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Special Purpose Entities (SPEs) in external statistics: the journey to data publication in the euro area and first analytical insights[1]

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[1] This contribution was prepared for the conference. The views expressed in this publication are those of the authors and do not necessarily represent the official views of the Committee, its members, or the BIS.

Special Purpose Entities (SPEs) in external statistics: the journey to data publication in the euro area and first analytical insights

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Abstract

In today's complex global financial system with strong cross-border linkages, multinational enterprises often establish Special Purpose Entities (SPEs) as part of their international financial and profit maximisation strategy. Separately identifying external transactions and positions of SPEs allows a deeper understanding of cross-border interconnectedness, its underlying drivers, associated risks and evolving dynamics. This is particularly relevant as SPEs are predominantly linked to pass-through investment. This paper presents newly released data on SPEs activities in the euro area, providing insights of the main types of SPEs and their impact on the size and dynamics of euro area and euro area countries' external transactions and positions.

Keywords: special purpose entities, financial globalisation, external statistics

JEL classification: C82, F23, F62

Contents

[1] European Central Bank, External Statistics and Sector Accounts Division. The views expressed in this paper are those of the authors and do not necessarily reflect those of the European Central Bank.

1. Introduction

Special Purpose Entities (SPEs) are legal entities set up in a country where they do almost no business, as they have minimal to no employment, physical presence or production capacity in that location. They are created by non-residents to benefit from advantages specific to the host country, such as lower regulatory or tax burden or easier access to capital markets and financial services. Non-resident parents maintain control on SPEs activities, and their transactions typically involve non-resident counterparties.

In today's global financial system with a complex network of cross-border trade and financial linkages, multinational enterprises (MNEs) often establish SPEs as part of their global ownership structures. SPEs are used to raise capital, channel intra-group investments across borders, organise their tangible and intangible assets on a global scale, and reallocate profits to optimise tax liabilities supporting their profit maximisation strategies. Although they have little to no impact on the host economy, the presence of SPEs can considerably inflate the value of the host country's external assets and liabilities, making the interpretation of external statistics challenging. By separately identifying external transactions and positions of SPEs, policy analysts can better understand how countries are interconnected and learn more about the underlying drivers, associated risks and evolving dynamics.

In the last decade researchers and policy-makers highlighted the growing importance of financial centres in intermediating global financial flows and the growing difficulty in interpreting cross-border linkages with the use of SPEs or similar pass-through structures by large multinationals strongly inflating and distorting the size and geography in cross-border statistics. *Lane and Milesi-Ferretti (2018)* show how the expansion of global foreign direct investment (FDI) positions after the global financial crisis was primarily explained by FDI positions vis-à-vis financial centres: this is in turn explained by a growing role of investment links intermediated by so-called special purpose vehicles making it challenging to separate genuine financial integration from positions reflecting corporate structures of large multinationals. *Blanchard and Acalin (2016)* document how a large part of measured FDI reflects funds passing through recipient countries, rather than flows invested into recipient countries: the presence of SPEs contribute to this inflation of pass-through funds which prevent the interpretability of global FDI statistics. *Damgaard et al (2024)* show that investment into corporate structures with no economic substance ("phantom" FDI) may account for almost 40% of global FDI and, only when removing the linkages due to SPEs, the true structure of the global FDI network can be uncovered. *Di Nino (2019)* and *Emter et al (2023)* focus on the euro area FDI dynamics and suggest an important role of transactions linked to SPEs resident in Luxembourg, the Netherlands and Ireland behind the retrenchment episodes for euro area FDI gross flows in the period 2018-2022.

Despite their importance in cross-border linkages, strong impact on macroeconomic data and growing demands from users, official statistics on SPEs were until recently only available for a very limited set of countries and, when available, cross-country comparisons of this data was hindered by using country-specific definitions. The collection and publication of granular and comparable statistics on SPEs is considered one of the main priorities to be addressed in face of the measurement challenges posed by globalisation – see, for example, *Eurosystem workstream on globalisation (2021)*. Under the guidance of the IMF, the statistical community worked actively to develop a harmonised international definition for SPEs, thus providing a global harmonised framework for statistical compilers to classify entities as SPEs and to encourage publishing additional data which separately identify cross-border transactions and positions for SPEs (see *IMF BOPCOM (2018)*, *IMF BOPCOM (2020)*, *IMF BOPCOM (2022))*.

Our paper focuses on the new data publication on SPEs for the euro area and euro area countries in the context of the balance of payments and international positions dataset. We first provide an overview of the data collection requirements in the euro area, the typology of SPEs present in euro area countries and the work done to operationalise several aspects of the definition to help euro area country compilers to ensure the compilation of harmonised SPEs data. We then detail the main insights from the first publication of the data, presenting several analytical perspectives to understand the impact of SPEs on the size and dynamics of euro area and euro area countries' external transactions and positions.

2. The journey to data publication on SPEs in the euro area

2.1 Key steps for the collection and publication of SPEs data

Statistical information on SPEs is key for the Eurosystem[2] to obtain a better understanding of the role of these entities in the economic and financial system of the euro area. It supports enhanced analysis of cross-border interconnectedness and assessing the associated financial and economic risks for the purpose of financial stability analysis. While data on SPEs had been available in some cases at national level, the absence of a common statistical definition at the international level had prevented an agreement on a harmonised data collection on SPEs in the euro area for many years. The ECB along with the international statistical community have worked in recent years to ensure the availability of reliable and comparable statistical information on SPEs for its policymakers – as shown in Table 1 below.

[2] The Eurosystem, which comprises the European Central Bank (ECB) and the national central banks of the Member States whose currency is the euro, is the monetary authority of the euro area.

Table 1: Timeline of the journey to ECB data publication on SPEs

2016	• ECB takes part in the IMF BOPCOM Task Force on SPEs
March 2018	• ESCB STC agreed on provision of data on SPEs, conditional on agreement on definition
Oct 2018	• IMF BOPCOM endorses final report of Task Force SPEs, including agreed definition
Oct 2020	• IMF publishes operational guidelines for collecting and publishing SPEs data
May 2022	• Amendment of ECB guideline to cover reporting of SPEs data from euro area countries
June 2022	• Agreement by ESCB WG-ES on operationalisation of SPEs definition in euro area
March 2023	• First transmission to ECB of quarterly SPEs data according to guideline ECB/2022/23
April 2024	• First publication of SPEs data for all euro area countries and euro area aggregate

Source: ECB

The ECB and several euro area members took part in the Task Force on SPEs, set up in 2016 by the Committee on Balance of Payments Statistics of the International Monetary Fund (IMF BOPCOM), to address data gaps on SPEs and review existing statistical definitions of SPEs.

In March 2018 the Statistics Committee of the European System of Central Banks (ESCB STC) agreed to start the provision of data on SPEs from euro area countries to the ECB in the context of balance of payments and international investment position data, as soon as the SPEs definition discussed by IMF BOPCOM would be ready. In parallel, a voluntary transmission of SPEs data was piloted by the ECB. The pilot data was available only for a small subset of euro area countries and based on country specific definitions, which revealed the heterogeneity of SPE types and their varying relevance across euro area countries.

In October 2018 the IMF BOPCOM endorsed the final report of the Task Force on SPEs, including for the first time an internationally agreed statistical definition of SPE; this publication was then followed in October 2020 by the IMF operational guidelines for collecting and publishing data on SPEs, including a suggested data template for dissemination of country data.

Reflecting the newly available definition of SPEs, the ECB amended in May 2022 its guideline in the field of external statistics (ECB/2022/23) to include new reporting requirements on SPEs for the euro area countries. The ECB Guideline ECB/2022/23 requires euro area countries to transmit data to the ECB on cross-border transactions and positions of resident SPEs. While being broadly consistent in its data requirements with the above-mentioned IMF data template, the ECB guideline additionally requires separated reporting for sectoral detail of resident SPEs (i.e., distinguishing between SPEs as part of the financial sector and those part of non-financial sector) and a geographical breakdown of the counterparties of SPEs transactions and positions, i.e. transactions and positions vis-à-vis other euro area residents and vis-à-vis residents outside the euro area. This latter requirement is needed so that the ECB can compile a euro area aggregate, using only transactions and positions of SPEs vis-à-vis non-euro area counterparties. The man items requested for SPEs in guideline ECB/2022/23 are shown Table 2 below (including the required detail for the geography counterparty).

The ESCB Working Group on External Statistics (ESCB WG-ES) then agreed in June 2022 on following an operational implementation of the SPEs definition for euro area compilers, to ensure the highest possible level of harmonisation of SPEs data across euro area countries. The first transmission of euro area country data on SPEs according to the ECB guideline took place in March 2023. After an extended period of close cooperation with euro area country compilers to understand the peculiarities of the country data and solve the latest methodological challenges, in April 2024 the ECB published for the first time separate data on external transactions and stocks of SPEs for all euro area countries and the euro area aggregate.[3] Data is available for both the euro area aggregate and the euro area countries from the first quarter of 2020.

[3] See https://www.ecb.europa.eu/press/stats/bop/2024/html/ecb.bq240409~47167b3b63.en.html for the ECB statistical release from 9th April 2024.

