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Captive Financial Institutions: Definition, Typology, Motives and Empirical Insights for the Euro Area

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Captive Financial Institutions: Definition, Typology, Motives and Empirical Insights for the Euro Area

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Abstract

The United Nations Statistical Commission has recently published the System of National Accounts 2025 (SNA2025), a new version of SNA2008 which formed the basis of the European System of Accounts 2010 (ESA2010). The latter is the current reference manual used by all European Union Member States to ensure the comparability of their economic, social and commercial statistics. The SNA2025 may, in turn, form the basis of the next revised version of the ESA2010. Regarding captive financial institutions (CFIs, sector S.127), SNA2025 notably builds upon the IMF (2018)'s work and improves upon ESA2010 significantly by offering a broader list of entities and more detailed definitions. This paper provides a comprehensive overview of CFIs by reviewing their definitions and highlighting the main differences between SNA2025 and ESA2010. Additionally, it reviews the typology of CFIs proposed by ECB-Eurostat-OECD (2013), as well as IMF (2018) which is based on prototype balance sheets. The paper also lists the main reasons why investors may use CFIs. From an empirical perspective, the paper draws insights about CFIs in the euro area from specific datasets. On average over the period Q1 2015 - Q4 2025, CFIs account for 20% of the financial sector's total financial assets or liabilities in the euro area. In addition, the importance of CFIs varies substantially across euro area jurisdictions, with Luxembourg, Malta, Cyprus, the Netherlands and Ireland hosting the majority. Unlisted shares are the most significant asset and liability on CFIs' aggregate balance sheets, followed by loans and debt securities. This is consistent with CFIs' activities, which include holding unlisted shares in group affiliates, financing group affiliates by granting intragroup loans, and raising funds from entities outside the group by issuing debt securities or sourcing loans.

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Contact: gabriele.difilippo@bcl.lu **Disclaimer:** This paper should not be reported as representing the views of the Banque centrale du Luxembourg or the Eurosystem. The views expressed are those of the author and may not be shared by other research staff or policymakers in the Banque centrale du Luxembourg or the Eurosystem. **Acknowledgements:** For their suggestions and comments, the author would like to thank the BCL Referees Committee. The author would also like to thank the ECB's SED (Securities Data) Team for their advice on CSDB-SHSS data. Any remaining errors are the sole responsibility of the author.

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Non-Technical Summary

The United Nations Statistical Commission has recently published the System of National Accounts 2025 (SNA2025), a new version of SNA2008 which formed the basis of the European System of Accounts 2010 (ESA2010). The latter is the current reference manual used by all European Union Member States to ensure the comparability of their economic, social and commercial statistics. The SNA2025 may, in turn, form the basis of the next revised version of the ESA2010. Regarding captive financial institutions (CFIs, sector S.127), SNA2025 notably builds upon the IMF (2018)'s work and improves upon ESA2010 significantly by offering a broader list of entities and more detailed definitions.

Against this background, this paper provides a comprehensive overview of CFIs by reviewing their definitions and highlighting the main differences between SNA2025 and ESA2010. Additionally, it reviews the typology of CFIs proposed by ECB-Eurostat-OECD (2013), as well as IMF (2018) which is based on prototype balance sheets. The paper also lists the main reasons why investors may use CFIs. These relate primarily to risk management, financing, regulatory and legal matters, and tax optimisation, as well as management and strategy.

From an empirical perspective, the paper draws insights about CFIs in the euro area from specific datasets. The results show that on average over the period Q1 2015 - Q4 2025, CFIs account for 20% of the financial sector's total financial assets or liabilities in the euro area. In addition, the importance of CFIs varies substantially across euro area jurisdictions, with Luxembourg, Malta, Cyprus, the Netherlands, and Ireland hosting most of these institutions.

Unlisted shares are the most significant asset and liability on CFIs' aggregate balance sheets, followed by loans and debt securities. This is consistent with CFIs' activities, which include holding unlisted shares in group affiliates, financing group affiliates by granting intragroup loans, and raising funds from entities outside the group by issuing debt securities or sourcing loans.

