



Globalization TT: Treatment of Special Purpose Entities

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The views expressed are those of the Globalization Task Team and should not be attributed to the IMF, its management or its Executive Directors.

Outline

- Background
- Guidance note
 - ✓ Existing Material
 - ✓ Consultation Exercise
 - ✓ Options considered
 - ✓ Way forward
- Questions

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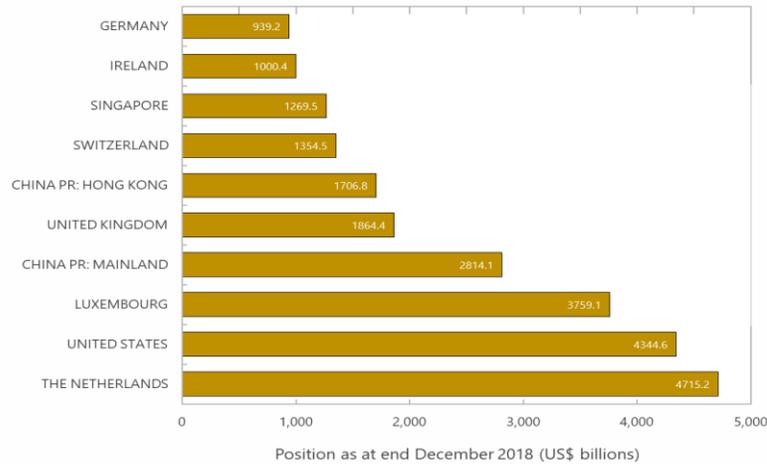
Background

- Objective of the GZTT: “Develop Guidance Notes on high priority issues related to globalization in the SNA Research Agenda”.
- Members of the GZTT: Both national accounts and balance of payments compilers.
- Geographical representation:
 - America: Brazil, Canada, Uruguay, and US
 - Africa: COMESA member countries
 - Asia: Australia, China, Japan, and Malaysia
 - Europe: Germany, Ireland, Luxembourg, Netherlands, Norway, Russia, and UK
 - Middle East: Morocco
 - IOs: ECB, Eurostat, OECD, IMF, UNECE, and UNSD

Motivation

Inward Direct Investment:

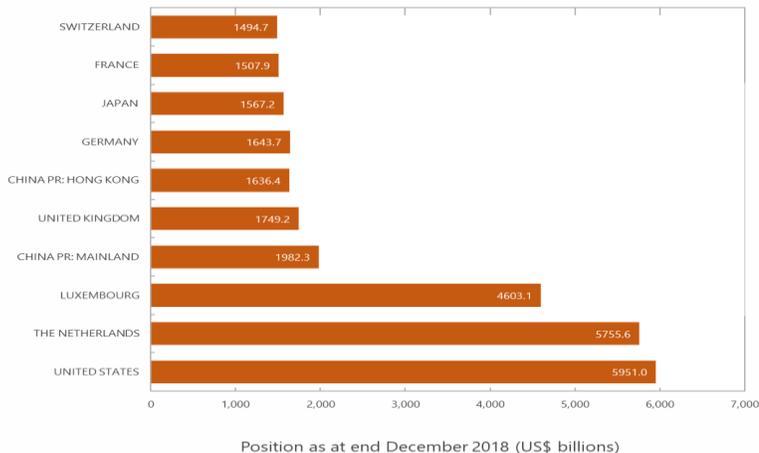
Top Ten Reporting Economies in the World



Source: CDIS database, www.imf.org.

Outward Direct Investment:

Top Ten Reporting Economies in the World



Source: CDIS database, www.imf.org.

