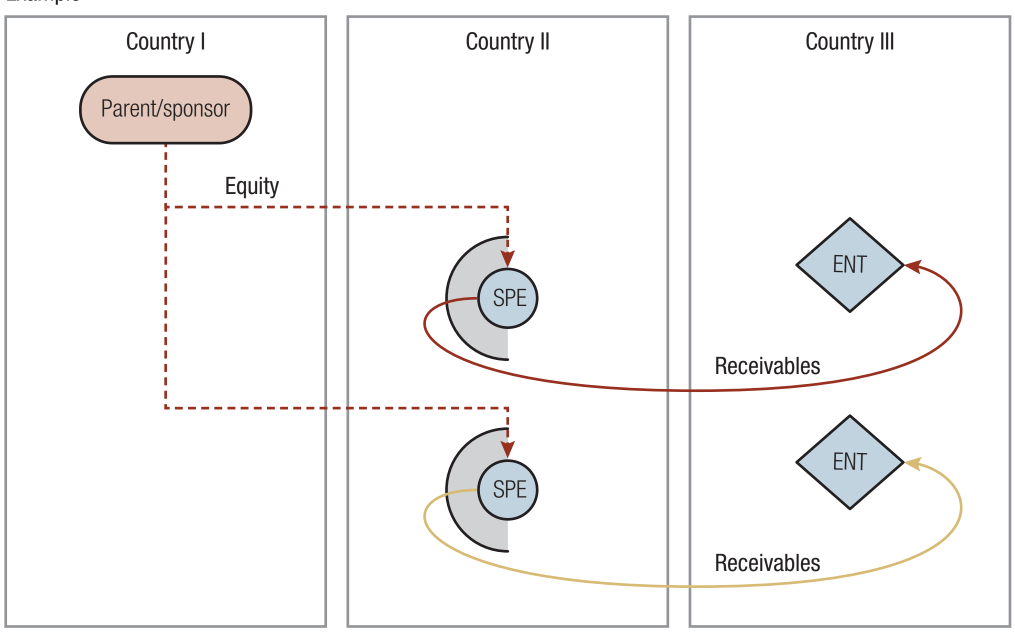
9. Operational Leasing Companies

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



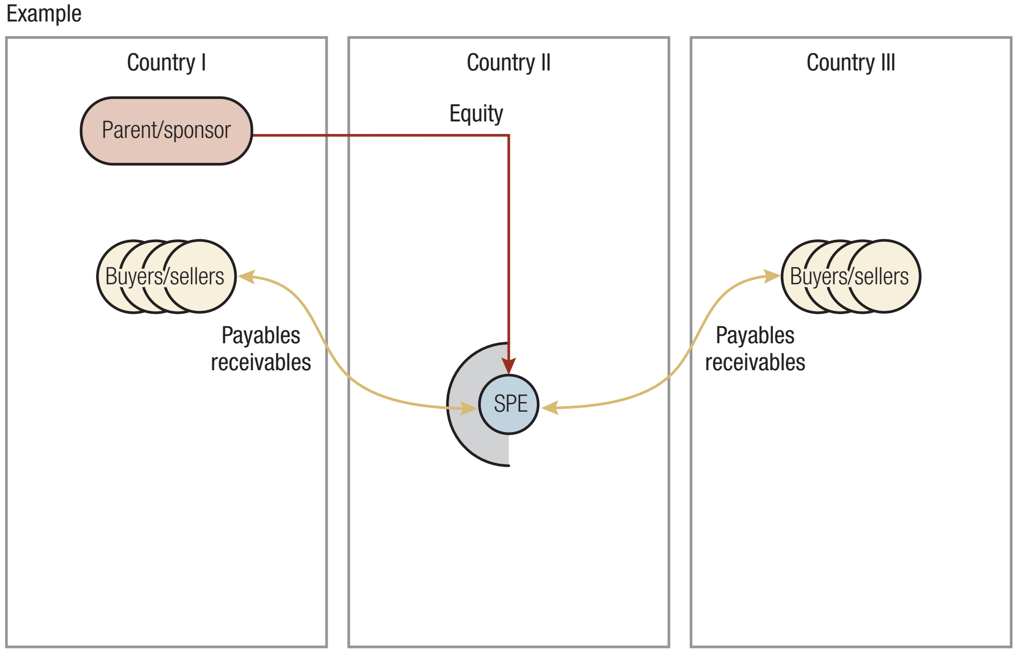
10. Merchanting

Description/Function	
Purchasing goods from nonresidents and re-selling the goods to nonresidents. 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



