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Proposed Recommendations Document:

1.9 Improving the recording of government-controlled nonresident SPEs used for fiscal purposes¹

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals:

[GN D.5 Eliminating the imputations for an entity owned or controlled by general government that is used for fiscal purposes](#)

[Draft 2025 SNA](#) and [Draft BPM7](#)

Global Consultation(s):

BP Consultation: [June 2021](#)

GFS Consultation: [August 2021](#)

Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):

BOPCOM: [June 2021](#)

Discussions at GFSAC Meeting(s):

To be determined

Summary of Proposed Recommendations:

The proposed recommendation is to improve the current *GFSM 2014* guidance on how to reflect the stocks and flows of government-controlled nonresident SPEs in the account of the controlling government. The proposal will amend imputations with a more analytically meaningful instrument breakdown to adequately reflect the proper nature, value, and counterpart of relevant stocks and flows in the government accounts, to better support fiscal analysis. Under the proposal, the debt of the SPE will be imputed in the government accounts under the same financial instrument than the liability incurred by the SPE, with interest expense also imputed in the government accounts. Other revenues, expenditures, and acquisitions of financial assets by the SPE are to be directly recorded in the government accounts with counterpart entries in transactions of equity between the government and

¹ The name of this proposed recommendation has been updated to reflect the nature of the proposals more accurately. It was previously titled “Eliminating imputations for an entity owned or controlled by general government that is used for fiscal purposes”.

the SPE. The nonresident SPE will be maintained as a nonresident institutional unit (see also PR 1.19 Treatment of SPEs and Residency).

Background and Issues

1. The international statistical manuals require that entities created by government under the laws of another jurisdiction (country) are treated as separate nonresident institutional units, even in cases where the entities do not meet the criteria to be an institutional unit.
2. Where a government uses a government-controlled nonresident special purpose entity (SPE) to conduct fiscal or quasi-fiscal activities (such as borrowing or securitization of assets), the *GFSM 2014* (paras. 2.137-2.139) requires that those fiscal operations undertaken through the nonresident entity are reflected in the transactions and stock positions of the controlling government. This is to ensure that the government debt and deficit fully reflects these fiscal activities.
3. The *GFSM 2014* (paras. A3.54-A3.58) goes on to explain that borrowing by the nonresident SPE should be reflected in the government accounts by imputing a loan between the SPE and government with a counterpart in government's equity in the SPE. Expenses incurred, or assets transferred to a third party, by the SPE are reflected as imputed current or capital transfer expenses by government to the SPE with a counterpart reduction in government's equity position. While actual transfers from the SPE to government result in an increase in government assets and a reduction in the government equity position.
4. However, the current imputations prescribed by the *GFSM 2014* are recognized to have some shortcomings. In particular: (i) imputed debt stocks do not mirror the actual debt instrument issued; (ii) no interest is recorded in the government accounts for the imputed debt, instead this is reflected as a current transfer; (iii) more broadly all SPE expenditure is reflected as a current or capital transfer in the government accounts and not by type of expenditure; (iv) there is no guidance on how to record SPE revenue in the government accounts (which may for instance be received under some securitization models); and (v) similarly there is no guidance on how SPE lending or equity acquisition should be recorded in the government accounts.

Proposed Recommendations

5. Government-controlled nonresident SPEs should continue to be treated as nonresident institutional units. However, the current guidance on how to reflect the fiscal or quasi-fiscal activities of government-controlled nonresident SPEs should be modified and expanded as follows:
 - a. Debt incurred by the SPE should be imputed in the government accounts under the same financial instrument as the debt incurred by the SPE (with a counterpart entry in equity of the SPE);
 - b. Interest on the SPE debt should be imputed in the government accounts as an interest expense (with a counterpart entry in withdrawal of equity in the SPE);
 - c. Other SPE expenditure should be directly recorded in the government accounts according to their nature and counterparty (with a counterpart entry in withdrawal of equity in the SPE);
 - d. SPE acquisition of financial assets (such as loans or equity) should also be directly recorded in the government accounts according to their nature and counterparty (with a counterpart entry in withdrawal of equity in the SPE);

- e. SPE revenue (such as received under some securitization models) should be directly recorded in the government accounts according to their nature and counterparty (with a counterpart entry in acquisition of equity in the SPE).
6. The Annex provides an example of the proposed new treatment and how it differs from the guidance in the *GFSM 2014*.

Rationale for Proposed Recommendations

7. The proposed recommendations aim to harmonize the updated *GFSM* with the 2025 *SNA* and *BPM7*, a key objective of the *GFSM 2014* update process.
8. The proposed recommendation addresses each of the shortcomings described in paragraph 4 and ensures that fiscal or quasi-fiscal activities of a government-controlled nonresident SPE are fully reflected in the accounts of the government. Notably, the proposed recommendation achieves this outcome while still maintaining the treatment of nonresident government-controlled SPEs as nonresident institutional units.

Proposed Text for GFSM Update

9. At minimum the draft 2025 *SNA* (para. 30.52) text and draft *BPM7* (para. 8.25), reproduced below, should be used as the basis for updating the *GFSM 2014*, replacing or updating the current text in paras. A3.57-A3.58. In addition, the reference in footnote 40 of para. 2.138, relating to the example described in the *PSDS Guide*, should be updated and a Box with an updated example, such as that shown in the Annex of this proposal, should be considered for the revised text in the *GFSM*.

