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TREATMENT OF MULTINATIONAL ENTERPRISES (MNES), SPECIAL PURPOSE ENTITIES, IDENTIFYING ECONOMIC PRESENCE AND RESIDENCY AND INTRA-MNE FLOWS

August 2020

Consultation Note of the Globalization Task Team

Treatment of multinational enterprises (MNEs), special purpose entities, identifying economic presence and residency and Intra-MNE flows

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International Monetary Fund

[1] The preparation of the consultation note was primarily undertaken by Ms. Padma Hurree-Gobin and Ms. Jennifer Ribarsky (both Task Team Secretariat, IMF), who coordinated the contributions of the Task Team members. The GZTT is chaired by Mr. Michael Connolly (Central Statistics Office, Ireland), and Mr. Paul Roberts (Australia Bureau of Statistics, 2019 to July 2020). The note has benefited from comments by Messrs. Carlos Sánchez-Muñoz and Jim Tebrake within the IMF.

Executive Summary

As part of the System of National Accounts (SNA) Research Agenda, the Globalization Task Team (GZTT) has been assigned to develop a guidance note on the issue on "Treatment of multinational enterprises (MNEs) and special purpose entities (SPEs)". MNEs, intra-MNE flows, and SPEs present measurement challenges for both national accounts and balance of payments. The challenges articulated with economic ownership, residence, MNEs, and SPEs in past publications – United Nations Economic Commission for Europe (UNECE) publications on 'The Impact of Globalization on National Accounts' and 'Guide to Measuring Global Production' as well as in the IMF Committee on Balance of Payments Statistics (BOPCOM) papers – have, in fact, laid a foundation for subsequent work to improve statistics subject to the potential distortionary effects of MNEs and SPEs. A draft issue paper was prepared by the GZTT secretariat for written consultation among the members of the task team (TT). The issue paper, in addition to summarizing the previous discussions, examined ways to better account for the contribution of MNEs, including SPEs' economic and financial flows within macroeconomic statistics, both from the national and international accounts' perspective. In addition, the paper proposes options: (i) requiring a change to the core SNA and BPM6 framework or (ii) no change. For options that do not require a change to the existing core framework, the paper brings in a review of the proposed solutions further decomposed into more disaggregated (granular or supplemental) data consistent with the core framework, and extensions that go beyond the current 2008 SNA and BPM6 conceptual framework, providing alternative concepts, but leaving the "core" framework unchanged. For the purpose of the written consultation, the issue paper incorporated several questions. The feedback obtained from the GZTT members[2] is presented at high level in the Executive Summary, while the detailed responses are provided in the document. This current document includes a stock-taking of the consultation and does not contain any analysis of the options raised by members.

I. General accounting for activities of MNEs

A. Existing macroeconomic indicators

All respondents compute and publish national income indicators on a gross basis – Gross National Income (GNI)[3] and Gross National Disposable Income (GNDI)[4]. However, only a limited number of members (seven), primarily those from advanced economies with

[2] Out of the 22 members of the GZTT, 17 members provided feedback, of which 15 countries, the Eurostat, and the ECB. The consultation exercise excludes China and the Netherlands (see Annex VIII, table 1). However, not all members provided responses to all questions (see Annex VIII, table 2).

[3] GNI is defined as GDP plus compensation of employees' receivable from abroad plus property income receivable from abroad plus taxes less subsidies on production receivable from abroad less compensation of employees payable abroad less property income payable abroad and less taxes plus subsidies on production payable abroad.

[4] GNDI may be derived from gross national income by adding all current transfers in cash or in-kind receivable by resident institutional units from non-resident units and subtracting all current transfers in cash or in kind payable by resident institutional units to non-resident units.

advanced statistical capacity construct net income indicators on both quarterly and annual basis; though, three of them do not release the quarterly indicators. Ireland publishes a series of modified indicators, of which GNI*[5]. Two members mentioned that although they do not publish the net measures, consumption of fixed capital is available on a quarterly basis, such that the net values can be derived, if needed. Those producing the net measures[6], consider them of reasonable quality, except Luxembourg which sees the net calculations of lower quality than the gross ones.

All respondents acknowledged that globalization is sufficiently complex and may require additional indicators beyond GDP. National accounts compilers should be able to release other tables within the system of national accounts framework, highlighting their importance to understand economic activity. Statistical offices can give attention to other key indicators such as Net Domestic Product (NDP)[7] and Net National Income (NNI)[8], although, presently it is recognized that not all countries compute these indicators. The excessive reliance on GDP as the sole indicator will be eased if national compilers were to promote other indicators. Those members, which already produce additional indicators, emphasize that communication efforts are required to increase the familiarity for usage. A strategy of developing clear narratives about the indicators produced and released, their uses and their limitations should be emphasized. In the case of Ireland, several modified measures are currently computed.

B. Use of the current framework to incorporate granular and supplemental information

Institutional Sector

All respondents except Uruguay compile institutional sector accounts (ISAs). The economies, with an advanced statistical development, undertake a quarterly compilation, while the rest does so annually. Otherwise, participating economies to the G20 DGI, are currently computing ISAs as part of the recommendations. Identifying foreign controlled corporations is key when looking at the interaction between the domestic economy and the rest of the world. While most members indicated that they could identify a foreign-controlled subsector, as specified in the 2008 SNA, they do not presently separately identify a foreign controlled subsector in the institutional sector accounts. Most of them recognized

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[5] Modified GNI (GNI*) excludes the impact of certain aspects of globalization namely the depreciation related to both the cross-border additions to the stock of IP assets and the stocks of aircraft involved in international aircraft leasing for Ireland. In addition, retained earnings of corporate inversions (i.e., redomiciled plcs) headquartered in Ireland are also excluded. This level indicator is for use primarily as a denominator in ratio analysis, and as an alternative or to complement the use of GDP.

[6] Perpetual inventory method is widely used to compute consumption of fixed capital (CFC).

[7] NDP is defined as GDP less the consumption of fixed capital.

[8] NNI is defined as GNI less the consumption of fixed capital.

that huge efforts will be required to properly measure this subsector. Data sources remain an issue as for most countries, the identification of foreign-controlled institutional units is usually done as part of the business registers used for the compilation of external sector statistics (ESS). Four members, however, mentioned that it was difficult for them to identify foreign-controlled institutional units.

Most respondents, except Zambia and Norway, considered that the G20 DGI template (breaking institutional sectors into foreign-controlled corporations and domestically controlled MNEs) could be a way forward for a more refined breakdown of MNE activity. Notwithstanding that this endeavour is fraught by concerns over adequacy of data sources, lack of information on MNEs, cost implications, confidentiality issues, members were positive. One member, however, observed that no distinction between public and private controlled corporations is currently available for the institutional sector accounts.

Most respondents noted that it was possible for their statistical offices to identify both domestically controlled MNEs and foreign controlled corporations as institutional units. Two respondents were more specific: one noted that an MNE classification can be adopted by setting criteria such as ownership, amounts of income and services flows, balance sheet size, and geographical location of subsidiaries while the other raised the need to have an internationally accepted standard for identifying MNEs. While no definition of control is provided in the G20 DGI Recommendation 8, the most straightforward approach is to apply the definition of control that is put forward when discussing Foreign Direct Investment Relationships. *BPM6* and the OECD *BD4* have both explained the complex structures of MNEs associated with these types of relationships.

Respondents did not welcome the option of adding further breakdowns in the SNA at the financial sector subsector level (e.g., at the Money market funds (S123), Non-MMF investment funds (S124) etc level). While they recognized that additional details are always possible, on a practical note, the countries may incur difficulties to develop estimates and ultimately the quality of the data may suffer due to inadequate information. Ireland, in its non-financial accounts, already includes three subsectors.

Most respondents noted that there are currently no additional considerations that should be highlighted for MNEs besides what has already been proposed in DGI-2 Recommendation 8. The United States suggested that including SPEs to the framework may add more meaningful granularity while Eurostat proposed to bring in data on counterpart by region. Ireland currently separately identifies redomiciled public limited companies (PLCs)-also known as corporate inversions- and domestic MNEs from other domestic corporations and self-employed entities.

Supply and Use Tables

Most respondents viewed that integrating information on the extended supply and use tables (SUTs) into the SNA (consistent with the G20 DGI institutional sector breakdown) as a good initiative and way forward, although it might not be feasible practically. Members expressed concerns that this change, in order to support meaningful good quality statistics, can be resource demanding on countries both in terms of cost and data availability. The meaningfulness of breakdowns that a country includes in extended SUTs generally depends on institutional characteristics that matter for the compiling country. Therefore, promoting and supporting extended SUTs as supplemental tables seems possible within scope of the SNA; however, prescriptive breakdowns or inclusion in core SUTs are probably not achievable at this point and should be out of scope of the core SNA. One member pointed that extended SUTs will not address the issue related to shifting profits. Thorough understanding and potentially expanding income accounts will be more insightful in gaining visibility of income flows with non-residents. The possibility to align the level of detail in the SUT to the proposed templates of the Working Group on Balance of Payments statistics relevant for the analysis of Global Value Chains was also suggested.

C. Extensions beyond the core conceptual framework, but leave core intact

In general, the consultation showed that the integration of additional supplemental indicators, be it GNI* or others, should be left up to individual countries. Those in favor put forward the fact that GNI was the relevant indicator affected by cross-border income flows and could be developed without changing the core standards. However, some raised concerns about creating users' confusion. GNI* is an ad hoc indicator that has been created to serve Ireland's needs, and may therefore not be proper for other countries. Should 'new' common indicators be developed, some members mentioned that they must be done by way of agreed international definitions for all countries to produce and provide. One member noted that measures need to be as apolitical as possible. Deviations from standards reduce comparability and increase the scope for abuse. It was again underscored that supplemental indicators should be left up to individual countries to reflect their own economic reality with the caveat that they may not be comparable to indicators in other countries – such as modified aggregates for Ireland.

Most respondents, except two, did not foresee any other supplemental indicators, besides GNI* (one country) and "mainland" GDP (one country), that could be considered to redefine slightly the current SNA concepts. Ireland, which already computes supplemental indicators[9], mentioned that modified indicators have been a critical element of its engagement with users and developing their understanding of the impact of globalization on their economic statistics. These indicators are presented in addition to the SNA based indicators such as GDP or GNI but not as a substitute or replacement for these internationally comparable measures.

Most respondents pointed out that the alternative frameworks[10] discussed at BOPCOM should be useful for national accounts purposes, the more so should the ESS adopt them. However, they equally mentioned that this option should be discussed with users of macroeconomic statistics, and raised concerns on measurement challenges, confidentiality issues, amongst others. Rather than solving the presence of globalization-induced distortions, one member noted that the nationality concept would introduce more disturbing ones by reassigning value through imputations, income and assets across borders, if overall consistency is preserved. Three members noted that the alternative framework will not be useful, underscoring that detailed sector accounts currently provide enough insight, or rather the nationality concept would introduce more imputations.

II. Treatment of SPEs

D. Modify the core conceptual framework

Most respondents noted that not enough progress on data exchange has been made to warrant re-discussing whether SPEs with non-resident parents should be considered as separate institutional units and therefore resident in the economy where they are legally located. Among the concerns raised for not opening the discussion again is the recent work of the Task Force on SPEs (TFSPE) definition of SPEs such that any modification of the conceptual core might hinder progress made in this respect within the foreseeable future. What is needed is to arrive at a meaningful and harmonized (BOP-NA) definition and classification of such units, and to be able to present supplemental information on them to show separately the importance of this phenomenon if it is relevant for the country. Confidentiality still remains a challenge for most countries. At the moment, the practical and legal problems of international data exchange mentioned in Moulton and van de Ven (2018) are still valid. Discussion on how to deal with the practical and legal issues should continue in parallel with any discussion on concepts. Within the EU, there are already some possibilities for data exchange.

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[9] Other modified aggregates produced are Modified Capital Formation, Modified Final Domestic Demand, Modified Current Account (BOP) and work is at an advanced stage for a modified IIP indicator.

[10] Nationality-based presentation of ESS as complementary to the standard residency-based ESS and supplementary data on direct investment positions prepared according to ultimate source and host economy.

Four respondents, however, agreed that the treatment of SPEs in terms of residency and others should be re-discussed given the distortions they exert on main macro indicators. One member[11] stated that in their country they have the legal authority to collect information on all units resident in their economic territory and on all units (foreign and domestic) belonging to domestically owned MNEs, such that data exchange can be of a lesser issue. In that respect, supplemental measures on resident SPEs and on non-resident SPEs, which are subject to practical caveats, should be considered a model for future changes to the treatment of SPEs in both the SNA and BPM.

Most respondents preferred to keep the current convention (i.e., if SPE is legally located in an economy different from its parent then it is a separate institutional unit), **while two respondents opted to change the SNA recommendation** (i.e., SPEs should be reclassified to the economies of its parents) **and one proposed another alternative** (some SPEs to be treated as extraterritorial)**.** Proponents of no change in the current standards, unanimously, recognized that any departure from the current standards would have a significant practical impact on compiling the statistics, amid the complexity of international data exchange. Also, it was still questionable as to whether a change in the standards would improve data quality and provide a more rigorous conceptual basis to the results in both countries. It has also been underscored that while most SPEs do not contribute substantially to the economy in which it is located, some activity will, nonetheless, be lost if reclassified to the economies of their parents. In addition, two members, while supporting to retain the first option for core accounts, mentioned that consideration should be given to develop the second option for supplemental accounts.

Most respondents noted that a change in the SNA would imply losing important information, while one respondent mentioned that should both options be developed information could be retained. The member putting forward the option of classifying selected SPEs as extraterritorial believed that the accounts would so provide a fair picture of the allocation of value, income and assets to territories. In addition, most members believed that should a change in the SNA be opted, practically it would be difficult to implement because of several challenges, mostly associated with the data compilation and the high costs it would entail. Also, the non-comparability of macroeconomic aggregates across countries, should not all countries follow the recommendations, could be a concern. However, should option b) (change the SNA (e.g., SPEs should be reclassified to the economies of its parents) be considered on a supplemental basis, then the practicality issue of implementation would be country specific. SPEs with non-resident parents are important for only four members, while non-resident SPEs (i.e., domestic parents that own SPEs in

[11] The United States has the legal authority, which is not necessarily true for all countries.

foreign countries) are mostly important for four members within the TT. Some EU based MNEs may have incorporated SPEs abroad, but Eurostat has no hard data to supplement this.

E. Use the current framework to incorporate granular and supplemental information

Rassier's proposal of providing supplemental data that breaks the full sequence of accounts into SPEs and operating entities was considered a concept hard to implement in practice. In spite of the difficulties arising out of confidentiality issues, data sources, or data management, amongst others, some members did recognize the value added for countries and global aggregates to identify separately SPEs' activities. This kind of change requires a thoughtful way to proceed, starting from a needed internationally agreed definition of SPEs to help with cross-country comparability. One member also highlighted that since SPEs are currently treated as separate institutional units in some countries, data sources are presumably well developed for the type of split proposed by Rassier (2017), which seems to be supported by *BD4*. On a practical angle, one member mentioned that data are available for production and income measures, however, additional research is required for the full sequence of accounts.

All respondents, except Germany, UK, and the ECB considered the proposal of separately identifying an SPE institutional subsector in the SNA as an alternative view. They recognized that the merits drawn will be at the country's level, which therefore implied that for economies in which SPEs were not relevant, this separate institutional subsector will have no practical need. One member noted that to the extent that for some countries SPEs may be important, the separate identification of an SPE institutional subsector could be established as a recommended (non-mandatory) sub-sectorization. In terms of sector, one member proposed to include SPEs as a subsector of S.12x (financial corporations), however, as not all SPEs are Financial there would need to be an S.11x (non-financial corporations) SPE subsector and an S.13x (general government) for SPEs in the Government sector. Alignment between the BPM and SNA would be required for the different sector allocation. For both the usefulness of national accounts and the balance of payments one member stated it would be better to focus first on linking the balance of payments more clearly with the current SNA institutional sectors than to add a new subsector that does not fit easily into the system. The UK has tried using various definitions and have found that many units may fit the characteristics but may not be SPEs.

Most respondents agreed that the proposed SPE definition for balance of payments statistics is useful for identifying SPEs that are part of MNEs for national accounts purposes. Many of them acknowledged that the proposed definition brings in more precision and clarity. Some members pointed out that the definition is a big step forward but yet it gives rise to significant space for interpretation, which needs to be rendered easier for compilers to operationalize it so as to identify SPEs. In this respect, the IMF's operational guidelines to be released at the end of 2020 should help compilers.

Four respondents expressed some reservations. One member felt that further information was needed to identify the SPEs/MNEs, while the others expressed concerns (i) when applied to units on the business register, (ii) over the fact that there is still significant space for interpretation, which would lead to different populations in each country when identifying SPEs, and (iii) an area that deserves examination is whether the label "SPE" could also be extended to units not owned by, and primarily transacting with, non-residents.