Table 2: Main ECB data requirements on SPEs

List of main items requested, and counterparty geography required for each item

	Balance of Payments		International Investment Position	
	Credit/Net acquisition of assets	**Debit/Net incurrence of liabilities**	**Assets**	**Liabilities**
1. Current account	W1,I9,J9	W1		
Goods	W1,I9,J9	W1,I9,J9		
Services	W1,I9,J9	W1,I9,J9		
ow. Transport	W1,I9,J9	W1,I9,J9		
ow. Financial services	W1,I9,J9	W1,I9,J9		
ow. Charges for use of intellectual property	W1,I9,J9	W1,I9,J9		
ow. Other business services	W1,I9,J9	W1,I9,J9		
Primary income	W1,I9,J9	W1		
Direct investment income *(sec. X)*	W1,I9,J9	W1,I9,J9		
Portfolio investment income *(sec. X)*	W1,I9,J9	W1		
Other investment income *(sec. X)*	W1,I9,J9	W1,I9,J9		
Secondary income	W1,I9,J9	W1,I9,J9		
2. Capital account	W1,I9,J9	W1,I9,J9		
3. Financial account *(sec. X)*	W1,I9,J9	W1	W1,I9,J9	W1
Direct investment (sec. X)	W1,I9,J9	W1,I9,J9	W1,I9,J9	W1,I9,J9
Equity and Investment Funds shares *(sec. X)*	W1,I9,J9	W1,I9,J9	W1,I9,J9	W1,I9,J9
Debt instruments (sec. X)	W1,I9,J9	W1,I9,J9	W1,I9,J9	W1,I9,J9
Portfolio investment (sec. X)	W1,I9,J9	W1	W1,I9,J9	W1
Equity and investment fund shares (sec. X)	W1,I9,J9	W1	W1,I9,J9	W1
Debt securities (sec. X)	W1,I9,J9	W1	W1,I9,J9	W1
Financial derivatives (sec. X)			W1,I9,J9	W1,I9,J9
Other investment (sec. X)	W1,I9,J9	W1,I9,J9	W1,I9,J9	W1,I9,J9

Source: ECB

Notes: On the list of items, *sec. X* refers to the requirement to break down the item by resident sector of SPEs between i) financial corporations and ii) other sectors than financial corporations. On the counterparty geography required for each item, W1 refers to all counterparts outside the reporting country; I9 refers to intra-euro area counterparts only; J9 refers to extra-euro area counterparts only. For financial derivatives transactions in Balance of Payments only net transactions (net acquisitions of assets *minus* net incurrence of liabilities) are requested. Further details on the full list of ECB requirements on SPEs are included in Table 10 of the ECB guideline.

2.1 The operational guidance for SPEs data in the euro area

The data on SPEs collected by the ECB in the ECB/2022/23 guideline adheres to the international definition of SPEs provided by the IMF BOPCOM (2018). Accordingly, an SPE is a formally registered and/or incorporated legal entity with the following characteristics:

a) is recognised as an institutional unit;

b) employs no, or no more than five, employees;

c) has no or minimal physical presence;

d) has no or minimal physical production in the economy where it is resident ("host jurisdiction");

e) is directly or indirectly controlled by non-residents of the host jurisdiction;

f) has been established to obtain specific advantages provided by the host jurisdiction with one or more of the following objectives: (i) to grant its owner(s) access to capital markets or sophisticated financial services; (ii) to isolate owner(s) from financial risks; (iii) to reduce regulatory and tax burden; (iv) to safeguard confidentiality of their transactions and owner(s);

g) transacts almost entirely with non-residents of the host jurisdiction;

h) has a financial balance sheet of which a large part consists of cross-border claims and liabilities, except in the case of entities issuing marketable debt securities where this information may not be available.

While the above definition of SPEs provides the backbone for the identification of SPEs in the euro area, some aspects of the operational implementation of such definition required further consideration and adaptation to the specific context of the euro area (and EU). In addition to the overall operational guidelines from the IMF (IMF BOPCOM (2020), certain specificities on the operational implementation of the SPEs definition were then agreed by the ESCB WG-ES to facilitate the identification, classification and reporting of SPEs across euro area (EU) countries. In particular, the operationalisation guidance for euro area (EU) countries includes the following aspects:[4]

1. Legal entities with SPEs characteristics: euro area (EU) countries should keep the definition of institutional units for SPEs as this is one of the fundamental principles of the macroeconomic statistics framework. This implies that SPEs (or chains of resident SPEs) are institutional units only when resident in a territory different from that of their owners.

2. Five-employee threshold**:** euro area (EU) countries should treat the five-employee threshold as a strict criterion (as it is included in the internationally agreed definition) but may make exceptions in rare instances based on the compiler's expert judgement to keep the SPEs population stable. The five-employee threshold should be understood as a headcount of five or, where information is collected, five full-time equivalent employees.

3. Physical production/physical presence: euro area (EU) countries may use the following thresholds, aside from the five-employee threshold and expert judgement, to determine domestic productivity and physical presence:

   - Material fixed assets <5% of total assets;
   - Trade receivables <5% of total assets;
   - Turnover <5% of total assets.

   Material fixed assets do not include intangible assets such as intellectual property and mobile tangible assets such as leased aircrafts and consistently, the turnover exclude the royalties and operational leases of those assets. These

[4] See https://www.ecb.europa.eu/press/pubbydate/2023/html/ecb.bopiipbook202310~d2c47838a5.en.html#toc106 for additional information on this methodological guideline.

thresholds are on the high side to give countries some leeway to avoid frequent reclassifications of SPEs/non-SPEs due to the high volatility of this ratio.

4. External assets and liabilities: euro area (EU) countries may use the following indicative threshold to filter the number of entities that might be classified as SPEs: threshold of >80% of total financial assets and total financial liabilities vis-à-vis non-residents as a benchmark. Exceptions shall be accepted in the case of entities that issue marketable debt securities where this information is not available, such as conduits and securitisation vehicles (especially when debt securities are sold, and the counterpart information is not readily available). In addition to the threshold, the classification of SPEs on the basis of the external financial assets/liabilities criterion should be based on expert judgement.

5. Time of reclassification: to avoid unwanted fluctuations in the classification of entities as SPE, the five-employee threshold may be assessed over a period of three years.

6. Indicators to assess the relevance of SPEs in a country's economy: to evaluate the entity's specific "purpose", it is important to understand the incentives provided by specific jurisdictions as host countries for SPEs. The following indicators could be helpful for euro area (EU) compilers in assessing whether their country is attractive/attracting SPEs and therefore in identifying whether SPEs are material within a country's economy:

   - Presence of highly specialised law and tax firms.
   - An employment share in the legal and financial service sector that exceeds the European average may indicate the presence of a strong, internationally-oriented financial sector.
   - Special tax regimes for dividends, interest, royalties, income from intellectual property products (IPP) and tax-free zones.
   - Low headline corporate tax rates in general or for certain companies/regions.
   - Larger financial balance sheet vis-à-vis the rest of the world or larger FDI transactions in relation to GDP.

Additional methodological work and discussions within the ESCB WG-ES in the course of 2023 and 2024 also clarified the two following aspects for identification of SPEs:

a) Foreign control on SPEs should be understood as immediate direct foreign control: the critical factor for the purpose of classifying an entity as an SPE is the existence of an immediate non-resident controlling parent, rather than focusing on the *ultimate* non-resident controlling parent. Entities respecting all SPEs criteria (including having a direct foreign controlling parent), but a domestic ultimate controlling parent are still to be classified as SPEs.

b) Classification of orphan entities as SPEs depends on who effectively exercises control over them: assessing the criterion of foreign control is particularly challenging for entities set up as orphan structures. While there is no explicit definition of orphan entities in the international manuals, they are considered to be entities set up independently by a (foreign) sponsor and are typically involved in securitisation transactions. The notional equity capital of the orphan entity is handed over to an unrelated third party, usually a (resident) charity or a trust. In this type of setting, it is difficult to establish who exercises control over the orphan securitisation vehicle. Control cannot be determined by simply looking at ownership of shares as this notional capital may not be relevant for controlling the activities of the orphan entity. One needs to carefully examine which unity is exercising effective direct control over the activities of the orphan entity, for example via contractual agreements with foreign sponsors.

2.2 Types of SPEs present in the euro area

The definition and identification of SPEs requires careful consideration. While all SPEs share the same statistical definition, SPEs can have different economic functions and fulfil specific needs to their owners. The Final Report of the IMF Task Force on Special Purpose Entities - IMF BOPCOM (2018) developed a detailed typology of 20 different SPE types, organised into six broader categories based on their primary economic activity: i) captive financial entities part of corporate groups; ii) specialised financial entities; iii) non-financial entities part of corporate groups; iv) wealth management entities; v) government owned financial entities; vi) other structures. The majority of SPEs are assigned to the financial sector, while non-financial SPEs are primarily engaged in activities like royalty/licensing, operational leasing or merchanting.

SPEs in the euro area countries are commonly found in the financial sector, in particular, as captive financial entities set-up to fulfil some specific financial activities leading to pass-through investment (see Chart 1). The most prevalent types are holding companies (present in 12 euro area countries), intragroup lending companies (present in 8 euro area countries), and conduits (present in 5 euro area countries).

