

## CHAPTER 4

# Special purpose entities

### Introduction

**4.1** SPEs are companies that are usually part of a foreign MNE. They are set up in a specific country, often for fiscal reasons. Most of their financial and related income transactions are large and take place with companies in foreign countries. The economic relevance of SPEs in terms of their contribution to GDP is generally small, but they may have large income flows and large financial stocks and flows. In the Netherlands, for example, their balance sheets at end-2007 exceeded €1.6 trillion, equivalent to almost three times Dutch GDP. With limited exceptions (see paragraph 4.19(e) below on securitization vehicles in the Netherlands), the (ultimate) parent of an SPE is located abroad.

**4.2** This chapter deals with the statistical treatment of SPEs. The first sections are about the definition of SPEs in various statistical manuals, followed by a description of the problems in the recording and measurement of this special group of companies. Earlier manuals did not mention SPEs. The new manuals pay some attention to them, but the guidelines still leave room for discretion. The chapter accordingly refers to the experiences of several countries (presented in annexes) and describes their treatment of SPEs, the choices they made and the problems they face. The countries are the Netherlands, Ireland and Hungary, each of them host to a large number of SPEs. The practices the countries use are not always the same. This is because the statistical manuals leave some room for interpretation, and because the availability of data may not be the same in every country. These practices can, however, provide useful insights into how to deal with practical difficulties when compiling the national accounts. This may help other countries choose how to treat SPEs.

### Background

**4.3** Increasing globalization goes hand-in-hand with an increase of the use of SPEs as part of MNEs. Their activities have grown, and so has the need for adequate statistical treatment of SPEs. This is reflected in the new manuals. The 2008 SNA,

the BD4, the BPM6 and the prospective ESA 2010 all give attention to SPEs.

**4.4** SPEs are also known as special purpose vehicles, shell companies, special financial institutions, brass plate companies, mailbox companies or international business companies (and sometimes by yet other names). The 2008 SNA calls them special purpose entities, and this is the term used here.

**4.5** Generally, SPEs are legal entities created to fulfil narrow, specific or temporary objectives and/or to gain fiscal advantages. Enterprises often use SPEs to protect them from financial risk. A company will transfer assets to the SPE for management, or use the SPE to finance a large project, thereby achieving a narrow set of goals without putting the entire firm at risk. SPEs are also used in complex financings to separate different layers of equity investment. In addition, they are commonly used to own a single asset and associated permits and contract rights, such as an apartment building or a business property, so that the asset can be transferred more easily.

**4.6** An SPE may be owned by one or more other entities. Sometimes it is important that the SPE is not owned by the entity on whose behalf it is set up (the sponsor). For example, in the context of a loan securitization, if the securitization vehicle were owned or controlled by the bank whose loans were to be securitized, the SPE would be consolidated with the rest of the banking group for regulatory, accounting, and bankruptcy purposes, defeating the point of the securitization. Therefore some SPEs are set up as “orphan” companies 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 sponsor.

**4.7** Reasons for creating SPEs include:

a. **Securitization:** SPEs are commonly used to securitize loans or other receivables. For example, a bank may wish to issue a mortgage-backed security whose payments come from a pool of loans. However, to ensure that the holders of the mortgage-backed securities have the first priority

right to receive payments on the loans, these loans need to be legally separated from the other assets of the bank. This is done by creating an SPE and transferring the loans from the bank to the SPE.

b. Risk sharing: companies may use SPEs to legally isolate a high risk project/asset from the parent company and to allow other investors to take a share of the risk.

c. Asset transfer: many permits required to operate certain assets (such as power plants) are either non-transferable or are difficult to transfer. An SPE set up to own the asset and all the permits can be sold as a self-contained package; this may be much simpler than attempting to sign over numerous permits.

d. Financial engineering: SPEs are often used in complex financial schemes with the aim of avoiding tax or presenting financial statements in a desired way.

e. Regulatory reasons: an SPE may be set up within an orphan structure to circumvent regulations, such as restrictions on the nationality of owners of specific assets.

f. Property investing: some countries have different tax rates for capital gains and gains from property sales. There may be a tax advantage in vesting properties in separate companies which can be sold and bought instead of the actual properties, effectively converting gains from property sales into capital gains for tax purposes.

**4.8** In addition to a description of SPEs of this kind, a clear definition is desirable for statistical purposes as there is still room for interpretation. The 2008 SNA does include a paragraph on “special cases” like SPEs, but it is important to understand that the criteria for identifying them are not always strictly applied and other entities may be classified as SPEs in practice, as will become clear later in the chapter. Chapter 4 of the 2008 SNA on institutional units and sectors includes some paragraphs on SPEs. Thus:

*“A number of institutional units may be described as special purpose entities (SPEs) or special purpose vehicles. There is no common definition of an SPE but some of the following characteristics may apply.*

*Such units often have no employees and no non-financial assets. They may have little physical presence beyond a “brass plate” confirming their place of registration. They are always related to another corporation, often as a subsidiary, and SPEs in particular are often resident in a territory other than the territory of residence of related*

*corporations. In the absence of any physical dimension to an enterprise, its residence is determined according to the economic territory under whose laws the enterprise is incorporated or registered.*

*Entities of this type are commonly managed by employees of another corporation which may or may not be a related one. The unit pays fees for services rendered to it and in turn charges its parent or other related corporation a fee to cover these costs. This is the only production the unit is involved in though it will often incur liabilities on behalf of its owner and will usually receive investment income and holding gains on the assets it holds” (paragraphs 4.55 - 4.57).*

**4.9** The BD4 also provides guidelines on how to recognize SPEs. The criteria are:

*“a. The enterprise is a legal entity, which is*

*i. formally registered with a national authority; and*

*ii. subject to fiscal and other legal obligations of the economy in which it is resident.*

*b. The enterprise is ultimately controlled by a non-resident parent, directly or indirectly.*

*c. The enterprise has no or few employees, little or no production in the host economy and little or no physical presence.*

*d. Almost all assets and liabilities of the enterprise represent investments in or from other countries.*

*e. The core business of the enterprise consists of group financing or holding activities, that is – viewed from the perspective of the compiler in a given country – the channelling of funds from non-residents to other non-residents. However, in its daily activities, managing and directing plays only a minor role” (annex 7).*

**4.10** In 2010 the Eurostat Balance of Payments Working Group published its recommendations on the implementation of the extended directional principle (in the context of FDI) in the European Union. The document includes a definition of SPEs in line with the BD4 guidelines.

## The statistical treatment in international standards

**4.11** The guidance on SPEs in previous international manuals was very limited. The new manuals pay more attention to them, but the guidelines do not go into detail. The 2008 SNA, BD4 and BPM6 are consistent, but all leave room for countries to choose their own treatment. This

section covers some important issues regarding the treatment of SPEs, the SNA guidelines on the different kinds of SPEs, and the research and results of other working groups regarding SPEs.

## Residence issues

**4.12** In the case of SPEs the question of residency is not straightforward: can the SPE be considered as an institutional unit as defined in 2008 SNA, and if so, what criteria can be used to determine its residency?

**4.13** Paragraph 4.2 of the 2008 SNA states that *“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.”* Many SPEs as described above might not seem to meet this criterion; rather, they might be regarded as part of the parent and be consolidated with it for statistical purposes. However, such consolidation is not carried out across national borders: if an entity is resident in a different country from the parent it is a separate institutional unit. Paragraph 4.61 makes this clear: *“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. Here paragraph 4.56 is decisive *“...In the absence of any physical dimension to an enterprise, its residence is determined according to the economic territory under whose laws the enterprise is incorporated or registered...”*.

**4.14** This criterion overrides the usual criteria determining residency of institutional units, as set out elsewhere in the 2008 SNA. Thus:

*“The concept of residence used here is not based on nationality or legal criteria.... An institutional unit is... said to be a resident unit when it has a centre of economic interest in the economic territory of the country in question (paragraph 1.48).*

*An institutional unit has a centre of predominant economic interest in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale” (paragraph. 4.14).*

**4.15** This is much the same as in the 1993 SNA. Thus:

*“Corporations and quasi-corporations are said to have a centre of economic interest and to be resident units of a country (economic territory) when they are engaged in a significant amount of production of goods and services there, or own land or buildings located there. They must maintain at least one production establishment there which they plan to operate indefinitely or over a long period of time” (1993 SNA, paragraph 14.22).*

**4.16** The criteria for a “production establishment” are not clear in the SNA:

*“The establishment combines both the kind-of-activity dimension and the locality dimension. An establishment is an enterprise, or part of an enterprise, that is situated in a single location and in which only a single productive activity is carried out or in which the principal productive activity accounts for most of the value added” (paragraph 5.14).*

**4.17** So there are no limits to the size of production at the location, nor is there an absolute requirement to have employees on the payroll. It can be said that SPEs have production. SPEs may produce services by intermediating financial flows, or by holding intellectual property which gives rise to receipts of fees or royalties. Some may engage in merchanting. Their production is reflected in the export of services, and they may incur costs in the host country.

**4.18** Thus it is clear that SPEs are institutional units if they are resident in a different country from the parent; that their residence is determined by where they are incorporated or registered, even in the absence of a physical presence there; and that they may be deemed to engage in productive activity, even if they have no production establishment or staff.

## Types of SPEs

**4.19** Enterprises can create SPEs for different reasons, resulting in a set of different types of SPE. The major types are listed below, including a brief description of their most important activities:

a. The first category consists of financing and holding companies. Financing and holding companies channel funds within a worldwide group on behalf of a non-resident parent company. Large cross-border financial transactions are typical for this type of SPE. The asset side of the balance sheet consists almost completely of financial assets and accounts receivable relating to foreign entities. Holding companies are also known to own claims on notional units abroad (e.g. buildings, natural resources – where the non-resident owner is

deemed to own, not the property directly, but rather a resident quasi-corporation whose only asset is the property). In the Netherlands financing and holding companies form by far the largest group of SPEs.

b. Royalty and licence companies make up a second category of SPEs. These businesses have been assigned ownership of intellectual property rights by their parent companies, and collect income in the form of royalties as fees on licences or other types of intellectual property and act as a cashier of their parent company in the invoicing of royalty and licence fees (in which case the SPE usually owns only sublicences). The receipts of the royalty and licence companies are recorded as exports of services (though, as Chapter 7 explains, the correct recording may often not be applied). The revenues are passed on to the parent company.

c. A third group of SPE comprises entities which invoice the sales of the worldwide company on behalf of the (non-resident) parent. Although the sales are not related to the domestic company, the payments are accounted for as revenue of the SPE. Some of these entities may also engage in factoring, i.e. buying receivables at a discount and collecting the proceeds when due.

d. A fourth type is the leasing company, where a distinction between operational leasing companies and (captive) financial leasing companies can be made. SPEs which are operational leasing companies are companies with a foreign parent that lease out fixed assets to foreign customers through operational leasing contracts. Captive financial leasing companies legally own the assets and lease them back to the parent or other foreign affiliates of the group who are in fact the economic owners of the assets, and are treated as such for statistical purposes, the financial lease being recorded as a loan against collateral in the form of the asset leased.

e. In the Netherlands, entities created to securitize large quantities of bank assets are known as special purpose vehicles (SPVs), and are classified as SPEs. SPVs with a foreign originator (the originator is the bank whose loans or other receivables have been securitized) form a relatively large and homogeneous group, and, although in most cases a Dutch legal entity is the immediate parent of the SPE, the foreign originator usually still has a lot of influence in the SPV. (It might be noted that in ECB legislation securitization vehicles are called financial vehicle corporations (FVCs).)

