IMF Committee on Balance of Payments Statistics

BPM6 Update
Direct Investment Task Team (DITT)

FOR PUBLIC CONSULTATION

D.14 Financial Conduits

D.14 Financial Conduits[1]

Financial Conduits (FCs) are one of those Special Purpose Entity (SPE) types identified in the IMF's Committee on Balance of Payments Statistics final report of the Task Force on SPEs. FCs "raise funds and remit those funds to their parents or to other related enterprises". Instruments issued by FCs should typically be classified either Portfolio Investment – debt security, Direct Investment – loan, or Direct Investment – equity. The activities of FCs can cause difficulties in understanding financial risks and vulnerabilities. This GN examines proposals for capturing the activities of FCs that would better serve analysts. These include the possible separate identification of the Direct Investment transactions and positions of FCs, for instance in the reporting of SPEs, as well as a supplemental presentation by the economy of the ultimate investors in the FC. It recommends maintaining the status quo in the manuals.

SECTION I: THE ISSUE

BACKGROUND

1. **Multinational enterprises (MNEs) can finance their activities through their foreign affiliates, including Special Purpose Entities (SPEs) that they establish in jurisdictions with specific objectives, such as minimizing taxes or accessing sophisticated financial services.** For example, MNEs can issue bonds in financial centers and lend the proceeds back to the head office or to other parts of the MNE. Bank for International Settlements (BIS) provided an early examination of this phenomenon,[2] finding a correlation between intercompany lending components of external debt and International Debt Statistics on a nationality, rather than residency, basis for some large, emerging markets (Figure 1). Recently, Coppola et al. (2020) examined the issuing of debt by MNEs in financial centers by developing a methodology to link the holder of bonds issued in those centers to the home country of the MNE. They estimate, through this alternative method, that developed countries would have much higher holdings of bonds from emerging markets than residency-based statistics show; for example, they estimate with their method that U.S. holdings of Brazilian corporate bonds in 2017 would be USD 50 billion, much higher than the USD 8 billion in official statistics.[3]

2. **Financial Conduits (FCs) are SPEs established to "raise funds, often from unrelated enterprises, and remit those funds to their parents or to another related enterprise."[4]** The main difference with another type of SPEs—"Intra group lending companies"—is indeed this relation with unrelated enterprises on the liability side. A recent paper makes a link with Direct Investment (DI):[5] **"A**

[1] Prepared by Maria Borga (IMF), Paul Feuvrier (Luxembourg), Fedor Kharlashin (Russia), Mirco Lattwein (Germany), Francesca Spinelli (OECD).

[2] Branimir Gruić and Philip Wooldridge: "BIS Debt Securities Statistics: A Comparison of Nationality Data with External Debt Statistics" IFC Bulletin No 39, November 2015