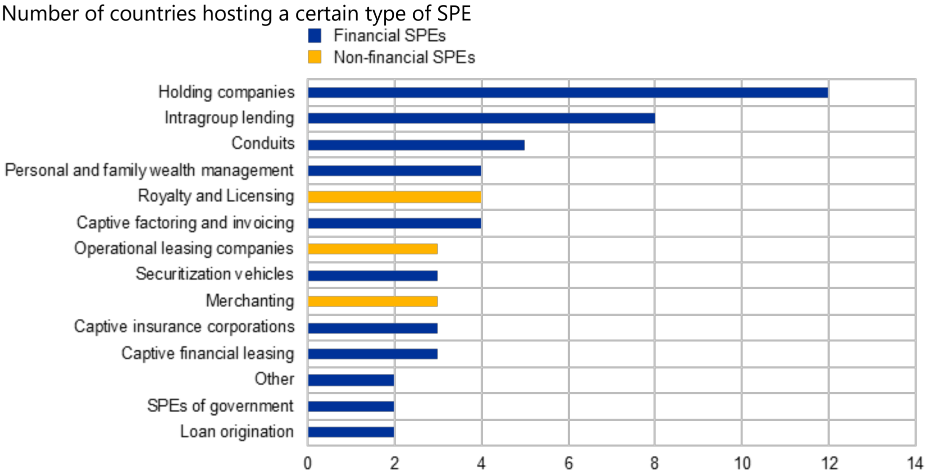
Holding companies are set up to passively own a controlling level of equity in foreign subsidiaries on behalf of their parent, without undertaking any active management activities. Their balance sheet typically consists of FDI equity assets and liabilities. *Intra-group lending entities* receive loans from other group units and then lend those funds to other group units, effectively distributing funds across the group. Their balance sheet typically consists of FDI loans assets and liabilities. *Conduits* raise funds from the open market or borrow them from unrelated counterparties and then transfer these funds to other group units. Their balance sheet typically consists of portfolio debt or other investment liabilities and FDI loans assets.

Four euro area countries also host SPEs established to manage personal and family wealth. These SPEs are typically set-up by households and may hold a variety of foreign assets, including non-financial assets, on their balance sheet.

In the non-financial sector, SPEs are involved in the production of non-financial services and hold non-financial assets on their balance sheets. Among them, several euro area countries host: SPEs engaged in *royalties and licensing* activities, which concentrate group receipts concerning royalties and similar flows received from intellectual property rights and trademarks; SPEs engaged in *operational leasing activities*, which hold non-financial fixed assets with the purpose of leasing them out; and SPEs involved in *merchanting* activities, that purchase goods from one country and sell them to another, without the goods entering or leaving the SPE's host country.

Chart 1: Typology of SPEs in euro area countries

Number of countries hosting a certain type of SPE



Source: Authors' calculations based on a survey conducted with balance of payments compilers from euro area countries in 2022.

Notes: Non-financial (financial) SPEs are those SPEs whose principal economic activity is non-financial (financial). "Other" types of SPEs are drilling companies and resolution vehicles.

3. Analytical insights on the impact of SPEs in the euro area

The new dataset on SPEs helps shedding light on the contribution of these entities to the size and dynamics of the external transactions and positions of the euro area countries. As described in Section 2, the data follows a common statistical definition and further harmonisation was promoted in its operationalisation to ensure results would be as much comparable as possible across euro area countries. Quarterly data is published for all euro area countries from the first quarter of 2020. Data covers the main indicators of current, capital, and financial accounts and international investment position, thus providing an easy way to show how much SPEs contribute to the overall developments of each euro area country. An aggregate for the euro area as a whole is also published with the same level of detail as for the euro area countries' data.[5]

3.1 Relevance and dynamics of SPEs in euro area countries

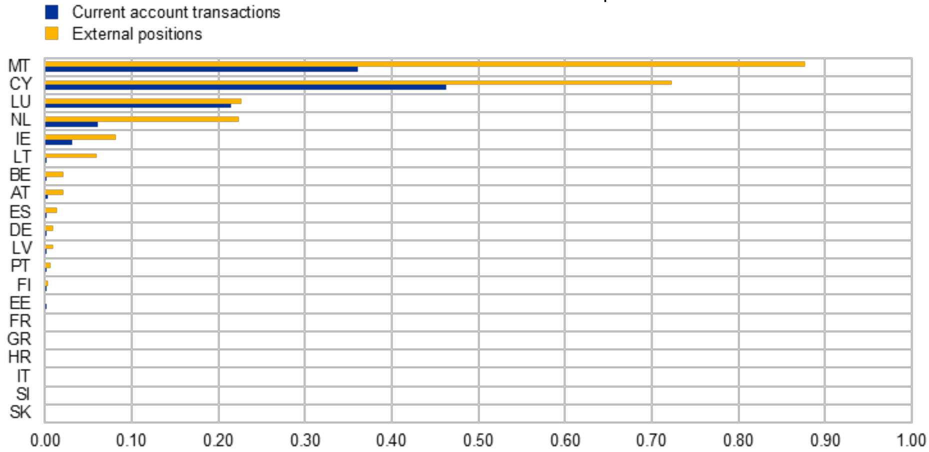
SPEs are incorporated in a certain country to benefit their foreign owners from specific advantages offered by the financial and/or regulatory regimes of such jurisdiction. As not all countries are equally attractive for incorporating SPEs, there is high heterogeneity in their presence and relevance across the euro area countries (see Chart 2).[6]

[5] As usual for balance of payments and international investment position, the euro area aggregate concept consolidates intra-euro area cross-border transactions and positions and only aggregates transactions and positions vis-à-vis counterparties outside the euro area.

[6] All data presented in Section 3 reflects data from July 2024 data vintage.

Chart 2: Relevance of SPEs in euro area countries

Share of SPEs in total current account transactions and external positions; 2023



Source: Authors' calculations based on ECB data.

Notes: The share of SPEs for current account flows (external positions) is computed summing up credits (assets) and debits (liabilities) transactions (positions). Data refers to 2023 for current account flows and end-2023 for external positions. For AT, DE and LT data refer to the latest available observation. Data from July 2024 data vintage

SPEs are present in 14 euro area countries, and, based on SPEs relevance in a country's external transactions and positions, we can distinguish four country clusters:

a) *Countries where SPEs dominate the external accounts*: for Malta and Cyprus, almost all the external assets and liabilities are due to SPEs (almost 90% for Malta and more than 70% for Cyprus); current account transactions are also dominated by the presence of SPEs, which contribute to almost 50% of current account flows for Cyprus and 40% for Malta.

b) Countries where SPEs impact substantially the external accounts: for Luxembourg, the Netherlands and Ireland, SPEs account for a relevant size of their overall external assets and liabilities (between 10% and 25%) and also contribute substantially to the overall current account transactions. The importance of SPEs in some specific b.o.p./i.i.p. categories, such as FDI or portfolio investment, is even more substantial. For example, for Luxembourg and Netherlands about 50% and 30% of FDI assets and liabilities are due to SPEs, respectively[7].

c) *Countries where SPEs impact marginally the external accounts:* for Lithuania, Belgium, Austria, Spain, Germany, Latvia, Portugal, Finland and Estonia, SPEs have a relatively minor role in the size of overall external assets and liabilities (5% or less) and current account transactions (1% or less).

d) *Countries without SPEs:* for the remaining 6 euro area countries (France, Greece, Croatia, Italy, Slovenia and Slovakia), data shows there are no resident SPEs.

For those countries where SPEs dominate or substantially impact their external accounts, the presence of SPEs is key to explain their oversized external assets and liabilities, in particular for FDI (see Chart 3).

Luxembourg, the Netherlands and Ireland are important euro area financial and investment hubs hosting a large variety of financial entities. In 2023 these three

[7] To have an overview of the impact of SPEs on FDI assets and liabilities across euro area countries see the ECB Data Portal blog entry: Understanding the relevance of special purpose entities across the euro area

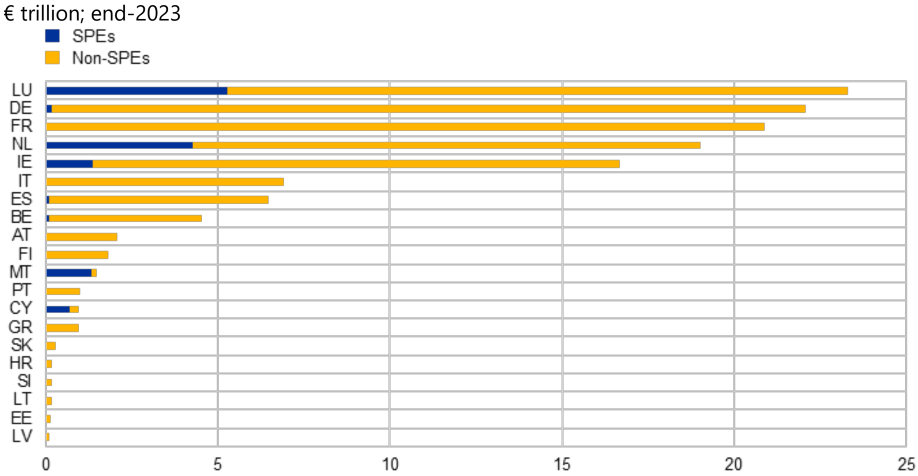
countries combined accounted for around 45% of all euro area countries' external assets and liabilities, while producing only around 10% of euro area GDP. The presence of SPEs helps explaining their large values of external assets and liabilities as SPEs account for more than €5 trillion of combined external assets and liabilities in Luxembourg, more than €4 trillion in Netherlands and more than €1 trillion in Ireland. For FDI, the Netherlands and Luxembourg had the largest gross positions across euro area countries in 2023, almost double the size of Germany and France's FDI assets and liabilities. However, when removing the impact of the investment of SPEs, their size of FDI gross positions reduces considerably, by around a third for the Netherlands and more than half for Luxembourg. Data shows that SPEs are not relevant in FDI for Ireland, whose outsized FDI positions are not linked to such entities, but to structures set-up by foreign multinationals with some physical presence and production in Ireland – which fall out of the scope of the SPEs definition.

