Taking Account...

BEA working paper analyzes SPEs

Official statistics on international trade and investment typically include transactions within multinational enterprises (MNEs) and positions on foreign direct investment (FDI). In the interpretation and use of these important statistics, the role of special purpose entities (SPEs) has long been a complicating factor.

In contrast to operating entities, SPEs generally have few or no employees, little or no physical presence, and little or no production or economic activity. Examples of SPEs include finance and holding companies, royalty and licensing companies, leasing companies, and securitization vehicles.

Widely followed international guidelines generally recommend that transactions with SPEs and positions in SPEs be included in official statistics. However, the guidelines also recommend that supplemental information be provided to better understand the role of SPEs and the passthrough nature of their transactions.

BEA's international accounts and national accounts do not provide statistics on inbound direct investment via foreign-sponsored SPEs in the United States (resident SPEs) or on outbound direct investment for U.S.-sponsored SPEs in foreign countries (nonresident SPEs).

Given the U.S. regulatory environment and other factors, passthrough activities associated with resident SPEs of foreign MNEs is relatively small. In contrast, data collected on foreign affiliates of U.S. MNEs suggest the impact of nonresident SPEs on outbound FDI is significant. Thus, a distinction between SPEs and operating entities on U.S. direct investment abroad is worthy of consideration.

A recent paper by Dylan Rassier, an economist at the Bureau of Economic Analysis (BEA), presents a statistical analysis of various characteristics of nonresident SPEs. Rassier's paper relies on survey data collected by BEA on MNEs (based on financial statements), including data on U.S. parents and their majority-owned foreign affiliates reported for the 2009 Benchmark Survey of U.S. Direct Investment Abroad.

A majority-owned foreign affiliate is an affiliate in which the combined direct and indirect ownership interest of the U.S. parent is more than 50 percent. A parent is defined as a person with a direct or indirect investment of 10 percent or more in a foreign business enterprise.

The analysis includes a univariate approach that focuses on mean comparison tests of characteristics of SPE affiliates and their operating entity counterparts and includes a multivariate approach that focuses on comparing coefficient estimates from regressions of reported sales on value added and its components across SPE affiliates and operating entity affiliates.

The paper marks a rare effort to analyze nonresident SPEs from a microeconomics perspective.

The results reveal a large number of nonresident SPEs sponsored by U.S. MNEs that are not isolated in a few industries or a single global region.

Significant differences exist between SPE affiliates and operating entity affiliates in their balance sheet components and in their income statement components, the paper notes.

Significant differences also result for measured value added. In particular, variation in measured value added does not appear to generate adequate variation in consequent sales for SPE affiliates, which implies value added is over attributed to SPE affiliates.

Moreover, the lack of variation is most evident in the profits component of value added, which is consistent with previous research by others using aggregate statistics on the activities of MNEs. Given the pattern demonstrated in the microdata, measured production attributed to SPE affiliates in supplemental statistics appears to be incongruent with reported economic activity.

(This summary of the working paper was prepared by the Survey of Current Business *staff in conjunction with the paper's author. The paper is available on the BEA Web site.)*