All respondents unanimously found that the associated proposed typology of an SPE (annex VI) was useful for helping national accountants identify SPEs and their institutional sector. If the SPE type is something that could be collected in a survey instrument or other means. One member underscored that without a way to collect the SPE type, identifying SPEs based on the typology may not be possible on a case-by-case basis for countries with large numbers of resident SPEs or for countries with large numbers of MNEs that own non-resident SPEs. For those countries, quantitative measures such as number of employees or proportion of sales may be much more practical. All members, except for Zambia, found the supplemental data collection (annex V) useful in meeting the needs of national accounts compilers. One member noted that the information may not be enough though, while another member reiterated the need to agree upon a common definition, which doesn't leave scope for interpretation.

F. Extensions beyond the core conceptual framework, but leave core intact

Seven respondents indicated that the extension[12] – reclassify SPEs from their countries of legal incorporation to the countries of their parents – should not be considered as an alternative presentation to the current SNA. This approach could potentially give rise to confusion as it will involve a lot of work – extensive data exchange and coordination among countries, considerable imputations by compilers, which could ultimately result in asymmetries and even a potential degradation of data quality, if not done properly. Identifying SPEs separately is enough. For those who mentioned that this alternative presentation should be considered – they underscored that it would yield more meaningful results. SPEs are not independent units from an economic point of view, such that a reclassification to the parent country would better reflect economic, rather than legal, reality.

[12] If Rassier (2017) supplemental data on SPEs is provided, one could reclassify SPEs from their countries of legal incorporation to the countries of their parents.

Two members suggested having both approaches as complements, particularly for countries for which SPEs are important.

Regarding the feasibility of undertaking this presentation, respondents recognized the challenges involved, which makes it impractical. This exercise would require particularly extensive data exchange and coordination among countries. One member mentioned that there is need to think about the practical implications for implementation, should any changes to the current SNA be considered.

Overall questions

Three respondents brought forward additional issues for consideration. The role of large case units (LCUs), which has not been covered in the note. Additionally, more detailed institutional sector presentations can be covered, supplemented with industry cross classifications. Micro data and data sharing in a more explicit way, taking advantage, for instance of the European experience in this field, can be added. The formulary apportionment method in more detail is another suggestion. The definition of re-invested earnings (how does depreciation fit in), treatment of portfolio income and corporate inversions –all raised by users and subject to adjustments, e.g. in GNI* –could be covered. Pass-through activities can be covered as well.

Seven respondents put forward more detailed institutional sector account with breakdown for foreign controlled corporations and domestic MNEs as priority and five members have given priority to supplemental data on SPEs or separate sub sector classifications of SPEs in national accounts. Two members have indicated that priority should be given to the breakdown by control/ownership proposed in the extended SUT (domestic firms, domestic MNEs, foreign owned affiliates) in addition to more detailed institutional sector accounts.

Treatment of multinational enterprises (MNEs), special purpose entities, identifying economic presence and residency and Intra-MNE flows[13] [14]

I. INTRODUCTION

1. **Globalization, in recent decades, has gained increased momentum resulting in a considerable expansion to traditional interrelations between economies.** From a statistical perspective, when looking at globalization, one is confronted with several challenges, of which:

- **Multinational enterprises (MNEs) and their global arrangements**. How do these enterprises behave, and why? What are the reasons behind the division of activities and the subsequent allocation of these activities to different economies?
- **Special Purpose Entities (SPEs)** either as part of MNEs strategies or otherwise.
- The **impact of globalization on the compilation of traditional macroeconomic statistics**. How an increasing proportion of enterprises running their business on an international scale and the associated growing cross-border movement are challenges that compilers of national statistics face.

2. **While globalization poses challenges for compilers of statistics, it is important to note that macroeconomic policies in countries remain largely focused on domestic economies.** In that respect, the System of National Accounts still constitutes the statistical framework supporting macroeconomic and sectoral policies.

CURRENT METHODOLOGICAL STANDARDS

3. **The update of the *System of National Accounts 2008* (2008 *SNA*) and the *Balance of Payments and International Investment Position, 6th edition* (*BPM6*), a decade ago, was driven by the impact of globalization.** The update clarified core principles underlying the national accounts framework namely (i) institutional units, (ii) residence, (iii) economic presence, and (iv) economic ownership.[15]

4. **Economic ownership and changes in economic ownership are fundamental to the compilation of the macroeconomic accounts.** Transactions and other flows in the SNA as well as cross-border flows or positions as per *BPM6* are recognized when economic ownership transfers from one institutional unit to another. *2008 SNA* (paragraph 26.21) says *"There are no*

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[13] This issue note, prepared by Padma Sandhya Hurree Gobin (IMF) and Jennifer Ribarsky (IMF), draws largely on inputs provided by Task Team members Dylan Rassier (U.S. BEA) and Ann Lisbet Brathaug (Statistics Norway), and related materials on the topics.
[14] This note does not discuss and address the management of Intellectual Property Products by MNEs. This issue will be treated in a separate note.
[15] See Annex I.

longer any exceptions to the recording basis of the change of economic ownership". The ownership principle is the same in the SNA and the *BPM6*. An institutional unit is the most fundamental unit of observation in the SNA, and the SNA attributes transactions and other flows to an economy based on the residence of a unit.

5. **Residence is the economic territory in which an institutional unit has a center of predominant economic interest.** This is generally defined in the SNA as a location, dwelling, place of production, or other premise on which or from which the unit engages and intends to continue engaging in economic activity (taken to be one year or more) and transactions. For entities such as many SPEs, that have few if any attributes of location, the location is determined by their place of incorporation. If the SPE is in an economic territory apart from the rest of the corporation, the legal unit is treated as a separate institutional unit. Lipsey 2010 argues that shared inputs such as intangibles and some services impose a challenge under the residence concept because returns to shared inputs may be attributed anywhere in the world and may result in transactions that lack economic substance. This occurs because the nature of these intangible assets where licenses (also assets) can be leveraged off the initial asset, which may generate questionable results for some core SNA measures.

CHALLENGES ASSOCIATED WITH GLOBALIZATION IN THE CURRENT CONTEXT OF COMPILING MACROECONOMIC STATISTICS

A. Activities of Multinational Enterprises

6. **MNEs stand at the center of all channels of globalization – trade, direct investment, other cross-border flow of funds, international transfer of knowledge and technology, altogether.** Their aim is to maximize their company-wide global after-tax profits, not necessarily their profits in each of the countries in which they operate. Toward this end, they allocate resources (including financial), price intra-company transactions, and bill transactions in a manner designed to reduce their global tax burden.

7. **Artificial transfer pricing, use of overseas billing locations, or other intra-firm accounting practices can result in a misalignment between the location where the firm records its financial transactions and the actual location of production and operations**. Compilers rely on data reported by MNEs that follow tax and legal requirements. Consequently, national accounts aggregates and cross-border flows based on MNEs' business records may not accurately reflect the underlying behavior of the real economy in the countries where they are located. As a result of these practices, there may be a misallocation between statistics on trade in goods and services versus income; therefore, estimates of GDP may be adversely impacted. However, because the earnings of MNEs reflect income from foreign and domestic operations, gross national income (GNI, equal to GDP plus net receipts of income from the rest of the world) is less likely affected. Although with the rise of the use of intangible assets GNI may even be impacted and figures net of depreciation may be the least distorted.

8. **Best prospect for addressing transfer pricing problems is likely to come from reforms to international tax rules**. Under the OECD/G20 Inclusive Framework on base erosion and profit shifting (BEPS), over 135 countries are collaborating to put an end to tax avoidance strategies that exploit gaps and mismatches in tax rules to avoid paying tax. Under BEPS Action 13, all large MNEs are required to prepare a country-by-country (CbC) report with aggregate data on the global allocation of income, profit, taxes paid and economic activity among tax jurisdictions in which it operates. This CbC report is shared with tax administrations in these jurisdictions, for use in high level transfer pricing and BEPS risk assessments. The implementation of these measures may eliminate or reduce such tax avoidance strategies.

9. **However, some criticize that the BEPS initiative, while helping to mitigate the worst practices, are not adequate, especially for high tech, digital economy firms**. It is argued that as intra-MNE trade increased, in particular trade in services, and as intellectual property has grown in importance, MNEs have gotten better at exploiting the system. Critics point to a better alternative than arm's length principle called "formulary apportionment". This system considers an MNE to be a single entity and apportions profits geographically according to a formula intended to reflect economic activity which could be a mix of sales, employment and tangible assets (Shaxson 2019, Stiglitz 2019).

10. **Yet, the OECD transfer pricing guidelines reject the use of a global formulary apportionment for international tax rules.** [16] The OECD transfer pricing guidelines point to several concerns with regards to using a *global formula* to apportion profit, such as establishing an internationally agreed formula, the problem of double taxation, and using a predetermined formula that may disregard market conditions and produce an allocation of profits that may bear no sound relationship to the specific facts surrounding the transaction. More specifically, a formula based on a combination of cost, assets, payroll, and sales implicitly imputes a fixed rate of profit per currency unit (e.g. dollar, euro, yen) of each component to every member of the group and in every tax jurisdiction, regardless of differences in functions, assets, risks, and efficiencies and among members of the MNE group. Global formulary apportionment should not be confused with the transactional profit methods or with the selected application of a formula developed by both tax administrations in cooperation with a specific taxpayer or MNE group after careful analysis of the particular facts and circumstance.[17]

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[16] https://www.oecd.org/tax/transfer-pricing/oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-20769717.htm

[17] Global formulary apportionment would use a formula that is predetermined for all taxpayers to allocate profits whereas transactional profit methods compare, on a case-by-case basis, the profits of one or more associated enterprises with the profit experience that comparable independent enterprises would have sought to achieve in comparable circumstances. Global formulary apportionment also should not be confused with the selected application of a formula developed by both tax administrations in cooperation with a specific taxpayer or MNE group after careful analysis of the particular facts and circumstances, such as might be used in a mutual agreement procedure, advance pricing agreement, or other bilateral or

B. Activities of Special Purpose Entities

11. **The use of SPEs has increased in the context of multifaceted and flexible MNE structures.** With increasing globalization, SPEs have evolved beyond those structures anticipated in the current recommendations of statistical manuals. In addition to investment or pass-through activities, SPEs are nowadays being set up to manage intellectual property rights, research and development, trade, and other activities as part of MNEs' group-wide financial and profit-maximization strategies. The common denominator of these activities is again tax arbitrage among jurisdictions in the context of free capital movements.

12. **Cross-border activities of SPEs present challenges for macroeconomic statistics.** The economic relevance of SPEs in terms of their contribution to GDP in the country in which they are located tends to be small, although now there are more non-financial SPEs that may have production in the host economy. SPEs tend to have large financial stocks and flows associated with large income flows. Cross-border activities of SPEs present challenges for national economic statistics. There has been a growing demand from users to separately identify SPE activities.

13. **Identifying separately SPE activities is essential for market analysts and policy makers to analyze cross-border interconnectedness and to understand the associated risks.** Lack of adequate cross-border statistics on SPEs hampered the assessment of the retrenchment in cross-border capital flows caused by the global financial crisis in a context of intense global financial integration (Milesi-Feretti and Tille, 2011). Better data on the real size of international production and its geographic and institutional sector distribution are needed to obtain an accurate picture of direct investment (DI) (Sauvant, 2017). The strong SPE presence in certain economies is an important reason for decoupling genuine DI from other SPE-associated flows and stocks (Damgaard and Elkjaer, 2017).[18] The significant role of SPEs as intermediate steps towards DI and portfolio investment positions is evidenced in the IMF's Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS) data.

C. Measurement Challenges

14. **Identification of changes in the ownership of goods, non-financial assets, and financial assets and liabilities for the global production activities of MNEs is challenging.** The entangled webs of MNE ownership structures often spanning continents are currently not accounted for in a way that easily accommodates the requirements of national statistical compilers.

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multilateral determination. Such a formula is derived from the particular facts and circumstances of the taxpayer and thus avoids the globally pre-determined and mechanistic nature of global formulary apportionment.

[18] Excluding SPEs can provide a better geographic distribution of DI for economies that host a significant number of them because with SPEs included it can appear they are receiving investment from countries whose investors are just passing capital ultimately directed to third countries through SPEs.

15. **MNEs, intra-MNE flows, and SPEs present measurement challenges for both national accounts and balance of payments.** While residence and economic presence are central to macroeconomic accounts, it is less important to MNEs, whose operations extend seamlessly across national boundaries. Yet, MNEs are subject to national tax authorities who are tasked with determining the income and expenses of a company or a permanent establishment that is part of an MNE group that should be considered within its jurisdiction. With operations expanding globally, foreign subsidiaries or other foreign affiliates of MNEs are resident in their respective economies of location rather than in the economies of their parent direct investors. This treatment, as per methodological standards, is designed to place production in the country in which it occurs. When a non-resident unit has substantial operations over a significant period in an economic territory, but no separate legal entity, a branch may be identified as an institutional unit. The unit is identified for statistical purposes because the operations have a strong connection to the location of operations in all ways other than incorporation. The *2008 SNA* paragraphs 4.47 (a) and (b) discusses the factors for recognizing a branch and notes that if the production does not involve physical presence– such as in some cases of banking, insurance, or other financial services–, the operations should be recognized as being in the territory by virtue of the registration or legal domicile of those operations in that territory. Also, from a taxation point of view, the operations are recognized as a permanent establishment and thus are subject to the income tax system, if any, of the economy in which it is located even if it may have a tax-exempt status.

16. **The institutional sectors framework of the SNA has a limited distinction for flows within MNEs**. In the financial and non-financial corporations' institutional sectors, resident MNE institutional units are combined with domestic corporations that are not part of MNEs. However, the SNA recommends a subsector for foreign-controlled corporations which some countries such as Ireland use[19] but it is not often utilized in practice (Annex III). The supply and use framework of the SNA does not currently distinguish flows within MNEs. Industry and product flows within MNEs are combined with flows of domestic-only establishments.

17. ***2008 SNA*, *BPM6* and the OECD's (**Organization for Economic Co-operation and Development) **Benchmark Definition of Foreign Direct Investment (*BD4*) have all paid attention to SPEs**. While these statistical manuals refer to and are largely consistent in their understanding of SPE activities[20], there is no internationally agreed standard definition of SPEs, as acknowledged in paragraphs 4.55 of the *2008 SNA* and 4.50 of the *BPM6*. However, consistent with *2008 SNA* and *BD4*, *BPM6* sets out typical features of these entities which help identify these company structures, namely (i) their owners are not resident of the territory of incorporation; (ii) other parts of their balance sheets are claims on or liabilities to nonresidents; (iii) they have few or no employees; and (iv) they have little or no physical presence.

[19] https://www.cso.ie/en/releasesandpublications/ep/p-isanff/isanff2018/nfc/

[20] See Annex II.

18. **The principle of economic ownership is not necessarily straightforward within MNEs.** All affiliates of an enterprise group are to some degree controlled by their parent. The case of multinational enterprise groups has the added complication of having non-autonomous affiliates which are considered as institutional units by convention (such as SPEs)[21]. Transactions between units of an MNE, or the absence of such transactions as recorded in business accounts, may therefore be at odds with the principle of economic ownership. On the other hand, in practice there may be no alternative to following business accounting, unless one performs a detailed and resource-demanding analysis of individual transactions of the relevant enterprise groups. And even in the latter case, one would need to liaise with the statistical offices of other countries to arrive at a consistent recording across countries, which is not an easy task given current confidentiality rules for exchanging micro data.

19. **The lack of a precise economic definition for SPEs has led compilers to typically define these entities according to national legislation and other national considerations.** In practice, they differ from economy to economy. Consequently, the statistical treatment of SPEs in macroeconomic statistics diverge across economies and generate bilateral asymmetries between debtor and creditor economies.

20. **The residence of an SPE is equally of critical importance to its statistical treatment.** By nature of their activities, SPEs have little significance for the domestic economy of the host economies. Nonetheless, on account of their legal incorporation, they are deemed resident of the host economies. This treatment, however, varies in concept dependent on the authorities' willingness to invest in data collection and compilation due to the difficulties in identifying them, the absence of a national definition, or the perception that these entities have no connection with the domestic economy.

21. **Since the publication of the *2008 SNA* and the *BPM6* much guidance has been provided about globalization to assist national statistical compilers.** The *2008 SNA* research agenda (annex 4, paragraph A4.3) recognizes that "*some of the issues connected with globalization ….may lead to a reconsideration of how the phenomenon is reflected in the accounts. One possibility is alternative, supplementary, presentations of multinational enterprises based on alternative definitions of residence and ownership*". The UNECE publications on 'The Impact of Globalization on National Accounts' and 'Guide to Measuring Global Production'[22] as well the IMF Committee on Balance of Payments Statistics (BOPCOM) papers have provided in-depth discussions on challenges associated with economic ownership, residence, intellectual property products, and SPEs.

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[21] Simply because they are resident in an economic territory that is different from the parents.