For Malta and Cyprus publishing data on SPEs is even more critical to understand their oversized external positions, in particular for FDI. Malta and Cyprus, which were the smallest two euro area countries in terms of GDP in 2023, accounted for gross FDI positions almost as the same size as those of Italy and larger than those of other ten euro area economies. As SPEs accounted for more than 80% of FDI for both countries, it is clear than most of the large FDI positions for these two countries represent pass-through investment of SPEs.

Chart 3: Size of SPEs external positions in euro area countries

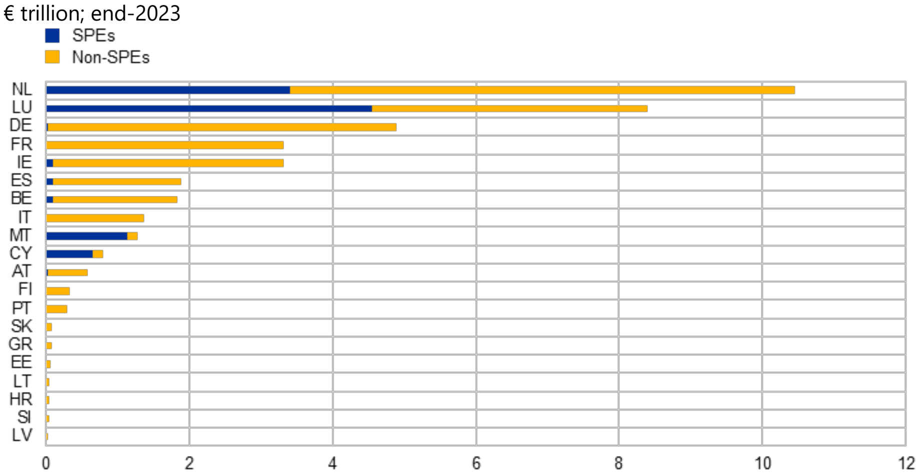
a) Sum of external assets and liabilities

€ trillion; end-2023



b) Sum of FDI assets and liabilities

€ trillion; end-2023



Source: Authors' calculations based on ECB data.

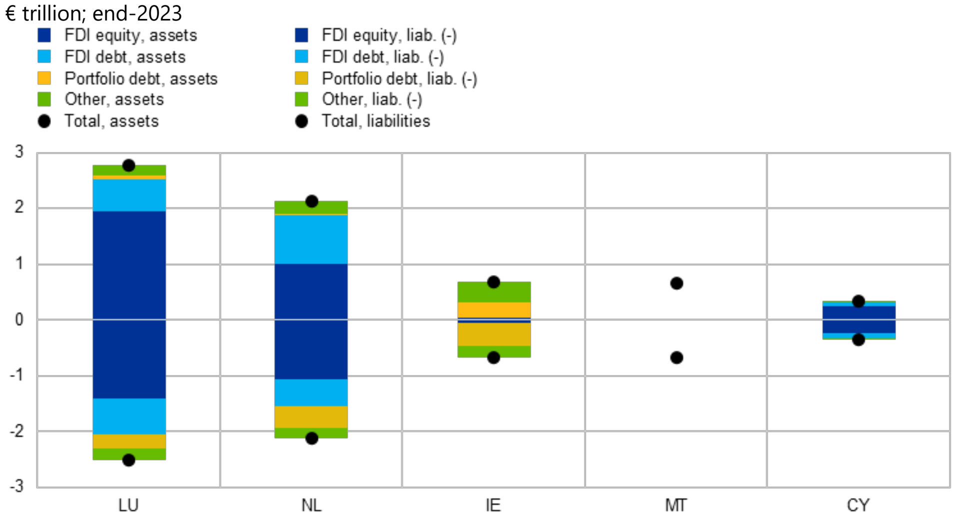
Notes: For each country the value shows the sum of the stock of assets and liabilities. Data for DE, FI and LT refers to the latest available observation. Given unavailability of figures, data for MT for the FDI assets and liabilities of SPEs is estimated assuming the same relevance of SPEs in MT as in total external assets and liabilities for MT: this method underestimates the relevance of SPEs in FDI for MT as normally SPEs are more relevant for FDI than for other functional categories. Data from July 2024 data vintage

An interesting feature of the published SPEs dataset is the availability of data on the different functional categories of the external assets and liabilities: this detailed view shows the heterogeneity in the types of SPEs active in the relevant euro area countries (see Chart 4). For the two countries with the largest external assets and liabilities of SPEs, Luxembourg and the Netherlands, the composition of SPEs balance sheet is similar: most of SPEs assets and liabilities consist of FDI Equity, showing the relevance of holding SPEs in those countries, set-up to passively hold controlling equity stakes in foreign entities. FDI debt is also relevant for SPEs in these two countries hinting to the importance of intra-group financing activities of SPEs.

The aggregate external balance sheet of SPEs in Ireland instead hints at different type of SPEs being dominant there: SPEs set-up as orphan structures, issuing debt securities in the open market or engaged in the securitisation of assets. These orphan entities do not have large FDI links on their balance sheet, which is instead dominated by portfolio debt and other investment positions. SPEs issuing debt securities on the market (conduits) are also relevant for the Netherlands and Luxembourg, albeit with a minor role compared to intra-group financing and holding SPEs. For Cyprus SPEs associated with FDI equity and debt dominate the picture, with FDI accounting for more than 90% of SPEs external assets and liabilities.

Chart 4: SPEs external assets and liabilities

€ trillion; end-2023



Source: Authors' calculations based on ECB data.

Notes: Liabilities are shown with negative sign. "Other" includes other investment, portfolio equity and financial derivatives. For MT only total external assets and liabilities are available. Data from July 2024 data vintage.

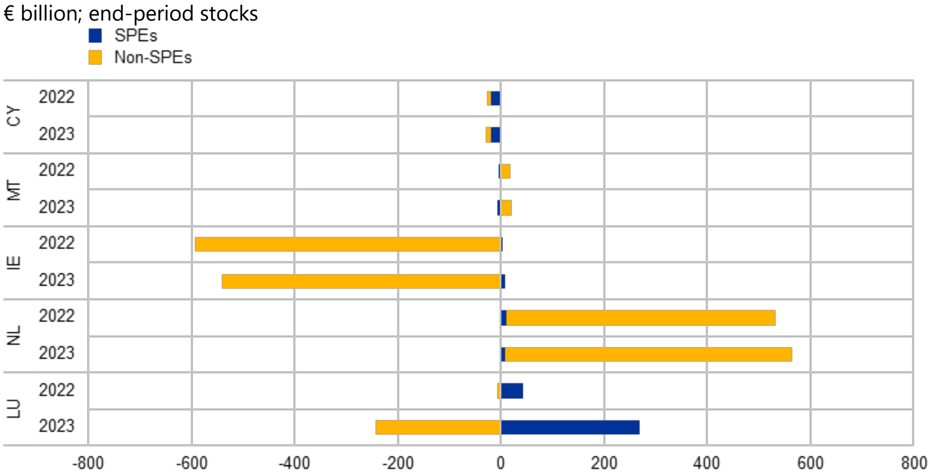
Following the SPEs definition, they typically have large gross external assets and liabilities, but comparatively small net external positions. This is due to their balance sheet, which is mostly vis-à-vis non-residents, and the pass-through nature of most of their economic functions. This is observed in the contribution of SPEs to the net international investment position of the Netherlands, Ireland and Malta, where the non-SPEs almost fully account for the size and dynamics of their net external positions (see Chart 5).

Data shows a peculiar situation for Cyprus and Luxembourg. For Cyprus the relevant presence of SPEs increases considerably the size of its negative net international investment position (i.i.p.): this is due to the presence in Cyprus of a large type of SPEs, set-up by foreign investors to hold boats and vessels on their balance sheet. As these SPEs typically have non-financial assets (boats and vessels) and financial liabilities (FDI equity and loans), this explains the SPEs overall sizeable negative contribution to the i.i.p. of Cyprus.