**4.20** The 2008 SNA follows the paragraphs quoted above (paragraphs 4.55-4.57) with further guidance concerning the classification of SPEs by sector and activity. Thus:

*“Whether a unit has all or none of these characteristics, and whether it is described as an SPE or some similar designation or not, it is treated in the SNA in the same way as any other institutional unit by being allocated to a sector and industry according to its principal activity...”* (paragraph 4.58).

In this respect, SPEs are to be treated like any other resident entity; indeed, once an entity is identified as a resident institutional unit, for purposes of classification by sector and activity it does not matter whether it is deemed to be an SPE or not. That is, however – as paragraph 4.58 goes on to explain – *“...unless it falls into one of the three following categories:*

*(a) captive financial institutions,*

*(b) artificial subsidiaries of corporations,*

*(c) special purpose units of general government.”*

**4.21** Paragraphs 4.59-4.67 of the 2008 SNA describe these entities as follows:

*“Captive financial institutions*

*A holding company that simply owns the assets of subsidiaries is one example of a captive financial institution. Other units that are also treated as captive financial institutions are units with the characteristics of SPEs as described above including investment and pension funds and units used for holding and managing wealth for individuals or families, holding assets for securitization, issuing debt securities on behalf of related companies (such a company may be called a conduit), securitization vehicles and to carry out other financial functions* (paragraph 4.59).

*The degree of independence from its parent may be demonstrated by exercising some substantive control over its assets and liabilities to the extent of carrying the risks and reaping the rewards associated with the assets and liabilities. Such units are classified in the financial corporations sector* (paragraph 4.60).

*An entity of this type that cannot act independently of its parent and is simply a passive holder of assets and liabilities (sometimes described as being on auto-pilot) is not treated as a separate institutional unit unless it is resident in an economy different from that of its parent. If it is resident in the same economy as its parent, it is treated as an “artificial*

*subsidiary” as described immediately below”* (paragraph 4.61).

An entity meeting the definition of captive financial institution and which nevertheless can act independently of the parent, or which is registered or incorporated in a different country from the parent, is to be classified in S.127 in the country in which it is registered or incorporated (and will of course be classified in S.2, rest of the world, by the country in which the parent is resident if that is different, and by all third countries).

**4.22** *Artificial subsidiaries of corporations* should be treated as part of the parent. However such units, if registered or incorporated in a different country from the parent which set them up, are to be classified in the country in which they are incorporated according to their main activity; in the accounts of the country in which the parent entity is resident, and in the accounts of third countries, their transactions and positions will be classified in S.2 (rest of the world).

**4.23** Concerning *special purpose units of general government*, paragraph 4.67 of the 2008 SNA says: *“General government may also set up special units, with characteristics and functions similar to the captive financial institutions [and artificial subsidiaries of corporations] just described. Such units do not have the power to act independently and are restricted in the range of transactions they can engage in. They do not carry the risks and rewards associated with the assets and liabilities they hold. Such units, if they are resident, are treated as an integral part of general government and not as separate units. If they are non-resident they are treated as separate units. Any transactions carried out by them abroad are reflected in corresponding transactions with government. So a unit that borrows abroad is then regarded as lending the same amount to general government and on the same terms as the original borrowing”*.

### Production by SPEs

**4.24** The 2008 SNA states that SPEs in most cases have only one form of production (although there are important exceptions – where for example SPEs hold intellectual property or engage in operational leasing or merchanting or similar activities):

*“Entities of this type are commonly managed by employees of another corporation which may or may not be a related one. The unit pays fees for services rendered to it and in turn charges its parent or other related corporation a fee to cover these costs. This is the only production the unit is*

*involved in though it will often incur liabilities on behalf of its owner and will usually receive investment income and holding gains on the assets it holds”* (paragraph 4.57).

**4.25** In practice, SPEs often pay fees (intermediate consumption) but do not necessarily charge a fee to the parent company or other affiliates of the group. Their revenues are interest and dividends or holding gains. In this case a fee equal to cost could be imputed.

**4.26** In addition to this form of revenue, there is the production of royalties and licence fees. As described earlier in this section, one SPE category comprises licensing and royalty companies. These hold or manage intellectual property rights (non-financial assets) and collect income in the form of royalty and licence fees.

**4.27** The production of operational leasing companies should equal the leasing fee. For SPEs that are financial leasing companies, production should be valued at cost – which may be minimal in the host country - as it is assumed that these companies do not produce financial intermediation services indirectly measured (FISIM)<sup>17</sup>.

### Other research on the subject and open issues

**4.28** As noted earlier, paragraph 4.55 of the 2008 SNA states that there is no common definition of an SPE. The definition and examples in this chapter may go some way to filling this gap. Further clarifications were discussed in a Eurostat Task Force on the recording of certain activities of multinationals in national accounts. The Task Force report (2009) contains recommendations concerning SPEs:

- a. Entities with little or no physical presence are to be classified as institutional units when they are not resident in the same country as the parent. Consolidation within the parent company occurs only when they are resident in the same economy, when they do not meet the criteria for institutional units.
- b. The Task Force recommends that some elements of the treatment of SPEs contained in Chapters 4 and 26 of the 2008 SNA should be clarified for their application in the European Union. This concerns in particular:
  - i. The criterion of registration for identifying an institutional unit. Value added tax (VAT) registration is not a sufficient condition in the

<sup>17</sup> On the exclusion of SPEs from FISIM in Dutch national accounts, see annex 4.1, paragraph 4.1.26.

European Union for an entity to be classified as a resident institutional unit. (This point relates to the question discussed in Chapter 9, in the context of quasi-transit trade, of non-resident entities registered for VAT but which are nevertheless not treated statistically as resident in the EU.)

ii. The treatment of truncated groups containing both SPEs and normal units.

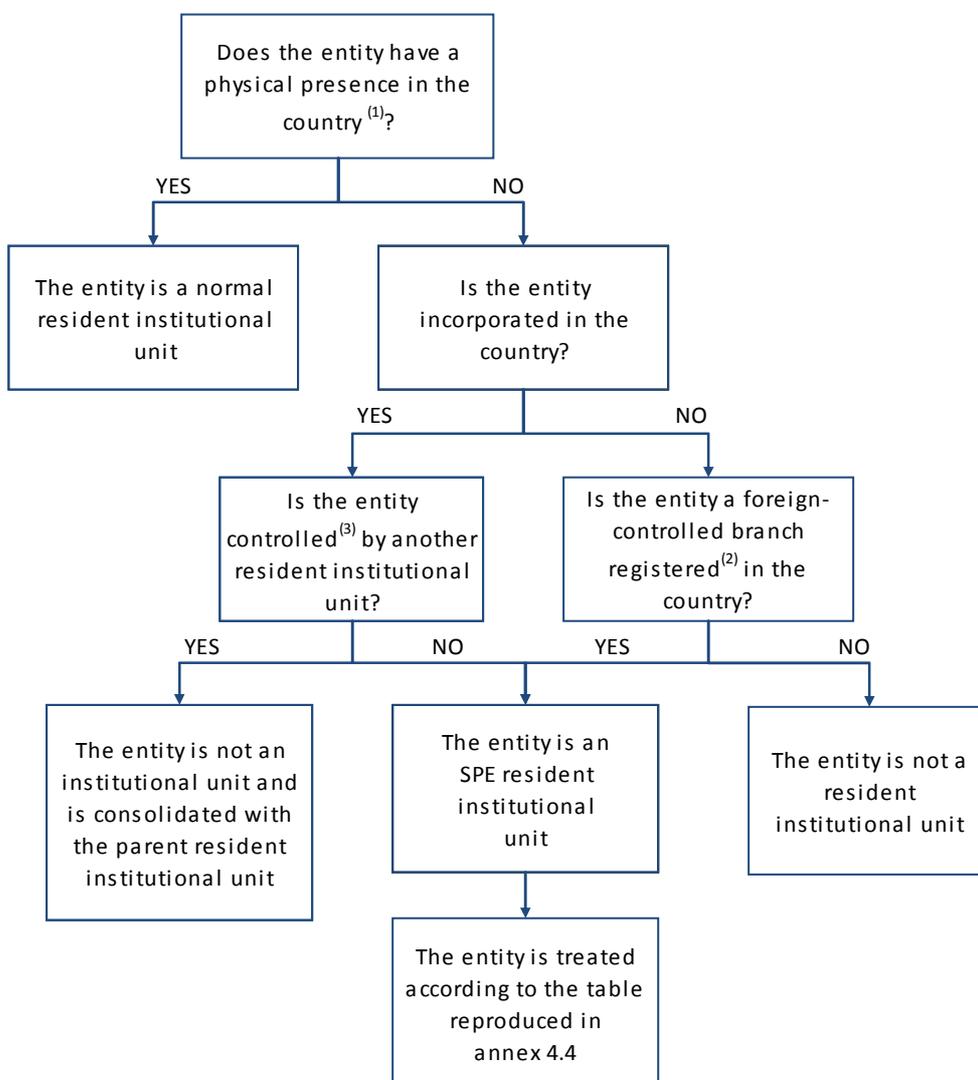
c. The Task Force recommends that the production of SPEs should be allocated to sector and industry according to their principal activity. In determining the production activity of SPEs, the underlying economic nature rather than the legal

appearance should be the reference for national accounts.

d. For valuation of SPE output, the Task Force recommends that when the SPE has transactions only with its foreign parent or with other units of the same group a market valuation cannot be identified and output should be valued at cost.

e. The Task Force recommends that the treatment of SPEs in EU member states should conform to the classification table reproduced in annex 4.4 to this chapter. The decision tree shown in chart 4.1 may be a useful operational tool for national compilers.

**Chart 4.1 Decision tree for the identification of SPEs - Eurostat Task Force on the recording of certain activities of multinationals in national accounts**



(1) The main indicator of physical presence is a sufficient level of employment compared to balance sheet value and/or transaction values. If the SPE employs staff, typical ratios can be derived by type of activity for the country. Additional indicators may be developed at national level (for the approach of Statistics Netherlands, see Zwijnenburg, 2006 in annex 4.1).