[22] UNECE (2011) "The Impact of Globalization on National Accounts" http://www.unece.org/fileadmin/DAM/stats/groups/wggna/Guide_on_Impact_of_globalization_on_national_accounts_FINAL21122011.pdf; UNECE (2015) "Guide to Measuring Global Production" http://www.unece.org/index.php?id=42106

22. **The challenges articulated in the handbooks and the BOPCOM papers have laid a foundation for subsequent work to improve statistics subject to the potential distortionary effects of MNEs and SPEs**. As the role of MNEs evolves, an accurate and complete picture of economically meaningful transactions within MNEs, and consequently, between national economies and the rest of world is increasingly important for policy makers and researchers who rely on economic accounting statistics.

23. **Several options have been proposed to better account for the contribution of MNEs, including SPEs, to economic and financial flows within macroeconomic statistics both from the *2008 SNA* and *BPM6* perspective.** The options discussed in the following sections are grouped for ease of discussion into those considered to better account for activities of MNEs more generally and options considered specifically for the treatment of SPEs.

24. **The details of the options can be discussed: requiring a change to the core SNA framework or not.** For options that do not require a change to the existing core framework this can be further decomposed into utilizing existing macroeconomic indicators, more disaggregated (granular or supplemental) data consistent with the core framework, and extensions that go beyond the current *2008 SNA* and *BPM6* conceptual framework, providing alternative concepts, but leaving the "core" framework unchanged.[23]

GENERAL ACCOUNTING FOR ACTIVITIES OF MNES

25. **With the exception of the treatment of SPEs– discussed in section V below– no other proposal in this issue paper requires a change to the core conceptual framework**. Currently, the proposals discussed under this section– section IV General accounting for activities of MNEs– have remained consistent with the current core conceptual framework. The options under consideration below are: *existing macroeconomic indicators*; *incorporating granular, supplemental information into the existing framework; and extensions beyond the core framework, leaving the latter intact*.

D. Existing macroeconomic indicators

26. **The current SNA framework offers a breadth of key macroeconomic indicators that are designed to capture flows for a single economy—including flows between the institutional units located in the economic territory and in the rest of world.** Some indicators are more vulnerable than others to intra-MNE flows. One option would be to direct attention to key indicators such as GDP, gross national income (GNI), gross national disposable income (GNDI), net domestic product (NDP), net national income (NNI), and net national

[23] The level of detail may be classified into three groups: (i) granular, meaning more disaggregated data consistent with the core framework; (ii) supplemental, meaning granular data that may for example, require a rearrangement of classifications to present alternative view; and (iii) extensions, which are data compiled outside the *BPM6 / 2008 SNA* conceptual framework and may be based on alternative concepts to facilitate deeper analysis.

disposable income (NNDI) which are not equally affected by MNEs. The change in practice for some countries in this case would be to ensure that these indicators are compiled and a revised communication strategy for the national accounts, away from single or dual headline measures such as GDP, GNI, or GNDI (which takes into account international transfers which for some countries are important) toward multiple measures that give a more balanced picture of economic performance. While this is the simplest option because it leverages existing measures in the current framework, it does not resolve the fact that some key indicators may experience distortions that need to be more adequately addressed.

Question 1: *Does your statistical office compile other key indicators such as GNI and GNDI? Does your statistical office compile net of consumption of fixed capital (CFC) figures, such as NDP, and NNI? How frequently, annually or quarterly? Please describe.*

Total responses: 18 members

All members of the GZTT publish key income indicators such as GNI and GNDI. However, the varying level of statistical capacity across the TT members seems to influence the production of net indicators and higher frequency.

Six members within the GZTT (*Brazil*, Morocco, Malaysia, Mauritius, South Africa, Uruguay, and Zambia) publish the gross indicators only on an annual basis. Eight members, mostly from advanced economies (Australia, Canada, Germany, Ireland, Luxembourg, Netherlands, Norway, Russia, and the United States) are equally compiling and releasing gross indicators as well as net ones, NDP and NNI, both on a quarterly and annual basis. Netherlands, separately, publishes consumption of fixed capital for those who prefer net measures. Brazil, Mauritius, Morocco, Uruguay, South Africa, and Zambia do not compute net statistics yet. Likewise, South Africa does not publish the net measures although they can be derived on an annual basis as the total CFC is published.

EU member states, according to Eurostat compile GNI, NDP and NNI annually, and almost all countries also compile them quarterly. GNI is important in determining each member state’s contribution to the EU budget, and the sources and methods are verified in detail by Eurostat.

Luxembourg and Germany, although computing, do not release the quarterly indicators. Ireland publishes a series of modified indicators, of which GNI*. The United Kingdom (UK) produces annually. Malaysia compiles GNDI, NDP and NNI, both annually and quarterly, for internal use only.

Question 2: *What is your opinion of the quality of your net measures? Please describe.*

Total responses: 18 members

The quality of the net measures differs for those which compile the indicators.

Canada, Germany, Ireland, Malaysia, Netherlands, UK, and the United States consider that the net indicators are of reasonable, if not high quality. The methods used to compile net measures follow international practice. Perpetual inventory method (PIM) is widely used for the computation of consumption of fixed capital (CFC). In the United States, the BEA uses the PIM for fixed assets with geometric patterns of depreciation by asset category, which are both internationally accepted methods. The accuracy of service lives and depreciation rates are periodically assessed, and improvements made where necessary. Netherlands sees that consumption of fixed capital adds one more layer of complexity and thus can possibly cause error in macro-economic measures and international comparability. The UK has done a lot work to review and update asset lives, life-lengths, rates of depreciation using a range of sources including company accounts. This also reflected various intangibles that have a shorter life length than many other assets. Significant revisions were incorporated in the annual accounts in 2019. South Africa, although not releasing, the net measures, believes that they are of reasonable quality given that the perpetual inventory method currently used to compute CFC and done by asset type and by institutional sector is of good standard.

According to the Eurostat, with increased focus on data for capital stocks (for productivity measurement etc.), the CFC data in the EU are probably of higher quality than in the past, thereby improving the quality of the net measures.

Luxembourg sees the net calculations of lower quality than the gross ones on account of the methods used due to the fact that there are a lot of assumptions in the PIM calculation, such that CFC derived from PIM can only be a rough estimate of the underlying depreciation of the capital stock of the economy. Annual CFC estimates in Australia are of high quality as it is produced as part of the capital stock model. Quarterly CFC estimates are trended using extrapolation/interpolation method between annual estimates, however they consider this a sound approach.

Question 3: *Could your statistical office go beyond highlighting GDP and give equal attention to other key indicators (such as NDP and NNI) in your communication with the users? If so, is there a preferred indicator, such as NNI which is the least impacted by globalization related issues?*

Total responses: 18 members

Most members of the TT (Australia, Canada, Germany, Ireland, Luxembourg, Mauritius, Russia, South Africa, Uruguay, UK, United States, and Zambia) acknowledged that their statistical offices could go beyond highlighting GDP. However, presently not all countries (Brazil, Morocco, Malaysia, Mauritius and Zambia) produce net indicators even on an annual basis. Gross indicators such as GNI or GNDI could be potentially highlighted on an annual basis. The data sources, in some instances, do not allow the collection of the necessary information.

Some members (Canada, Eurostat, Malaysia) do recognize that training and communication efforts were required to increase familiarity for usage of these alternative indicators. A strategy of developing clear narratives about the indicators, both produced and released, their uses and their limitations was, therefore, underscored. The communication strategy is crucial and in general, it is always important to stress that GDP is not the appropriate variable to all purposes (Uruguay).

In the Netherlands, the gross measures of GDP and GNI are measures that are familiar to users. Now globalization's impact has not been noticeable enough for a shift to a new measure to appear needed.

Other key indicators beyond GDP such as NDP and NNI could be highlighted, if necessary. South Africa will be able to give attention to key indicators such as NDP and NNI and make communication efforts to increase the familiarity for usage.

Globalization has been acknowledged as being sufficiently complex and deserves a series of indicators to account for it. Measuring and analyzing the impacts of globalization should not require only one preferred indicator (Uruguay).

GDP has been considered excessively relevant compared to other indicators such as income. National accounts compilers must try to release other accounts within the system, highlighting their importance. This, therefore, will avoid the tendency of over-glamorizing GDP and paying little attention to other indicators (Brazil, Uruguay). Households' indicators like Adjusted Disposable Income and Actual Individual Consumption may be promoted as well (Eurostat, Uruguay). At the regional level, Uruguay shared that ECLAC calculates, publishes and analyzes National Disposable Income measured in dollars of the reference year, highlighting the impact of the terms of trade on disposable income, a very important variable for some countries of the

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region, since some are basic products exporters, and other, energy importers. Also, at the regional level, more countries are currently compiling the integrated economic accounts, and publish reports especially analyzing the results of the National Disposable Income (gross or net) across the institutional sectors. This brings the opportunity of highlighting the importance of households´ disposable income, a variable of great importance in the region due to distributional aspects and wellbeing.

GNI and (certainly, better) NNI should be more emphatically proposed to the public attention as a nationwide measure of income less dependent on specifics of calculation techniques, in many cases replete with conditionalities, which becomes more obvious in the globalized economy (Russia).

In Australia, RNNDI[24] is often highlighted as an insightful analytical measure used to interpret Australian economic growth. Australia's economy has high foreign investment particularly in the resources sector. Fluctuations in commodity prices can lead to volatile exposure to the rest of the world. RNNDI, therefore, provides insights into Australia's income taking into account exposure to the rest of world.

Ireland has mostly concentrated lately on computation of the Modified Gross Measures GNI* and Modified Final Demand. NNI in constant prices is a key indicator that Ireland plans.

The United States BEA has the freedom to highlight additional measures.

E. Use the current framework to incorporate granular and supplemental information

Institutional Sector

27. **One option is to consider the possibility of adding subsectors in the institutional sectors framework.** Harrison (2014) proposed subsectors for the income of foreign affiliates in the SNA framework by drawing on principles in *BPM6*. The proposal is limited to the primary income account and leaves out the income flows for domestic affiliates of foreign MNEs. Jellema (2018) proposed separate accounts for an international subsector and a domestic subsector with existing macroeconomic indicators available for both subsectors.

[24] Real net national disposable income (RNNDI**):** GDP adjusted for changes in Australia's Terms of trade, Net real income incomes flows from overseas and Consumption of fixed capital. Real net national disposable income provides the widest view of these four measures of the income available to Australian residents to acquire goods and services for consumption and investment

Recommendation 8 on institutional sector accounts of the G20 Data Gaps Initiative (DGI) operationalizes the *2008 SNA* recommendations of separately identifying foreign-controlled corporations. The G20 DGI was established in response to the 2007-2008 financial crisis with the aim of focusing on information gaps exposed by the crisis. Over the last several years, much discussion has taken place on the minimum and encouraged set of data needed for the institutional sector accounts. The G20 countries recently endorsed the institutional sector collection template[25] that builds on the *2008 SNA* recommendations of separately identifying foreign-controlled corporations. Furthermore, it adds additional granularity, such as separately identifying domestic MNEs, as well as identifying an aggregate domestically controlled corporation's subsector (Annex IV). The goal is to implement the recommendations by 2021.

Question 4: *Does your office compile institutional sector accounts? Yes/No. Please describe.*

Total responses: 19 members

Most members stated that institutional sector accounts are being compiled; for some only annually (Brazil, Malaysia, Mauritius, Russia, Zambia), for others quarterly as well (Australia, Canada, Germany, Ireland, Luxembourg, Netherlands, Norway, USA), and others with the intention to start soon (Uruguay). Morocco mentioned that the sequencing of the accounts is prepared for each institutional sector except for the last two accumulation accounts, that of other changes in volume of assets and revaluation accounts.

Australia produces the other changes in volumes, revaluation accounts and balance sheets for all sectors except households and general government on an annual basis. Household balance sheets are produced and published on a quarterly basis. General government balance sheets are produced on a quarterly basis as part of ABS Government Finance Statistics.

Since 2015, South Africa has embarked on a project to compile institutional sector accounts in line with recommendation 8 of G20 DGI-2. The project is at an advanced stage with quarterly production commencing soon and the data set will be readily available from the latter part of 2021. The current and capital accounts are published in the Quarterly Bulletin for, financial corporations, non-financial corporations, general government and households (including NPISH).

All EU member states compile institutional sector accounts annually and almost all also quarterly (Eurostat). Within the Latin America region, Uruguay pointed out that there are 11 countries out of 20 that currently compile annual institutional sectors accounts (Brazil, Colombia, Chile, Costa Rica, Ecuador, Guatemala, Honduras, México, Nicaragua, Perú and República Dominicana) with five regularly compiling financial accounts (Brazil, Chile, Costa Rica, Guatemala and Honduras).

The US BEA publishes institutional sector accounts in collaboration with the U.S. Federal Reserve—they are called the Integrated Macroeconomic accounts. The sectors are not completely aligned with the SNA recommendations.

[25] There are also already SDMX standards for this subsector breakdown.

Question 5: *The 2008 SNA identifies a foreign-controlled subsector (see Annex III). Can your statistical office identify foreign-controlled institutional units? Yes/No. Please describe.*

Total responses: 19 members
The responses for this question had a mixed perception between identifying and compiling.

Most members (Canada, Germany, Ireland, Luxembourg, Malaysia, Mauritius, Norway, Russia, Uruguay, UK, and United States) mentioned that they could identify foreign-controlled institutional units. The Eurostat mentioned that this should be possible in the EU, e.g. based on inward FATS and the Eurogroup business register.

The remaining respondents raised concerns but from a compilation perspective. Brazil, ECB, Morocco, Zambia related the question to the unavailability of appropriate information to collect and compile foreign-controlled sectoral accounts. Australia noted the difficulty to define and identify foreign controlled institutional units, although its current international investment survey provides a measure of direct foreign investment in resident units, such that there is some visibility of foreign ownership. However, Australia's macroeconomic statistics do not compile estimates based on foreign-controlled subsectors.

The identification of foreign-controlled institutional units for most countries is available as part of the business registers mostly for external sector statistics compilation, where information on foreign ownership or control is available or from FATS statistics (Germany).

In the Netherlands, currently there is a project to determine the impact of foreign-controlled non-financial corporations with a split appearing feasible. No similar project is currently envisaged for financial corporations. No split is published at this time.

Currently there is no distinction between domestic and foreign controlled subsectors in institutional sector accounts compiled by South Africa. It is an encouraged requirement in G20 DGI-2 templates and South Africa will work towards fulfilling this requirement in the near future. The administrative source data used to update and maintain the Statistical Business Register does not reflect whether the units are foreign controlled or not. However, during profiling of large and complex units, foreign controlled units are identified, although this process might not be comprehensive.

Most members, including Uruguay and UK, also underscored that although the identification can be done, it would require huge efforts to properly measure this subsector for National Accounts purposes or for calculating institutional sector accounts separately for foreign-controlled institutional units. The BEA does not presently include a foreign controlled subsector in the National Income and Product Accounts or in the Integrated Macroeconomic Accounts.

Question 6: *Recommendation 8 of the G20 DGI has been endorsed by G20 countries. While separately identifying domestically controlled versus foreign-controlled MNEs is part of the encouraged set of data, the SNA could consider adding this breakdown to the SNA to promote wider use for countries outside the G20.*

Question 6a: *Could the G20 DGI template be considered as a way forward for a more refined breakdown of MNE activity? (see Annex IV, which includes breakouts for foreign-controlled/domestically controlled non-financial/financial corporations, including "of which" categories for public/private corporations which are part of domestic MNEs)**.***

Total responses: 19 members

All countries, with the exception of Zambia – which is not familiar with the template – and Norway – which sees no value added for users when including the proposed breakdown in the institutional sector accounts – considered that the G20 DGI template could be a way forward for a more refined breakdown of MNE activity.

South Africa recognizes this as a way forward, which will require significant increase in systems and processes to identify these breakdowns. South Africa will, however, not be able to complete it yet as information on MNEs is not readily available.

However, in the current circumstances, some recognized that (i) information on MNEs is not available (Australia, Brazil, Morocco, Malaysia, Mauritius) for them to consider the refined breakdown, (ii) no distinction is available between public and private controlled corporations for the institutional sectors (Ireland), (iii) more resources are needed for the compilation processes and confidentiality issues might be raised particularly in small countries (Germany, Luxembourg).

In sum, in the short run probably not all countries will be able to prepare these breakdowns (not enough granularity in sources, redesign of statistical production process…), however, it would be a good recommendation framework as a way forward (Uruguay).

Question 6b: *Can your statistical office identify domestic MNEs as institutional units?*

Total responses: 19 members

Most members (Australia, Canada, Eurostat, Germany, Ireland, Luxembourg, Malaysia, Mauritius, Morocco, Russia, Uruguay, UK, United States, and Zambia) noted the possibility to identify domestic MNEs as institutional units, although the breakdown may not be currently available. The Netherlands is undertaking currently a project only for foreign-controlled non-financial corporations.

In identifying domestic MNEs as an institutional subsector, Ireland noted that an MNE classification can be adopted by setting criteria such as ownership, amounts of income and services flows, balance sheet size and geographical location of subsidiaries. Malaysia mentioned that such identification required a clear definition of the MNE concept as per international statistical standards. According to the Eurostat, the identification of domestic MNEs as institutional units is possible in the EU based on outward FATS and the Eurogroup register. Research has been undertaken in Australia to utilize administrative sources to assist in enhancing statistical infrastructure to identify MNEs as institutional units. This research is, however, in its infant stage and will not enable measurement of primary income by foreign controlled entities immediately.