- ✓ *Use of SPE structures has increased with MNEs.*
- ✓ *Identifying separately SPE activities is essential for all.*
- ✓ *No internationally agreed SPE definition.*
- ✓ *IMF's BOPCOM endorsed an international definition of SPEs in 2018 in the context of ESS to collect cross-country comparable data on SPEs.*
- ✓ *Need to develop further guidance on SPEs.*
- ✓ *Review of whether SPEs should be considered as separate institutional units from their parent companies*

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SPE Discussion: Existing Material



2008 SNA and BPM6

- All paid attention to SPEs but pointed to no internationally agreed standard definition of SPEs.
- Acknowledged that SPEs are controlled by nonresidents. Although their autonomy of decision could be questioned, to the extent that they are legally independent, SPEs are separate institutional units from their nonresident parents.
- *BPM6* highlights separately identifying flows and positions of resident SPEs, somewhat absent within the core framework of the SNA

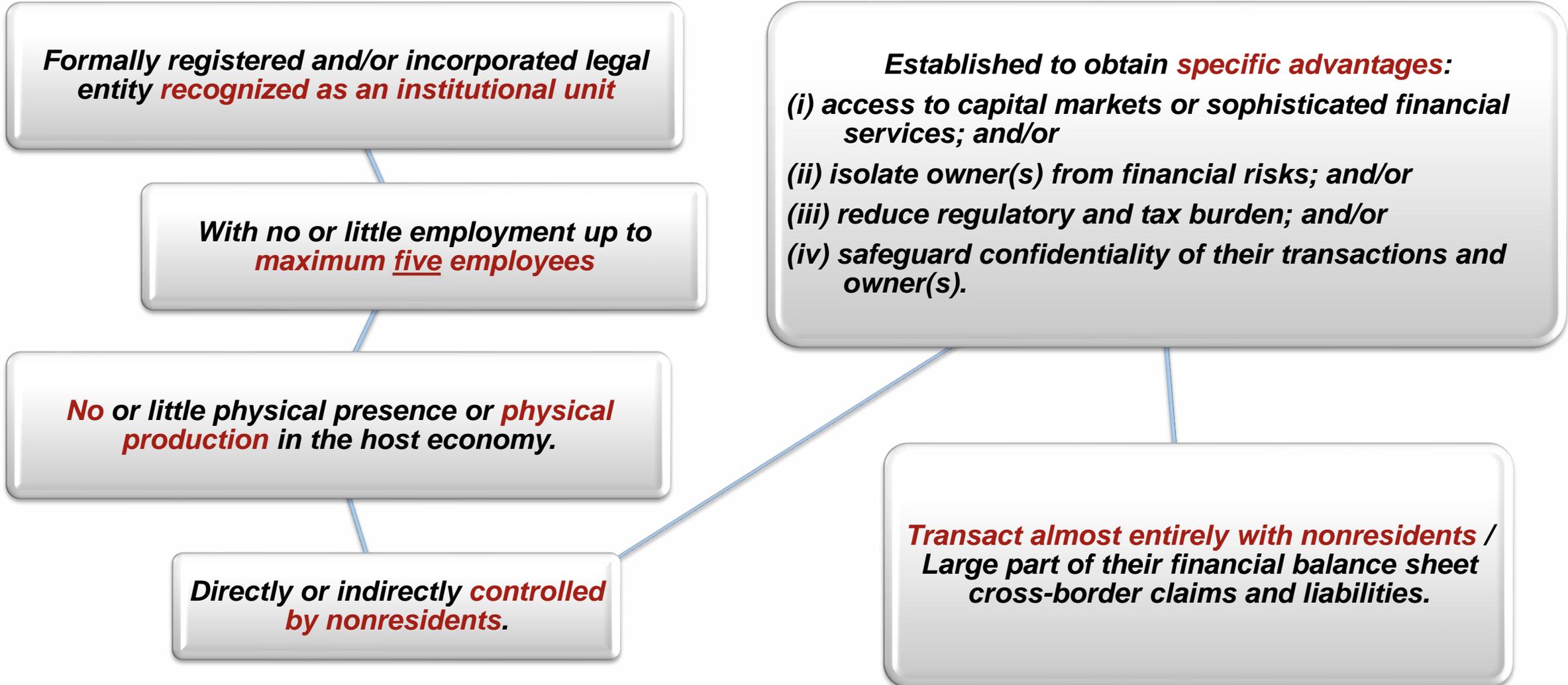
2013: Joint ECB-Eurostat-OECD Task Force's final report on Head Offices, Holding Companies, and SPEs

- Examined the definition, typology, and classification of SPEs.