For Luxembourg instead SPEs seem to contribute positively to the country's i.i.p., given SPEs external financial assets outweigh their external liabilities. The overall positive net i.i.p. of SPEs is almost fully counterbalanced by negative i.i.p. contribution from non-SPEs entities in Luxembourg. Some volatility also appears over time, with the positive SPEs contribution to the net i.i.p. of Luxembourg strongly expanding in 2023 compared to 2022 and previous years. Additional contacts with the country compilers from Luxembourg are needed to fully understand these peculiar dynamics, which could be linked to challenges in recording consistently complex chains of SPEs across the different functional categories.

Chart 5: SPEs net external position

€ billion; end-period stocks



Source: Authors' calculations based on ECB data.
Notes: The net external position reflects the stock of external assets minus the stock of external liabilities. Data from July 2024 data vintage

Over the last four years external assets and liabilities of SPEs resident in euro area countries have contracted significantly, mostly driven by large negative transactions in assets and liabilities of SPEs resident in Luxembourg and the Netherlands (see Chart 6). From the first quarter of 2020[8] to the last quarter of 2024 SPEs hosted in Luxembourg experienced cumulated negative transactions of around €700 billion in both assets and liabilities. Those hosted in the Netherlands experienced cumulated negative transactions in both assets and liabilities of around 250 billion. These quarterly negative transactions were highly correlated between assets and liabilities and mostly happened in the last quarter of the year. These dynamics can suggest a tendency of adjustments in the corporate structure of large foreign multinationals, which have been reducing the size and/or number of their SPEs in Luxembourg and the Netherlands. According to the SPEs typology. SPEs in those two countries are mainly set-up by large foreign MNEs as passive holding structures, through which group's profits pass-through from their foreign subsidiaries on their way to their foreign parents. The attractiveness of these structures may have been affected by various recent international initiatives and national measures changing the MNEs' regulatory and corporate tax environment, such as the OECD Base Erosion and Profit Shifting (BEPS) initiatives, the EU directive ensuring a global minimum level of taxation for MNEs and changes in national withholding tax legislation in the Netherlands. On the contrary, SPEs hosted in Ireland and Malta have incurred in positive transactions in their external assets and liabilities over the last four years (around €100 billion for Ireland and €200 billion for Malta), suggesting foreign investors increased their use of SPEs in these two countries. For Ireland these different SPEs dynamics may be explained by the different nature of SPEs hosted in Ireland, which are mostly involved in portfolio securitisation and debt securities issuance on behalf of their foreign sponsors and thus may not be as responsive to the regulatory changes described above. For Malta, the strong and steady quarterly expansion of SPEs balance sheet in 2022 and 2023 may also be linked to incorporation of additional data sources and these observations being partly based on an estimation model as several data

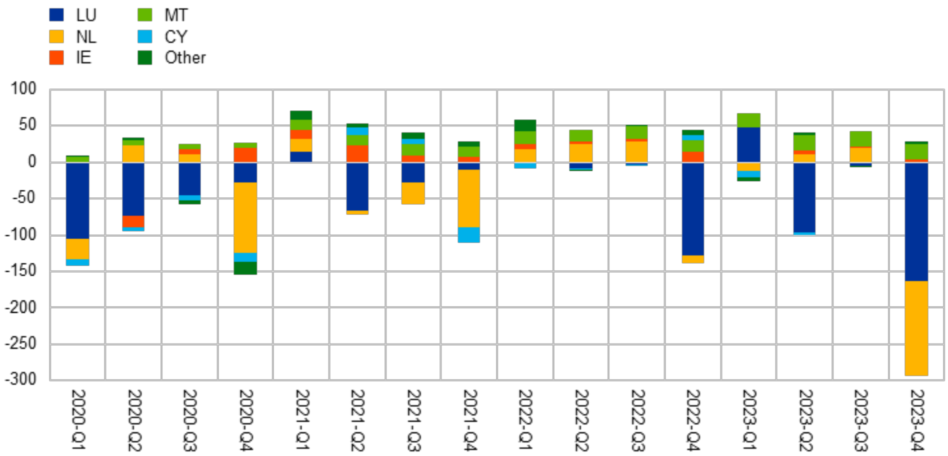
[8] This is the starting point of the ECB Guideline ECB/2022/23 data collection.

sources become available to Maltese statistical compilers only with considerable delay

Chart 6: Dynamics of SPEs external transactions

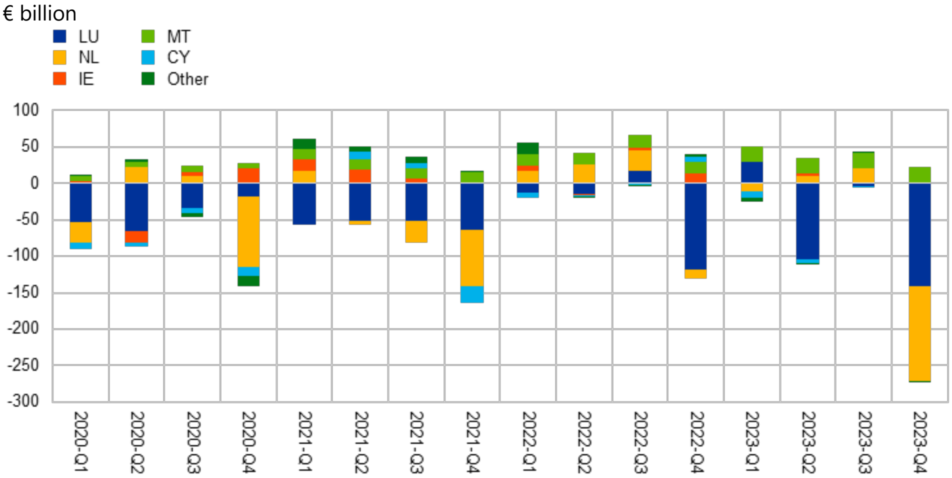
a) Financial assets, by host country

€ billion



b) Financial liabilities, by host country

€ billion



Source: Authors' calculations based on ECB data.

Notes: "Other" include available data from the remaining euro area countries hosting SPEs: AT, BE, DE, EE, ES, FI, LT, LV, PT. Data from July 2024 data vintage

3.2 Impact of SPEs on the euro area aggregate

The published euro area aggregate for SPEs show how much these entities contribute to the size and dynamics of the euro area external accounts.[9] The calculation of the euro area aggregates includes only external transactions and positions of SPEs

[9] For the euro area aggregates, the definition of SPEs at the national level is maintained, so that all SPEs that a country identified as SPEs at the country level are also considered as such for the euro area aggregate.

resident in the euro area countries with counterparties resident outside the euro area.[10]

SPEs can have a significant impact on the main euro area current account transactions and euro area external positions, although the effects vary across different components. For trade in goods and services the impact of SPEs is relatively minor. However, SPEs contribute substantially to the size of euro area FDI income flows. In 2023 around 20% of euro area FDI income receivable from foreign subsidiaries was received by entities classified as SPEs and more than 25% of FDI income payable to foreign investors was paid by entities classified as SPEs. Additionally, also around 5% of "other income" flows for the euro area was linked to SPEs.

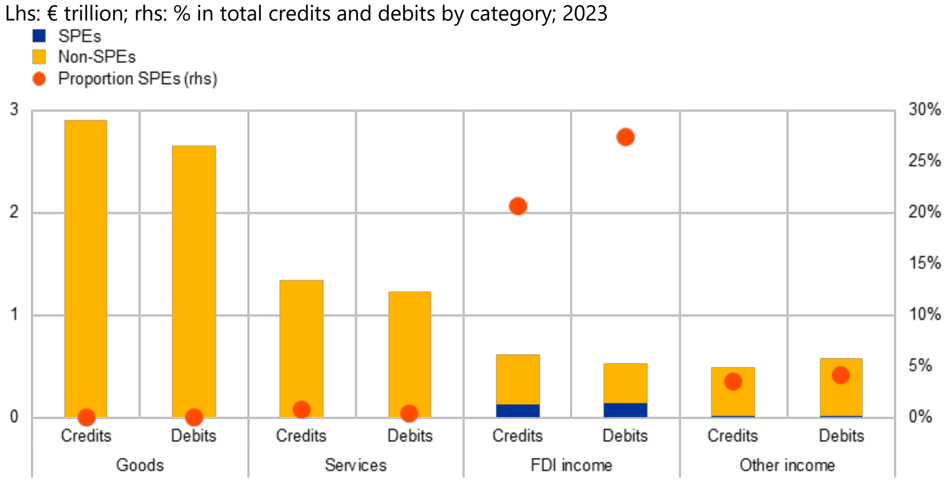
With respect to external gross positions, SPEs accounted for around 27% of euro area FDI assets and 32% of euro area FDI liabilities at the end of 2023, that is around €3 trillion in value both for assets and for liabilities. While irrelevant for euro area portfolio equity positions, the presence of SPEs has instead a substantial impact on euro area portfolio debt, where more than 10% of the €3 trillion stock of euro area portfolio debt liabilities was issued by entities classified as SPEs.