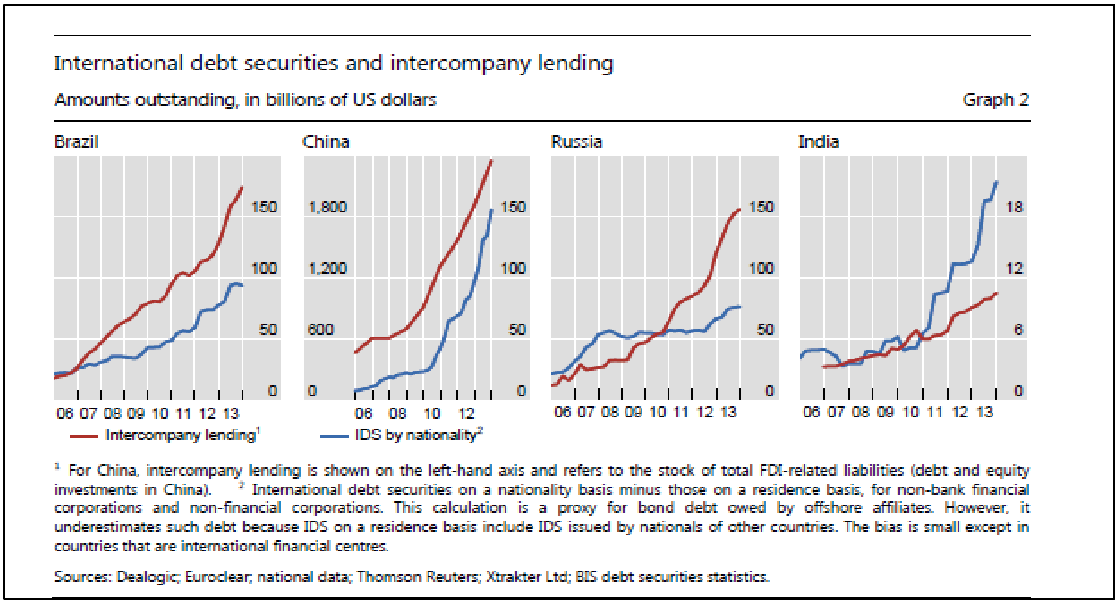
[3] Their research is part of the Global Capital Allocation Project, a research effort to better understand the linkages between countries and where capital is deployed.

[4] IMF Committee 2018 Final Report of the Task Force on Special Purpose Entities

[5] Maria Borga, Cecilia Caliandro, "Eliminating the Pass-Through: Towards FDI Statistics that Better Capture the Financial and Economic Linkages Between Countries", OECD WGIIS September 2018

private investor may establish an affiliate in a foreign country for the purpose of engaging in portfolio investment from the host economy. It is the first leg of this case that brings the transaction within the scope of FDI, while the other leg would either be in domestic investment or in the other functional categories of international investment."

Figure 1. International Debt Securities by Nationality and Intercompany Lending for Selected Countries, 2006 to 2014



Source: Branimir Gruić and Philip Wooldridge: "BIS Debt Securities Statistics: A Comparison of Nationality Data with External Debt Statistics" IFC Bulletin No 39, November 2015

3. **MNEs use of FCs obscures the financial linkages between countries as discussed above.** This can make it difficult to assess exposures to specific economies and to understand where capital is deployed. There have been concerns expressed that countries might be recording these transactions differently with some countries looking through the FC.

4. **This GN explores two aspects of the recording of debt issued by FCs to provide the most meaningful information to users.** First, it examines under which circumstances some debt securities issued by FCs should be recorded as DI and how to interpret those potential DI statistics. Second, it explores alternatives for recording the activities of FCs to better illustrate the link between their portfolio investment liabilities and their DI assets.

ISSUES FOR DISCUSSION

5. **This GN will discuss two issues associated with the debt issued by FCs.** The first issue has to do with the functional category of instruments issued by foreign affiliates, including FCs. The second explores whether it is possible to improve the analytical usefulness of the statistics by linking the DI and portfolio investment activities of FCs.

First Issue: Functional Category of Instruments Issued by Conduits

6. **FCs typically do not transact on open markets on the asset side.** They remit funds raised to their parents or to other related enterprises. They typically do so through loans to the parent or to fellow enterprises. They can also grant trade credits or advances, for which the repayment is in the form of goods. To be more detailed, some MNEs, often in commodities businesses, set up entities abroad, which raise funds and extend a trade advance to the parents. The parents fulfill the requirements of the advance by delivering goods to the affiliates, which the affiliates resell to repay the debt.[6]

7. **As for the liability side, FCs issue debt securities on open markets**[7], which are classified Portfolio Investment (*BPM6,* paragraph 5.44).[8] The pattern is not much different from that of debt securities issued by banks or general government. Various commercial databases cover those liquid instruments quite well. The handbook on securities statistics describes those so-called “common types of debt security”.[9]

8. **The handbook also refers to more sophisticated debt instruments, including so-called “hybrid” instruments,** which combine features of equity and debt. Examples of those instruments are convertible bonds, contingent convertible bonds (CoCo’s) or non-participating (preferred) shares. OECD[10] mentions that some hybrid arrangements are used “in aggressive tax planning to exploit differences in the tax treatment of an entity or instrument under the laws of two or more tax jurisdictions to achieve double non-taxation, including long-term taxation deferral”.