(2) Mainly registration of branches of banks and insurance companies by the supervisory authority. In the European Union VAT registration is not sufficient for an entity to be classified as a resident institutional unit.

(3) More than 50 per cent of equity capital held by the other institutional unit.

f. The Task Force recommends fostering cooperation and exchange of information on SPEs among national producers of statistics in the European Union in order to avoid omissions, double counting and inconsistent recording of SPEs' operations which may lead to asymmetries.

**4.29** An internationally agreed definition of SPEs would help countries with resident SPEs to identify and treat them in a consistent way (including across national statistical domains), making it easier to compare national data excluding SPEs and (for national statisticians who wish to do so) to consolidate data relating to domestic enterprises with data covering SPEs which they have set up abroad. In Europe, the EuroGroups Register mentioned in Chapter 3 may be helpful in this respect.

**4.30** The Dutch approach to SPEs is described in more detail in annex 4.1. As the Netherlands is not the only country that has developed its own treatment of SPEs, the practices of other countries are also annexed to this chapter. In particular, annex 4.3 explains how SPEs are treated in Hungarian balance of payments (and other) statistics.

## Measurement problems

**4.31** This section describes some general problems when dealing with SPEs, arising from their characteristics. Although their financial balance sheets and transactions may be large, the physical presence of these companies is usually very small. The few employees make it easy for the company group of which the SPE is part to move the SPE abroad. As a result the population of SPEs may change rapidly. The transactions through these SPEs can vary substantially year by year. The absence of local employees makes it difficult to obtain relevant and timely data from SPEs.

## SPEs and foreign direct investment

**4.32** The analysis of FDI statistics can be complicated by SPEs. The OECD *Benchmark Definition on Foreign Direct Investment, fourth edition* (BD4), in accordance with BPM6, gives guidelines on how to deal with and report different FDI flows. As explained in Chapter 3, SPEs may complicate FDI reporting because many FDI transactions pass through them. Because an SPE is resident in a given country, FDI flows through the SPE should be recorded in the host country's FDI statistics. It may be better to segregate SPEs and non-SPEs in FDI presentations, because the inclusion of SPEs used only as a channel for FDI flows will inflate the numbers.

**4.33** As noted in Chapter 3, SPEs present a major problem in creating an economically significant picture of the geographical breakdown of FDI. Looking through SPEs until a non-SPE is reached involves a great deal of work: an MNE may create many SPEs in different countries and channel funds through a succession of them to a non-SPE counterpart. It is very difficult for an FDI compiler to look through these SPEs resident in different countries and allocate this FDI correctly. Fortunately, in practice most companies will not channel funds through a long chain of SPEs. Preparing origin and destination matrices showing SPEs' positions with different countries, and so the geographical breakdown of their financial flows, is a step towards meeting the aim of a more correct allocation of FDI and the better view of the activities of SPEs sought by the BD4.

**4.34** Indeed, looking through SPEs until a non-SPE entity is reached (ultimate destination) would in effect remove SPEs from the statistical accounts. In the Netherlands, the balance of payments and the rest of the world accounts (the latter being part of the integrated economic and financial accounts) are presented with and without SPEs. The accounts including SPEs use the direct linkages between the Netherlands and the first non-resident counterpart company. Although it might be interesting and useful to know and register the ultimate destination of the transactions flowing through SPEs, statistics on this basis seem more suitable for satellite accounts. Direct flows should be reported in the core statistics. Providing statistics including and excluding SPEs promotes comparable and useful data.

## Proposals for operational treatment in the accounts

**4.35** The differences in treatment of SPEs in different countries make it hard to identify the best treatment. The different types of SPE, registration obligations and data availability mean that countries should find their own best way to treat SPEs, within the framework set by the new international standards, and use the annexes describing country practices for information and as guidelines.

**4.36** As noted earlier, the report of the Eurostat Task Force on the recording of certain activities of MNEs in national accounts included a decision tree to help statisticians to identify SPEs (chart 4.1).

## Recommended future work on special purpose entities

**4.37** This chapter describes different types of SPEs and shows how they can be treated statistically in national accounts. Because there were no clear guidelines in the previous international manuals, countries had to devise their own criteria on the definition and treatment of SPEs. Recent international manuals pay more attention to SPEs, providing guidelines on how to identify them. Nevertheless, a common agreed definition is still lacking and in practice, countries have slightly different definitions, ways of registering SPEs and presentations in their balance of payments or national accounts.

**4.38** A commonly agreed definition, notwithstanding the difficulties in view of the large variety of activities undertaken by SPEs, is highly desirable and would improve the understanding of the size and impact of their activities. Furthermore, this definition should be consistently applied across all statistical domains. This would improve the comparability of statistics across countries and statistical datasets and ensure consistent treatment of entities which have set up SPEs in different economies.

**4.39** Annex 4.3 describing the experience of Hungary suggests that a common definition (together with more detailed information on the residence of owners of SPEs) would enable a country whose resident entities own SPEs abroad to consolidate them if desired – much as is

envisaged in recommendation 13 of the G-20 report. Compiling statistics both including and excluding SPEs is strongly recommended, because SPEs can seriously distort a country's national accounts and balance of payments.

**4.40** In view of recent developments, a particular matter for future research could be SPEs established by governments outside their own country.

**4.41** Countries are encouraged to seek to maximize data availability on SPEs (including on their links with the domestic economy – an information gap in the Netherlands noted in annex 4.1) and to take note of how other countries treat them, as described in the annexes to this chapter. Nevertheless, because of limitations in the source information, bold assumptions may have to be made in the compilation of the relevant national accounts data in most countries.

**4.42** National statistical agencies, European institutions and international organizations should prepare to handle (receive, store, and publish) two datasets, with and without SPEs, in order to give users access to data on both bases. It is important that country data excluding SPEs should be available on the websites of the European and international institutions since users often access them there. Commentaries on national economic developments and policy analysis at country level should state clearly which basis is being used (and the definition excluding SPEs may often be more appropriate for these purposes).

## Annex 4.1

### Treatment of special purpose entities in the Netherlands

**4.1.1** At the end of 2008 over 12,000 SPEs were recorded as resident in the Netherlands. As the main text noted, at end-2007 their balance sheets totalled the equivalent of nearly three times annual GDP. Table 4.1.1 shows some key figures relating to SPEs in the Dutch national accounts.

**4.1.2** Statistics Netherlands started including SPEs in Dutch national accounts with the major benchmark revision of 2001. Introducing this specific group of companies to national accounts made it necessary to address several conceptual questions about the treatment of SPEs. A project group from Statistics Netherlands and De Nederlandsche Bank (DNB) developed a decision tree to detect SPEs according to agreed criteria.

#### The Dutch definition of SPEs

**4.1.3** At the time of the introduction of SPEs in the Dutch national accounts, international guidelines provided no definitions of or details on how to deal with such institutions. This omission is remedied in the 2008 SNA.

**4.1.4** The decision tree mentioned in paragraph 4.1.2 distinguished between different SPE types (see chart 4.1.1). The criteria established then are quite similar to the new international guidelines. The criteria for classification as an SPE are described below.

#### The institutional unit is a resident entity

**4.1.5** A resident SPE should be an institutional entity registered at a Dutch Chamber of Commerce and subject to tax in the Netherlands. The Chamber of Commerce records all corporations with economic activity in the Netherlands and these entities should be included in Dutch national accounts. The fiscal criterion ensures that a company will only be recorded in one country, assuming that an entity will normally be liable to tax in only one country (or at least pay taxes for a certain transaction in only one country).

#### The institutional unit is (directly or indirectly) more than 50 per cent foreign controlled

**4.1.6** When an entity complies with the first two criteria, it is benchmarked against criteria relating to five different types of SPE. For each group a different criterion can be used:

- For financing and holding companies: do more than 90 per cent of total assets (excluding

trade credits) and more than 90 per cent of liabilities relate to non-resident entities?

- For royalty and licence companies: do more than 90 per cent of total revenues consist of royalty and licence fees received from non-residents?
- For factoring companies: do more than 90 per cent of revenues and costs arise from factoring business with non-residents?
- For operational leasing companies: is more than 90 per cent of turnover accounted for by business outside the Netherlands, and does more than 90 per cent of liabilities relate to non-residents?
- For the SPVs controlled by a resident entity, but set up to hold loans or other assets originally on the balance sheet of a foreign financial institution, the foreign control criterion mentioned above need not be met, because there is no direct or indirect foreign control of the SPV itself. If an SPV with foreign originator is identified, the criterion for it to qualify as an SPE is almost the same as that applied to financing and holding companies: do more than 90 per cent of the assets and more than 90 per cent of the liabilities relate to non-resident entities?

#### Domestic turnover of the institutional unit does not exceed €25 million

**4.1.7** If an entity meets the above criteria, it is classified as an SPE unless its domestic turnover (sales in the Netherlands of services produced in the Netherlands) exceeds €25 million.

**4.1.8** The decision tree can be used in most cases. However, a foreign company may set up more than one company in the Netherlands. It can build a whole cluster of companies, with a Dutch resident parent (itself controlled by the foreign company) as the major shareholder in them. This might lead to incorrect definition of SPEs.

**4.1.9** To come to a correct definition of individual companies within clusters like this, DNB and Statistics Netherlands decided that, when a company cluster is found in the Netherlands, the definition of each individual subsidiary will start at the bottom of the cluster, with the entities that do not have domestic subsidiaries themselves. The holding companies directly above these entities are then examined; the process continues until the

ultimate parent in the Netherlands can be assessed against the criteria set out in the decision tree. If some entities in the cluster have clear SPE characteristics and others do not, a problem can occur when defining the status of the parent in the Netherlands. A parent can be an SPE if some of its subsidiaries are not, but this depends on the relative size of the transactions conducted abroad and with the non-SPE subsidiary or subsidiaries.

**4.1.10** More complicated cases are decided individually by the project group. For example, a (directly or indirectly) foreign-controlled domestic entity may place funds with SPE subsidiaries in the Netherlands which they disburse. International guidelines suggest looking through such entities.

### **Compilation of data relating to SPEs in Dutch national accounts**

**4.1.11** The previous section described how SPEs are identified and registered. This section will consider how relevant transactions by SPEs are compiled and recorded.

**4.1.12** Statistics Netherlands tries to record SPE activities in as detailed a way as possible, compiling a complete set of national accounts for them, including the financial account and balance sheet and a reconciliation account. Assumptions are necessary in the absence of, for example, data on transactions with resident entities.