2018: BOPCOM

- Endorsed a definition for SPEs in the context of cross-border statistics. The merit of developing a clear definition for SPEs was primarily driven by the need to assist compilers to properly identify SPEs for data collection.

International Definition of SPEs in the Context of External Sector Statistics – endorsed by BOPCOM



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Consultation Exercise: SPE

- MNEs and SPEs issue note (including a series of questions) circulated for written consultation.
- Feedback received from 26 countries.

Questions that were addressed:

What is your opinion a) keep convention (SPE when legally located in an economy different from its parent is a separate institutional unit) or b) change the SNA (e.g., SPEs should be reclassified to the economy of its parents)

If the core framework of the SNA is changed, do we lose important information, and can this be implemented in practice?

If supplemental data on SPEs is provided one could reclassify special purpose entities from their countries of legal incorporation to the countries of their parents.

Should this extension be considered as an alternative presentation to the current SNA?

Is the proposed definition of an SPE for ESS useful for identifying SPEs that are part of MNEs for national accounts purposes?

Is the proposed typology of an SPE useful for helping national accountants identify SPEs and what institutional sector they are classified to?

Is the BOP supplemental data collection (annex V) useful in meeting the needs of national accounts compilers

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Treatment of SPEs: Options considered

1

Option 1: Proposal to change the core conceptual 2008 SNA and BPM6 framework for SPEs.

- **No preference for this option. Not enough progress has been made on data exchange to warrant this**
 - Confidentiality remains a challenge for most countries.
 - Significant practical impact on compiling the statistics, amid the complexity of international data, and high costs this entail for countries.
 - Acknowledgement of recent BOPCOM work in defining SPEs and identifying them as institutional units.
 - Any modification of the conceptual core might hinder progress made in producing/releasing data on SPEs within the foreseeable future.

GZTT
options
considered

2

Option 2: Proposal to separately identify SPEs by increasing the granularity and supplementary data provided within the SNA framework using the institutional sector accounts (ISAs).

- **Preference for this option. The proposal does not change the core conceptual framework**
 - Adding a subsector for foreign controlled SPEs to the institutional sector accounts framework would be beneficial.
 - Supplemental statistics on resident foreign controlled SPEs as recommended in *BPM6*.
 - Aligns with the IMF's upcoming data collection on separately identifying resident SPEs in cross-border statistics to help data users.

Treatment of SPEs: Options considered

3

Option 3: Proposal to extend the existing framework, adopting the nationality-based presentation as alternative concept, without departing from the current statistical *SNA/BPM* framework.

- Changes suggested by Borga and Caliendo (2018) and Rassier (2017), if implemented as supplemental presentations, could yield meaningful enough departures from current practice.
- **Views that this be considered on a supplemental basis to complement residence-based statistics. A viable option only for countries for which SPEs were deemed important**
 - Would give rise to country specific practicality issue of implementation – too ambitious and resource intensive.
 - To undertake this approach, data sharing agreements will become a priority.
 - Nonetheless, both approaches as complements will meet the practicalities and policy needs of countries for which these presentations would bring value addition to analysts or policymakers.
 - Nationality-based framework would complement the existing residence-based framework, which identifies where financial claims and liabilities are held.