9. **Some of those sophisticated instruments are negotiable while some others are not and are directly held by affiliated entities.** Should the latter be considered “securities”? How to distinguish between those sub-categories of debt instruments: which have both characteristics of loans and debt securities?

10. **Putting things in perspective, the classification by financial instrument, which used to be not so important in the DI context, is playing an increasing important role to produce high quality DI statistics.** Compilers increasingly collect the “security part” (equity and debt security items) of the direct investor or direct investment enterprise Balance Sheets on security-by-security basis. Against this backdrop, GN D.7 recommends a supplementary item for debt securities in DI.[11] The amount of debt

[6] Those institutions involved in the trade of goods definitely have DI/Trade credits or advances assets but may not meet SPEs definition. Because SPEs should have “no or little physical production in the host economy”, it would depend on the nature of their activities. For example, if they are engaged in merchanting, they would be SPEs but would not be if they were engaged in wholesaling.

[7] “Open markets” in this GN means either trading with a central exchange or in an OTC market.

[8] They may also take loans from resident or non-resident banks (Other Investment).

[9] HSS paragraph 3.2 “bills, bonds, notes, negotiable certificates of deposit, commercial paper, debentures, asset-backed securities, and similar instruments normally traded in the financial markets that serve as evidence of a debt.”

[10] BEPS Action 2 “Neutralising the effects of hybrid mismatch arrangements”

[11] Similarly, FDI debt is broken down by instrument (including debt securities) in new ECB External Statistics Guideline (EU) 2018/1151.

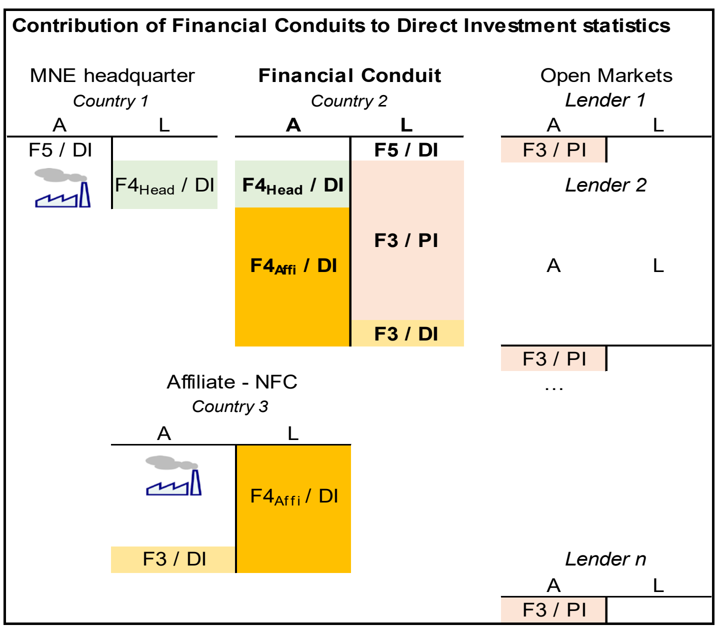
securities between affiliated parties is likely rather small for most countries, and the debt securities between affiliated parties might differ from arm's length debt securities.

11. **The type of instrument needs to be fixed first, then the functional category determined in a second step. In other words, the functional category classification depends on the instrument classification.** *BPM6* Table 6.1 "Link between Financial Assets Classification and Functional Categories" provides the list of eligible functional categories for each financial instrument.