**4.1.13** DNB collects survey data on SPEs and compiles a balance of payments including and excluding SPEs. New Dutch SPEs must report themselves to DNB. The largest SPEs report monthly on their financial and non-financial transactions with non-residents. Once a year they report a balance sheet. Data from large SPEs are grossed up. Every two years a benchmarking exercise ensures that the grossing up factor is appropriate.

**4.1.14** Zwijnenburg, 2006 - see below – explains this in more detail.

**4.1.15** One of the assumptions made relates to the domestic output of royalties and licence fees (part of production of services). These are royalty and licence fees deemed to be produced by the Dutch SPE itself, not revenues channelled through it by other affiliates in the MNE, and re-exported by the Dutch SPE. To estimate such re-exports, it is assumed that all imported fees (that is, fees not related to intellectual property assets held by the Dutch SPE) are directly exported to a parent company abroad in the form of fees, not as dividends or other forms of property income. Output by the SPE then consists of domestic sales

(fees relating to assets held by the Dutch SPE, not imported) plus total exports adjusted for "re-exports". Any fluctuation in reported exports will normally also be reflected in reported imports, on the assumption that domestic sales do not show big fluctuations. The assumption is that incidental fluctuations in the gap between imports and exports are the result of acquisitions (or disposals) of royalties or (sub) licences. These amounts will be recorded as gross capital formation. Whether this method is still appropriate is currently under investigation. The original purpose was to limit fluctuations in production in the form of royalty and licence fees, and thus in value added by SPEs.

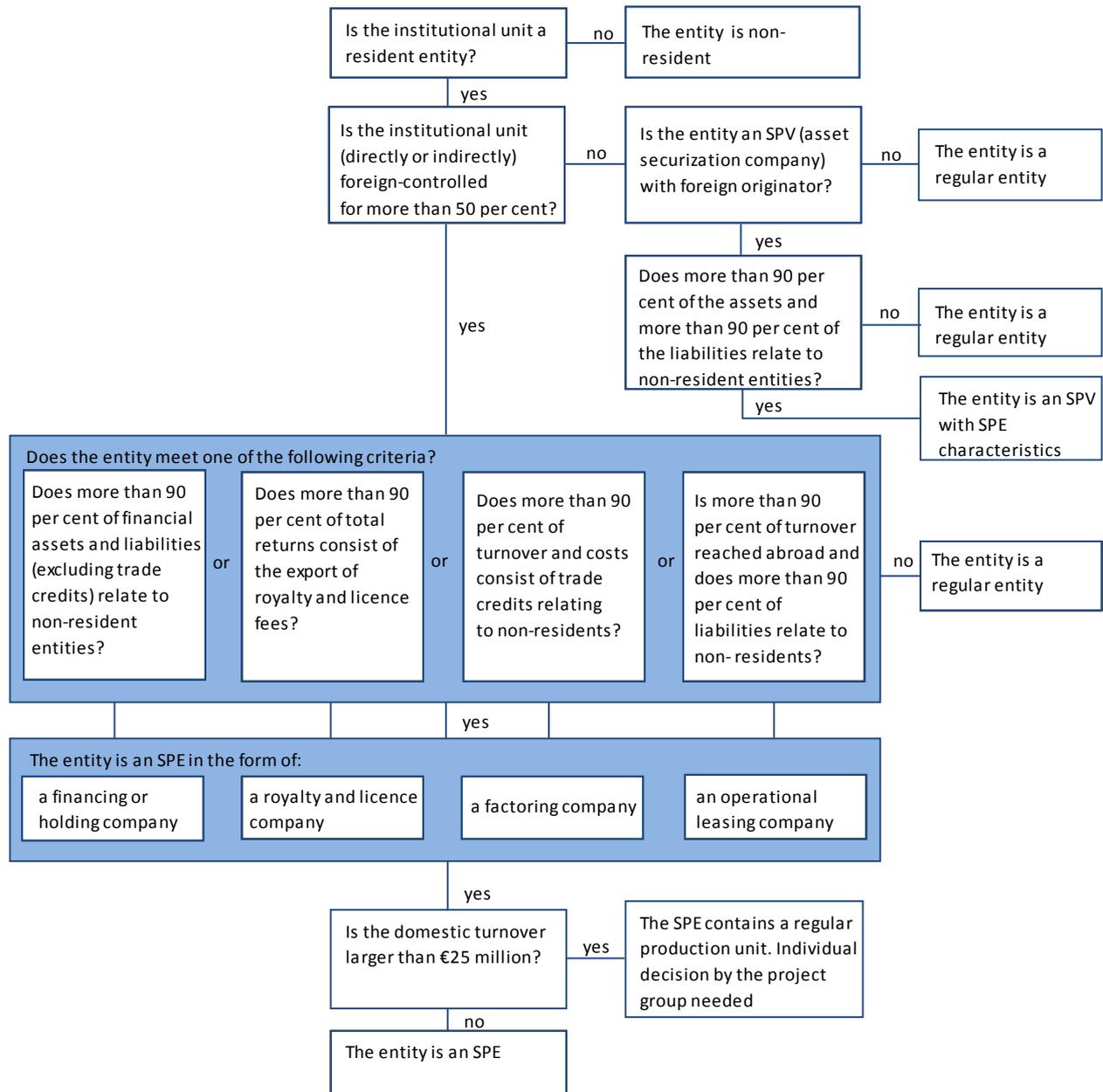
**4.1.16** No actual data on SPEs' domestic transactions are available (domestic costs, including compensation of employees, transactions in the primary income account and in the financial account). Only balance sheet data, distinguishing between resident and non-resident counterpart sectors and so giving an indication of domestic financial transactions, are available, though with some delay. Although presumably much smaller than transactions with foreign counterparts, the lack of these data makes the estimation and interpretation of the economic behaviour of the SPEs in the Netherlands much more difficult. Statistics Netherlands estimates domestic transactions, using foreign transactions as a guide.

**4.1.17** To get a better idea of how big transactions with domestic counterparts are, the SPE project group in the Netherlands has developed an enlarged questionnaire requesting a complete profit and loss account including domestic as well as foreign transactions. The questionnaire was introduced in December 2009 and results became available in the second half of 2010.

**4.1.18** Another problem the project group has faced relates to the delineation of the SPE population. At present SPEs report to DNB only. Non-financial corporations which are not SPEs report to Statistics Netherlands. An exercise in 2008 revealed discrepancies; the population registers of DNB and Statistics Netherlands are now consistent.

**4.1.19** Given the importance of SPEs, DNB and Statistics Netherlands report statistics both including and excluding them (balance of payments, and the rest of world account in the integrated economic and financial accounts). As Chapter 4 noted, it is strongly recommended to do so because SPEs may otherwise distort parts of the accounts.

Chart 4.1.1 Decision tree used in the Netherlands to identify special purpose entities



**Table 4.1.1 Transactions of special purpose entities in the Netherlands**

		<i>€ millions</i>					
		<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008*</i>	<i>2009*</i>
<b>1. Production account</b>							
R	Output (basic prices)	5,320	6,138	5,902	6,678	8,003	8,495
U	Intermediate consumption (excl. deductible VAT)	6,074	6,974	6,525	6,581	8,189	10,057
	Value added (gross)	-754	-836	-623	97	-186	-1,562
<b>2.1 Income account (generation of income)</b>							
R	Value added (gross)	-754	-836	-623	97	-186	-1,562
U	Compensation of employees	343	372	364	383	430	460
	Wages and salaries	262	287	284	300	340	364
	Employers' social contributions	81	85	80	83	90	96
	Consumption of fixed capital	930	888	885	840	788	732
	Operating surplus (net)	-2,027	-2,096	-1,872	-1,126	-1,404	-2,754
<b>2.2 Income account (primary distribution)</b>							
R	Operating surplus (net)	-2,027	-2,096	-1,872	-1,126	-1,404	-2,754
	Property income	60,768	65,717	76,764	113,815	118,532	96,354
	Interest	19,520	17,133	20,032	28,044	36,559	35,967
	Dividends	32,823	41,025	63,421	83,934	65,825	62,380
	Reinvested earnings on FDI	8,425	7,559	-6,689	1,837	16,148	-1,993
U	Property income	58,532	63,192	73,870	110,808	114,902	92,031
	Interest	19,671	17,264	24,996	29,614	36,319	29,372
	Dividends	21,043	54,041	30,376	53,340	53,099	44,905
	Reinvested earnings on FDI	17,818	-8,113	18,498	27,854	25,484	17,754
	Primary income (net)	209	429	1,022	1,881	2,226	1,569
<b>2.3 Income account (secondary distribution)</b>							
R	Primary income (net)	209	429	1,022	1,881	2,226	1,569
	Social contributions	2	2	2	2	2	2
U	Current taxes on income and wealth	1,139	1,317	1,907	2,721	2,504	2,201
	Social benefits (in cash)	2	2	2	2		3
	Disposable income (net)	-930	-888	-885	-840	-278	-632
<b>2.4 Income account (use of income)</b>							
R	Disposable income (net)	-930	-888	-885	-840	-278	-632
U	Net saving and capital transfers	-930	-888	-885	-840	-278	-632
<b>3.1 Capital account (capital transfers)</b>							
R	Saving (net)	-930	-888	-885	-840	-278	-632
U	Net saving and capital transfers	-930	-888	-885	-840	-788	-732
<b>3.2 Capital account (capital accumulation)</b>							
R	Net saving and capital transfers	-930	-888	-885	-840	-788	-732
	Consumption of fixed capital	930	888	885	840	788	732
U	Capital formation (gross)	545	624	1,152	42	593	89
	Net lending / net borrowing	-545	-624	-1,152	-42	-593	-89

\* Provisional

Table 4.1.1 Transactions of special purpose entities in the Netherlands (continued)