South Africa does not have an indicator for MNEs. MNEs are identified through the survey of large and complex enterprises (profiling), however in the statistical business register (SBR) they are reflected as separate legal entities. We have a number of MNEs in our mainframe which are surveyed for external accounts purposes.

Brazil, and Norway cannot identify domestic MNEs as institutional units. The ECB underscored the insufficient data availability in the euro area to compile the accounts for MNEs and the subsector foreign-controlled corporations.

Question 6c: *Currently the DGI template only distinguishes these breakouts at the institutional sector level. Should further breakouts be incorporated in the SNA at the financial sector subsector level? (e.g., additional breakouts at the Other financial intermediaries, except insurance corporations and pension funds (S125) level)*

Total responses: 15 members

Adding further breakouts in the SNA at the financial subsector level in the SNA is always possible (Brazil, ECB, Germany, Morocco, UK, and United States).

The Netherlands noted that the concept of splitting a sector based on control is in principle in line with the full sector classification. The classifications therefore do not need to be restrictive. However, the interest in the split is primarily to signal macro-economic vulnerabilities which are more related to the overall size of flows and stocks. There seems to be less need to know whether a particular S12 subsector happens to be dominated by foreign multinationals, especially when going beyond a split into banks, OFIs and insurers/pension funds. In addition, it needs to be taken into account that for each additional split, especially regarding a sector such as S125 that is subject to requests for even further splits based on activity, confidentiality becomes a bigger concern.

Some members do recognize that a refined breakdown can (i) be too ambitious as well as costly (Germany); (ii) be difficult for countries to be practically able to develop estimates (United States); and, (iii) result in poor data quality because of non-availability of requested information (Brazil, South Africa) or confidentiality concerns (Netherlands). In that respect, Brazil, Uruguay, and Mauritius clearly stated that it might be more appropriate to keep the breakouts at sector level.

Australia’s sectoral classification currently does not classify holding companies as captive financial entities. Holding companies are classified along with the business primary activity. This approach was taken to improve transparency in economic flows and eliminate flows caused by business structure.

Ireland, in its Non-Financial Accounts, includes three subsectors: S.121 – 123 CB, MMIs and MFIs. S.124 – 127 Auxiliaries and OFIs incl Captive Financial Institutions and S.128 – 129 Insurance and Pension Funds. In the Financial Accounts 5 sub sectors: S.121, S.122 – 123, S.124, S125 – 127, S.128-129 are included.

Question 7: *Are there additional considerations for highlighting MNEs in institutional sectoral accounts that are not addressed by the subsectoring as proposed in recommendation 8 of the G20 DGI (see annex IV) that should be taken into consideration?*

Total responses: 16 members

While the general view was there are no additional considerations, some members have come up with a few suggestions:

- Ireland currently separately identifies redomiciled PLCs (re - Headquartered in Ireland also called Corporate Inversions) and domestic MNEs as distinct from other domestic Firms and self-employed entities within its institutional sector accounts.

- Eurostat suggested that data on counterpart by region may be useful.

- The United States is of the view that including a breakout for SPEs to the framework would add more meaningful granularity if estimation is possible.

- The ECB proposed having a sector covering MNE units, irrespective of whether they are subsidiaries or parent companies.

- The UK suggested MNEs broken down by industry and statistical units of the MNE may well be classified across different industries.

Supply and Use tables

28. **A second possibility is to incorporate supplemental information on foreign-owned and domestic-owned units into supply and use tables (SUTs) compiled from the SNA goods and services account**. Ahmad (2018) points out that one of the most useful dimensions for constructing extended SUTs concerns breakdowns by ownership structures– e.g. Foreign Owned Affiliates (FA), Domestic MNEs (DM) with affiliates abroad, and Domestic Firms (DF) with no foreign affiliates. Extended SUTs decompose heterogeneity within industries of the supply-use framework to better understand the effects of MNEs on industry and product flows for trade in value-added and other global value chain analysis. The Ahmad (2018) proposed breakdown is consistent with the proposed breakdown of institutional sector accounts within the G20 DGI. Having consistent proposals for the breakdown of units within the institutional sector accounts and the extended SUTs would facilitate analysis by providing the granularity needed. Fetzer et al. (2018) and other studies have demonstrated the feasibility of extended SUTs. However, the benefits of the supplemental information can only be unlocked with considerable resources dedicated to data collection and linking.

Question 8: *Could integrating information on the extended supply-use tables into the SNA (consistent with the G20 DGI institutional sector breakdown) be considered as a way forward to better account for globalization-related issues?*

Total responses: 19 members

In general, most members viewed the extended SUTs as a good initiative and way forward. Nonetheless, it is seen equally as an ambitious endeavor, in practice.

Concerns on the possibility of integrating information on the extended SUTs into the SNA (consistent with the G20 DGI institutional sector breakdown) varied.

Countries felt that in practice (i) there was no specific motivation (Russia); (ii) extensive details are required which may be resource demanding on countries (Australia, Luxembourg, Morocco, Norway, Netherlands, UK, Uruguay); (iii) it may not be viable to identify all details needed in a good statistical manner (Brazil, and Mauritius), and (iv) if not all countries compile the same breakdown, then comparability may suffer (Brazil, Germany).

South Africa noted that there needed to be adequate coordination and sharing of the required information.

Luxembourg considers that unfortunately, the breakdown foreseen for the extended SUT in GVC manual (Foreign-controlled: GVC related; Non GVC related – Nationally-controlled: GVC related; Non GVC related) is different from the breakdown proposed by the G20 DGI for institutional sector.

Netherlands pointed out that the breakdown of international trade in goods and services into ‘true’ market transactions and potentially distorting intra-group trade would appear sufficient. Some targeted subdivisions for (potentially) mobile industries such as for intellectual property or wholesale trade could be envisaged.

Ireland has yet to develop extended SUT. It is unclear whether the extended presentations can achieve the level of detail required on a sector/product basis in SUT.

Australia believes that extended SUTs will not address the issue related to shifting profits. Thorough understanding and potentially expansion of the income accounts will be more insightful in gaining visibility income flows with non-residents.

Brazil highlighted that it may be constraining to put more expectations on the SUT, beyond what it was originally intended for. A SUT is a tool based in local units/establishment, production units, trying to describe the economic activities production. With the need to collect additional details and new instruments, it is important not to force changes on one that has its limits both on the practical and theoretical side.

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Uruguay underscored that if a recommendation is finally going to be made, the level of detail to be recommended should be the reasonable minimum.

The United States points out that the meaningfulness of breakdowns that a country includes in extended SUTs depends on institutional characteristics that matter for the compiling country. Generally promoting and supporting extended SUTs as supplemental tables seems within scope of the SNA; however, prescriptive breakdowns or inclusion in core SUTs does not seem to be within scope of the SNA at this point.

The UK noted that there would be a significant re-engineering of surveys, systems, methods, data. The SUTs to achieve that goal as well as supported with good quality detail will require further data collection.

Question 9**:** *Supply-use tables are quite detailed, is there a minimum level of detail that could be recommended?*

Total responses: 16 members

Members did not really specify a minimum level of detail that could be recommended. In the EU (Eurostat and Ireland), SUT are obligatory at the A*64 industry and product presentations at a minimum.

However, members noted that in general SUTs depend upon various considerations: (i) the specificities of the country – diversity and concentration of the economy, (ii) data availability (both current price data and prices themselves), (iii) quality of the data, (iv) resources and systems constraints. Malaysia noted that SUTs are compiled at industry and product level as a base, including demand components such that in view of its complexity and massive data collection, compilers must balance between the usage and the capacity of the statistical compilation.

Norway put forward the proposal to split industries into domestically controlled and foreign controlled, which in theory, can double the number of industries in the SUTs, which imply if the "extra" industries will improve the story for users.

Balance of Payments

29. **Analyzing global value chains and trade in value added amplifies the need of high-quality statistics on global production in international accounts statistics as well.** The policy demand for more statistical information on GVCs, including the role of MNEs in these processes, has grown significantly in recent years**.** The UN recently produced *Guidelines on Accounting for*

Global Value Chains: GVC Satellite Accounts and Integrated Business Statistics[26]. Furthermore, BOPCOM's Working Group on Balance of Payments Statistics Relevant for GVCs (WGGVC) led by the IMF and the OECD are examining how to better identify the role of MNEs in current account transactions. Breaking down BOP goods and services account by nationality (e.g., foreign-owned/domestically-owned) would be highly useful for analysis of globalization issues. If the institutional sector accounts, balance of payment accounts, and SUTs all contained a consistent breakout of foreign-owned/domestically-owned corporations this would be a powerful tool to understand how MNEs impact the national and international accounts in a holistic, coherent way.

F. Extensions beyond the core conceptual framework, but leave core intact

30. **Another possibility for supplemental information has also taken shape from redefinitions of existing measures in the current framework**. The most relevant example of this is the GNI*[27] measure that emerged from the Irish Economic Statistics Review Group (ESRG) after a steep increase in measured GDP and GNI (ESRG 2016). The recommendations of the ESRG demonstrated that redefinitions are possible without changing the core system of the SNA framework. However, concerns evolved about the impact on comparability across countries if National Statistical Offices (NSOs) take liberties to introduce supplemental measures that are not internationally agreed.

Question 10: *Should integrating additional supplemental indicators, such as GNI* developed by the Irish Economic Statistics Review Group, that redefine slightly the current SNA concepts be considered? Yes/No? Please explain.*

Total responses: 18 responses

In general, the consultation showed that the integration of additional supplemental indicators, be it GNI* or others, should be left up to individual countries.

Some members (Australia, Ireland, Mauritius, Morocco, Norway, Russia, Uruguay) agreed that supplemental indicators, though not necessarily GNI*, were useful. In Ireland, the modified indicators have been a critical element of the country's engagement with users and developing their understanding of the impact of globalization on economic statistics. These indicators are presented in addition to the SNA based indicators such as GDP, GNI etc. not as a substitute or replacement for these internationally comparable measures.

[26] https://unstats.un.org/unsd/statcom/50th-session/documents/BG-Item3h-GVC%20Handbook-E.pdf

[27] Modified GNI (GNI*) excludes the impact of certain aspects of globalization namely the depreciation related to both the cross-border additions to the stock of IP assets and the stocks of aircraft involved in international aircraft leasing for Ireland. In addition, retained earnings of corporate inversions or redomiciled plcs headquartered in Ireland are also excluded. This level indicator is for use primarily as a denominator in ratio analysis, and as an alternative or to complement the use of GDP.

From Australia's perspective, while GNI* can be a good analytical measure that can be achieved without a large investment and without changing standards, there is no policy value in producing this measure in Australia. Currently, existing key indicators such as RNNDI provide enough analytical insight to Australian policy.

Morocco also noted that GNI is the indicator most affected by these transfers, but also certain parent companies directly recover the turnover achieved by their subsidiaries or branches well before paying the charges and these latter show a negative result at the local level as in the case of area transport. This has the opposite effect of underestimating income.

Norway is in favor of introducing supplementary information to explain issues (as the aggregate GDP Mainland Norway[28]), though not necessarily GNI*. However, this should be in addition to and not instead of GDP. The impact of MNEs can be shown in tables for exports and imports. Norway advocated to use the current concepts but extend the tables with "of this XXXX" where relevant. The computation of GDP*, for example, can be considered, for example if GDP* covered value added from domestically controlled companies.

Uruguay underscored the importance of preserving international comparability of indicators, when defining supplemental ones. Thus, whenever at the national level, it becomes necessary to propose more precise or specific indicators, it is advisable to use the *´of which´* category, which shows at the same time the internationally comparable aggregate and the partial disaggregation relevant to the specific interpretation (´*of* which´). Consequently, it is key to stress the importance of international recommendations to use internationally accepted indicators, including as far as possible those that allow the interpretation of specific phenomena. This allows reaching more specific and more significant aggregates for the analysis of the effects of globalization (e.g., GNI less MNEs) while maintaining the compilation and validity of global aggregates (e.g., GNI for the total economy, which remains a relevant variable). This proposal would not redefine indicators, rather it would disaggregate them in a very meaningful and useful way for the analysis, while maintaining international comparability.

Members (Brazil, Canada, ECB, Eurostat, Germany, Malaysia, and South Africa) underscored the non-necessity of having supplemental indicators like GNI*, citing country specificities, confusion, no justification for its use in their countries.

Canada mentioned that supplemental indicators are not necessary for the moment in Canada, in particular. Adding too many additional indicators, could just lead to confusion for users.

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[28] Mainland Norway consists of all domestic production activity except exploration of crude oil and natural gas, transport via pipelines and ocean transport. See https://www.ssb.no/en/nasjonalregnskap-og-konjunkturer/concepts-and-definitions-in-national-accounts#MainlandNorway

Germany pointed out that extraordinary events that justify the creation of new indicators such as GNI* are rare and might cause confusion for users. The compilation of such additional aggregates may indicate a problem with regard to the conceptual provisions.

Netherlands is very hesitant to promote augmented concepts. Measures need to be as apolitical as possible. Deviations from standards reduces comparability and increases the scope for abuse. Experimental measures that have a clear methodological backing may be considered and implemented in full later as a result of changes to the statistical manuals.

The United States is of the view that supplemental indicators should be left up to individual countries with the caveat that they may not be comparable to indicators in other countries. The statistical community and individual countries should promote common sense approaches (rather than prescriptive approaches) to the application of SNA concepts so countries' statistics reflect the economic reality of their individual economies. This is important to the credibility and reputation of economic statistics across all countries.

The UK recognized that the GNI* may have been useful in Ireland, however, 'new' common indicators (if agreed are required) should be developed, with agreed international definitions that all countries could produce and provide comparability.

Question 11: *Besides GNI*, are there other supplemental indicators that redefine slightly the current SNA concepts that could be considered by the TT? Yes/No? If yes, please describe what indicators*.

Total responses: 13 members

The general view was that there were no other supplemental indicators that redefine slightly the current SNA concepts that could be considered for the moment.

Russia pointed that it might be necessary to first determine how "traditional" indicators may change in the face of new phenomena caused by globalization processes.

Netherlands stated that one alternative indicator that could be considered is where the impact of intellectual property originals, imported from another country, is assigned to the country of the head office of the multinational instead of leading to output of a locally based entity.

Ireland reiterated that these supplemental indicators should be presented in addition to the SNA based indicators and not as a substitute or replacement for these internationally comparable measures. In that respect, Ireland produces other modified aggregates, of which (i) Modified Capital Formation, (ii) Modified Final Domestic Demand, (iii) Modified Current Account (BOP) and work is at an advanced stage for a Modified IIP indicator.

Eurostat believed that providing more disaggregated data seems to be a better approach.

31. **Associated with the presentation of statistics based on location of the immediate investor, the BOPCOM through the TFSPE noted the importance of collecting data by ultimate investing economy.** *BPM6 (paragraph 4.157)* adds that "supplementary data on direct investment positions may be prepared according to ultimate source and host economy, particularly when direct investment is channeled through intermediate entities, such as holding companies or SPEs." In case of round-tripping, the ultimate investing economy and ultimate host economy are the same *(BPM6, paragraph 6.46)*. *BD4* recommends that countries compile statistics on the inward DI position by the ultimate investing country (UIC). The OECD currently presents inward DI position by the UIC.

32. **BOPCOM also discussed a nationality-based presentation of external sector statistics (ESS) as complementary to the standard residency-based ESS.** While cross-border statistics attribute economic activity to the residence concept, ongoing discussion is about the challenges associated with the allocation of the various economic activities of MNEs to countries. Amid this debate is the concern to supplement the residency concept with the nationality concept, based on the country of the owner of the economic entity rather than its location. Lipsey (2009, 2010) calls into question the potential effects of separate accounting on measures in the United States current account and suggests—but does not develop—an alternative location-based accounting treatment to accompany the residence-based accounting treatment of the *2008 SNA* and *BPM6*. Different alternative ownership-based frameworks for international transactions have been offered in various pieces of research, such as in Landefeld and others (1993), and Baldwin and others (1998).

Question 12: *Would these alternative frameworks be useful for national accounts purposes? Yes/No? Please describe response.*

Total responses: 15 members

Views somewhat diverged as regards usefulness. Nonetheless, most members (Brazil, Eurostat, Ireland, Luxembourg, Mauritius, Morocco, Russia, United Kingdom and Uruguay) noted that it might be useful with some degree of caution.

Brazil, though anticipating that these alternatives could not be viable in short-medium term, believed that any improvement in the balance of payments should be useful for National Accounts. Luxembourg observed that the alternative frameworks should be discussed with the users of macroeconomic statistics but à priori this view may be useful for assets and transactions where the concept of economic ownership inside the MNE is difficult to assess, like Intellectual Property (IP) related assets and transactions. Mauritius acknowledged this approach as a complement for ESS.