Second Issue: Contribution of Conduits to Direct Investment

12. **The second issue is more broadly the contribution of FCs to DI.** The general (simplified) pattern is that an MNE establishes an FC abroad, as highlighted in the chart below. The FC raises funds from investors in financial markets (F3) and passes them on to headquarters and other affiliates through intercompany lending (F4) to fund productive assets. We assume that the MNE headquarters, FC, and Affiliate are resident in three different countries. To illustrate the previous issue, the affiliate in Country 3 holds a part of the debt issued by the FC (F3), thus classified DI.

Figure 2. Contribution of Financial Conduits to Direct Investment Statistics



Note: F3: Debt securities; F4: Loans; and F5: Equity.

13. **Against this backdrop, both the loans to the affiliate and to the headquarter are DI operations.** Indeed, an FC is typically a Captive Financial Institution and *BPM6* paragraph 6.28 states that debt between affiliated entities are withdrawn from DI only if both parties are from selected affiliated financial corporations[12], which do not include Captive Financial Institutions.

14. **Does this current recording meet the needs of data users?** First, it understates the exposure of capital markets (lenders 1 to *n*) to the country of the MNE headquarters by focusing the exposure to the country of the FC. It also obscures the nature of intercompany lending. Because the FC has no

[12] Deposit-taking corporations, investment funds, and other financial intermediaries.

revenue of its own to repay the debt, the parent of the MNE would likely be responsible, making this intercompany lending riskier than generally assumed for DI. *BPM6* paragraph 6.26 states that "intercompany lending is identified separately from other debt for debt analysis because this lending has different implications for risk and vulnerability compared with debt between unrelated parties." Thus, linking this DI debt with corresponding open market funding would make the nature of this debt more apparent. The insertion of the FC in the middle of the transaction means that the amount of the debt of the MNE is correctly recorded under the current standards but it is not characterized by functional category or partner economy in the most economically meaningful way.

15. **Second, would statistics on FCs help to assess exchange rate risks?** To the extent the MNE headquarters is responsible for the debt issued by the FC, and that debt may be in a different currency, such as US dollars, than the currency that the MNE earns the majority of its revenues, such as the home currency, it can be difficult to use statistics on FCs to assess the risks of exchange rate changes because the home countries exposure to debt in foreign currency could be understated.

SECTION II: OUTCOMES

First Issue: Functional Category of Instruments Issued by FC

16. **Starting with the first issue, typical functional category of a financial instrument issued by a conduit should be as in the table below.** We refer to *BPM6* Table 6.1. "Link between Financial Assets Classification and Functional Categories":

Typical[13] functional category of a financial instrument issued by an entity of SPE type "Financial Conduit" or "intragroup lending" (liability side)

Type of instrument	Detail	Functional category	Type of SPE	Comment	*BPM6* paragraphs
Equity		DI		Equity should not represent the main part of FC's balance sheet[14].	
Debt	Loan	DI	Intra-group lending	FC may also take bank loans from unaffiliated foreign banks (Other Investment) on a smaller scale.	5.51 Loans are financial assets that (…) are evidenced by documents **that are not negotiable**
	Debt security	PI	FC	Securities held by market participants *(probably the major part of debt securities issued)*	5.44 Debt securities are **negotiable instruments** serving as evidence of a debt.
		DI		Securities held by affiliates *(probably a minor part)*	

[13] "Typical" means that the description is not exhaustive. An FC may, for instance, issue a financial derivative or take a bank loan, though on a small scale.

[14] IMF typology would not qualify as FCs those entities granting loans to related parties without issuing significant debt (rather in categories "holding corporation" or "intragroup lending")

17. **The DI classification of the FC's equity is uncontroversial** because an FC is usually a direct investment company, set up by the MNE headquarter or another entity of the group. In the case of an FC, the equity is typically relatively small, otherwise it would fall in another class in the SPE typology.

18. **In the case of a debt instrument issued by an SPE, the typical type of instrument should be as in the table above: Direct Investment for a loan[15], Portfolio Investment for a debt security, or Direct Investment if the security is held by an affiliate.** In other words, a debt security issued by a conduit should in most cases not be classified DI.