	€ millions						
	2004	2005	2006	2007	2008*	2009*	
<b>4. Financial balance sheet</b>							
<b>4.1. Opening balance sheet</b>							
A	Other deposits	25,535	27,448	32,622	35,747	55,140	54,155
	Long-term bonds	24,322	25,136	28,053	20,825	30,592	26,369
	Financial derivatives	660	1,210	2,201	7,306	29,500	11,498
	Short-term loans	180,379	148,445	146,048	196,518	213,683	219,382
	Long-term loans	132,075	151,334	186,729	175,954	312,549	328,012
	Shares and other equity	570,620	600,348	689,956	848,852	902,764	1,036,489
	Other accounts receivable/payable	23,843	22,725	21,226	25,850	22,645	27,859
	Total assets	1,084,471	1,097,971	1,205,189	1,434,304	1,752,799	1,883,180
L	Long-term bonds	311,227	303,986	300,144	318,707	358,043	360,382
	Short-term loans	107,433	96,089	116,491	147,245	212,982	213,112
	Long-term loans	132,075	151,334	186,729	175,954	312,549	328,012
	Shares and other equity	523,515	498,440	568,729	732,924	821,309	954,932
	Other accounts receivable/payable	19,188	16,924	15,918	22,344	10,933	11,636
	Total liabilities	1,092,778	1,066,773	1,188,011	1,397,174	1,715,816	1,868,074
	Total net worth	-8,307	31,198	17,178	37,130	36,983	15,106
<b>4.2 Financial account</b>							
A	Other deposits	1,115	4,389	5,431	21,322	-2,796	-4,052
	Long-term bonds	1,511	2,223	-6,366	9,692	455	-139
	Financial derivatives	-51	559	426	19,952	-13,304	-7,478
	Short-term loans	-28,716	-6,816	52,394	14,853	3,118	16,488
	Long term loans	15,594	8,913	23,561	210,574	28,415	-87,524
	Shares and other equity	14,433	35,881	182,718	60,160	87,723	28,965
	Other accounts receivable/payable	-1,086	-1,649	3,987	-2,085	5,277	2,517
	Change in assets	2,800	43,500	262,151	334,468	108,888	-51,223
L	Long-term bonds	-5,662	-9,952	25,694	48,539	17,991	29,776
	Short-term loans	-11,848	18,060	35,490	63,195	12,174	7,504
	Long-term loans	23,452	30,932	-7,226	149,843	-1,049	-106,495
	Shares and other equity	-589	6,168	203,163	77,772	78,585	12,678
	Other accounts receivable/payable	-2,008	-1,084	6,162	-4,839	1,780	5,403
	Change in liabilities	3,345	44,124	263,303	334,510	109,481	-51,134
	Changes in financial net worth	-545	-624	-1,152	-42	-593	-89
	Net lending / net borrowing	-545	-624	-1,152	-42	-593	-89
	Statistical discrepancy	-	-	-	-	-	-
<b>4.3 Other changes**</b>							
A	Other deposits	798	785	-2,306	-1,929	1,811	1,795
	Long-term bonds	-697	694	-862	75	-4,678	-59
	Financial derivatives	601	432	4,679	2,242	-4,698	3,041
	Short-term loans	-3,218	4,419	-1,924	2,312	2,581	-1,201
	Long-term loans	-2,707	3,511	-9,438	-11,305	-19,462	-2,439
	Shares and other equity	15,295	53,727	-23,822	-6,248	46,002	44,687
	Other accounts receivable/payable	-32	150	637	-1,120	-63	-788
	Total assets other changes	10,040	63,718	-33,036	-15,973	21,493	45,036
L	Long-term bonds	-1,579	6,110	-7,131	-9,203	-15,652	-827
	Short-term loans	504	2,342	-4,736	2,542	-12,044	-1,144
	Long-term loans	-4,193	4,463	-3,549	-13,248	16,512	-1,449
	Shares and other equity	-24,486	64,121	-38,968	10,613	55,038	40,985
	Other accounts receivable/payable	-256	78	244	-6,572	-1,077	-174
	Total liabilities other changes	-30,010	77,114	-54,140	-15,868	42,777	37,391
	Total other changes in net worth	40,050	-13,396	21,104	-105	-21,284	7,645

\* Provisional

\*\* Valuation changes, reclassifications and any other non-transactional effects on the balance sheet.

**Table 4.1.1 Transactions of special purpose entities in the Netherlands (continued)**

	€ millions					
	2004	2005	2006	2007	2008*	2009*
<b>4.4 Closing balance sheet</b>						
A Other deposits	27,448	32,622	35,747	55,140	54,155	51,898
Long-term bonds	25,136	28,053	20,825	30,592	26,369	26,171
Financial derivatives	1,210	2,201	7,306	29,500	11,498	7,061
Short-term loans	148,445	146,048	196,518	213,683	219,382	234,669
Long-term loans	151,334	186,729	175,954	312,549	328,012	417,465
Shares and other equity	600,348	689,956	848,852	902,764	1,036,489	1,110,141
Other accounts receivable/payable	22,725	21,226	25,850	22,645	27,859	29,588
Total assets	1,097,971	1,205,189	1,434,304	1,752,799	1,883,180	1,876,993
L Long-term bonds	303,986	300,144	318,707	358,043	360,382	389,331
Short-term loans	96,089	116,491	147,245	212,982	213,112	219,472
Long-term loans	151,334	186,729	175,954	312,549	328,012	220,068
Shares and other equity	498,440	568,729	732,924	821,309	954,932	1,008,595
Other accounts receivable/payable	16,924	15,918	22,344	10,933	11,636	16,865
Total liabilities	1,066,773	1,188,011	1,397,174	1,715,816	1,868,074	1,854,331
Total net worth	31,198	17,178	37,130	36,983	15,106	22,662

\* Provisional

### Estimation of SPEs' transactions in national accounts

(Extract from *Recording of Special Purpose Entities in the Dutch National Accounts*, Jorrit Zwiijnenburg, Statistics Netherlands, 2006. Note that this text was written before the information on SPEs' domestic transactions mentioned in paragraph 4.1.17 became available. It explains how the transactions of SPEs have been incorporated in the national accounts thus far, and may be useful for countries which do not have survey data on SPEs' domestic transactions.)

#### SPEs in the production account

**4.1.20** There is not much information on domestic transactions of SPEs available, only data from the balance of payments on trade in goods and services of SPEs for the production account. There is no information on domestic production or intermediate consumption of SPEs. The estimation of these variables is further complicated by the fact that most SPEs provide financial services to the company group for which no clear commission is paid. This implies that the production value for this type of SPEs should be compiled indirectly.

**4.1.21** SPEs are engaged in two types of production. The SPEs that hold non-financial assets provide services on the basis of their royalties and licences. And the SPEs that act as a financial vehicle

or holding company on behalf of their foreign parent company provide financial services.

**4.1.22** The production value of royalty and licence fees is determined as the domestic revenues from royalty and licences and the exports of these services for the account of the SPEs. Not all exports are regarded as production of the SPE, because part of the export originates from imports. For this type of flows, the SPE is merely a link in the transit of royalty and licence fees on behalf of their parent company. The parent company provides services on the basis of royalties and licences to the SPE, whereas the SPE (on the basis of sublicences) passes these services on to the end-customers/users. This part of the imports and exports is regarded as re-exports in the Dutch national accounts. Table 4.1.2 presents the figures for re-exports of SPEs for 2001- 2005.

**Table 4.1.2 Re-export of royalties and licence fees**

€ millions				
2001	2002	2003	2004	2005
4,901	4,624	4,418	4,485	3,615

**4.1.23** These re-exports are not part of the production or intermediate consumption of SPEs. In addition, part of the imports and exports consist of domestic production and domestic sales. The domestic sales are compiled on the basis of the gap

between the exports and imports of services. This gap can be seen as an indicator for the services that are provided by the SPE itself rather than originating from importing services. Therefore, it can be used to estimate the domestic production of the SPEs.

**4.1.24** Under the assumption that domestic sales will develop in line with the imports and exports, the gap between imports and exports cannot show too much fluctuation. For the part of the transit trade, the gap between imports and exports will be quite stable over time. This is the part of services provided by the SPE that is not transferred to the parent company in the form of imports of royalty and licence fees, but is paid out to the parent company in the form of dividends. Any fluctuation in exports will normally also be reflected in import fluctuations. The assumption is that incidental fluctuations in the gap between imports and exports are the result of acquisitions (or disposals) of royalties or (sub) licences. When the gap between imports and exports showed a sharp rise in one period, it was assumed that this was caused by an acquisition of non-financial assets. Instead of recording these amounts as imports or exports of services, these amounts will be recorded as gross capital formation.

**4.1.25** The calculation of the production value of the financial services provided by the SPE is somewhat more difficult. According to the European System of Accounts (ESA 1995, paragraph 3.63) the production value of financial intermediaries should be measured as total property income received minus total interest paid, excluding the value of any income received from the investment of their own funds. However, the introduction of a new compilation method for

financial intermediation services indirectly measured (FISIM) changed the measurement of production of financial services. This is not applicable to SPEs though. The Dutch national accounts excluded SPEs from FISIM because the international forums concluded that FISIM should not be applied to investment funds and financial holding companies. They only provide services to the worldwide company, so they are comparable to holding companies. They are not market producers of these services and therefore FISIM is not applicable to SPEs. And because they are not market producers, it is difficult to make an accurate estimate of the market value of their production. As is the case with other non-market producers, such as investment funds and holding companies, it was decided to use the sum of cost approach.

**4.1.26** A third production category is rent. DNB data for 1985-1992 showed that SPEs gain revenues from hiring services. For the years following 1992 a growth rate per year was established for estimating the output of the hiring services.

**4.1.27** Table 4.1.3 shows the calculation of output of SPEs.

**4.1.28** Information about the costs of SPEs is available from balance of payments data on imports. In addition, domestic costs have to be estimated. Information on domestic costs is available from source data of DNB for the period 1989-1992. On the basis of this information it was calculated that domestic costs equal 46 per cent of the average amount of imports and exports of "other services" according to the balance of payments. This percentage was confirmed by recent DNB data on some types of costs (such as

**Table 4.1.3 Output of SPEs**

	<i>€ millions</i>				
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Domestic production of royalties and licence fees	534	503	555	594	615
Income from hiring services	80	92	96	101	106
Export of royalties and licence fees	645	652	778	871	1,069
Export of financial services	3,545	3,412	3,022	3,559	4,547
Total production	4,804	4,659	4,451	5,125	6,337

**Table 4.1.4 Intermediate consumption of SPEs**

	<i>€ millions</i>				
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Domestic intermediate consumption	446	414	442	664	1,164
Imports of financial services	5,236	4,650	4,093	4,374	5,674
Imports of other services	832	792	1,223	1,031	703
Total intermediate consumption	6,514	5,856	5,758	6,069	7,541

office and management costs) and these were used in the calculation of domestic costs for all years.

**4.1.29** Table 4.1.4 shows the calculation of intermediate consumption of SPEs.

#### SPEs in the primary income account

**4.1.30** Most data for the primary income account is derived from the balance of payments. Because SPEs have large cross-border assets and because they are foreign controlled, there are large cross-border property income flows in the primary income account. Property income flows related to FDI in particular are substantial. These are interest income, dividends and reinvested earnings. Because data on domestic flows are lacking, domestic property income flows have to be estimated on the basis of domestic stock information.