Morocco noted that with respect to presentation based on nationality, confusion may arise since there may be residents, with foreign nationality or vice versa. Russia mentioned that income in the balance of payments statistics refer only to distributed and redistributed incomes and do not

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deal with production, i.e. creation of value added and primary incomes. The United Kingdom recognized the associated significant measurement challenge – not clear if the data would be available on the basis required. Uruguay underscored that having external sector statistics that take into account the residence of the ultimate investor is without a doubt something that would contribute to the knowledge of what really happens with MNEs globally and their effects on the different economies where they operate. This said, if the balance of payments is going that path, so shall it be for National Accounts. It may be not enough just to know the foreign relationships of these units, classified by the concept of residence, for the balance of payments and the International Investment Position purposes, but also it may be important to know what they do domestically in the economies in which they operate, within the system of national accounts. Yet, Uruguay sees this happening as part of complementary statistics; in which case the harmonization between the balance of payments and the National Accounts must be looked after, for the sake of the users. The current state of things, in terms of availability of sources, confidentiality concerns, exchange of information between countries etc., should be further examined in light of these improvements such that in the short term, these alternatives would remain research topics and cannot be practically implemented.

Australia, Malaysia, Netherlands, South Africa, and the ECB noted that the alternative framework will not be useful. Australia perceived that detailed sector accounts currently provide enough insight for current Australian policy.

The Netherlands pointed that the main strength of national accounts is the balancing of large amounts of divergent data sources into a consistent system to describe the performance of a local economy. Balancing requires a focus on interlinkages so as to able to plug gaps in available data and eliminate errors. Splits in direct investment positions or nationality-based data are clearly of analytical interest but have limited benefits with regard to actual balancing of data but would enlarge the data set exponentially. In addition, the performance of the local economy remains the key focus of national accounts. Therefore, such splits are better left in dedicated statistical products. In particular the nationality-based concept is especially hard to implement because it is not a straightforward add on to data based on the residency-based concept and the national accounts is inherently focused on residency. It would appear to be a parallel product that has more links to prudential oversight than macro-economic analysis.

The ECB stated that rather than solving the presence of globalization-induced distortions as those observed in the residency-based accounts, the nationality concept would introduce more disturbing ones by artificially reassigning value, income and assets across borders, if overall consistency is preserved (for instance, would land be reallocated on the basis of nationality? Is compensation of local employees working in subsidiaries cross-border income payments? Are intermediate consumption of subsidiaries exports of the host economy?). The ECB shared the view that partial presentations in satellite accounts might be useful for some purposes (e.g., for certain financial stability analysis).

TREATMENT OF SPEs.

33. Concerning the treatment of SPEs, the options under consideration below are: modify the *core framework*, *incorporate granular, supplemental information in existing framework, and extensions beyond the core framework, but leave the core intact*.

G. Modify the core conceptual framework

34. **A review of whether SPEs can be considered as separate institutional units from their parent companies may be needed.** Currently, the residence of an SPE is determined according to the economic territory under whose legal jurisdiction the entity is incorporated or registered. If the SPE is legally located in the same economy as its parent, the SPE is (usually) combined with the parent and not recognized as a separate institutional unit because it does not satisfy SNA criteria for an institutional unit. However, if the SPE is legally located in an economy different from its parent and in the absence of any physical dimension to the enterprise (e.g., if there is a production unit in the same jurisdiction as the SPE)[29] the SPE is recognized as a separate institutional unit (*2008 SNA* paragraph 4.56).

35. **The current SPE treatment is consistent with the actual cross-border cash flows**. As discussed in Moulton and van de Ven (2018)[30], there are at least two related reasons why the international standards currently treat SPEs as being resident in the economy in which they are legally registered. First, only this treatment would be consistent with the actual cross-border cash flows resulting from economic transactions. Second, rerouting the transactions of SPEs would require a massive international exchange of individual data between statistical offices, which is not considered possible given existing legal constraints.

36. **One possibility is to abandon this convention and reclassify an SPE to the economy of its parents.** Doing so makes the criteria of whether an SPE qualifies as a separate institutional unit the same between resident and foreign parents. Opinions between owning and host countries should be sought.

[29] If there is a production unit in the same jurisdiction as the SPE then the SPE can be merged with the resident production unit.

[30] http://papers.nber.org/conf_papers/f100570.pdf

***Question 13**: Is there enough progress on data exchange or an evolution in thinking to warrant re-discussing this issue (of whether SPEs with non-resident parents should be considered as separate institutional units and therefore resident in the economy in which they are legally located)? (Yes or No; Why?)*

Total responses: 18 members

Almost all the TT members, except for Brazil, the United States, UK and ECB, considered that there should be no additional re-discussion on the residency of SPEs with non-resident parents, on account of several concerns.

Germany referred to the work undertaken by the BOPCOM TFSPE and a modification of the conceptual core would hinder any progress in this respect for the foreseeable future. Canada noted that the statistical process is not necessarily sufficiently evolved across all countries.

Netherlands ascertained that SPEs are a challenging factor for national accounts as they seriously impact economic signals in both national accounts and balance of payments. Corporate restructurings can lead to huge flows that are for a national economy purely technical without true economic substance. This is not just due to SPEs but even more so due to corporations that perform real activities but that financially look very much like SPEs. Nevertheless, any form of data exchange would be punishingly complex on various counts such as technical aspects of data exchange, statistical confidentiality, comprehending corporate actions sufficient to consolidate SPEs into their parent considering that the local subsidiaries of such corporations are often unlikely to be able to do this themselves. Data exchange would have to be managed with a large list of counterpart countries. In addition, even if SPEs are a problem it cannot be denied that they do have links to the economy in which they reside such as through paying taxes or using accountancy services. They cannot be fully ignored and at least some form of truncated entity would have to remain within the economy of residency complicating data compilation further

Russia has mentioned that the keyways of improving this area of statistics are: (i) a clear definition of the companies that can be classified as SPEs, and (ii) the exchange of detailed data between all countries, not just between some particular economic units (e.g. EU). Without addressing these issues, it will be impossible to improve the quality of the data and solve the problem of asymmetry in bilateral data.

Uruguay stated that what is necessary is to arrive to a meaningful and harmonized (BOP-NA) definition for SPEs and classification of such units as well as to be able to present supplemental information on them so as to show separately the importance of this phenomenon if it is relevant for the country.

Discarding the re-discussion on SPEs, Ireland noted that data sharing could assist in validation and quality assurance around these SPE statistics. Australia equally mentioned confidentiality as a challenge, a view shared by Eurostat. Eurostat pointed that currently the practical and legal

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problems of international data exchange mentioned in Moulton and van de Ven (2018) are still valid. Nonetheless, the discussion on how to deal with the practical and legal issues should continue in parallel with the discussion on concepts. Within the EU there are already some possibilities for data exchange.

South Africa viewed that data exchange remained a major impediment to re-discussing this issue and will be unable to share data on domestic SPEs.

Luxembourg highlighted that there has been undeniably some major progress concerning international data exchange between compilers. The MNE pilot exercise performed in the EU during 2018-2019 for EU own resources purposes demonstrated that data exchange between national statistical institutes (NSIs) for MNEs at least in EU is feasible, even if this exercise is not perfectible and not every Member State could participate at 100 percent. The EU early warning system allows discussions between EU NSIs on MNE restructuring cases. The EU FDI network allows reconciliation about FDI transactions and positions. European Group register allows sharing of more structural data about MNEs between NSIs. Nevertheless, it is recognized that the legal basis needs to be reinforced in order to assure full participation in data exchange. The systems are limited to the EU countries. Outside the EU, the situation is surely different and more difficult. Data exchange needs to rely more on publicly available data. The OECD has put in place the publicly available ADIMA database on Multinational Enterprises with public available data on MNEs.

In addition, Luxembourg mentioned that this endeavor needs improvement in data exchange between NSI and data collection systems on MNEs. Reconciliation of MNEs between NSI is only possible if intra-group transactions are known to NSIs. Currently the split between intra-group transactions and others is not foreseen in data collection systems. The use of public available information about MNEs could be largely improved through the introduction of standards for business reporting, like XBRL (eXtensible Business Reporting Language) which allows to exploit more easily the data and information from financial statements publicly available.

Last but not least, exchange of data between NSIs is perhaps not the only solution to gather data about SPEs abroad in the country of the parent company. Luxembourg referred to the BEPS country-by country reporting, designed to collect data from all affiliates from the parent company for tax purposes. This could be an inspiring exercise for the statistical world too. EU MNE pilot exercise report includes some proposals to redesign data collection systems by collecting data from the parent company. MNEs are using modern group wide ERP systems and the parent company should be able to provide data about its affiliates abroad.

Three countries, Brazil, UK and the United States and one IO, the ECB, are the ones who agree to a review of the discussion on whether SPEs can be considered as separate institutional units from their parents. With respect to having necessarily a data exchange, the US BEA believes that countries generally have the legal authority to collect information on all units resident in their country and on all units (foreign and domestic) belonging to domestically-owned MNEs – this is

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nonetheless particular to the US, and not necessarily applicable to all countries.

The OECD Benchmark Definition recommends supplemental measures on resident SPEs and on non-resident SPEs, which are subject to practical caveats, but should be considered a model for future changes to the treatment of SPEs in the SNA and BPM. The recent work on SPEs by BOPCOM could be considered. The ECB purports that treatment of SPEs in terms of residency and others should be re-discussed given the distortions they exert on main macro indicators. The UK believed that the institutional unit issue with non-resident parent should be revisited.

Question 14*: What is your opinion a) keep convention (e.g., if SPE is legally located in an economy different from its parent then it is a separate institutional unit) or b) change the SNA (e.g., SPEs should be reclassified to the economies of its parents)?*

Total responses: 19 members

Option (a) – if SPE is legally located in an economy different from its parent then it is a separate institutional unit – remains the **preferred** option for most members. Some of them, though, suggested option b as a complement to the current practice/ supplemental accounts, should countries be able to adopt it based on their statistical systems. Two members (Norway and the UK) explicitly preferred option (b).

Six members expressed concerns that a departure from the current convention will result in:

(i) having significant impact on compilers (Malaysia);

(ii) ignoring the fact that SPEs somewhat contribute to the economies where they are located through some value addition, namely employment, payment of taxes, consumption of some services or investment (Luxembourg, Morocco, South Africa);

(iii) allocating these entities to their parents would be complicated and would not picture the correct geographical and sectoral breakdown for stocks or flows (Germany);

(iv) practical implications to redefining SPEs to economies of its parents. There is also potential of SPEs being accounted for in multiple countries (Australia);

(v) a significant recalculation of the data reported to us by these SPEs and result in considerable imputations (Ireland).

Australia also argues that keeping the convention is a better representation of domestic production and income. The sectoral income accounts are well designed to capture these flows such that the proposal is to invest more in understanding and analysis of income accounts by sector.

Eurostat underscored that reclassification of SPEs to the parent economy should be considered only if international data exchange can be made to work. There is a relation with “nationality”

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based statistics, which we think should remain on the table for discussion. But for now, keep convention is the most realistic alternative.

Ireland questions the practical feasibility as to whether making the SPEs out of scope for measurement and inclusion in the National Accounts/ Balance of Payments in the host country and including them in the country/ accounts where the ultimate owner of the SPEs is resident. And equally if this treatment will result in an improvement in data quality and a more rigorous conceptual basis to the results in both countries. If it is assumed that SPEs in most economies are identified and their activities correctly recorded, then the issue is in relation to SPEs in offshore locations that probably aren't being recorded anywhere in the statistical system. The BEPS and similar initiatives have already resulted in significant onshoring from offshore SPEs. This onshoring process is still in progress. Ultimately the target is the remaining Offshore (clearly defined) SPEs and these need to be included in the statistical system - preferably in the country of the parent, if that can be considered a possible solution?

Malaysia underscored the possibility of having option (b) on SPEs to be reclassified to the economies of their parents as supplementary requirement or encouraged item. This can be done if compilers have advanced compilation system to slice and dice the statistics.

While supporting option (a), Luxembourg has also analyzed the option (b) from its perspective of a SPE-host country. When an SPE is consolidated with its parent, the channel disappears and so do, at least in theory, conflicts with the economic ownership principle, which is a radical solution. Option (a) can have some interesting features. However, in the host country many SPEs still have some employment and purchase services (advisory, audit, risk management, treasury management, renting of offices) on behalf of the parent company or the group. They also pay taxes in the host economy. Therefore, even in Rassier's alternative presentation, the service rendered for the parent company or the group should remain recorded in the economy where the SPE is resident. All in all, Rassier's "dual" presentation might be a good compromise: to keep residence-based approach as a standard but to investigate a complementary approach. Many analysts indeed request such a more relevant method in the medium or long run (e.g., "consolidated", "nationality based", "exposure based", or "apportionment").

BEA, while agreeing that the first option is consistent with actual cross-border cash flows and is thus important for balance of payments purposes to some extent, equally thinks that it may distort production and income measures in the national accounts and in the balance of payments statistics. BEA acknowledges the second option would yield a meaningful departure from current recommendations. In that respect, the BEA puts forward the possibility for the Globalization TT to consider retaining the first option for core accounts and developing the second option for supplemental accounts.

Norway and the UK preferred option (b) although Norway recognizes the practical difficulties that this may entail.

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The ECB, although considering that option a) seems to be preferable, has come up with a third option: certain SPEs, belonging to MNEs, to be considered as extra-territorial, contributing to global accounts, but not to local accounts. This would be particularly pertinent for units holding IPPs providing services to the entire MNE structure. In a few cases, the ECB noted that option b) might provide a meaningful reallocation of value, income and assets in accordance with the (geographical) economic substance. However, in most cases it will fail to do so as the territory where the parent company is resident for national accounts purposes is not a good indicator either of the economic substance.

Question 15*: If the SNA is changed, do we lose important information by doing this?*

Total responses: 18 members

Most members shared the view that should the SNA be changed; information would be lost. The United States, however, felt that should both options be adopted, and statistics developed under both, important information would be retained.

The Netherlands believed that, if implemented correctly, a change would improve the interpretation of national indicators. Nevertheless, a solution would have to be found for the local activities that SPEs have such as paying taxes or accountancy costs even if those flows are minor to the overall international financial flow. In addition, the extent of SPE-activity within an economy remains of interest.

Potentially, Luxembourg considered that services produced for the parent company by SPEs are relevant for Luxembourg economy.

South Africa mentioned that data will be lost, amongst other, on employment and possibly banking statistics.

Germany noted that if SPEs were allocated to the economies of their parents, information on the actual countries and sectors being part of an MNE would get lost. In that regard, the analytical value of the current concept should be preserved, i.e. to see thorough which economies capital actually flows (even if only pass-through etc.) and subsequently to identify whether or not an entity involved is an SPE or not. To artificially attribute stocks and flows of the SPE to the parent's economy would lead to a blurred representation of actual (legal) relationships. A view shared by Eurostat in the sense that data on actual cross-border flows and legal ownership of assets and liabilities may be useful in some cases, e.g. to assess a country’s exposure to financial risk.

Australia believed that potentially there will be a loss in visibility of foreign investment in domestic economy.

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Uruguay raised the practical side of implementing such changes when data exchange between countries, statistical confidentiality, among other issues are difficult to tackle. The overall national allocation of the enterprise group could result incoherent, with cases of double counting or missing units and the sum-up of the parts that do not add up the complete group, etc., with the corresponding consequence of inconsistency in worldwide statistics.

The UK, on its part, believed that coverage would be improved.

Question 16: *If the SNA is changed, can this be implemented in practice?*

Total responses: 18 members

Members (Australia, Brazil, Canada, Eurostat, Germany, Ireland, Luxembourg, Malaysia, Mauritius,, the Netherlands, South Africa, Uruguay, and Zambia) noted that the implementation associated with the change in the SNA is practically challenging and probably not feasible. The UK and Morocco agreed that it is practically implementable. Australia brought forward the issue that it will be difficult to collect data on production in non-resident countries if the relationship with residents are not recognized. For example, production may occur in Australia but an SPE is set up in country X, there will be challenges to gain visibility of activities undertaken in Australia by country X.

Canada raised the difficulty of aligning all concepts and working on the timing for data exchanges. Germany referred to the high implementation costs as well as non-comparability of macroeconomic aggregates across countries if countries are not able to follow the recommendations. Confidentiality is also a concern.

Luxembourg noted that doing away with residence principle as a standard might not enhance but instead deteriorate the asymmetries of ESS. Besides, collecting data from the parent company may be a promising option, but statistical systems need to rely on a precise and commonly accepted definition for the parent company along with interconnected registers.

According to Eurostat, the implementation may be considered within the EU, but coordination with countries outside the EU would be difficult. The US highlighted that the OECD Benchmark Definition recommends supplemental measures on resident SPEs and on non-resident SPEs, which are subject to practical caveats, but should be considered as a model for future changes to the treatment of SPEs in the *SNA* and *BPM*. The TFSPE work on SPEs could be considered too.

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Netherlands acknowledge that compiling a SPE-dataset for each counterpart country would be a huge effort. Subsequently to compile its own accounts a country would have to add all data sets received from other countries together and consolidate this into the national data. The various valuations and inconsistencies of flows and stocks from the various countries will make this hard to do. Corporate actions may result in a cascade of transactions in various countries and ensuring consistency will be exceptionally challenging. From a practical point of view, it also seems hard to do while preserving a predictable production and publication schedule. Such recalculations would only seem possible on less frequently published statistical products.