19. **The functional category pattern should also obviously be valid for debt instruments *held* (asset side).** Otherwise, the convention would create cross-country functional category asymmetries.

20. **GN D.7 implementation may highlight the existence of debt securities between affiliated parties.** Because they differ in nature from that between unaffiliated parties, it will be helpful to learn more about these debt securities and help users interpret statistics that separately identify debt securities in DI.

Second Issue: Contribution of Conduits to Direct Investment

21. **Turning to the second issue, four possible proposals were considered.** The first option is to make no changes to the standards to address this issue. Indeed, researchers develop datasets and methods using commercial databases to shed light on the activities of FCs, such as the work of Coppola et al. (2020). Turning to official statistics, in addition to BIS data mentioned above, Bank of Russia (Annex III) releases ad-hoc FCs statistics, which also shed light on the role of FCs in external financing in Russia. This option finally acknowledges that IMF template on SPEs significantly addresses data gap on FCs. Against this backdrop, it is not necessary to suggest any changes to the current reporting framework.

22. **The second proposal would help elucidate the activities of FCs by including an "of which" item to identify the DI lending of FCs.** The currently envisaged sectoral breakdown of DI debt[16] would not help very much because the resident institutional sector does not say anything about how the DI loan is funded, either in open markets or not. The SPE reporting template just launched by the IMF will collect some of the information needed for this second approach but not all (the template is reproduced in Annex II). On the liability side, debt securities issued by SPEs (portfolio investment) will be a good proxy for the activity of FCs. On the asset side, debt instruments may also include contribution of other types of SPEs (e.g., "intragroup lending" entities), especially for those countries hosting a large population of SPEs. Therefore, additional information, identifying the intercompany lending of FCs, would need to be added to the SPE reporting template. A key question is the ability for countries to spot FCs in their Statistical Business Register (SBR). To do so, the compiler should clearly distinguish on the liability side between debt securities ("FC" type) and loans ("Intra group lending" type). Feasibility studies will be necessary to find out whether those distinctions can be implemented in national compilation systems, particularly in financial centers.[17]

[15] Or Other Investment.

[16] GN D7 sectoral breakdown of Direct Investment Annex I. Suggested Standard Components.

[17] In recognition of the fact that it is more difficult for economies to collect data on non-resident SPEs, the reporting template only collects data for resident SPEs. This difficulty is still present for the separate identification of FCs: the compiler records a loan from the country but may not know that the latter issued a debt security to raise the funds.

REJECTED ALTERNATIVES

23. **The third proposal is to identify the economy of the entity that ultimately sponsored the FC (i.e., the ultimate investor—as discussed in GN D.6), which would help analysts understand the financial linkages created through FCs.** An identification, in the medium run, of FCs in the SBR that included Ultimate Investing Economy (UIE) data would generate a more complete residency-based picture of MNE's activities and exposures. Such a data collection could be carried out by revising the SPE reporting template and would not need to be implemented by all countries but only by those that host FCs but was rejected as too burdensome at this time. Also, as has been previously emphasized, it would occur against the backdrop of the commencement of an annual data collection on SPEs.

24. **A fourth proposal is similar to that used for government entities that issue debt abroad to support the national economy without passing the proceeds on to the resident government sector.** Against this backdrop, the underlying debt is not recorded in resident government sector. The solution[18] is to impute transactions and positions between the resident government sector and the economy of the FC to ensure that the borrowing by the FC is reflected in the transactions and positions of the entity ultimately responsible for them.[19] This treatment for government-sponsored FCs is also consistent with the *SNA 2008* and the *2014 Government Finance Statistics Manual* and is designed to ensure that fiscal activities that general government undertakes through non-resident entities are captured in the statistics. Despite the fact that the solution is valid and relevant for government FCs, this option was rejected because it is not as necessary for corporations and would be much too complex to be established as standards for FCs. Annex IV describes some other rejected options that were considered by the drafting team.