Draft 2025 SNA para. 30.52: *A government may create an SPE to undertake government borrowing or incur government outlays abroad. Even if there are no actual economic flows recorded between the government and the SPE related to these fiscal activities, transactions should be imputed in the accounts of both the government and the rest of the world to reflect the fiscal activities of the government undertaken through the SPE. Borrowing by the SPE is mirrored by an imputation of borrowing by the government from the SPE on the same terms and via the same type of financial instrument, and an associated increase in the government's equity in the SPE. Interest payments made by the SPE are treated as funded by interest received from the government. The expenditures of the SPE are re-routed through the government, and the imputed government expenditures have the same nature and counterparty (e.g., capital transfers to public corporations) as the actual expenditures of the SPE. Finally, any revenues of the SPE (e.g., fees from securitizations) are also rerouted through the government.*

Draft BPM7 para. 8.25: *When an entity resident in one economy borrows on behalf of the government of another economy, and the borrowing is for fiscal purposes, the following entries are made:*

- (a) At the time of borrowing: the borrowing entity records a liability in the instrument in which they borrowed, e.g., borrowing through issuance of bonds would result in an increase in debt security liabilities for the borrowing entity. The borrowing entity's claim on the government is imputed through a transaction creating a debt liability of the government equal to the amount of the borrowing, and in the same financial instrument as the debt incurred by the borrowing entity. The corresponding entry is an increase in the government's equity in the borrowing entity, matched by an increase in equity liabilities for the borrowing entity.*
- (b) At the time funds (or resources acquired with the funds) are passed to the government (as applicable): the flow of funds is shown as a transaction, matched by a reduction of the government's equity in the borrowing entity by the same amount.*
- (c) At the time expenses are incurred, revenues are made, or resources or funds are provided by the borrowing entity to a third party (i.e., are not passed to the government), where applicable: a transaction*

between the government and the entity is imputed, with the matching entry as a withdrawal or increase in the value of the government's equity. The imputed transaction should be recorded according to its nature, e.g., as interest expenditure on the imputed debt of the government, government revenue, current or capital transfer, or acquisition of assets in the government accounts.

These entries are made symmetrically for both the government and the borrowing entity. These entries do not affect the transactions or positions between the borrowing entity and its creditors or other third parties, which are recorded as they occur with no imputations.

Annex: Illustrative Example of the New Treatment in the Proposed Recommendation

Scenario:

SPE in Country A borrowed \$1000 on behalf of Government of Country B by issuing debt securities. During Year 1 after borrowing, \$600 of the funds are transferred to the Government and \$350 directly to a public corporation as a capital transfer. In addition, \$50 is paid by the SPE in interest. For the purposes of the example the Government does not use the funds it receives during Year 1.

Current GFSM 2014 guidance	Country A (SPE)		Country B (Government)	
Opening Balance Sheet – start of year 1	Financial Assets	Liabilities	Financial Assets	Liabilities
Currency & Deposits	+1000			
Debt Securities		+1000		
Loans [imputed]	+1000			+1000
Equity		+1000	+1000	
<i>Net financial worth</i>	<i>0</i>		<i>0</i>	
Nonfinancial transactions - year 1	Revenue	Expenditure	Revenue	Expenditure
Interest		+50		
Capital transfer to public corporations		+350		
Current transfer [imputed]	+50			+50
Capital transfer [imputed]	+350			+350
<i>Net borrowing / net lending</i>	<i>0</i>		<i>-400</i>	
Financial transactions - year 1	Financial Assets	Liabilities	Financial Assets	Liabilities
Currency & Deposits	-50-350-600 = -1000		+600	
Debt Securities				
Loans				
Equity		-50-350-600 = -1000	-50-350-600 = -1000	
Closing Balance Sheet – end of year 1	Financial Assets	Liabilities	Financial Assets	Liabilities
Currency & Deposits	0		+600	
Debt Securities		+1000		
Loans [imputed]	+1000			+1000
Equity		0	0	
<i>Net financial worth</i>	<i>0</i>		<i>-400</i>	

Current GFSM 2014 guidance	Country A (SPE)		Country B (Government)	
Proposed new GFSM guidance	Country A (SPE)		Country B (Government)	
Opening Balance Sheet – start of year 1	Financial Assets	Liabilities	Financial Assets	Liabilities
Currency & Deposits	+1000			
Debt Securities [imputed for Government]	+1000	+1000		+1000
Equity		+1000	+1000	
<i>Net financial worth</i>	<i>0</i>		<i>0</i>	
Nonfinancial transactions - year 1	Revenue	Expenditure	Revenue	Expenditure
Interest		+50		
Interest [imputed]	+50			+50
Capital transfer to public corporation*		+350		
Capital transfer to public corporation* [imputed as paid by government]	+350			+350
<i>Net borrowing / net lending</i>	<i>0</i>		<i>-400</i>	
Financial transactions - year 1	Financial Assets	Liabilities	Financial Assets	Liabilities
Currency & Deposits	-50-350-600 = -1000		+600	
Debt Securities				
Loans				
Equity		-50-350-600 = -1000	-50-350-600 = -1000	
Closing Balance Sheet – end of year 1	Financial Assets	Liabilities	Financial Assets	Liabilities
Currency & Deposits	0		+600	
Debt Securities [imputed for Government]	+1000	+1000		+1000
Equity		0	0	
<i>Net financial worth</i>	<i>0</i>		<i>-400</i>	

* The recording in the SPE accounts (but not the government accounts) differs from that in the BPM GN D.5 (Eliminating the imputations for an entity owned or controlled by general government that is used for fiscal purposes) as the GN had assumed reassignment of the SPE expenses whereas the draft 2025 SNA and BPM7 make clear that the SPE expenses (and revenues) are to be rerouted/imputed in the government accounts.