Question 17*: Are SPEs with non-resident parents important in your economy? Yes/No?*

Total responses: 19 members

SPEs with non-resident parents are important for Luxembourg, Ireland, Mauritius, and Morocco, in particular. Among the EU member states, SPEs with non-residents parents have a significant presence in Cyprus, Hungary, Malta, Netherlands, and Portugal, as well. In Canada, they are somewhat important and in Uruguay they are relevant for merchanting. For the remaining countries, they are not.

Question 18: *Are non-resident SPEs (e.g., domestic parents that own SPEs in foreign countries) important in your economy? Yes/No?*

Total responses: 19 members

Australia, Malaysia, Morocco, Russia, and the United States are concerned with non-resident SPEs. Canada, Germany and Luxembourg may be concerned to a lesser extent. Some EU based MNEs may have incorporated SPEs abroad, but the Eurostat has no hard data to supplement this. Netherlands and South Africa acknowledged the unavailability of data in that respect.

H. Use the current framework to incorporate granular and supplemental information

37. **Rassier (2017) proposed creating a framework that breaks entities into operating entities and SPEs.** The institutional sector framework is reorganized by adding a subsector for resident and non-resident SPEs and is similar to the supplemental statistics on resident SPEs recommended in *BPM6* and *BD4*. While the proposal does not change the core conceptual framework, it does provide an alternative view focusing just on SPEs. The proposal in Rassier (2017) may face more practical hurdles than the proposals in Harrison (2014), Jellema (2018) and the G20 DGI recommendation 8 that focuses on additional breakouts of MNEs more generally. However, some countries have demonstrated the possibility of supplemental measures on resident SPEs in DI statistics. The BD4 itself acknowledges practical difficulties constructing supplemental measures on non-resident SPEs, although the United States BEA has produced

estimates on non-resident SPEs. If further delineation of SPEs is the preferred option, then an internationally agreed definition would be needed to help with cross country comparability.

Question 19: *What is your view on providing supplemental data that breaks the full sequence of accounts (current, accumulation accounts, and balance sheets) into special purpose entities and operating entities as proposed by Rassier (2017)?*

Total responses: 18 members

Members supported the proposal by Rassier of implementing this supplemental data that breaks the full sequence of accounts (current, accumulation accounts, and balance sheets) into special purpose entities and operating entities, which will entail considerable changes; however they also noted **practically** the proposal may be difficult to be implemented by countries.

Concerns were raised over – confidentiality issues particularly for countries where the number of non-resident SPEs with domestic parents is relatively small (Malaysia); appeal of the efforts versus the justification of the results (Ireland); less comparability in national accounts produced by countries (Brazil); impracticality associated with the current available data sources (Australia, Mauritius); and data management system (Ireland).

Netherlands, on its part, noted that the scheme proposed by Rassier is a simplification regarding the difference between SPEs and operating companies. Some operating companies have clear SPE features in terms of the size of their balance sheets that are far larger than needed for financing production. With the increased emphasis of governments for entities to have at least some substance such dual type of entities may well increase in number. Splitting SPEs from operating entities will not solve the general problem that financial flows going through entities related to multinationals are potentially far larger than needed for purely the financing of operating activities.

Germany, Uruguay and the United States acknowledged the value added for countries and global aggregates to identify the activities of SPEs separately. Germany underscored that a breakdown of data into SPEs and Non-SPEs is possible for FDI data. However, such a breakdown leads likely to publication restrictions due to the confidentiality of the data resulting from the limited number of resident SPEs, particularly in the case of Germany. For non-FDI data sources (banking, securities statistics, etc.) used for the compilation of external statistics the provision of SPE / Non-SPE data has yet to be discussed. However, since a separate identification of SPEs has not yet been an international (EU) requirement, an adaptation of the respective compilation systems is likely costly and long lasting.

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The United States noted that this change would still require a thoughtful way to proceed. BEA agrees an internationally agreed definition of SPEs would be needed to help with cross-country comparability if further delineation of SPEs is the preferred option. Additional practical guidance may be required to identify and measure SPEs that are not resident in the same economy as their parents (or other operating affiliates). However, since SPEs are currently treated as separate institutional units, data sources are presumably well developed for the type of split proposed by Rassier (2017), which seems to be supported by current recommendations in the OECD Benchmark Definition (and implemented for resident SPEs in some countries). The ECB underscored that this would represent a useful extension of the sectorization that would contribute to understanding globalization effects.

Question 19a: *Do you believe Rassier (2017) supplemental view could be done in practice by your country? Do you have the required data to make such distinctions?*

Total responses: 17 members

In practice, implementing Rassier's proposal is viewed as difficult for most members because of the unavailability of detailed data. This proposal requires evaluating the current data sources and undertaking additional research on new ones. The cost implication is another decisive factor.

The UK cannot identify all such units on the business register without considerable costs, e.g. contact each unit to confirm SPE status. The data collection would therefore entail addition costs. Australia, and Germany noted that primary data sources for external sector statistics – direct investment – are available; however, there is no visibility of income or production of the non-resident SPE.

The United States have data required for production and income measures. The full sequence of accounts would require additional research.

The Netherlands mentioned that in principle it appears feasible to provide data on locally resident SPEs, especially with regard to purely financial entities. Sufficient data on transactions between local corporations and foreign SPEs are not available.

***Question 20**: What is your opinion of separately identifying an SPE institutional subsector in the SNA as an alternative view?*

Total responses: 17 members

The proposal of separately identifying an SPE institutional subsector in the SNA as an alternative view was welcome by most members, except Germany, UK, The Netherlands, and the ECB.

The merits to this approach differ dependent on the priority areas as required by local stakeholders (Malaysia), the prominence of SPEs in the economies (Australia, Eurostat, Uruguay, and Zambia), the availability of data (Morocco). The Eurostat and Zambia both mentioned that this would be useful in countries where SPEs are important

Ireland recognized that adding the SPE subsector would imply that it could be a sub sector of S.12x however as not all SPEs are financial there would need to be an S.11x SPE sub sector and an S.13x for SPEs in the Government sector. Currently in the SNA, there is a different subsector allocation to SPEs and Financial Vehicle Corporations (FVCs). Although FVCs are very similar to SPEs in the Irish experience, the different sector allocation has a significant impact on direct investment in the balance of payments (*BPM6* para. 6.28). We would welcome alignment in a revision of the SNA.

Luxembourg would prefer this option (would allow to produce Rassier's supplemental view too) for consistency reasons, under the condition that this is an option for all sectors. From an SDMX perspective, SPE is conceptually not a sub sector but instead a character (type of entity) of units from S.11, S.127, S.128, etc. This, by the way, should be reflected in the (SDMX) SPEs data transmission to the IMF.

The Netherlands brought forward the difficulty of tying the SPE-concept to a specific sector, implying that a single SPE subsector does not exist within the system. It would have to be compiled as a subset by adding data from various sectors or the SPE concept would have to be defined more clearly in terms of being part of a specific subsector such as S127. In such a latter case a subsector would be appropriate. For both the usefulness of national accounts and the balance of payments it would appear better to focus first on linking the balance of payments more clearly with the current institutional sectors than to add a new subsector that does not fit easily into the system.

The UK has tried using various definitions and have found that many units may fit the characteristics but may not be SPEs. Germany refers to earlier comments for not endorsing separately identifying an SPE institutional subsector in the SNA as an alternative view. The ECB noted that SPEs are present in all sectors and that treating them as a separate grouping would be detrimental to the analytical content of the sector structure.

Separate identification of SPEs

38. **With a view to separately identify cross-border data on SPEs, the BOPCOM, in October 2018, endorsed the Task Force on SPEs (TFSPE) recommendation for the IMF to undertake a data collection for resident SPEs.** The proposed reporting template[31] will separately collect selected balance of payments (BOP) and international investment position (IIP) components of resident SPEs. As transactions in goods would be relevant for merchanting SPEs, a separate line for net merchanting by SPEs is included. Regarding services, four distinct components of services have been included in the reporting list where SPEs can be of relevance: transport, financial services, charges for the use of intellectual property, and other business services. The data collection targets the release of 2020 annual data by end 2021.

39. **In the context of collecting and separately identifying SPEs within cross-border statistics, the TFSPE also came up with a definition for SPEs, also endorsed by BOPCOM in 2018.** The merit of developing the proposed definition for cross-border statistics was primarily to assist compilers to properly identify SPEs as opposed to the general guidance already provided in the current statistical manuals, where compilers are challenged with flexibility of interpretation.

40. **In formulating the definition of SPEs, BOPCOM considered several key aspects**: (i) whether it should focus on identifying certain (SPE) institutions or rather certain SPE-like or "pass-through" activities (i.e., that could be undertaken by any institution); (ii) whether it should encompass only financial or also non-financial entities; (iii) which kinds of identifying criteria should be used, e.g. employment, physical presence, production, residence of the direct or indirect controlling entity, balance sheet structure (i.e. only financial or also non-financial assets, only cross-border positions or also domestic).

[31] See Annex V

41. **Considering all these factors, the definition endorsed by BOPCOM is as follows:**

An SPE, resident in an economy, is a formally registered and/or incorporated legal entity recognized as an institutional unit; with no or little employment — up to maximum of five employees; no or little physical presence; and no or little physical production in the host economy. *SPEs are directly or indirectly controlled by nonresidents.* *SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services; and/or (ii) isolate owner(s) from financial risks; and/or (iii) reduce regulatory and tax burden; and/or (iv) safeguard confidentiality of their transactions and owner(s).* *SPEs transact almost entirely with nonresidents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.*

42. **To support the practical implementation of the proposed definition, the TFSPE has developed a decision tree**[32] **as well as a typology[33].** The decision tree, presented in a form of a flow chart (Annex VII), is to be used as an operational guidance to assist national compilers in identifying SPEs for ESS purposes. The typology, on its part, should be used as a complement to the SPE definition and is not meant to be either exhaustive or prescriptive. To further elaborate on the typology, detailed illustrative summary cards for the main types of SPEs, highlighting the main characteristics of each type, have been prepared by the TFSPE. Each fiche includes a description, general characteristics and a prototype balance sheet with the main instruments and flows linked to the SPE functions/description. The typology and the fiches can assist compilers in identifying SPEs and in determining the appropriate institutional sector which is also important from a national accounts perspective. The use of SPEs by MNEs complicates the allocation of output and value added to economies, which is why it is important to develop further guidance on sector classification for compilers

43. **BOPCOM acknowledged in their discussion the importance of harmonizing the statistical definition and the treatment of SPEs across all macroeconomic datasets, particularly coordinating the work with national accounts**. Although the work has focused on SPEs in the context of ESS, the principles of the proposed definition for ESS may be able to be adapted/refocused for use in the context of other macroeconomic datasets, of which national accounts.

[32] Similar decision trees have been developed by national compilers and other international institutions (see Eurostat 2009 and DNB at the IMF Committee on Balance of Payments Statistics 2016.

[33] See annexes VI and VII

44. **While recognizing that separate identification of SPEs shall permit to have a clearer view of pass-through funds, BOPCOM acknowledged that not all pass-through capital can be captured through identifying and separating SPEs.** In several countries, the phenomenon of pass-through capital also occurs outside SPEs, either captured through near SPEs or in other entities. The possibility of separately identifying pass-through activities not related to domestic activities, regardless of the statistical status of the entities (SPE, near-SPE, or non-SPE), also emerged. One approach for such identification would lie in a further disaggregation of institutional sectors into foreign-controlled and non-foreign controlled entities, which rejoins the idea of adding sub-sectors in the current framework. This would allow for certain financial flows within foreign controlled entities to be interpreted as pass-through activities.

Question 21*: Is the proposed definition of an SPE for balance of payments statistics useful for identifying SPEs that are part of MNEs for national accounts purposes? Yes/no; please describe why.*

Total responses: 18 members

Canada, Ireland, Luxembourg, Malaysia, the Netherlands, Eurostat, Brazil, South Africa, Uruguay, USA, Norway, and Zambia are of the view that the proposed definition of an SPE for balance of payments statistics is useful for identifying SPEs that are part of MNEs for national accounts purposes. South Africa supports that definition sets out realistic and concrete measures in identifying these entities and provides more clarity. The Netherlands acknowledged the employee's threshold, which has provided extra guidance to standards that generally remain, to some extent, ambiguous.

Mauritius, Germany, the ECB and UK expressed apprehensions over the definition.

The United States warned that identifying SPEs using a set of criteria such as those laid out in the definition may not be possible on a case-by-case basis for countries with large numbers of resident SPEs or for countries with large numbers of MNEs that own non-resident SPEs. For those countries, quantitative measures such as number of employees or proportion of sales may be much more practical.

Germany considers that the definition was a big step forward. Nevertheless, there is still significant space for interpretation, which would lead to different populations in each country when identifying SPEs. This would lead to additional bilateral asymmetries. For example, the last criterion "SPEs transact almost entirely with nonresidents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities" would lead to different population of SPEs in Germany depending on which financial balance sheet items are exactly used (Different results if using only equity, or equity and debt, or only debt).

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How to interpret “large part” (Different results if for example 70% of the financial balance sheet should be vis-a-vis nonresidents instead of 50% or other possible ratios.) How to interpret ”no or little physical presence; and no or little physical production in the host economy.” (How to operationalize this criterion, via for example turnover or fixed tangible assets and with which thresholds? Or is an outlier analysis suitable?) This means that, for all criteria, additional precision and provision of clear-cut guidelines (e.g. a specific ratio for “large part” or a precise threshold for nonphysical presence/production) would be needed. The more precise thresholds are, the easier it is to operationalize them and ensure consistency.

Mauritius noted that further information was needed to identify the SPEs/MNEs. The UK raised the concern when applied to units on the business register. The ECB felt that proposal by the IMF TF on SPEs seems a reasonable starting point, however, an area that deserves examination is whether the label “SPE” should only be assigned to units owned by and transacting mainly with non-residents, or whether the characterization could be extended to units having only a domestic dimension. This might have implications for the “independent institutional units”.

Question 22: *Is the proposed typology of an SPE (annex VI) useful for helping national accountants identify SPEs and what institutional sector they are classified to?*

Total responses: 18 members

All members found that the proposed typology of an SPE was useful for helping national accountants identify SPEs and what institutional sector they are classified to.

Luxembourg supports that merchanding SPEs (not to confuse with companies performing merchanting) and Royalty and Licensing SPEs should rather be considered as factoring and invoicing companies as it can hardly be admitted that they have the economic ownership of the goods or the IP.

The United States mentioned that the typology is useful if the SPE type is something that could be collected in a survey instrument or other means. Without a way to collect the SPE type, identifying SPEs based on the typology may not be possible on a case-by-case basis for countries with large numbers of resident SPEs or for countries with large numbers of MNEs that own non-resident SPEs. For those countries, quantitative measures such as number of employees or proportion of sales may be much more practical.

The Netherlands suggested to keep the SPE concept closer to the institutional sector classification. Either some entities should no longer be counted as SPE or some concept of SPE-‘services’ should be developed (perhaps corporate services or tax services) triggering the reclassification of current non-S127- SPE’s into a single subsector in S127.

Question 23: *Is the BOP supplemental data collection (annex V) useful in meeting the needs of national accounts compilers?*

Total responses: 18 members

All members, except for Zambia, found the BOP supplemental data collection (annex V) useful in meeting the needs of national accounts compilers. The United States noted that the information collected in the template may not be enough though, while Germany believed that it will be useful only when a common definition, which doesn't leave scope for interpretation, is agreed upon.

Germany puts forward that for the time being, some of the required information is not available for the given template. The breakdown in terms of instrument and sector does not correspond to the financial accounts requirements, e.g. FDI "debt instruments" is not further broken down into loans, debt securities, etc.

The Netherlands pointed to the lack of granularity to link the data to institutional sectors.

The United States noted that supplemental data will be useful such as direct investment income. However, it is not sufficient for national accounts because it does not give a complete picture of relevant production (value-added) and related income.

I. Extensions beyond the core conceptual framework, but leave core intact

45. **This proposal can be considered as an extension to the existing framework, as alternative concepts are applied that depart in essence from the current statistical framework.** Two proposals would change the attribution of pass-through flows from legal residence to ultimate owner. Borga and Caliandro (2018) proposed a nationality-based framework for DI statistics that consolidates pass-through funds by nationality of an MNE to provide information on who makes decisions, reaps benefits, and bears risks associated with the funds. The nationality-based framework would complement the existing residence-based framework, which identifies where financial claims and liabilities are held. If the proposal would be implemented for DI statistics, a similar proposal such as Rassier (2017) could keep the SNA consistent with companion guidelines.