25. **On the first issue, the DITT unanimously supported the decision tree. On the second issue, the majority of the DITT supported maintaining the status quo.** Members pointed out that separate reporting of FCs may raise confidentiality issues and that the additional information may not be enough to capture the risks of FCs but would require additional research and analysis. Two members supported Option 2—separately identifying FCs through an "of which FCs" under DI/debt in the annual reporting of SPEs if it is feasible for countries. Another member pointed out that support of Option 1 did not preclude Option 3, which should be considered as part of the Balance of Payments Task Team (BPTT) work on the nationality concept. Finally, one member raised the question of whether Option 1 should apply to both SPEs owned by public corporations and by private corporations or should SPEs owned by public corporations follow the recommendations for government-owned SPEs made in GN D.5. The SPEs of public corporations are indirectly owned by the government. In addition, they could also serve a quasi-fiscal purpose. Quasi-fiscal operations are understood as government operations carried out by institutional units other than general government units that have the same fiscal policy impact on the economies as those of general government units. Of course, the SPEs of public corporations could also serve similar purposes to the SPEs of private companies, such as supporting the production activities of the public enterprise by accessing capital.

[18] *BPM6* paragraphs 8.24–8.26, 11.40, and 12.48.

[19] GN D.5 Eliminating the Imputations for an Entity Owned or Controlled by General Government discusses the treatment of these government-sponsored FCs and proposes some changes needed to ensure that any fiscal operations undertaken through nonresident entities are appropriately reflected in the general government accounts.

Questions for Discussion:

1. *Do you agree with decision tree summarized under paragraph 16 to derive the functional category of instruments issued by FCs?*
2. *Would you support the following proposals presented in this GN?*
   a) *Status quo (option supported by the drafting team), but including the enhanced imputation for SPEs directly owned by government described in GN D.5;*
   b) *"Of which" for the lending activities of FCs, for instance, in the SPEs template;*
   c) *Information on the UIE of the FC (economy of MNE's headquarter);*
   d) *Imputations to reflect the transactions and positions of the FC in the transactions and positions in the entities that own or control the FC (currently valid for government FCs only—option rejected by drafting team).*
3. *Do you agree that the status quo should apply to both entities directly owned or controlled by private corporations and by public corporations? Or, do you think that entities directly owned or controlled by public corporations should be treated according to the recommendations for SPEs directly owned by government described in GN D.5?*

Annex I. Supplementary Information

TITLE OF REFERENCED DOCUMENT

BIS Quarterly Review September 2020

Borga, Maria, Cecilia Caliandro: "Eliminating the Pass-Through: Towards FDI Statistics that Better Capture the Financial and Economic Linkages Between Countries", OECD WGIIS September 2018

Coppola, Antonio, Matteo Maggiori, Brent Neiman, Jesse Schreger: "Redrawing the Map of Global Capital Flows: The Role of Cross Border Financing and Tax Havens", NBER Working Paper April 2020

Di Filipo, Gabriele, Frédéric Pierret: "A Typology of Captive Financial Institutions and Money Lenders (Sector S127) in Luxembourg", Banque centrale du Luxembourg Working paper, July 2020

Gruić, Branimir, and Philip Wooldridge: "BIS Debt Securities Statistics: A Comparison of Nationality Data with External Debt Statistics" IFC Bulletin No 39, November 2015

IMF's Committee on Balance of Payments Statistics 2018 Final Report of the Task Force on Special Purpose Entities

Inter-Agency Group on Economic and Financial Statistics Consolidation and Corporate Groups: An Overview of Methodological and Practical Issues, report of the Task Force, October 2015

McCauley, Robert, Patrick McGuire, Vladyslav Sushko: "Dollar Credit to Emerging Market Economies", BIS Quarterly Review, December 2015

Tissot, Bruno: "Globalisation and Financial Stability Risks: Is the Residency-Based Approach of the National Account Old-Fashioned?", UNECE – CES June 2017.