**4.1.31** In addition to property income flows, compensation of employees also has to be taken into account on the primary income account of SPEs. Because SPEs employ some staff (although usually very few) the wages and social contributions paid by SPEs must be estimated. Under the assumption that 9,000 SPEs have on average 0.75 employees (who earned €50,000 on average in 2002) the total compensation of employees in 2002 was an estimated €338 million. An annual growth rate of 7 per cent is used in calculating the time series, based on the average growth rate of compensation of employees for the sectors S.11, S.12 and S.123/124 in the Dutch national accounts in the same period. The item of reinvested earnings on FDI was corrected in the estimation method for primary incomes of SPEs. Under the assumption that all SPEs are fully owned by non-resident parent companies, all earnings or losses from the SPE by definition have to be attributed to the rest of the world account. Part of the earnings or losses will be distributed to the parent company in the form of dividends, and the remaining part will be attributed to the parent company in the form of reinvested earnings. This

**Table 4.1.5 Calculation of reinvested earnings**

<i>Reinvested earnings on direct foreign investment (use)</i>	
Value added	
- Compensation of employees	
+ Balance of interest received and interest paid	
+ Distributed income received	
+ Reinvested earnings received	
- Taxes on income	
- Dividends declared (domestic and abroad)	

implies that the reinvested earnings on the uses side are used as a residual.

**4.1.32** The reinvested earnings on FDI on the uses side of the SPEs is calculated as follows. First, the profit/loss after taxes of the SPE has to be calculated. This is done by adding up value added (+), compensation of employees (-), property income received (+), interest income paid (-) and taxes on income (-). Under the assumption that all profits/losses after taxes of the SPE are attributed to the foreign parent company (apart from a very small part of domestic dividend payments), this total profit/loss of the SPE should be equal to the sum of dividends declared (domestic and abroad) and reinvested earnings abroad. As the figure from the balance of payments on dividends declared is assumed to be more robust than reinvested earnings, and as the estimate for domestic dividend payments is so small, the reinvested earnings paid are determined as a residual. Table 4.1.5 shows the calculation of reinvested earnings on the uses side of the primary income account of the SPE.

**4.1.33** Table 4.1.6 presents the results for the transactions on the primary income account derived from the information from the balance of payments and the estimations made for domestic transactions.

**Table 4.1.6 Primary income account for SPEs**

	<i>€ millions</i>				
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
<b>Resources</b>					
Interest	19,645	20,634	18,171	19,685	18,621
Distributed income of corporations	33,044	22,617	28,179	32,877	39,885
Reinvested earnings on FDI	28,673	9,589	-1,094	7,949	-1,726
<b>Uses</b>					
Compensation of employees	311	344	315	338	338
Interest	18,335	20,557	18,887	19,720	19,471
Distributed income of corporations	17,698	9,682	20,275	19,841	53,559
Reinvested earnings on FDI	42,021	19,970	3,501	18,526	-19,069

### Other non-financial transactions of special purpose entities

**4.1.34** In addition to the transactions already mentioned, SPEs engage in two other types of non-financial transactions: taxes on income and gross capital formation.

**4.1.35** First of all SPEs, like all other enterprises, pay taxes on the basis of their income. There are no recent data from SPEs on the payments of taxes. The tax payments for recent years were estimated on the basis of information up to 1999.

**4.1.36** Acquisitions less disposals of intangible fixed assets are the result of incidental gaps between imports and exports of royalties and licences, as was explained in the section on calculating transactions on the production account of SPEs.

**4.1.37** Table 4.1.7 shows the estimates of taxes on income and gross capital formation.

#### Net lending/net borrowing of SPEs

**4.1.38** As all profits/losses of the SPE are attributed to the foreign parent company, the net lending/net borrowing of the SPE will, apart from its gross capital formation, equal zero. Under the assumption that all gross capital formation is financed by the foreign parent company via financial transactions, and is not covered by current receipts and expenditures, net lending/net borrowing equals gross capital formation. In table 4.1.8 the most important balancing items are presented for SPEs.

#### Financial accounts and balance sheets

**4.1.39** The main data source for the financial accounts is the balance of payments, which contains much data on cross-border transactions of SPEs. However, as with the non-financial transactions, the information is not as extensive as

on regular corporations. This implies that not all data from the balance of payments can be directly linked to corresponding ESA 1995 transactions. For some items it was not quite clear what they consisted of, while more information was needed for others to make a clear breakdown into corresponding ESA 1995 items. For instance both short-term and long-term loans are recorded under the item intercompany loans. For national accounts requirements this item has to be broken down into the two categories mentioned. The same goes for securities other than shares.

**4.1.40** Table 4.1.9 shows the link between the source data from the balance of payments and the corresponding ESA 1995 items.

**4.1.41** For the financial accounts of SPEs the data from the balance of payments and the international investment position are converted to ESA categories in accordance with table 4.1.9. Then, the information on domestic positions is added and all items are linked with a counterpart sector. Subsequently, the domestic participation and loans are partly consolidated, as some SPEs participate in other domestic SPEs. Because these positions are reported by one as a liability and by the other as an asset, they have to be consolidated in compiling the sector results for the SPEs. Approximately 95 per cent of the total domestic positions of SPEs are related to other domestic SPEs and are therefore corrected. Because it is known that a large part of the domestic loans are also interconcern positions, these also have to be consolidated in the system of national accounts. Taking into account the reported domestic positions of SPEs on the asset and liability side, it was determined that approximately 75 per cent of the reported loans are interconcern and should be consolidated.

**4.1.42** Lastly, as only stock data are available on domestic positions of SPEs, the change in domestic

**Table 4.1.7 Estimates of other non-financial transactions of SPEs**

	<i>€ millions</i>				
	2001	2002	2003	2004	2005
Uses					
Taxes on income	1,287	1,090	971	1,142	1,277
Gross capital formation	0	700	785	520	1,123

**Table 4.1.8 Balancing items for SPEs**

	<i>€ millions</i>				
	2001	2002	2003	2004	2005
Value added (gross)	-1,710	-1,197	-1,307	-944	-1,204
Balance of primary incomes	2,997	2,287	2,278	2,086	2,481
Balance of other non-financial transactions	-1,287	-1,090	-971	-1,142	-1,277
Net lending/net borrowing	0	-700	-785	-520	-1,123

positions has to be broken down into financial transactions and other changes. First, the other changes for the domestic items are estimated. This is done largely on the basis of the other changes

with respect to cross-border positions. When these have been corrected for exchange rate changes, the other changes in domestic positions result. The transactions are then derived as a residual.

**Table 4.1.9 Linkages between balance of payments data on SPEs and 1995 ESA categories**

<i>Source description</i>	<i>1995 ESA category</i>
Deposits and bank balances	AF.2 Currency and deposits
Bank loans (liability)	AF.2 Currency and deposits
Bonds (notes and commercial paper)	AF.332 Long-term securities other than shares, excluding financial derivatives
Intercompany loans	AF.41 and AF.42 Short-term and long-term loans
Intercompany short-term deposits	AF.41 Short-term loans
Other loans	AF.42 Long-term loans
Participations	AF.51 Shares and other equity, excluding mutual fund shares
Other	AF.7 Other accounts receivable/payable
Accounts payable/receivable - banks	AF.2 Currency and deposits
Real estate	AF.51 Shares and other equity, excluding mutual funds shares
Reinvested earnings	AF.51 Shares and other equity, excluding mutual funds shares

## Annex 4.2

### Special purpose entities in Ireland

**4.2.1** A financial services centre has existed in Dublin since the mid-1980s; it developed considerably in scale during the late 1990s.

**4.2.2** In Ireland, SPEs are incorporated into the standard statistical collection and compilation systems to the extent that this is possible. To achieve this, the legal basis for the collection of data (the Statutory Instrument for Balance of Payments and Financial Accounts Order under the Statistics Act (1993)) was modified. The effect of the modification was that persons or enterprises operating on behalf of other enterprises or persons are obliged to complete statistical surveys, i.e. service providers acting on behalf of SPEs are required to complete survey forms on their behalf. In practice the survey is normally completed by accountants or legal secretaries.

**4.2.3** There are relatively few holding companies or companies created to hold patents or royalties.<sup>18</sup> Additionally, there are also thousands of collective investment schemes (mutual funds) which the CSO does not consider to be SPEs as their liabilities are classified under portfolio investment rather than direct investment. Nevertheless statistics relating to collective investment schemes are collected by a joint survey by the CSO and the Central Bank and Financial Services Authority of Ireland (CBFSAI) for inclusion in the balance of payments and national accounts of Ireland compiled by the CSO and in investment fund statistics compiled by the CBFSAI.

**4.2.4** The data on SPE activities are collected as part of the general balance of payments data collection survey system. These surveys have been customized following detailed consultation with respondents to ensure a greater understanding by

reporters of the statistical requirements and to facilitate or accommodate the reporting for a number of different types of activities. For example, the current account data section on the survey form BoP42/43 for insurance companies is quite different from the BoP44 form for treasury companies, reflecting the very different statutory profit and loss account formats for these activities.

**4.2.5** In general SPEs are surveyed in the same way as any other enterprise. However, for smaller SPEs the frequency of reporting is annual rather than quarterly. This is particularly the case for SPVs because of the nature of securitization, i.e. a transfer of assets from an MNE's (frequently a bank's) balance sheet to an arm's-length entity unconnected with the originating enterprise. A regulation recently introduced by the ECB requires financial vehicle corporations (another term for SPVs) to provide quarterly data to the CBFSAI relating to their securitization activities, at least to the extent that they concern the securitization of bank (monetary financial institution) loans. These data also contribute to balance of payments and national accounts statistics.

**Table 4.2.1 Main types of SPE activity**

<i>Activity</i>	<i>Description</i>
Insurance	Life and general insurance, both agency and captive
Treasury	Agency and captive and standalone activities
SPVs	Securitization vehicles
Asset financing	Including leasing activities

<sup>18</sup> See [http://www.cso.ie/releasespublications/pr\\_bop.htm](http://www.cso.ie/releasespublications/pr_bop.htm) for details of royalty receipts in the balance of payments statistics for Ireland.

**Table 4.2.2 Classification of SPEs in Ireland*****J Financial intermediation***


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J65	Financial intermediation, except insurance and pension funding
J651	Monetary intermediation
J6511	Central banking
J6512	Other monetary intermediation
J652	Other financial intermediation
J6521	Financial leasing
J6522	Other credit granting
65221	Consumer credit granting
65222	Treasuries (agency and captive)
65223	Other credit granting services
65224	Standalone treasuries (BoP 44)
65225	Securitisation vehicles (SPVs, SPEs, conduits etc.)
J6523	Other financial intermediation n.e.c.
65231	Money market mutual funds
65232	BoP30 client account reports mainly on behalf of mutual funds
65233	Other mutual funds and SPICs (special purpose investment companies)
65234	Own account security trading
65235	BoP30 client account reports mainly on behalf of households and non-financial corporations
65236	BoP30 client account reports not elsewhere specified
65237	Other financial intermediation n.e.c.