46. **Rassier (2017) proposed reclassifying SPEs from their countries of legal incorporation to the countries of their parents so that flows of SPEs are consolidated with the other flows of parents in an alternative presentation to the core SNA framework.** This reclassification alternative would give users an idea of the effects of pass-through flows within MNEs on SNA core measures. Even if changes suggested in Borga and Caliandro (2018) and Rassier (2017) were implemented as supplemental presentations, they yield meaningful enough departures from current practice by statistical compilers that would require careful consideration

of practical matters before implementation is feasible. For instance, although the SPE is located (and reported) in another jurisdiction from the DI owner, the DI owner of the SPE would have to record all the balance sheet positions and transactions for the SPE.

Question 24: *If Rassier (2017) 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? Yes/no; describe why.*

Total responses: 15 members

Five members, namely Eurostat, ECB, US, Norway, and Uruguay are agreeable as an alternative presentation. The remaining ten members rejected the alternative presentation based on the challenges that compilers would face, on complicated cases, or the creation of considerable asymmetries.

Canada foresaw that identifying them separately is enough. Reclassifying them by country could be potentially confusing, involve a lot of work and could lead to incoherence internationally and even a potential degradation of data quality if not done properly. It would have to be coordinated effort.

Ireland noted that this approach will lead to considerable imputations by compilers across the globe and result ultimately in considerable asymmetries.

Germany was against this alternative presentation noting that in some cases, there are chains of SPEs affecting more than one country. In the case of a reclassification, which parent should be used, the immediate or the ultimate? SPEs should still be seen as separate institutional unit. From our point of view the possible analytical value added does not vindicate the effort.

Australia considered that this approach introduces challenges with capturing SPEs which interact with various countries. From Australia's perspective, there is no policy requirement for this extension.

The Netherlands noted that while this approach offered new insights, huge technical difficulties would need to be overcome to make it feasible. In addition, some thought would have to be given to how to record the national transaction of SPE's in the country of residence. Further work is needed to be able to treat this as a viable option.

BEA agrees this option would yield a meaningful departure from current recommendations, and the practical implications for implementation should be further considered for any changes to the current SNA.

Eurostat believed that it would be useful, since SPEs are not independent units from an economic point of view. So, a reclassification to the parent country would better reflect economic, rather than legal reality.

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Russia does not support the idea of reclassifying SPEs because this may create misunderstanding among users of statistics, which we observe when there are two approaches to accounting for direct investment (assets/liabilities vs. directional principle).

South Africa prefers to keep SPEs in country of legal incorporation. This alternative view could potentially give rise to confusion and imputations by compilers, which could ultimately result in asymmetries and even a potential lower quality of data, if it is not done correctly. To identify SPEs separately is sufficient.

From the theoretical point of view, although it is a conceptually sound and attractive proposal, Uruguay sees this as a complementary approach to the current SNA. I think the granular presentation of (resident SPEs), consistent with the current SNA conceptual framework, could be a first step recommended, if SPEs are important to the country. Then, the presentation of SPEs consolidated with their parents (reclassified to their parents' foreign countries), could be recommended as a complement (like a satellite account) for a second step. I agree this reclassification would lead to a complementary analysis of the role of the multinational enterprises inside national economies and globally.

Question 24a. *Do you think this alternative presentation of SPEs that consolidates them with their parents is feasible?*

Total responses: 16 members

No except for USA.

II. Final Remarks

47. **The focus of national accounts is generally to meet national policy needs.** Globalization adds to the difficulties of compiling national economic statistics, particularly the challenges arising from transactions of MNEs, between affiliates of the same MNE, and of SPEs. This issue paper discusses the difficulties encountered by national compilers in recording MNE transactions in national accounts and the cross-border transactions in the balance of payments.

48. **At present data are collected from, or in respect of, resident institutional units to compile both national accounts and balance of payments statistics.** Transactions reflect the change in economic ownership. This approach is supported by national statistical legislation. However, to obtain the relevant information for the measurement and classification of national economic activities, it largely depends on the ability of the resident institutional unit to provide them. This can be challenging when the unit is part of an MNE, which conducts much of its business across national borders. While residence is central to economic accounts, it may be of little importance to MNEs, whose operations extend seamlessly across national boundaries.

49. **This issue paper reflects on MNEs including SPEs and raises conceptual and measurement issues that need to be addressed either by extending the current statistical framework or by implementing new international statistical standards.** There are different options presented, of which a continuation of initiatives for which discussion have already started.

50. **As a step forward, exchanging country experiences may be essential.** In particular, taking an inventory of the current data collection systems in place in all countries collecting and reporting data on MNEs, including SPEs may bring in information and technical knowledge on how to proceed as well as provide useful encouragement and guidance to other countries. Fostering co-operation and collaboration across national compilers is critical.

Overall Questions to the TT:

Question 25*: Are there additional options that have been left out of this issue paper but should be considered?*

Total responses: 13 members

Most members (Australia, Brazil, Malaysia, Norway, and Zambia) found no additional options to consider.

The remaining: Ireland raised the role of LCUs, which has not been covered in the note. Additionally, more detailed institutional sector presentations can be covered, supplemented with industry cross classifications.

Luxembourg noted that the issue paper may touch upon micro data and data sharing in a more explicit way, taking advantage, for instance of the European experience in this field. The issue paper may also describe the formulary apportionment method more in detail.

The Eurostat highlighted that issues related to the definition of re-invested earnings (how does depreciation fit in), treatment of portfolio income and corporate inversions – these are all raised by users and subject to adjustments, e.g. in GNI* - could be covered. Pass-through activities can be covered as well. The Eurostat also referred to the link to location of IPPs legally owned by SPEs, which will be taken up by the TT on IPP.

Question 26: *In your opinion, which options should be given the highest priority?*

For example, more detailed institutional sector accounts (with breakout of foreign controlled and domestic MNEs) or more detail by industry (breakout of foreign controlled and domestic MNEs) such as shown in the extended SUTs? Providing supplemental information on MNEs by institutional sector as, for example, proposed in the G20 DGI or supplemental information on SPEs?

Total responses: 16 members

Out of the 14 responses, six members (Australia, Brazil, Germany, Mauritius, Uruguay, and UK) opted for more detailed institutional sector account with breakdown for foreign controlled and domestic MNEs. Four members (Canada, Ireland, Luxembourg and the USA) have given priority to supplemental data on SPEs or separate sub sector classifications of SPEs in S.11, S.12 and S.13

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The Netherlands mentioned that a split in the institutional sector accounts related to MNE's with improved links to the balance of payments should be the first priority. Separate compilation and publication of data for S127 as a proxy for SPE's should also be a priority.

The ECB believes that priority should be given to both (i) extending the data basis for sectorization by control (in line with the G-20 requirements) and (ii) for SPEs (following the example of the data collections in the field of BOP). In addition, initiatives should be launched by IOs to start dialogue with MNEs with the final objective to develop in the future an internationally centralized data flow for statistical purposes. Finally, a decision has to be taken on the residency treatment of SPEs.

Eurostat and Norway have indicated that priority should be given to the breakdown by ownership proposed in the extended SUT (domestic firms, domestic MNEs, foreign owned affiliates) in addition to more detailed institutional sector accounts. The disaggregation of the SUT and sector accounts are linked through the business registers and business statistics.

The United States have pointed out that the best starting point for changes is incrementally adding more granularity to the existing frame (plus supplemental tables) rather than a holistic change to the current framework, such as a reclassification of SPEs to their parents.

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Economic ownership, Institutional unit, and Residence as stated in *SNA08*

2008 SNA, paragraph 2.47, mentions that "*the criterion for recording the transfer of products from one unit to another in the SNA is that the economic ownership of the product changes from the first unit to the second*".

2008 SNA, paragraph 4.10, defines the concept of residence as "*The residence of each institutional unit is the economic territory with which it has the strongest connection, in other words, its centre of predominant economic interest*." The concept of residence in the SNA is exactly the same as in *BPM6 (2008 SNA,* paragraph 4.15*)*.

2008 SNA, paragraph 4.2, defines an ***"****institutional unit as 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."* Paragraph 4.14 further states an institutional unit as having a center of predominant economic interest "*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*."

For corporations and non-profit institutions, the residency principle means that enterprises have a center of economic interest in the country in which they are legally constituted and registered. Multinational enterprise groups may have centers of economic interest in quite a few countries.

2008 SNA, paragraph 4.15 (c) also explicitly states that when a corporation *"…maintains a branch, office or production site in another country in order to engage in production over a long period of time (usually taken to be one year or more) but without creating a subsidiary corporation for the purpose, the branch, office or site is considered to be a quasi-corporation (that is, a separate institutional unit) resident in the country in which it is located*". Consequently, even in the case in which a legal entity is not created, a unit without separate legal status that engages in substantial economic activities is considered a resident institutional unit.

2008 SNA, paragraph 4.16 states that "*the institutional sectors of the SNA group together similar kinds of institutional units*", and paragraph 4.17 mentions that "*institutional units are allocated to sector according to the nature of the economic activity they undertake*".

Definitions and characteristics of SPEs as stated in *BPM6*, *SNA08,* and *BD4*

1. *SNA 2008* Paragraph 4.55 states that "there is no common definition of an SPE but some of the following characteristics may apply." Paragraph 4.56 puts forward: "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 the 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."

2. *BPM6* Paragraph 4.50: "Special purpose entities (SPEs) or vehicles, international business companies, shell companies, shelf companies, and brass plate companies are labels that are applied to flexible legal structures in particular jurisdictions, which offer various benefits that may include any or all of low or concessional tax rates, speedy and low-cost incorporation, limited regulatory burdens, and confidentiality. Although there is no internationally standard definition of such companies**, typical features of these entities are that their owners are not residents of the territory of incorporation, other parts of their balance sheets are claims on or liabilities to nonresidents, they have few or no employees and they have little or no physical presence."** Paragraph 4.115(d) of *BPM6* states that "for entities, such as many SPEs, that have few if any attributes of location, the residence is determined by their place of incorporation."

3. *BD4* Box 6.2: "An enterprise is usually considered as an SPE if it meets the following criteria:

- **The enterprise is a legal entity,** formally registered with a national authority; and subject to fiscal and other legal obligations of the economy in which it is resident.

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

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

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

- **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 **channeling of funds from non-residents to other non-residents**. However, in its daily activities, managing and directing plays only a minor role."

4. *SNA 2008* Paragraph 26.28: "Resident artificial subsidiaries and special purpose entities (SPEs) are combined with their owners into single legal entities. However, a legal entity that is resident in one jurisdiction is never combined with a legal entity resident in another. As a result, SPEs and other similar corporate structures owned by non-residents are considered to be resident of their territory of incorporation, even though most or all of their owners and most or all of their assets are in another economy."

5. The 2008 SNA, in paragraph A3.11 states that an SPE or special purpose vehicle "is treated as an institutional unit and allocated to sector and industry according to its principal activity unless it falls into one of three categories; (a) captive financial institutions, (b) artificial subsidiaries of corporations, and (c) special purpose units of government."

Sectors (S codes)

A1.7 The sectoring principles of the SNA are described in chapter 4. The following list brings all the aspects of the potential types of disaggregation together in a comprehensive list. The list is extensive, and it is unlikely that all aspects will be covered by any country in all periods as a matter of course. Some of the possible breakdowns may not contain any institutional units and others may contain so few that publication at this degree of detail is not possible. Nevertheless, the full list is shown for the sake of completeness.

A1.8 Some abbreviations, standard within the SNA, are used in detailing sector codes. A special group of units are those known as nonprofit institutions, designated as NPIs. Within the corporations sectors, units that are not NPIs are referred to as for-profit institutions, or FPIs. It is worth reiterating that an NPI is not prohibited from making a profit, it is simply prohibited from distributing any profit it makes to its owners. Thus, NPIs within the corporations sectors are market producers just as the FPIs are.

A1.9 Not all NPIs are market producers. Those that are not are divided between those controlled by government, where they are still referred to as NPIs, and those not controlled by government. All of these serve households and form a separate sector of their own. They are known as non-profit institutions serving households, or NPISHs.

A1.10 Not all entries in the classification have an assigned code; only those that are regularly used in international transmission programmes.

A1.11 The full list of institutional sectors and subsectors is shown below.

Total economy (S1)

Non-financial corporations (S11)
Non-financial corporations – NPIs
Non-financial corporations – FPIs
Public non-financial corporations
Public non-financial corporations – NPIs
Public non-financial corporations – FPIs
National private non-financial corporations
National private non-financial corporations – NPIs
National private non-financial corporations – FPIs
Foreign controlled non-financial corporations
Foreign controlled non-financial corporations – NPIs
Foreign controlled non-financial corporations – FPIs

Financial corporations (S12)

Central bank (S121)
Deposit-taking corporations, except the central bank (S122)
Deposit-taking corporations – NPIs

Deposit-taking corporations – FPIs
Public deposit-taking corporations
Public deposit-taking corporations – NPIs
Public deposit-taking corporations – FPIs
National private deposit-taking corporations
National private deposit-taking corporations – NPIs
National private deposit-taking corporations – FPIs
Foreign controlled deposit-taking corporations
Foreign controlled deposit-taking corporations – NPIs
Foreign controlled deposit-taking corporations – FPIs

Money market funds (S123)
Money market funds – NPIs
Money market funds – FPIs
Public money market funds
Public money market funds – NPIs
Public money market funds – FPIs
National private money market funds
National private money market funds – NPIs
National private money market funds – FPIs
Foreign controlled money market funds
Foreign controlled money market funds – NPIs
Foreign controlled money market funds – FPIs

Non-MMF investment funds (S124)
Non-MMF investment funds – NPIs
Non-MMF investment funds – FPIs
Public non-MMF investment funds
Public non-MMF investment funds – NPIs
Public non-MMF investment funds – FPIs
National private non-MMF investment funds
National private non-MMF investment funds – NPIs
National private non-MMF investment funds – FPIs
Foreign controlled non-MMF investment funds
Foreign controlled non-MMF investment funds – NPIs
Foreign controlled non-MMF investment funds – FPIs

Other financial intermediaries, except insurance corporations and pension funds (S125)
Other financial corporations – NPIs
Other financial corporations – FPIs
Public other financial corporations
Public other financial corporations – NPIs
Public other financial corporations – FPIs
National private other financial corporations
National private other financial corporations – NPIs

National private other financial corporations – FPIs
Foreign controlled other financial corporations
Foreign controlled other financial corporations – NPIs
Foreign controlled other financial corporations – FPIs

Financial auxiliaries (S126)
Financial auxiliaries – NPIs
Financial auxiliaries – FPIs
Public financial auxiliaries
Public financial auxiliaries –NPIs
Public financial auxiliaries – FPIs
National private financial auxiliaries
National private financial auxiliaries – NPIs
National private financial auxiliaries – FPIs
Foreign controlled financial auxiliaries
Foreign controlled financial auxiliaries – NPIs
Foreign controlled financial auxiliaries – FPIs

Captive financial institutions and money lenders (S127)
Captive financial institutions – NPIs
Captive financial institutions – FPIs
Public captive financial institutions
Public captive financial institutions – NPIs
Public captive financial institutions – FPIs
National private captive financial institutions
National private captive financial institutions – NPIs
National private captive financial institutions – FPIs
Foreign controlled captive financial institutions
Foreign controlled captive financial institutions – NPIs
Foreign controlled captive financial institutions – FPIs

Insurance corporations (S128)
Insurance corporations – NPIs
Insurance corporations – FPIs
Public insurance corporations
Public insurance corporations – NPIs
Public insurance corporations – FPIs
National private insurance corporations
National private insurance corporations – NPIs
National private insurance corporations – FPIs
Foreign controlled insurance corporations
Foreign controlled insurance corporations – NPIs
Foreign controlled insurance corporations – FPIs

Pension funds (S129)
Pension funds – NPIs

Pension funds – FPIs
Public pension funds
Public pension funds – NPIs
Public pension funds – FPIs
National private pension funds
National private pension funds – NPIs
National private pension funds – FPIs
Foreign controlled pension funds
Foreign controlled pension funds – NPIs
Foreign controlled pension funds – FPIs

A1.12 General government social security is organized differently in different countries and two coding systems of general government are presented to allow for this. When social security is organized by one unit for all levels of government, total general government consists of four subsectors, one for each level of government and one for the social security unit. When each level of government includes its own social security provision, then there are only three subsectors, one for each level of government including social security provision. The theoretical hierarchical structure for government is as follows.

General government (S13)
General government social security
General government excluding social security
General government non-profit institutions
Central government
Central government social security
Central government excluding social security
Central government non-profit institutions
State government
State government social security
State government excluding social security
State government non-profit institutions
Local government
Local government social security
Local government excluding social security
Local government non-profit institutions

A1.13 In practice, the alternative partial structures, with associated codes, are as follows.