[10] While most of the extra-euro area details for the calculation of euro area aggregate are available from country data requirements, for transactions, positions and income linked to portfolio securities liabilities the euro area values are estimated centrally by the ECB, given the difficulty for country compilers to correctly identify the geography of foreign holders of portfolio securities. For additional information, see the "EU b.o.p./i.i.p. e-book" available on the ECB website.

Chart 7: Impact of SPEs on euro area aggregate

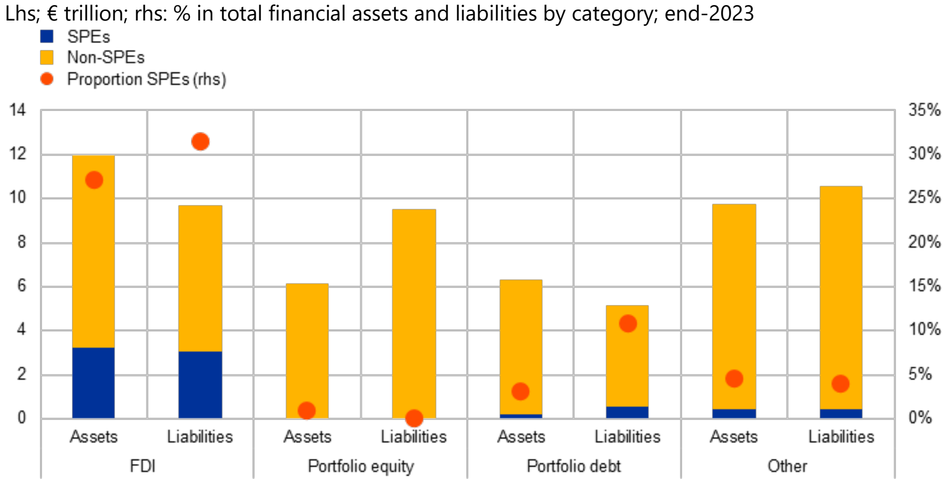
a) Current account

Lhs: € trillion; rhs: % in total credits and debits by category; 2023



b) External positions

Lhs; € trillion; rhs: % in total financial assets and liabilities by category; end-2023



Source: Authors' calculations based on ECB data.
Notes: In panel a) "Other income" include portfolio and other investment income. In panel b) "Other" includes other investment and financial derivatives. Data from July 2024 data vintage

Over the last four years, the relevance of SPEs in the euro area external assets and liabilities gradually reduced: while SPEs accounted for more than 15% of both external assets and liabilities at the beginning of 2020, their share gradually decreased to around 11% at the end of 2023. This mainly reflects developments in FDI, that is the most relevant category for SPEs: the share of SPEs in euro area FDI decreased from around 35% to 27% for FDI assets and from around 37% to 32% for FDI liabilities. In turn, this was mostly due to negative transactions in FDI assets and liabilities of SPEs over the last four years. Negative transactions in FDI can be linked, for example, to foreign investors withdrawing equity or repaying loans. This may indicate that multinationals have been making some changes to how they operate globally – for instance, foreign investors reducing their use of SPEs in euro area countries such as Luxembourg and the Netherlands - in response to regulatory changes (as discussed in the previous section).

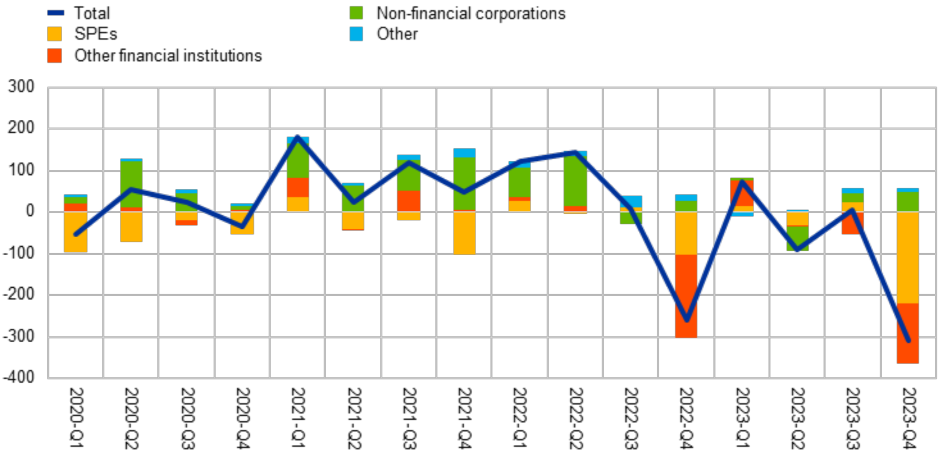
The new data granularity allows a more in-depth study of the recent euro area FDI flows volatility and their large retrenchment episodes at the end of 2022 and 2023 (see Chart 8). SPEs in the euro area were characterised by disinvestment dynamics in both their FDI assets and liabilities, with particularly large disinvestment episodes in the last quarter of the year, in line with the hypothesis of MNEs closing down or downsizing SPEs structures in several euro area countries. A similar strong divestment dynamic also affected euro area "other financial institutions" that share similar characteristics with SPEs but do not fully align with all the criteria of SPE definition. This mostly refers to captive financial institutions that are instrumental to MNEs intra-group holdings and financing activities and may be affected by similar corporate restructuring considerations as for SPEs. On the contrary, euro area non-financial corporations (NFCs) were investing abroad and receiving investment from foreign investors for most of the 2020-2023 period. Generally, FDI involving NFCs is associated to more traditional forms of FDI such as greenfield investment, investment for expansion of capacity or mergers and acquisitions: their investment dynamics are normally considered to be more closely aligned with euro area and global economic and financial cycle. However, part of these large FDI flows of euro area NFCs also reflect internal organisation dynamics of multinationals, in particular related to intra-group attribution of intangible assets and related payment flows. Several large transactions of euro area NFCs over the last four years were due to the activities of Irish non-financial subsidiaries of foreign multinationals, mostly in the pharmaceutical and information and communication technology (ICT) sectors. While part of FDI flows of these Irish entities reflected genuine investment for expansion of productive capacity, acquisition of new assets or firms, large part of them instead reflected pass-through investment flows linked to MNEs decisions on the allocation of intellectual property products intra-group, their financing and profit distributions.

Additional data granularity of euro area FDI, such as distinction of country of ultimate control of a direct investment enterprise, distinction of the FDI transaction by purpose or publication of country contributions to the euro area aggregate, could improve further the analytical value of euro area FDI statistics.

Chart 8: Euro area FDI transactions

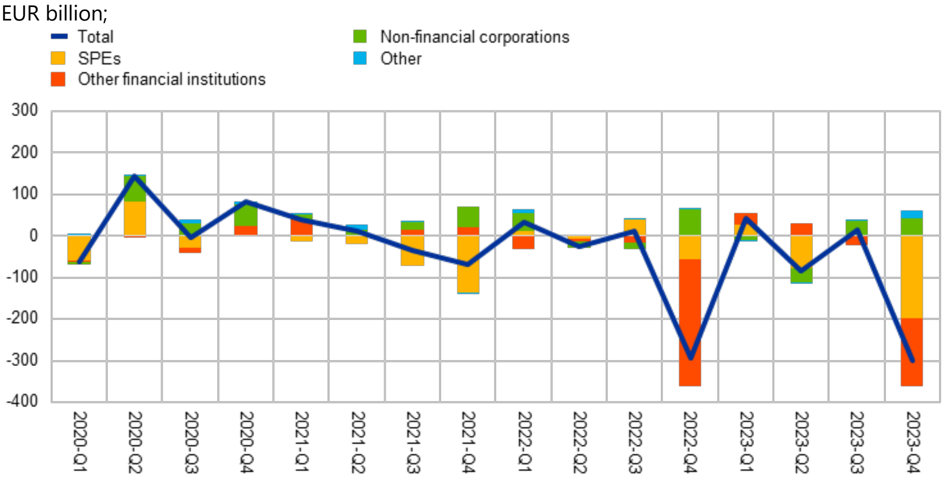
a) Assets

EUR billion



b) Liabilities

EUR billion;



Source: Authors' calculations based on ECB data.
Notes: "Other financial institutions" include financial institutions that are not banks, money market funds, investment funds, insurance corporations or pension funds. "Other" includes the remaining resident sectors. Data from July 2024 data vintage

4. Conclusion

The publication of harmonised SPE data for the euro area represents a significant advancement in understanding cross-border flows, external positions, and the complex global structures of multinational enterprises present in the euro area. This multi-decade effort has involved intensive collaborative work between international statistical bodies, the ECB, and national compilers to develop a definition and a comprehensive reporting framework for SPEs in the euro area.

The newly available dataset reveals the relevant impact of SPEs on the external statistics of euro area countries. In some member states, SPEs account for a substantial part of their oversized external assets and liabilities (from around 10% in Ireland to around 90% in Malta), underscoring their crucial role in shaping cross-border financial flows. The data also shows heterogeneity in SPE presence across the euro area, reflecting different national policies towards attracting international financial activity. In the euro area, SPEs are predominantly in the financial sector, with holding companies, intragroup lending companies, and conduits being the most common types. This granular understanding of SPE typology provides valuable insights into their relevant role in multinational corporate structures, global financial flows, and corporate strategies to optimise profits globally.