Annex II. IMF Reporting Template for SPEs

26. **In 2021, the IMF will begin collecting data from countries on resident SPEs for calendar year 2020 and any earlier years for which information is available.** The table below shows the financial account components of the Balance of Payments and IIP for which information will be requested.

Table 1. Financial Account Components [Flows and Positions Data]

		Balance of Payments		**International Investment**	
		Flows during the current year 20XX		**Position as at end of current year 20XX**	
		Net Acquisition of Assets	**Net Incurrence of Liabilities**	**Assets**	**Liabilities**
	I. Financial Account (related to SPEs)				
	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				
1.1.	Direct investor in direct investment				
1.1.	Direct investment enterprises in direct				
1.1.	Between fellow enterprises				
	if ultimate controlling parent is resident				
	if ultimate controlling parent is nonresident				
	if ultimate controlling parent is unknown				
1.1.	Reinvestment of earnings				
1.2	Debt instruments				
1.2.	Direct investor in direct investment enterprises				
1.2.	Direct investment enterprises in direct investor				
1.2.	Between fellow enterprises				
	if ultimate controlling parent is resident				
	if ultimate controlling parent is nonresident				
	if ultimate controlling parent is unknown				
	I. Financial Account (related to SPEs)				
	Portfolio Investment as reported in BOP and	***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***	

		Balance of Payments		International Investment	
		Flows during the current year 20XX		Position as at end of current year 20XX	
		Net Acquisition of Assets	Net Incurrence of Liabilities	Assets	Liabilities
3	Other Investment related to SPEs				
	Short-term				
	Long-term				
	Financial Derivatives as reported in BOP and	*Total to be drawn from BOP*		*Total to be drawn from IIP*	
4	Financial Derivatives related to SPEs				

27. **It should be noted that the breakdown of FC's liabilities (debt securities issued) by UIE (country of MNE's headquarter) would be challenging for those countries collecting portfolio investment (PI) information at security level, and implementing the so-called "residual approach".** Residual approach means that PI liabilities vis-à-vis rest of the world (RoW) is not the sum of contributors' liabilities vis-à-vis RoW but instead total liabilities (first source) net of resident holdings (second source). An identification of UIE in the SBR[20] is sufficient for the former, but the latter requires the UIE of the issuer at security level, ideally through a reference database, for instance Legal Entity Indicator (LEI) level 2.[21] In other words, we assume that FCs in a given country issue i = 1 to I securities identified by an International Securities Identification Number (ISIN) (or Committee on Uniform Securities Identification Procedures (CUSIP)) code. Depending on the issuer, each security i is "ultimately issued" by UIE u. h = 1 to H institutional units (including FCs) in the same country potentially hold those securities (resident holdings). We call ISINix the outstanding amount (money raised) associated to ISINi and ISINih the amount of ISINi held by holder h. Liabilities of FC vis-à-vis RoW are defined by:

$$FCrow = \sum_{i=1}^{I} ISINix - \sum_{h=1}^{H}\sum_{i=1}^{I} ISINih$$

28. Liabilities of FC (vis-à-vis RoW) ultimately held by country u are defined by a restriction to securities i(u) "ultimately issued" by UIE u:

$$FCrow\,u = \sum_{i(u)}^{I(u)} ISINi(u)x - \sum_{h=1}^{H}\sum_{i(u)=1}^{I(u)} ISINi(u)h$$

[20] Or a possible link between the SBR and the UIE as an external source

[21] LEI Level 2 data of an LEI entity theoretically reports both its direct and ultimate parent's LEI.