General government (S13)
Social security is one separate institutional unit for all levels of general government

General government (S13)
Social security is not a separate institutional unit but is
included at the appropriate levels of general government

Central government *excluding social security* **(S1311) Central government** *including social security* **(S1321)**
State government *excluding social security* **(S1312) State government** *including social security***(S1322)**
Local government *excluding social security* **(S1313) Local government** *including social security* **(S1323)**
General government social security (S1314)

Households (S14)
Employers (S141)
Own account workers (S142)
Employees (S143)
Recipients of property and transfer income (S144)
Recipients of property income (S1441)
Recipients of pensions (S1442)
Recipients of other transfers (S1443)

Non-profit institutions serving households (S15)
National private
Foreign controlled

Rest of the world (S2)

Institutional sector breakdown

Non-financial corporations						
	Domestically controlled non-financial corporations					Foreign-controlled non-financial corporations
		Public non-financial corporations		National private non-financial corporations		
			Of which: Public non-financial corporations, which are part of domestic multinationals		*Of which*: National private non-financial corporations, which are part of domestic multinationals	
Total	Total					
S11	S11DO	S11001	S110011	S11002	S110021	S11003

Domestically controlled financial corporations					Foreign-controlled financial corporations
	Public financial corporations		National private financial corporations		
		Of which: Public financial corporations, which are part of domestic multinationals		*Of which:* National private financial corporations, which are part of domestic multinationals	
Total					
S12DO	S12001	S120011	S12002	S120021	S12003

(blue)	= Target
(pink)	= Encouraged

Transactions breakdown

Non-financial Transactions - QUARTERLY data: Transactions

P.6 (for S2)	Exports of goods and services	
P.7 (for S2)	Imports of goods and services	
B.1g	Value added, gross / Gross domestic product	
D.1	Compensation of employees	
B.2g+B.3g	Operating surplus, gross and Mixed income, gross	
D.2	Taxes on production and imports	
	Of which:	
	D.21 (for S1)	Taxes on products
	D.29	Other taxes on production
D.3	Subsidies	
	Of which:	
	D.31 (for S1)	- Subsidies on products
	D.39	- Other subsidies on production
D.4	Property income	
	Of which:	
	D.41	Interest
	D.4N	Property income other than interest
D.41g	***Total interest before FISIM allocation***	
B.5g	Balance of primary incomes, gross / National income, gross	
D.5	Current taxes on income, wealth, etc	
D.61	Net social contributions	
D.62	Social benefits other than social transfers in kind	
D.63	Social transfers in kind	

D.7	Other current transfers	
	Of which:	
	D.71	Net non-life insurance premiums
	D.72	Non-life insurance claims
	D.7N	Other Current transfers, not elsewhere specified
B.6g	Disposable income, gross	
D.8	Adjustment for the change in pension entitlements	
P.3	Final consumption expenditure	
	Of which:	
	P.31	Individual consumption expenditure
	P.32	Collective consumption expenditure
B.8g	Saving, gross	
D.9	Capital Transfers	
	Of which:	
	D.91	Capital Taxes
	D.9N	Investment Grants and other capital transfers
P.5g	Gross capital formation	
	Of which:	
	P.51g	Gross fixed capital formation
	P.52+P53	Changes in inventories and acquisition less disposals of valuables
P.51c	Consumption of fixed capital	
NP	Acquisitions less disposals of non-produced assets	
B.9	Net lending (+)/Net borrowing (-)	

Note: the annual template is the same except that Total interest before FISIM allocation is considered a target.

Annex V

Resident Special Purpose Entities: Cross Border Flows and Positions Template

Minimum
Encouraged

Annual Reporting

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

		Balance of Payments		International Investment	
		Flows during the current year 20XX		Positions as at end of current year 20XX	
	I. Selected Financial Account Components	Net Acquisition of Assets	Net Incurrence of Liabilities	Assets	Liabilities
	if ultimate controlling parent is unknown				
	Portfolio Investment as reported in BOP and IIP	**Total to be drawn from BOP**		**Total to be drawn from IIP**	
2	**Portfolio investment related to SPEs**				
2.1	Equity and investment fund shares				
2.2	Debt securities				
	Short-term				
	Long-term				
	Other Investment as reported in BOP and IIP	**Total to be drawn from BOP**		**Total to be drawn from IIP**	
3	**Other investment related to SPEs**				
	Short-term				
	Long-term				
	Financial Derivatives as reported in BOP and IIP	**Total to be drawn from BOP**		**Total to be drawn from IIP**	
4	**Financial derivatives related to SPEs**				
	II. Selected Capital Account Components	**Credit**	**Debit**		
	Gross acquisitions (Dr)/disposals (Cr) of nonproduced nonfinancial assets as reported in BOP	**Total to be drawn from BOP**			
5	**Gross acquisitions (Dr)/disposals (Cr) of nonproduced nonfinancial assets related to SPEs**				
	III. Selected Current Account Components	**Credit**	**Debit**		
6	**Net exports of goods under merchanting by resident SPEs**				
7	**Selected services**				
	7.1 Transport				
	7.2 Financial services				

	Balance of Payments		International Investment	
	Flows during the current year 20XX		Positions as at end of current year 20XX	
I. Selected Financial Account Components	Net Acquisition of Assets	Net Incurrence of Liabilities	Assets	Liabilities
7.3 Charges for the use of intellectual property				
7.4 Other business services				
7.5 Other services				
Investment income as reported in BOP	**Total to be drawn from BOP**			
8 Investment income related to SPEs				
Direct investment income as reported in BOP	**Total to be drawn from BOP**			
8.1 Direct investment income related to SPEs				
8.1.1 Dividends				
8.1.1.1 Direct investor in direct investment enterprises				
8.1.1.2 Direct investment enterprises in direct investor (reverse investment)				
8.1.1.3 Between fellow enterprises				
8.1.2 Reinvested earnings				
8.1.3 Interest related to SPEs				
8.1.3.1 Direct investor in direct investment enterprises				
8.1.3.2 Direct investment enterprises in direct investor (reverse investment)				
8.1.3.3 Between fellow enterprises				
Portfolio investment income as reported in BOP	**Total to be drawn from BOP**			
8.2 Portfolio investment income related to SPEs				
8.2.1 Dividends				

	Balance of Payments		International Investment	
	Flows during the current year 20XX		Positions as at end of current year 20XX	
I. Selected Financial Account Components	Net Acquisition of Assets	Net Incurrence of Liabilities	Assets	Liabilities
8.2.2 Reinvested earnings				
8.2.3 Interest				
Other investment as reported in BOP	**Total to be drawn from BOP**			
8.3 Other investment related to SPEs				
8.3.1 Interest				

Typology of SPEs for External Sector Statistics

No	SPE Type	Description[34]	*2008 SNA*	*BPM6*	*2008 SNA sector*
Category I: Corporate Groups' Captive Financial Entities ***(Those captive entities created by a financial or nonfinancial nonresident corporate to fulfil specific financial activities, other than insurance, for the sponsor)***					
1.1	Conduits	Raising or borrowing funds, often from unrelated enterprises, and remitting those funds to its parent or to another related enterprise. Typically, do not transact on the open markets on the asset side.	Para 4.59	Para 4.51 Para 4.86	S127
1.2	Holding companies	Owning a controlling level of equity in subsidiaries, without actively directing them (Passive holding corporations)	Para 4.59	Para 4.51 Para 4.81	S127
1.3	Holding financial assets for securitization			Para 4.51	S127
1.4	Intra group lending companies	Loan funding from and to intra group companies Entities taking and granting inter-company loans		Para 4.51	S127
1.5	Captive factoring and invoicing companies	Concentrating sales claims and invoicing sales.			S127
1.6	Captive financial leasing companies	Engaging in lease-in lease-out agreements or as a financial intermediary in a chain of vehicles in which the end vehicle is involved in the leasing of equipment or fixed assets.		Para 4.83	S127
1.7	Other captive financial companies	Dealing with financial needs of a group, such as financing particular projects and loan origination.		Para 4.87	S127
Category II: Specialized Financial Entities					

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

No	SPE Type	Description[34]	*2008 SNA*	*BPM6*	*2008 SNA sector*
(These financial entities, with a degree of operational autonomy, have been specially created to isolate the risks of the parent companies to structure financial transactions for or securitize assets of the parents)					
2.1	Captive insurance companies	Providing insurance to group enterprises.		Para 4.88	S128
2.2	Securitization vehicles/Financial vehicle corporations	Carrying out securitization transactions in order to isolate the payment obligations of the undertaking from those of the originator, or the insurance or reinsurance undertaking (in the case of insurance-linked securitizations). Repackaging.	Para 4.59	Para 4.51 Para 4.77	S125
2.3	Holding financial and nonfinancial assets (including real estate) for related companies	Holding financial and nonfinancial assets of related companies with the goal of capital appreciation, interest/dividend income, and other income.			S11 and S125
2.4	Companies carrying out other financial functions	Performing factoring, invoicing on open markets, financial leasing on open markets, and other financial assets management.		Para 4.51 Para 4.76	S125
Category III: Corporate Groups' Nonfinancial Entities **(*Those SPEs created by a financial or nonfinancial nonresident entity to fulfil specific nonfinancial activities*)**					
3.1	Ancillary companies	Registered or incorporated companies providing ancillary services that are not resident in the same economy as its parent.		Para 4.51	S11
3.2	Operational leasing companies	Holding fixed assets, such as planes, vessels, and machinery, for the purpose of leasing them out.			S11
3.3	Merchanting companies	Purchasing goods from a nonresident and re-selling the goods to another nonresident (merchanting companies have ownership of the goods traded).			S11
3.4	Royalty and licensing companies	Concentrating group receipts concerning royalties and similar flows received from intellectual property rights and trademarks. Such a company of an SPE-type receiving royalties or similar flows for a group of			S11

No	SPE Type	Description[34]	*2008 SNA*	*BPM6*	*2008 SNA sector*
		enterprises or individuals is regarded as an independent royalty and licensing company.			
3.5	Legal ownership of intangible assets	Holding intangible assets for a related company or group of companies.			S11
Category IV: Wealth management entities **(*Those SPEs created by household entities or groups of individuals to hold or manage wealth or real estates for their owners*)**					
4.1	Companies holding/managing wealth and real estate for individuals and families	Managing family trust funds, foundations, personal holding companies.	Para 4.59	Para 4.51	S11 and S127
Category V: Government Owned Financial Entities **(*Those SPEs created by governments for fiscal activities*)**					
5.1	SPEs owned by governments for fiscal purposes	Raising or borrowing funds on behalf of a nonresident general government.		Para 8.24	S11, S12, or S15
Category VI: Other structures **(*Those SPEs created to conduct any type of transactions other than those covered in the other categories*)**					
6.1	Shell companies	Passing-through funds between nonresidents with no operations in the economic territory of incorporation. Shell companies don't have employees, are not traded, and can be kept dormant.		Para 4.50	S11 or S12
6.2	Shelf companies	Empty corporation, registered in advance, minimum assets and liabilities.		Para 4.50	S11 or S12

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

Decision Tree to Identify SPEs for External Sector Statistics

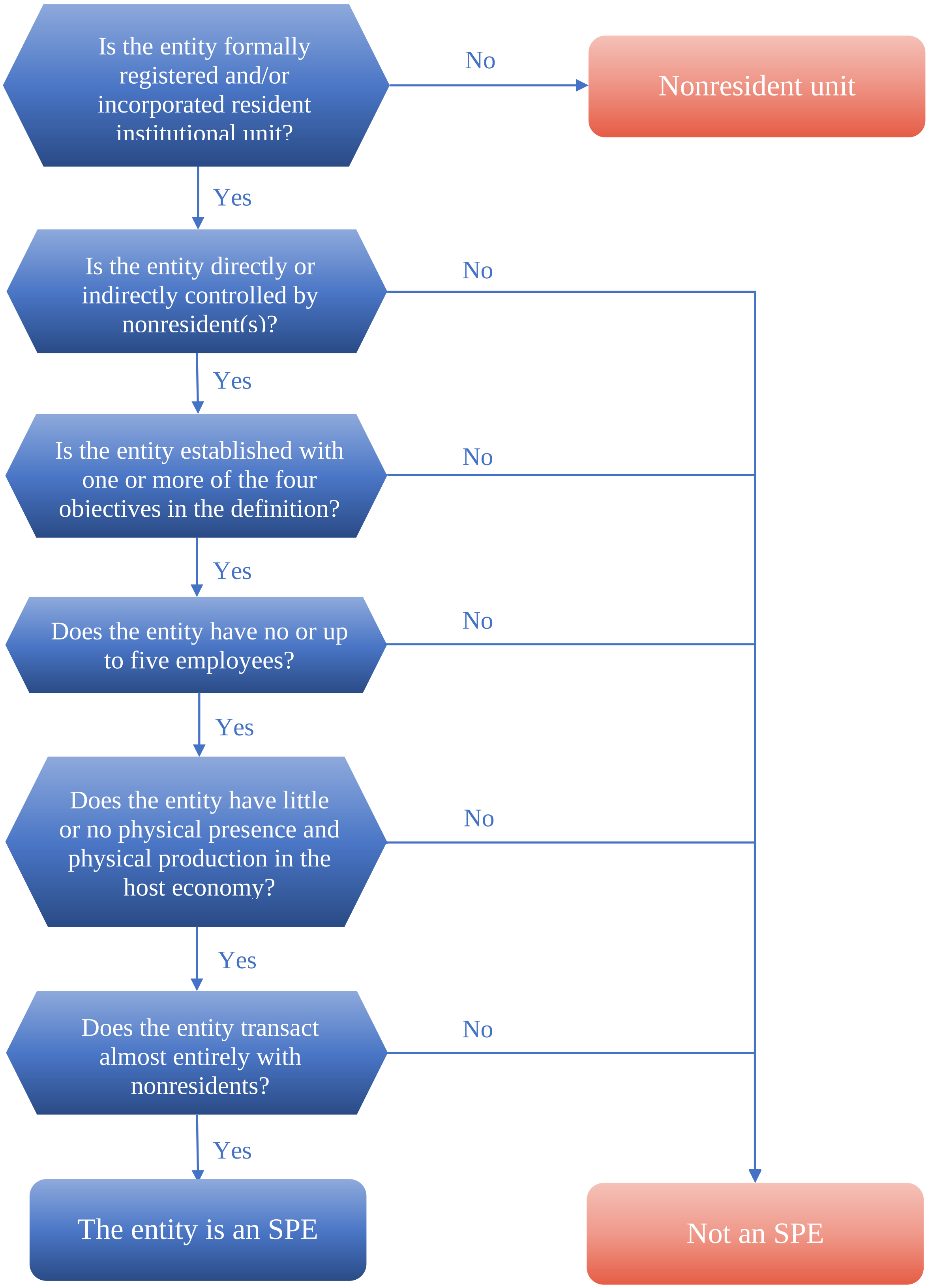

Table 1: List of Members

Members	Agency
Australia	ABS
Brazil	-
Canada	STATCAN
Germany	Deutsche Bundesbank
Ireland	Central Statistics Office
Luxembourg	Banque Centrale de Luxembourg
Malaysia	Central Bank of Malaysia
Mauritius	Answer obtained through COMESA
Morocco	Haut-Commissariat au Plan
Norway	Statistics Norway
Russia	ROSSTAT
United Kingdom	Office for National Statistics
Uruguay	-
United States	BEA
Zambia	Answer obtained through COMESA
ECB	
Eurostat	
Nonresponse	
Netherlands	Statistics Netherlands
China	State Administration of Foreign Exchange (SAFE)
IOs not expected to participate in the consultation	
OECD	
UNSD	
IMF Secretariat	

Table 2: Detailed responses

Question	1	2	3	4	5	6a	6b	6c	7	8	9	10	11	12	13	14	15	16	17	18	19	19a	20	21	22	23	24	24a	25	26
Russia	√	√	√	√	√	√	√	N.C	√	√	√	√	√	√	√	√	N.C	N.C	√	√	N.C	N.C	N.C	N.C	N.C	N.C	√	N.C	N.C	N.C
Morocco	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	N.C	N.C	N.C	N.C
Canada	√	√	√	√	√	√	√	√	N.C	√	N.C	√	N.C	N.C	√	√	√	√	√	√	√	N.C	√	√	√	√	√	√	N.C	√
Ireland	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Malaysia	√	√	√	√	√	√	√	√	√	√	√	√	√	√	N.C	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Luxembourg	√	√	√	√	√	√	√	N.C	N.C	√	N.C	√	N.C	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Germany	√	√	√	√	√	√	√	√	√	√	√	√	N.C	N.C	√	√	√	√	√	√	√	√	√	√	√	√	√	√	N.C	√
Australia	√	√	√	√	√	√	√	√	√	√	√	√	N.C	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Eurostat	√	√	√	√	√	√	√	N.C	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Brazil	√	√	√	√	√	√	√	√	N.C	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	N.C	√	√
Uruguay	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
USA	√	√	√	√	√	√	√	√	√	√	√	√	N.C	N.C	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Norway	√	√	√	√	√	√	√	√	√	√	√	√	√	N.C	√	√	√	√	√	√	√	√	N.C	√	√	√	√	√	√	√
Mauritius	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Zambia	√	√	√	√	√	√	√	√	√	√	√	N.C	N.C	√	√	√	√	√	√	√	√	√	√	√	√	√	N.C	√	N.C	N.C
ECB	N.C	N.C	N.C	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
UK	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	N.C	√	√	√
Netherlands	√	√	√	√	√	√	√	N.C.	√	√	N.C	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	N.C	√	N.C	√
South Africa	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√

N.C: No comments