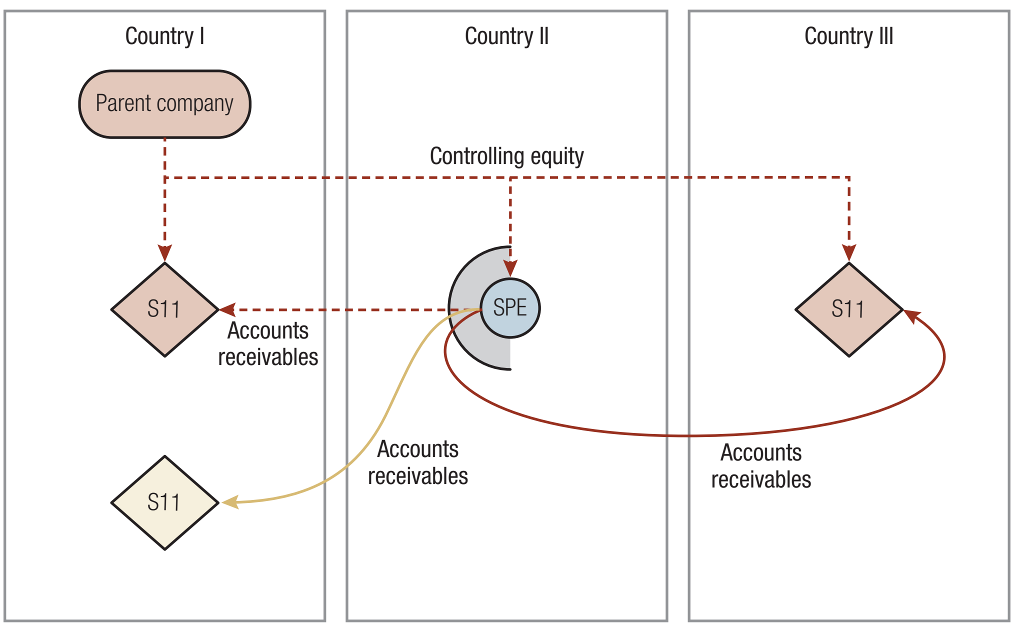
11. Royalty and Licensing

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

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).[1]	
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

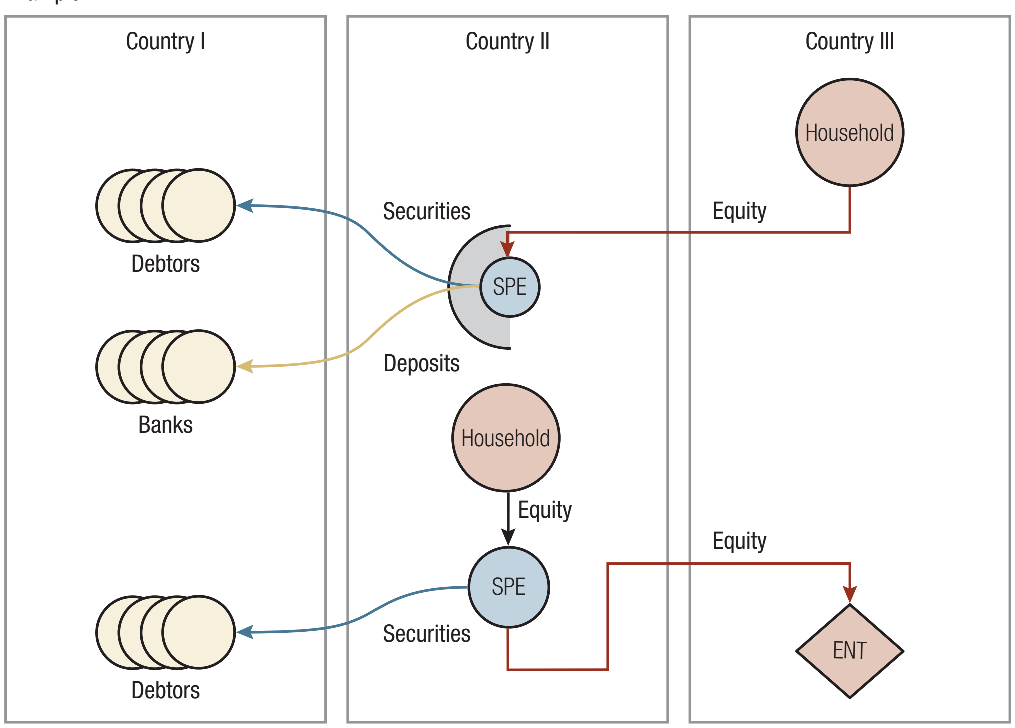
Prototype Balance Sheet

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.