The newly released SPE dataset marks a significant step forward in distinguishing in cross-border statistics those financial links due to underlying economic activity from those due to multinationals' financial engineering . It is particularly relevant for countries where SPEs substantially inflate external accounts, enabling a more accurate assessment of their economic interactions with the rest of the world. From a policy perspective, the new dataset supports the ESCB economic analyses on the dynamics of cross-border activities and enhances the ability to assess financial stability risks. It provides policymakers with a more nuanced tool to understand the evolving strategies of multinational enterprises and the role of specific euro area countries in facilitating global financial flows.

The advancement in SPEs measurement obtained with this work should be viewed as a foundation for further refinement and development for official statistics and for economic understanding of SPEs. As global financial structures continue to evolve, amid of regulatory changes and geo-political shifts, it is necessary to regularly review and fine tune the definition and its operationalisation, data collection methodologies, and analytical approaches related to SPEs. This ongoing effort will ensure that the tools and data available for understanding SPEs remain relevant and effective, enabling more informed policymaking and economic analyses in an increasingly interconnected world.

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Special Purpose Entities (SPEs) in external statistics

The journey to data publication in the euro area and first analytical insights

12th Biennial IFC Conference

Basel, 22-23 August 2024

J. Diz Dias, F. Pastoris, C. Picon-Aguilar

European Central Bank

The views expressed in this paper are those of the authors and do not necessarily reflect those of the European Central Bank. All data shown reflect information available form the July 2024 data vintage.

Key steps for collection and publication of SPEs data

Growing importance of **financial centres and SPEs** in size/dynamics of cross-border investment

- Lane & Milesi-Ferretti (2018), Blanchard & Acalin (2016), Damgaard & al. (2024), ECB (2019), ECB (2021), ECB (2024)

Statistical information on SPEs is key **for the Eurosystem**

- understanding their role in **euro area economic/financial system**
- supporting better analysis of **cross-border interconnectedness and financial integration**
- improving assessment of financial risks for **financial stability analysis**
- understanding **investment determinants and dynamics**

Timeline of the journey to ECB data publication on SPEs

- 2016 — ECB takes part in the IMF BOPCOM Task Force on SPEs
- March 2018 — ESCB STC agreed on provision of data on SPEs, conditional on agreement on definition
- Oct 2018 — IMF BOPCOM endorses final report of Task Force SPEs, including agreed definition
- Oct 2020 — IMF publishes operational guidelines for collecting and publishing SPEs data
- May 2022 — Amendment of ECB guideline to cover reporting of SPEs data from euro area countries
- June 2022 — Agreement by ESCB WG-ES on operationalisation of SPEs definition in euro area
- March 2023 — First transmission to ECB of quarterly SPEs data according to guideline ECB/2022/23
- April 2024 — First publication of SPEs data for all euro area countries and euro area aggregate

Defining SPEs: little presence in host countries, large impact on their external statistics

SPEs are **legal entities,** formally registered/incorporated in the host country

They are set-up to obtain **specific advantages** from the host economy

- grant its owner access to **capital markets** or sophisticated **financial services**
- **isolate** owner from financial risks
- reduce **regulatory** and **tax** burden
- safeguard **confidentiality** of their transactions and owner

In the host economy, SPEs have:

- No or minimal **employment**
- No or minimal **physical presence**
- No or minimal **production**

But they **impact the external statistics** of the host economy:

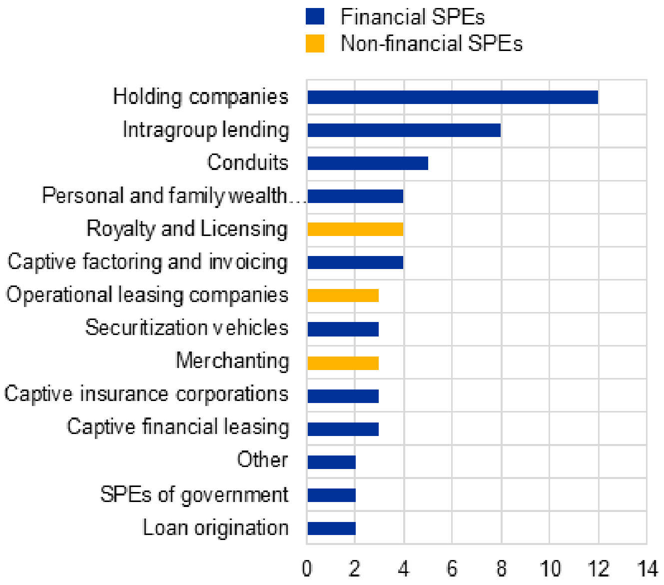
- **Controlled** by non-residents
- Most of their **financial balance sheet** and **transactions** are cross-border

SPEs in euro area: operational guidance and typology

1. **Institutional unit** is key principle
2. 5-employee is a **strict criterion**
3. **Thresholds** for production/physical presence are set to < 5% total assets
4. **Thresholds** for external assets/liabilities is set to > 80%
5. **3-year period** is allowed for threshold
6. **Several indicators** can help compilers to assess relevance of SPEs
7. Controlled by non-residents means with **immediate foreign parent**
8. **Orphan entities** can be SPEs depending on effective control in place

Typology of SPEs in euro area countries

Number of countries hosting a certain type of SPE

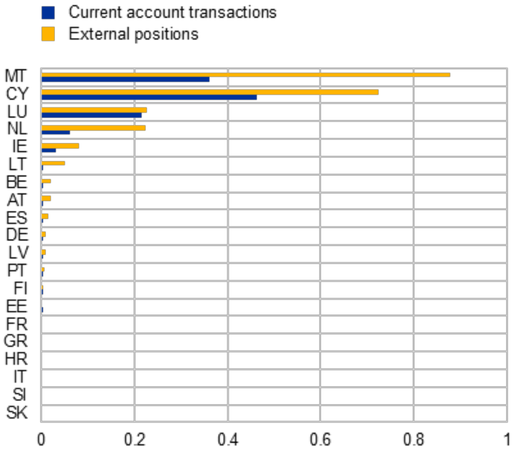


Source: Authors' calculations based on a survey conducted with balance of payments compilers from euro area countries in 2022.
Notes: Non-financial (financial) SPEs are those SPEs whose principal economic activity is non-financial (financial). "Other" types of SPEs are drilling companies and resolution vehicles.

SPEs across euro area countries: heterogenous impact on external statistics

Relevance of SPEs

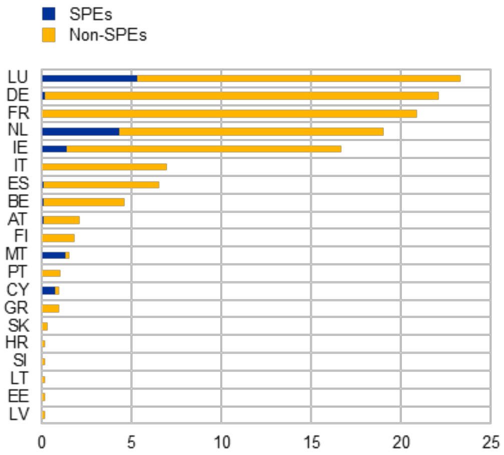
Share of SPEs in total current account transactions and external positions; 2023



Source: Authors' calculations based on ECB data.
Notes: The share of SPEs for current account flows (external positions) is computed summing up credits (assets) and debits (liabilities) transactions (positions). Data refers to 2023 for current account flows and end-2023 for external positions. For AT, DE and LT data refer to the latest available observation.

Size of external assets and liabilities

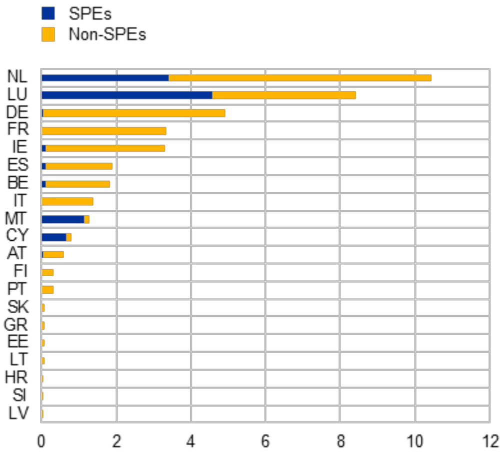
€ trillion; end-2023; sum of external assets and liabilities



Source: Authors' calculations based on ECB data.
Notes: For each country, the value shows the sum of the stock of assets and liabilities. Data for DE, FI and LT refers to the latest available observation.