GZTT
options
considered

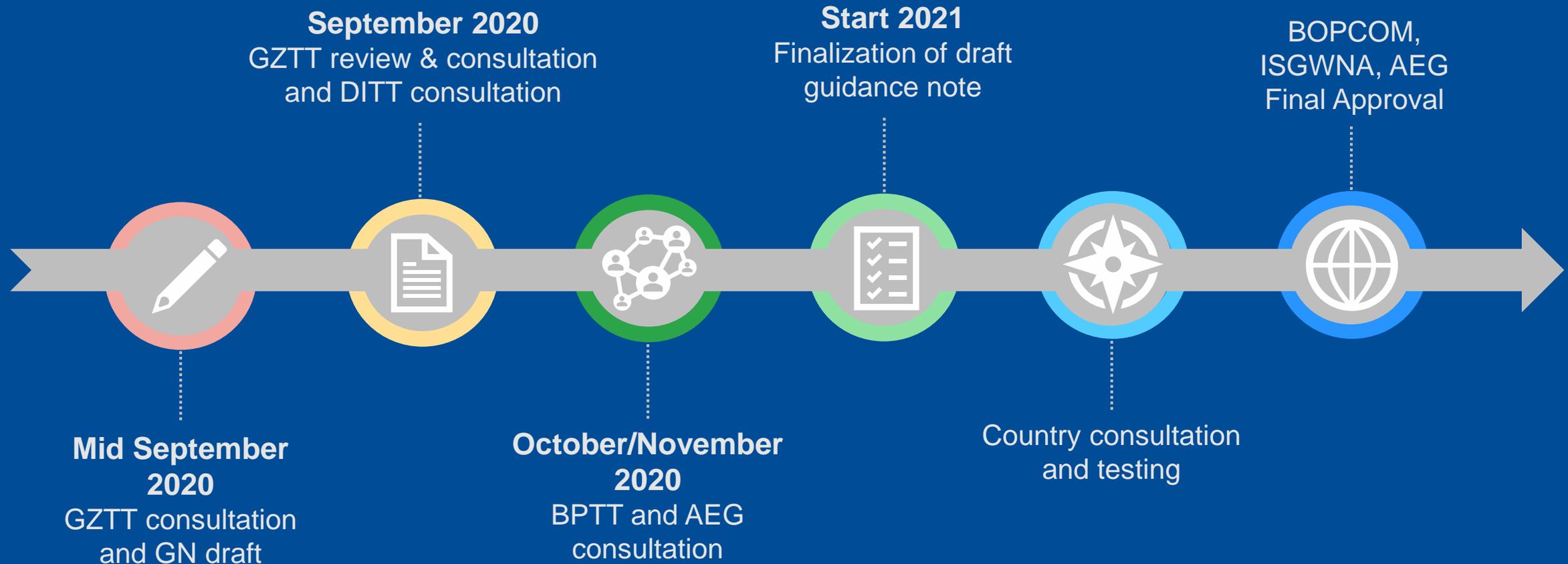
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Way Forward – Conceptual Aspects

- ✓ General acknowledgment that the proposed definition in the context of ESS brings in more precision.
- ✓ To avoid interpretation issues, IMF producing an SPE operational guidelines.
- ✓ Currently the definition is focused on ESS (e.g. units controlled by non-resident only). For the purposes of separately identifying SPEs in the ISAs is this sufficient? This will be further discussed by the GZTT.
- ✓ BOPCOM acknowledges that the proposed definition exclude entities fully owned and directly controlled by a resident entity or entities that qualify as institutional units and meet the other elements of the proposed SPE definition.
- ✓ Unanimous GZTT agreement that the associated proposed typology of an SPE is useful for helping national accountants identify SPEs and their institutional sector.

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Questions for discussion

- What is your opinion of the proposed way forward?
 - **No preference to change the core conceptual 2008 SNA and BPM6 framework for SPEs, not to treat SPEs with non-resident parents as separate institutional units from their parents.**
 - **Proposal to increase the granularity and supplementary data provided within the SNA framework using the institutional sector accounts (ISAs)**
- Do members have any observations on the options discussed and views expressed within the GZTT?
- Any additional options that may have been left out of the MNE-SPE issue paper but should be considered for discussion on Treatment of SPEs?



END

Thank you!

Acknowledgement for the collaboration of GZTT members'
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