Most of the activity involving CFIs sourcing loans or issuing debt securities from outside the group is concentrated in Luxembourg and the Netherlands. The creditors that grant loans to CFIs are primarily based in Western Europe, particularly in the euro area with Germany and the Netherlands being important partners. While banks are the most important sectoral counterparties for loans, the sectoral counterparties for debt securities issued by CFIs are more diversified among financial corporations, primarily non-money market investment funds, followed by insurance corporations, banks, and pension funds.

Résumé Non Technique

La Commission Statistique des Nations Unies a récemment publié le Système de Comptabilité Nationale 2025 (SNA2025), une nouvelle version du SNA2008 qui a servi de base au Système Européen de Comptabilité 2010 (ESA2010). Ce dernier est le manuel de référence actuellement utilisé par tous les États membres de l'Union Européenne pour garantir la comparabilité de leurs statistiques économiques, sociales et commerciales. Le SNA2025 pourrait, à son tour, servir de base à la prochaine révision du SEC2010. Concernant les institutions financières captives (CFIs, secteur S.127), le SNA2025 s'appuie notamment sur les travaux du FMI (2018) et améliore sensiblement le SEC2010 en proposant une liste plus exhaustive d'entités et des définitions plus précises.

Dans ce contexte, ce document offre une vue d'ensemble des CFIs en examinant leurs définitions et en soulignant les principales différences entre le SNA2025 et le ESA2010. Il analyse également la typologie des CFIs proposée par BCE-Eurostat-OCDE (2013), ainsi que celle du FMI (2018) qui est basée sur des bilans types. Le document recense également les principales raisons pour lesquelles les investisseurs peuvent recourir aux CFIs. Celles-ci concernent principalement la gestion des risques, le financement, les questions réglementaires et juridiques, l'optimisation fiscale, ainsi que la gestion et la stratégie.

D'un point de vue empirique, l'article tire des enseignements sur les CFIs dans la zone euro à partir de bases de données spécifiques. Les résultats montrent que les CFIs représentent en moyenne 20 % du total des actifs ou passifs financiers du secteur financier dans la zone euro, sur la période 2015 T1 - 2025 T4. En outre, l'importance des CFIs varie considérablement selon les juridictions de la zone euro : le Luxembourg, Malte, Chypre, les Pays-Bas et l'Irlande en abritent la plupart.

Les actions non cotées représentent le poste d'actif et de passif le plus important du bilan agrégé des CFIs, suivies des prêts et des titres de créance. Cela correspond aux activités des CFIs, qui comprennent la détention d'actions non cotées de filiales d'un groupe, le financement de filiales du groupe par l'octroi de prêts intragroupes et la levée de fonds auprès d'entités externes au groupe par l'émission de titres de créance ou l'obtention de prêts.

La majeure partie des activités impliquant des CFIs qui contractent des prêts ou émettent des titres de créance auprès de sources externes au groupe se concentre au Luxembourg et aux Pays-Bas. Les créanciers qui accordent des prêts aux CFIs sont principalement basés en Europe occidentale, notamment dans la zone euro, l'Allemagne et les Pays-Bas étant des partenaires importants. Alors que les banques sont les contreparties sectorielles les plus importantes pour les prêts contractés, les contreparties sectorielles pour les titres de créance émis par les CFIs sont relativement plus diversifiées parmi les sociétés financières, avec principalement des fonds d'investissement non-monétaire, suivis des compagnies d'assurance, des banques et des fonds de pension.

1. Introduction

The development of multinational corporations (MNCs) has been driven by two main factors: globalisation, which disperses production and supply chains geographically, and financialisation, which dictates how these firms raise, allocate and prioritise capital. Together, these forces have transformed MNCs from traditional production-based entities into globally networked financial actors (Dunning and Lundan (2008), Morgan (2014), Bekaert and Hodrick (2017)). The operations of MNCs can substantially impact the dynamics of international trade and capital flows, particularly Foreign Direct Investment (FDI), especially in financial centres (Di Nino (2019), Di Nino *et al.* (2020)).

Multinational corporations often use captive financial institutions and money lenders (CFIs, sector S.127) to structure their constituent entities worldwide. CFIs usually hold direct investment positions in group affiliates, typically in the form of equity participation or intragroup loans. This enables MNCs to establish a global network of FDI. In these corporations' ownership structures, CFIs are usually located between the headquarters (or ultimate parent company) and the operational affiliates. The term “*captive*” means that this financial company is owned and controlled by, and generally used by, a parent company within a group. CFIs can serve a variety of purposes. For example, transnational corporations often use them to manage business activities and organise corporate investments on a global scale. CFIs perform various investment and financing functions, such as managing liquidity and optimising financing. This may involve pooling cash from operational affiliates, providing intragroup loans, and raising funds from external markets on behalf of the parent company. CFIs can also be used to manage family wealth.