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J660	Insurance and pension funding, except compulsory social security
J6601	Life insurance
66011	Life insurance (excl. BoP 30 client account )
66012	Life reinsurance
66013	BoP30 client account reports mainly on behalf of life insurance companies
J6602	Pension funding
66021	Pension fund (excl. BoP 30 client account )
66022	BoP30 client account reports mainly on behalf of pension funds
J6603	Non-life insurance
66031	Captive/agency non-life insurance companies (excl. BoP 30 client account )
66032	Other non-life insurance companies (excl. BoP 30 client account )
66033	Non-life reinsurance
66034	BoP30 client account reports mainly on behalf of non-life insurance companies

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J67	Activities auxiliary to financial intermediation
J671	Activities auxiliary to financial intermediation, except insurance and pension funding
J6711	Administration of financial markets
J6712	Security broking and fund management
67121	Stockbrokers
67122	Other security broking and fund management
J6713	Activities auxiliary to financial intermediation n.e.c.
J672	Activities auxiliary to insurance and pension funding
67131	Authorized money brokers
67132	Other activities auxiliary to financial intermediation (e.g. trustees, custodians, mortgage brokers, bureaux de change, investment advisers)

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## Annex 4.3

### The treatment of special purpose entities in Hungary

#### Characteristics and definition of SPEs

**4.3.1** As noted in Chapter 4, there is no internationally common definition of SPEs. The new international standards (the 2008 SNA, BD4 and BPM6) include general criteria which may help statisticians to identify them.

**4.3.2** Thus BPM6 states:

*“Although there is no internationally standard definition of SPEs, in economies in which they are important they may be identified separately, according to either a national company law definition, or in terms of a functional definition, possibly referring to their limited physical presence and ownership by non-residents”* (paragraph 4.87).

**4.3.3** The criteria listed in BD4 for an enterprise to be considered as an SPE are set out in paragraph 4.9 of the main text.

**4.3.4** SPEs registered in Hungary are regarded as resident enterprises. Under the ESA 1995 and Decree No. 13/2008 (XI.18.) of the Governor of the National Bank of Hungary (NBH) which accords with it *“...all units having the centre of economic interest in the economic area of the Republic of Hungary are treated as residents:*

*(a) any natural person who, irrespective of nationality, has been normally residing or intends to reside in the territory of the Republic of Hungary for at least one year, excluding the non-Hungarian members and employees of foreign diplomatic and consular representations operating in Hungary and their family members, as well as persons staying in the country for education purposes or medical treatment;*

*(b) Hungarian diplomatic and consular representations operating in foreign countries, the Hungarian members or employees of these organizations, and their family members;*

*(c) any legal entity and organizations with no legal entity having a registered office or business premises or conducting economic activity in the territory of the Republic of Hungary, including free zones and transit areas.”*

**4.3.5** The NBH has been compiling and publishing balance of payments and related statistics on the stock of financial assets both with

and without SPEs since January 2006.<sup>19</sup> The annual financial accounts statistics published by the NBH are also available with and without SPEs.<sup>20</sup>

**4.3.6** An amendment to corporate taxation in November 2002 ended offshore status for tax purposes, and companies which had benefited from that status were required to become normal businesses for tax purposes. At that time two types of offshore company existed in Hungary. The first consisted of Hungarian subsidiaries engaged in financial intermediation, with negligible transactions with Hungarian residents. These units were classified as SPEs if they did not change their profile after their change of tax status. The second type were former offshore companies which had engaged in non-financial activities (the provision of services to residents, excluding trading in property rights). These units were reclassified as normal companies resident in Hungary, not as SPEs.

**4.3.7** On the basis of information from the VAT and corporate tax records and other sources, the relations of SPEs with the Hungarian economy are limited to administrative costs (office rental and materials, legal, accountancy and financial services), domestic acquisition or imports of goods for representation purposes, staff costs and taxes.

**4.3.8** For the delimitation of the scope of SPEs, the NBH has cooperated throughout with the Hungarian Central Statistical Office (HCSO). To set up a register of SPEs, indicators are used which capture the main characteristics of these companies, namely that they perform their activities mainly abroad and their connection with the national economy is very limited. The following criteria/indicators are applied:

- Non-financial assets are very small compared to financial assets. The latter are mainly shares, long-term loans and securities.
- Sales comprise primarily exports and do not exceed HUF 500 million (approximately €2 million).
- The number of employees does not exceed three persons.

<sup>19</sup> For further information on Hungarian practice, see ECB, 2007. The section on Hungary starts on page 349.

<sup>20</sup> On the treatment of SPEs in Hungarian financial accounts, see Central Statistical Office and National Bank of Hungary, 2008. Chapter 2.3 concerns SPEs.

- Their subscribed capital is high; it is used immediately for extending loans or acquiring shares (including creating subsidiaries) abroad.
- The company does not have Hungarian subsidiaries.
- Its material costs are negligible.
- The name of the company indicates an offshore-type activity.

**4.3.9** Where some but not all the criteria are met, a case-by-case assessment is made. The typical cases are:

- The company has no relation with the domestic economy and behaves like an SPE but has more than three employees.
- The profile of the company is mixed: it may both provide services abroad and engage in group financing, and at the same time employ more than three people.
- According to the administrative records, the company provides services, but in fact its activity covers only bookkeeping and preparation of tax returns for other units.
- The company trades exclusively in licence fees with non-residents.
- The company has a subsidiary abroad which provides services, but all the activities are recorded in the books of the resident company.

**4.3.10** In Hungary in 2006 there were around 750 active enterprises which met the criteria for classification as SPEs. By the end of 2008 the number had decreased to just over 600.

**4.3.11** However, in the meantime their activities and characteristics have changed. The typical pattern early on was an FDI equity inflow and a direct loan extension abroad. Later, the resident entities often set up a non-resident branch and allocated business to it. More recently, resident entities have often acquired direct equity stakes in non-resident affiliates.

**4.3.12** Experience suggests a need to reconsider the criteria developed in 2005.

**4.3.13** The NBH and the HCSO have therefore set up a joint task force to address the need for a broader definition of SPEs. The outcome may be that some entities are reclassified retroactively.

**4.3.14** The task force will take into account the international criteria for identifying SPEs in the BD4, BPM6, and 2008 SNA, the experiences of

other countries, and the work of Eurostat's Task Force on multinationals, especially the conclusions relevant to SPEs in the national accounts.

## **The treatment of SPEs in balance of payments statistics**

### **Questions of recording SPEs, assumptions**

**4.3.15** By definition, SPEs perform their activities mainly abroad (often in a passive role as intermediaries in transactions), have little relation with the host economy, and negligible income from transactions with residents.

**4.3.16** Their activities have no significant effect on the balance of the current account measured on an accruals basis, only on the gross flows. Nevertheless, recording their activities raises difficulties in a number of respects:

- In the balance of payments statistics corporate income of SPEs is estimated until the accounts of the companies become available. It is difficult to estimate the profitability of SPEs, as they have little relation with the host economy, which means that – as noted above – the net flows on current account will be close to zero. Nevertheless, since significant elements (for example, interest receivable and payable) are reported quarterly, the balance on income account may be distorted.
- Disaggregating the current account into goods and services, income (itself broken down into interest, dividends and reinvested earnings) and transfers is important for economic analysis; these items may be distorted by SPE transactions, even if the overall balance is not.
- SPEs may have large financial transactions, substantially affecting gross figures in the financial account. The roles that debt and non-debt instruments play in the current account balance are of special importance in terms of financing it. Policymakers, investors and rating agencies pay close attention to these, especially to the split between debt and equity which is relevant to the vulnerability of the Hungarian forint and the sustainability of external equilibrium. A problem arises when the assets and liabilities of an SPE are not in the same instrument category: they may distort the percentage shares accounted for by debt and equity financing.

**4.3.17** On the basis of the definition for SPEs, assumptions are made when compiling the balance of payments:

- SPEs do not have real economic activities: transactions in goods and services are not affected by them.
- As there is a little relationship between these companies and the domestic economy, their effect on the current account balance is close to zero.
- As a result of the previous two assumptions, the balance of all income flows (income from FDI and other investment) is close to zero. The balance of revenues and expenditures within a given period equals zero (in order to avoid generating errors and omissions by this calculation).
- SPEs are assumed to have no trade credits (as assets or liabilities), because these are related to real economic transactions.
- Similarly, SPEs' net stock of receivables at the

end of the year is assumed to be close to zero; any amounts payable and receivable will be in relation with the rest of the world.

**4.3.18** These assumptions are needed also from a technical point of view in order to compile a consistent balance of payments following the agreed definition of SPEs.

**4.3.19** Any change in the content of the collected data or in the definition of SPEs would have implications for the assumptions used in these calculations. In Hungary, currently SPEs are not grouped by types as in the Netherlands, but the NBH-HCSO Joint Task Force on SPEs may add characteristics to the criteria used to define SPEs in the future.

**4.3.20** Tables 4.3.1-4.3.2 show selected external positions and FDI transactions excluding SPEs and for SPEs separately (see further below), as published by the NBH. FDI stocks excluding and

**Table 4.3.1 Selected external position data**

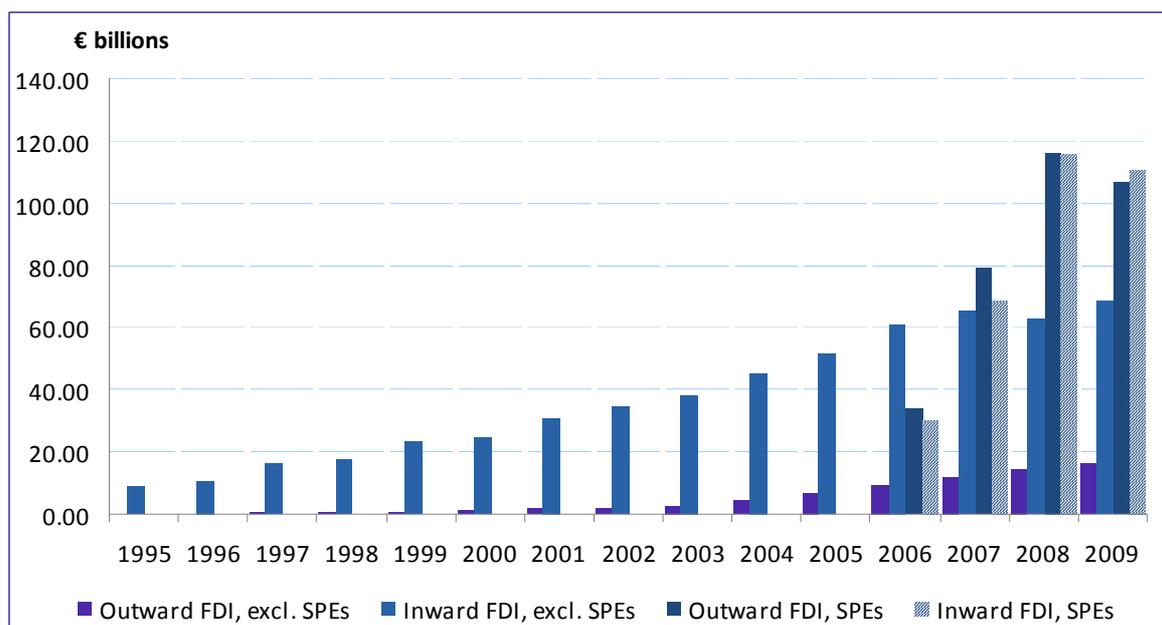
	<i>€ billions</i>					
	<i>SPEs excluded</i>			<i>SPEs</i>		
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
FDI in Hungary (net liability)	62.4	67.8	60.8	29.5	67.6	116.8
Equity* (net liability)	54.7	59.3	56.0	57.4	86.9	107.3
Other capital (net liability)	7.7	8.5	4.8	-27.9	-19.3	9.5
Assets	6.8	10.3	17.9	40.8	35.0	20.7
Liabilities	14.5	18.8	22.7	12.9	15.7	30.2
FDI abroad (net asset)	9.4	11.8	11.1	33.9	78.9	117.3
Equity* (net asset)	9.1	11.1	9.1	32.7	76.8	116.6
Other capital (net asset)	0.3	0.7	1.9	1.2	2.1	0.7
Assets	0.6	1.0	2.5	1.3	2.1	1.1
Liabilities	0.3	0.3	0.6	0.0	0.0	0.4
Net external liabilities (net i.i.p.)	95.1	103.4	106.6	-4.9	-13.5	0.0
Net external debt	38.2	49.1	57.2	-29.6	-23.4	9.1
Net external debt (excl. FDI other capital)	30.8	41.3	54.4	-0.5	-2.1	0.2