Size of FDI assets and liabilities

€ trillion; end-2023; sum of FDI assets and liabilities



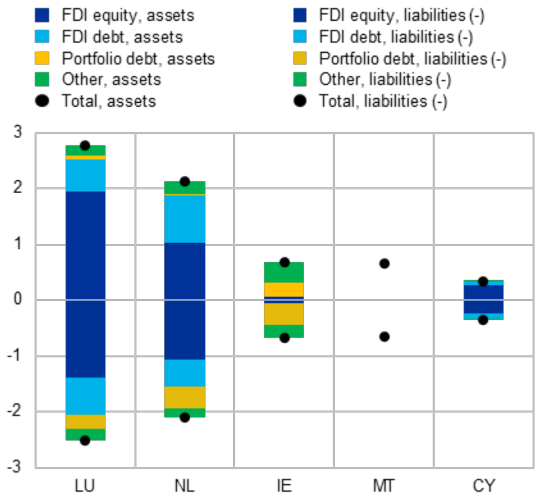
Source: Authors' calculations based on ECB data.
Notes: For each country, the value shows the sum of the stock of assets and liabilities. Data for DE, FI and LT refers to the latest available observation. Given unavailability of figures, data for MT for the FDI assets and liabilities of SPEs is estimated assuming the same relevance of SPEs in MT as in total external assets and liabilities for MT: this method underestimates the relevance of SPEs in FDI for MT as normally SPEs are more relevant for FDI than for other functional categories.

SPEs dominate external accounts in MT, CY; impact substantially external accounts of LU, NL, IE
Also due to presence of SPEs, NL and LU have largest gross FDI positions among EA countries
MT and CY outsized external positions almost entirely due to SPEs
Large FDI positions for IE not linked to presence of SPEs

SPEs balance sheet: large external assets and liabilities, small contribution to net i.i.p.

SPEs external assets and liabilities

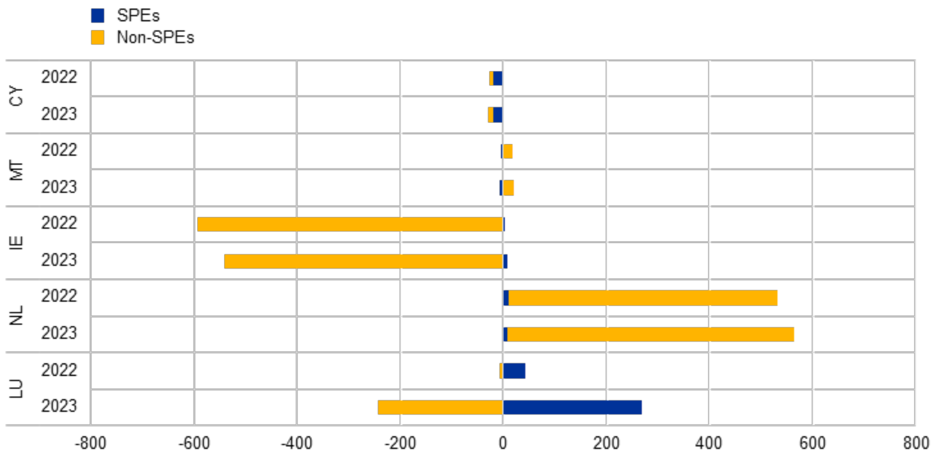
€ trillion; end-2023



Source: Authors' calculations based on ECB data.
Notes: Liabilities are shown with negative sign. "Other" includes other investment, portfolio equity and financial derivatives. For MT only total external assets and liabilities are available.

SPEs net external position

€ billion; end-period stocks

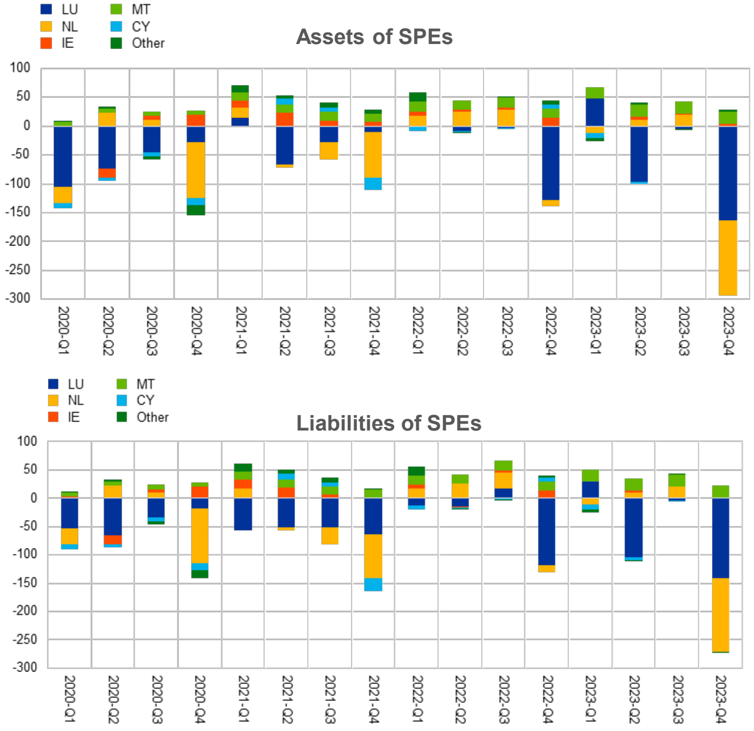


Source: Authors' calculations based on ECB data.
Notes: The net external position reflects the stock of external assets minus the stock of external liabilities.

FDI equity and debt show mainly relevance of holding SPEs and intra-group financing SPEs
Portfolio debt liability show mainly relevance of conduit SPEs
Given their definition, SPEs mostly neutral for net IIP; peculiar situation for CY and LU

SPEs dynamics: disinvestment for SPEs in euro area in the last 4 years

Dynamics of SPEs external transactions, by host country
€ billion



Source: Authors' calculations based on ECB data.
Notes: "Other" include available data from the remaining euro area countries hosting SPEs: AT, BE, DE, EE, ES, FI, LT, LV, PT.

Assets and liabilities of SPEs in euro area contracted significantly over last 4 years

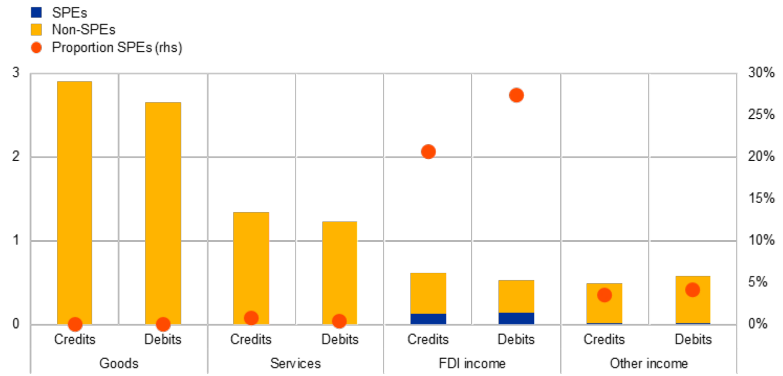
Large divestment dynamics for SPEs resident in LU (-€700 bn) and NL (-€250 bn)

- Mostly due to FDI transactions, reflecting withdrawal of equity or repayment of loans
- Adjustments in corporate structure of large MNEs reducing size/number of SPEs in these countries

Different dynamics (investment) for SPEs in MT (+€200 bn) and IE (+€100 bn)

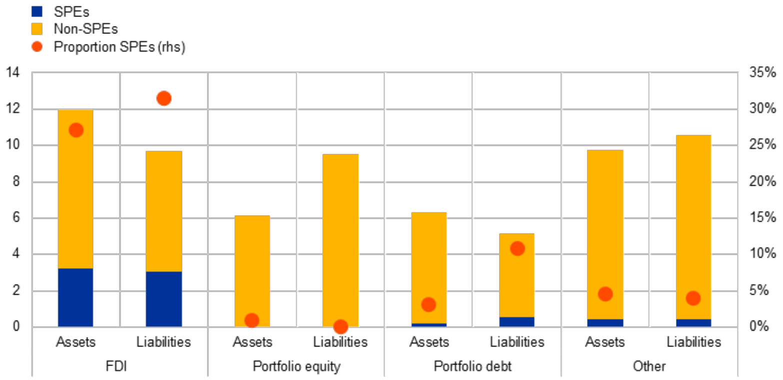
SPEs in euro area aggregate: key to understand euro area FDI and portfolio debt liabilities

Impact of SPEs on euro area current account
Lhs: € trillion; rhs: % in total credits and debits by category; 2023



Source: Authors' calculations based on ECB data.
Notes: "Other income" include portfolio and other investment income.

Impact of SPEs on euro area external positions
Lhs; € trillion; rhs: % in total financial assets and liabilities by category; end-2023



Source: Authors' calculations based on ECB data.
Notes: "Other" includes other investment and financial derivatives

SPEs account for around one quarter of euro area FDI gross income flows
SPEs account for almost 30% of euro area FDI assets and liabilities
SPEs account for around 10% of euro area portfolio debt liabilities

Main takeaways from publication of SPEs data in the euro area

Publication of harmonised SPEs data is **key advancement** for euro area external statistics

- Multi-decade effort involving **cooperation** between international statistical bodies, ECB, national compilers
- Development of **comprehensive reporting framework**

New data granularity improves **analytical interpretation** of cross-border investment for euro area

- Presence of SPEs contribute to explain the **oversized external assets and liabilities** of euro area financial hubs
- Holding, intra-group lending and conduit entities are the **main types** of SPEs in euro area

Further refinements and development of SPEs data in official statistics should ensure data remains relevant

- To reflect the **evolution of global financial structures**
- To provide policymakers with **new data breakdowns**