

Methodological notes relating to special purpose entities

In Hungary, the balance of payments and the related international investment position data including and excluding special purpose entities (SPEs) have been published by the MNB since January 2006, ensuring the elimination of the distorting effects of SPE data. In line with the OECD's recommendation, the [domestic definition applied](#)¹ from the very beginning allowed the classification of passive financial intermediaries that have contacts only with non-residents as SPEs.

In 2020, under the leadership of the IMF, a new internationally approved SPE definition was elaborated. Its objectives include the most complete collection possible of SPE data that currently might not be included in the statistics, a unified treatment of the organisations concerned as well as the launch of comprehensive international reporting. The SPE definition² approved by the IMF BOPCOM provides a wider coverage of the range and the activity pursued by special purpose entities, which means a majority or decisive control instead of an exclusive relationship with the rest of the world, and the monitored activity is not limited to passive financial activity. The basis for this is that in addition to traditional financial SPEs, special purpose entities engaged in non-financial activities, have also gained ground, including companies having intellectual property rights and dealing with the collection of the related fees (royalties) as well as firms participating in merchanting or closed operating lease. As opposed to previous traditional SPEs, which almost had only financial assets, these SPEs may also keep significant non-financial assets in their balance sheets.

In early 2021, the earlier SPE definition applied in Hungary has been revised with retroactive effect due to the implementation of the SPE definition approved by the IMF BOPCOM.

The new criteria (agreed upon with the HCSO) for the identification of special purpose entities in Hungary are as follows:

1. A special purpose entity is a company registered in Hungary.
2. The company is directly or indirectly controlled by non-residents.
3. The number of employees is 0 or maximum 5 people.
4. The size of the balance sheet total is several billion forints.
5. The main activity is typically passive financial (NACE code: 6420 – activities of holding companies, 6492 – other credit granting, 6499 – other financial service activities, possibly 7010 – activities of head offices), and/or passive intermediary (4600 – wholesale trade, 6800 – real estate activities, 7700 – rental and leasing activities /especially 7740 – leasing of intellectual property and similar products, except copyrighted works/, possibly 8299 – other business support service activities n.e.c.).
6. There may be few types of assets and liabilities in the balance sheet. They are related to the group of companies or they are outstanding vis-à-vis few external partners, the revenues and expenditures are also within the group of companies or may only be related to some external partners, indicating limited activity, i.e. the company is not in contact with the market.
7. Various criteria concerning sales revenue:

¹ <https://www.mnb.hu/letoltes/fmmodszertan-scv-en.pdf>

² The IMF's definition to identify special purpose entities: A special purpose entity is a legal entity resident and registered in the given country and recognised as an institutional unit by statistics. Its physical presence is minimal: the number of employees is maximum 5 persons, its physical production is 0 or minimal in the given country. It is directly or indirectly controlled by non-residents. It was established to obtain specific advantages provided by the host jurisdiction with an objective to grant its owners access to capital markets or sophisticated financial services; to isolate owners from financial risks; and/or to reduce the owners' regulatory and tax burdens; as well as to safeguard confidentiality of the transactions and/or owners. Special purpose entities transact almost entirely with non-residents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.

- a. Annual sales amount to maximum HUF 500 million, the balance sheet mainly includes financial assets, and the activity is passive financial. In this case it is a holding (6420) or other passive financial company (group financing, 6492, 6499) and may be financial SPE as specified later.
 - b. The balance sheet may also include non-financial assets, whose economic owner is not the company, and thus the activity is of passive intermediary nature (leasing of intangible assets or tangible assets), and annual sales are significant (in the magnitude of HUF billion/s/) – this indicates passive intermediary activity.
 - c. There are no non-financial assets in the balance sheet, but the annual export sales revenue is significant (in the magnitude of HUF billion/s/) because the company is engaged in intermediate trade with non-residents – this indicates passive intermediary activity.
8. The company's assets and liabilities are mainly (above 90%) vis-à-vis non-residents, and its revenues and expenditures (if significant) are mainly from abroad and to abroad, respectively.
 9. According to the practice to date and the international recommendation, those companies may also qualify as SPEs that meet the SPE criteria (resident chain of companies mediating between non-residents) only together (consolidated with one another, considered as one institutional unit).

For SPEs identified with the above criteria, statistically MNB continues to recognize only financial instruments, as the economic owners of the non-financial assets according to their balance sheet are still non-resident companies. These non-financial assets are recognised as foreign direct investment in foreign affiliated firms, and their incomes are recorded as income on equity.

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