\*Equity includes reinvested earnings.

**Table 4.3.2 FDI transactions in the balance of payments**

	<i>€ billions</i>					
	<i>SPEs excluded</i>			<i>SPEs</i>		
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
FDI (net)	2.8	1.6	2.5	-1.9	1.8	-1.3
In Hungary	5.9	4.2	3.1	10.0	47.9	39.3
Equity* (net liability)	3.1	3.3	3.4	7.2	40.0	19.9
Other capital (net liability)	2.8	0.8	-0.3	2.8	7.9	19.4
Assets	-0.5	-3.7	-2.2	1.2	4.2	1.8
Liabilities	3.2	4.6	1.9	1.5	3.8	17.7
Abroad	-3.1	-2.6	-0.6	-11.8	-46.1	-40.6
Equity* (net asset)	-2.9	-2.5	-0.6	-11.0	-45.2	-41.0
Other capital (net asset)	-0.2	-0.1	0.0	-0.9	-0.9	0.4
Assets	-0.2	-0.1	-0.1	-0.9	-0.9	0.5
Liabilities	0.0	0.0	0.2	0.0	0.0	-0.2

\*Equity includes reinvested earnings.

**Chart 4.3.1 Stock of foreign direct investment**

including SPEs behave differently according to the direction of the investment (inward or outward).

### A list of topical, high priority open issues

**4.3.21** There is a need for harmonization of the definition and statistical treatment of SPEs. At present there is no internationally agreed definition of SPEs. In practice, SPEs are defined by national considerations, which can be different country by country. This makes it difficult for NBH and HCSO statisticians to identify SPEs abroad owned by Hungarian entities in case of a need to do so. The lack of an internationally agreed definition may lead to inconsistency between the economically interpretable data (i.e. excluding SPEs) of different countries. An internationally agreed definition and treatment of SPEs would reduce asymmetries, since any institutional unit considered to be an SPE in one country would be treated accordingly by others, too.

**4.3.22** Moreover, the same concept of SPEs should be applied across the different statistical domains, which would promote harmonized national accounts and balance of payments/international investment position statistics. The most problematic issue is the interpretation of the linkages to the domestic economy.

**4.3.23** National data excluding SPEs are necessary because the activities of SPEs may seriously distort key statistical variables, even if the

net impact on the national economy is very slight. Since many users access the databases of the European and international institutions, it would be very helpful if these included national data (where available) both with and without SPEs. Data without SPEs should have priority in analytical work; in any case, the basis of the data should be explicitly noted.

### SPEs and GDP in Hungary

**4.3.24** In Hungary the main data source on the non-financial corporations sector (S.11) for the purpose of compiling GDP is the corporate tax database.

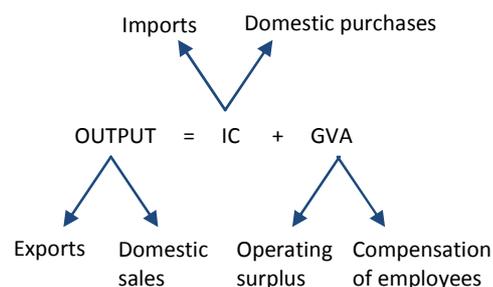
**4.3.25** However, the corporate tax database is not a reliable source for the contribution of SPEs to GDP. The per capita data for turnover, output, and gross value added do not match the average values of the corresponding industries. In some cases the companies record the sales of their subsidiaries in the Hungarian corporate tax statement. The high turnover data usually do not match the small amount of cost data (material costs, costs of other service activities, the value of goods or services for resale).

**4.3.26** Accordingly the contribution of SPEs to GDP is estimated in a different way from that of other enterprises. The approach for SPEs, which has been refined in the last couple of years, is illustrated in chart 4.3.2.

**4.3.27** By definition, SPEs have negligible transactions with the domestic economy. Their large financial transactions are with non-resident companies, and they are set up mainly for fiscal reasons in Hungary. Some have only a mailbox in Hungary. At most, SPEs have an office in Hungary with very few employees. When compiling the production accounts, it is assumed that these companies may have some exports and/or domestic sales. The data for domestic sales and purchases (including the maintenance cost of the office) of SPEs come from the VAT database, where the sales and purchases subject to VAT are listed according to VAT rates.

**4.3.28** The export and import data come from the external trade statistics. Data on the compensation of employees are derived from the corporate tax database. The operating surplus, though not significant, is calculated as a residual.

**Chart 4.3.2 The GDP compilation scheme for SPEs**



**4.3.29** As the SPEs are mainly involved in international financial transactions, which do not constitute production, estimated gross value added of SPEs was less than 0.1% of total gross value added of the non-financial corporations sector (S.11) in 2007 (see table 4.3.3)

**Table 4.3.3 Contributions of SPEs to output and gross value added, € thousands and per cent**

<i>SPEs</i>	<i>Non-financial corporations</i>	<i>%</i>	<i>National economy, total</i>	<i>%</i>
<i>Output</i>				
68	158,860	0.04	214,079	0.03
<i>Intermediate consumption</i>				
31	107,905	0.03	127,509	0.02
<i>Gross value added</i>				
37	50,955	0.07	86,570	0.04

## Annex 4.4

## Special purpose entities: classification table by Eurostat

	Type	Institutional sector	Activity		Purpose	Valuation of production
			NACE Rev 1.1	NACE Rev 2		
<i>Ownership of financial assets (captive financial institutions)</i>						
1a	Holding companies	Other financial intermediaries, except insurance corporations and pension funds (S.123)	65.23 Other financial intermediaries n.e.c.	64.20 Activities of holding companies	Owning subsidiaries, concentration of group profits in favourable countries/jurisdictions, group financing	Sum of costs
1b	Holding companies owning claims on notional units abroad (buildings, natural resources)	Other financial intermediaries, except insurance corporations and pension funds (S.123)	65.23 Other financial intermediaries n.e.c.	64.20 Activities of holding companies	Owning subsidiaries, concentration of group profits in favourable countries/jurisdictions, group financing	Sum of costs
2a	Trusts, funds and similar financial entities	Other monetary financial institutions (S.122)	65.23 Other financial intermediaries n.e.c.	64.30 Trusts, funds and similar financial entities	Return on financial investment with fiscal advantages	Sum of costs
2b	Trusts, funds and similar financial entities	Other financial intermediaries (S.123)	65.23 Other financial intermediaries n.e.c.	64.30 Trusts, funds and similar financial entities	Return on financial investment with fiscal advantages	Sum of costs
3	Securization companies	Other financial intermediaries (S.123)	65.23 Other financial intermediaries n.e.c.	64.99 Other financial service activities, except insurance and pension funding n.e.c.	Assets securization for fund raising	Sum of costs
4	Captive financial leasing companies (usually, for aircraft and vessels)	Other financial intermediaries (S.123)	65.21 Financial leasing	64.91 Financial leasing	Financial leasing within a group (the SPE is not considered the economic owner of the equipment)	Sum of costs
5	Captive insurance and re-insurance companies	Insurance corporations and pension funds (S.125)	66.03 Non-life insurance	65.12 Non-life insurance 65.20 Reinsurance	Insurance and re-insurance within a group	Sum of costs
6	Invoicing companies	Other financial intermediaries (S.123)	65.23 Other financial intermediaries n.e.c.	64.99 Other financial service activities, except insurance and pension funding n.e.c.	Invoicing sales of the group worldwide	Sum of costs

## Special purpose entities: classification table by Eurostat (continued)

	Type	Institutional sector	Activity		Purpose	Valuation of production
			NACE Rev 1.1	NACE Rev 2		
<i>Ownership of non-financial tangible assets</i>						
7	Renting of mobile equipment	Non-financial corporations (S.11)	71.00 Renting of machinery and equipment without operator (excl. 71.40)	77.00 Renting of machinery and equipment without operator (excl. 77.20)	Register the ownership of the asset and the rents in low tax jurisdictions	These cases are treated as financial leasing if the SPE is not the economic owner of the asset and they are valued at cost (row 4) If conditions for such treatment are not satisfied, the unit is treated as operational leasing producer and output valued with rentals received
8	Merchanting companies	Non-financial corporations (S.11)	51.00 Wholesale trade and commission trade	46.00 Wholesale trade	Distribution company for a group without goods going through the territory of the SPE	Margin
9	Trading companies	Non-financial corporations (S.11)	51.00 Wholesale trade and commission trade	46.00 Wholesale trade	Distribution company for a group	Margin
<i>Ownership of non-financial intangible assets</i>						
10	Licensing and royalty companies	Non-financial corporations (S.11)	74.8 Miscellaneous business activities n.e.c.	74.90 Other professional, scientific and technical activities	Concentration of group receipts concerning royalties and similar flows received from intellectual property rights and trademarks	Margin
<i>Others</i>						
11	Offices of airline in airport hubs abroad	Non-financial corporations (S.11) if a branch is identified	62.10 Scheduled air transport	51.10 Passenger air transport	Transfer locus used by airline carriers to get passengers to their intended destination	Prorata of airline output if no branch is identified