[1] 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 recognized as institutional units in their own right when they are owned by a household.

Example



13. Special Purpose Units of General Government

Description/Function
Government entity raising or borrowing funds on behalf of general government. Requires nonresident 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 nonresident 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.

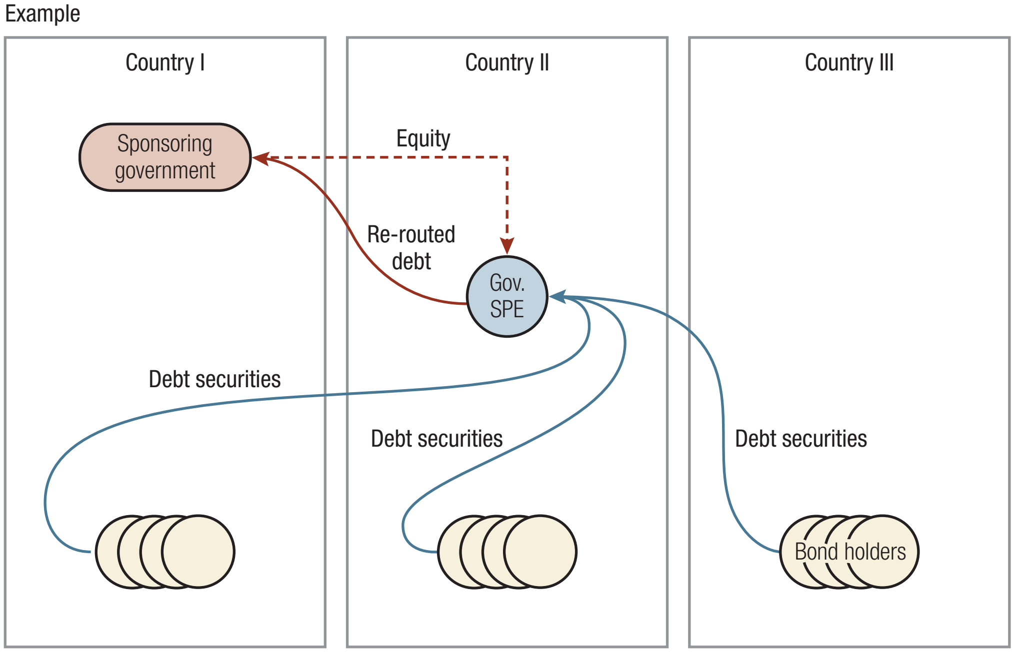
General Characteristics	
Institutional Sector	S127
Activity Code	K
Can have resident parent?	NO
Can have production?	NO
FDI Pass through investment	NO