Annex III. Financial Conduits Data Released by Bank of Russia

29. Twenty percent of the corporate debt of the Russian Federation in the form of loans and deposits was initially raised through the placements of so-called Eurobonds and other debt securities by FCs abroad on behalf of Russian residents (standard usage of FCs). By request of statistical users in addition to the standard presentations on the external sector statistics suggested by the *BPM6*, the Bank of Russia has developed an analytical table presenting the data on funds raised on behalf of Russian banks and other sectors by non-resident FCs. For the purpose of currency risk analysis, liabilities are broken down by major currencies. The information is published quarterly on the website of the Bank of Russia. The table highlights the correlation between intercompany lending and issuance of debt securities.

Table 2. Corporate Sector External Debt of the Russian Federation

Corporate Sector External Debt of the Russian Federation in the Form of Loans and Deposits Received through Issuance of Eurobonds and Other Debt Securities by Nonresidents for the Benefit of Russian Residents

bln USD

	June 2020
Total Corporate Sector	**83.4**
US Dollar	60.0
Euro	15.6
Russian Ruble	3.5
Other currencies	4.4
Banks	***26.5***
US Dollar	*24.1*
Euro	*1.2*
Russian Ruble	*0.6*
Other currencies	*0.5*
Nonbanking corporations	***56.9***
US Dollar	*35.9*
Euro	*14.4*
Russian Ruble	*2.8*
Other currencies	*3.8*

Note:
The table covers external debt liabilities of Russian banks and nonbanking corporations in the form of loans/deposits received from nonresidents issuing debt securities in the international capital markets for the benefit of Russian residents. The aggregate value of the issued debt securities exceeds the external debt stock in loans and deposits by the repaid amount of the latter, as well as those funds raised through the issuance, which stay abroad. The most common debt secrity types issued by nonresidents in the interests of Russian residents are: Loan Participation Notes (LPN), Credit Linked Notes (CLN), European Medium-Term Notes (EMTN), Euro-commercial Paper (ECP) and Floating Rate Notes (FRN).

Source: http://www.cbr.ru/vfs/eng/statistics/credit_statistics/debt_corp-sector_e.xlsx.

Annex IV. Other Discussed but Rejected Alternatives

30. **Other rejected options include reclassifying the intracompany debt of FCs from DI to other investment as is done for selected affiliated financial corporations** (*BPM6,* paragraph 6.28). To extend the exclusion to Captive Financial Institutions (CFIs) and FCs does not make sense because FC loans have little to do with operations currently excluded (i.e., transactions between banks and other affiliated financial intermediaries) and would blur the lines between institutional sectors "Other financial intermediaries except insurance corporations and pension funds" and "Captive financial institutions and money lenders". FC loans would be mixed with, for instance, securitized loans. More broadly, capturing debt between CFIs in DI is crucial to identify non-bank financing, additionally with regard to financial stability and macroprudential analysis.

31. **Another rejected option would be to consolidate the FC with the entity that controlled it.** However, the Globalization Task Team (GZTT) has already rejected this alternative for the broader set of SPEs,[22] so it would be difficult to make an exception for the case of FCs. The reasons for rejecting this option, including a reluctance to change the conceptual core, which does not permit consolidating entities across national boundaries as well as practical considerations, including a lack of data exchange between countries that would make such consolidation very difficult to do in a consistent and comparable way across countries, still apply to FCs. There may be, however, some exceptions for selected government-controlled entities.

32. **Going even further, the development of supplemental statistics on MNEs based on nationality rather than residency would re-attribute the borrowing by the foreign subsidiaries of MNEs to the home country of the parent company.** Such an approach would require that the financial measures be consolidated for the group to eliminate the double-counting of funds in transit or round-tripping. This consolidation could be done by netting investments between the affiliates of the group from the group's total assets; such a consolidation would not only remove funds that go into and out of subsidiaries simultaneously but would also remove funds that have been invested by subsidiaries in other affiliated enterprises on behalf of the parent. This approach was rejected in this GN because it goes beyond the balance of payments framework, but could, nevertheless, be considered by the BPTT as part of their work on topic B.1 on introducing a nationality concept into the balance of payments/IIP framework.

[22] See the GZTT GN "Special Purpose Entities".