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 3. CURRENT PRACTICES BY SELECTED MEMBER COUNTRIES

Annex Table 3.1. Current Practices by Selected Member Countries

				Dissemination Practices	
Countries	**SPEs**	**Collection Practices**	**How SPEs are identified?**	**SPEs cross-border data separately identified**	**Balance of Payments/IIP components**
Hungary	SPEs are subsidiaries forming part of MNEs mostly active abroad, with only weak ties to the Hungarian economy. Involved in the intra-group intermediation of funds, the direction and volume of funds channeled through them regulated by their parent companies. Their investments are not primarily aimed at foreign direct investment in Hungary: their net investment into various financial instruments over longer periods is close to zero. At the same time, they shift relatively large volumes of funds, thus their transactions inflate particularly the gross components of the financial account.	Monthly, quarterly, and annual questionnaires sent to a sample of entities.	- MNB identifies special purpose entities within resident corporations in conjunction with the Hungarian Central Statistical Office (HCSO). - The name of the enterprise refers to the offshore nature of the activity. - If the SPE criteria are satisfied both for a resident enterprise and its resident subsidiary, i.e., their operations dominantly relate to the rest of the world, the two enterprises together are an SPE. - negligible non-financial asset ratio compared to financial assets - financial assets consists mainly of equity, long-term loans and securities. - The turnover derives primarily from export revenue and it does not exceed HUF 500 million annually. - They typically have high registered capital (capital reserve) - The number of staff tends to be very low (1–3 persons).	Yes	The same level of balance of payments and IIP components requested as for normal entities. Balance of Payments including SPEs
Luxembourg	MNEs set up SPEs in Luxembourg for their inward and outward Direct Investment. Few Luxembourg SPEs (classified Non-Financial Corporations) hold intangible fixed assets. They are the legal owner, but not the economic owner of the intellectual property rights. The overwhelming majority of Luxembourg SPEs are Captive Financial Institutions. Among them, “pure SPEs” would only incur liabilities and hold assets both vis-à-vis other entities of the group. Remaining SPEs would raise funds in open markets and lend the proceeds to other entities of the group.	SPEs provide CBL with three reports: - Quarterly full balance sheet, without any detail on security positions, - Quarterly report on derivatives and non-financial assets transactions (if any), - Monthly security by security report including information on counterpart country (first counterpart), currency and economic sector. Most reported securities are equities (or bonds to a lesser extent) without ISIN, Accounting firms or provider of corporate services report on behalf of SPEs.	Institutional collaboration: CBL and STATEC Resident SPEs are spotted in the Statistical Business Register, which is used for the annual FDI statistics. Units looking like a captive financial institution would pass the institutional unit test The assessment of SPEs employment is based on: 1. Employment in the statistical business register, 2. Non-zero staff cost in the profit & loss account; staff costs usually reflecting the compensation	Yes	Most related balance of payments and IIP components. **Aggregated balance sheet of financial vehicle corporations**

(Continued)

Annex Table 3.1. Current Practices by Selected Member Countries (continued)

Mauritius	SPEs are involved in both financial and nonfinancial activities, including: aircraft financing and leasing; assets management; consultancy services; employment services; information and communication technologies; insurance; licensing and franchising; logistics and/or marketing; operational headquarters; pension funds; shipping and shipping management; trading; financial services; and other activities as may be approved by the regulator, the Financial Services Commission.	Annual sample survey.	Institutional collaboration between the central bank and the Financial Services Commission, which licenses the SPEs and supervise the Management companies. The MCs report on behalf of SPEs. There are two types of SPEs – the GBC1: companies conducting business outside Mauritius. They are tax residents, can employ residents, rent offices and have a bank account GBC2: companies conducting business exclusively outside Mauritius. They are not tax residents, cannot employ residents or rent offices.	Yes	Most related balance of payments and IIP components. Balance of Payments statistics International Investment Position Statistics
Netherlands	SPEs/ SFIs: Companies or institutions which, irrespective of their legal form, which are residents and in which nonresidents have – directly or indirectly – through shareholders equity or otherwise, participate or exercise influence and which aim at or which are highly involved in: - Holding foreign assets and liabilities, - Pass through of receipt from Intellectual Property Rights from foreign group companies, - Generating turnover mainly related to re-invoicing to and from foreign group companies.	Monthly reporting based on a stratified sample approach. Annual benchmark survey. The trust offices report on behalf of the SPEs.	SPE definition is translated into a decision tree, jointly developed by DNB and Statistics Netherlands SPE/SFI resident but ultimately controlled by nonresidents - at least 90% of SFI's foreign assets and liabilities - total turnover are revenues from export of royalties and licenses - securitization vehicle is originated by a foreign bank - The domestic turnover of an SFI should not exceed EUR 25 million DNB maintains a **separate business register** for SFIs, which feeds the General Business Register (maintained by Statistic Netherlands) to ensure consistency.	Yes	Most related balance of payments and IIP components. Balance of Payments including SFIs
Seychelles	Data are collected on a specific type of SPEs called Companies Special License (CSL). The CSLs may be organized to undertake the business of investment management and advice, offshore banking, offshore insurance and re-insurance, investment services, holding, marketing, intellectual property and franchise, human resources, and they may also be used for any international trading in goods and provision of services.	Annual sample survey. The international corporate service providers report on behalf of SPEs. The CSL are requested to keep balance sheet records and to provide annual financial statements to Financial Services Authority (FSA).	The regulatory body for offshore activity in Seychelles is the FSA. Entities operating in this sector are registered under a separate company register which is managed by the FSA. A Memorandum of Understanding on data sharing and confidentiality requirements was signed between the CBS and FSA under which FSA coordinates a survey for the collection of cross border statistics on one type of SPE namely CSLs on behalf the Central Bank.	Yes	Most related balance of payments and IIP components. Balance of Payment including offshore

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TNM/2022/005