The United Nations Statistical Commission has recently published the System of National Accounts 2025 (SNA2025), a new version of SNA2008 which served as the basis for the European System of Accounts 2010 (ESA2010), the current reference manual that applies to all European Union Member States to ensure the comparability of their economic, social and commercial statistics. In turn, the SNA2025 may form the basis of the next revised version of ESA2010. With regard to CFIs (sector S.127), SNA2025 notably builds upon the IMF (2018)'s work and makes significant improvements to ESA2010 by offering a broader list of entities and more detailed definitions.

Against this background, this paper provides a comprehensive overview of CFIs by reviewing their definitions and highlighting the main differences between SNA2025 and

ESA2010. Additionally, it reviews the typology of CFIs proposed by ECB-Eurostat-OECD (2013), as well as IMF (2018) which is based on prototype balance sheets. The paper also lists the main reasons why investors may use CFIs. From an empirical perspective, the paper draws insights about CFIs in the euro area from specific datasets. These include the Quarterly Sector Accounts, the AnaCredit Database, the Centralised Securities Database (CSDB) and the Securities Holdings Statistics by Sector (SHSS) dataset.

The paper proceeds as follows. Section 2 defines the various entities that comprise CFIs drawing mainly on statistical reference manuals such as the current ESA2010 released by EC (2013) and SNA2025 recently published by UN (2025). This section also builds on ECB-Eurostat-OECD (2013) and the IMF (2018)'s work to classify CFIs according to a typology based on prototype balance sheets. Section 3 outlines the reasons why investors may use CFIs. Section 4 provides insights into CFIs in the euro area, drawing on specific datasets. Section 5 concludes.

2. CFIs: statistical definitions and typology

2.1 Statistical definitions of CFIs

In order to measure and compare economies worldwide, harmonised statistical standards are necessary. To this end, the United Nations Statistical Commission publishes the System of National Accounts (SNA). The SNA provides an internationally agreed set of recommendations on how to compile measures of economic activity. The SNA forms the basis of the European System of Accounts (ESA). The current ESA2010 was published by EC (2013) and is based on SNA2008, which was released by UN (2009). Both the SNA and the ESA are regularly revised to respond to the evolving needs of their users, reflect new developments in the economic environment and incorporate advances in methodological research. UN (2025) has recently published the SNA2025. The next version of ESA2010 is likely to be based on SNA2025. Against this backdrop, and to better understand the evolution and potential changes to the statistical definitions of CFIs, this section provides a comprehensive overview of CFIs by reviewing their definitions and highlighting the main differences between SNA2025 and ESA2010.

ESA2010 and SNA2025 define CFIs (sector S.127) as “*institutional units that provide financial intermediation services, but where their assets and most liabilities are not transacted in open financial markets. These corporations transact with a limited group, such as subsidiaries, or subsidiaries under the same holding corporation, or units that make loans from their own funds, or funds provided by one sponsor*”.¹

The list of entities included in the CFIs may differ between ESA2010 and SNA2025 (Table 1.1). Compared to ESA2010, SNA2025 provides more detailed definitions,² introduces new ones,³ or fine-tunes existing ones.⁴ The innovations brought by SNA2025 notably build on the work by IMF (2018). The latter developed a typology of Special Purpose Entities (SPEs) based on prototype balance sheets.⁵ IMF (2018) linked its SPEs’ typology to a sector classification that includes various sectors, particularly CFIs (sector S.127). SPEs can be understood as a label that may apply to several types of CFIs, as well as to entities in other sectors than S.127 (*e.g.* sectors S.11, S.125, S.126, S.128, and S.15).⁶

The following sections outline the main units incorporated within sector S.127, drawing on guidance from SNA2025 and highlighting the differences with ESA2010.

¹ See ESA2010 Parag. 2.98 p. 42, SNA2025 Parag. 5.171 p. 174 and SNA2025 Parag. 29.70 p. 863.

² This is for example, the case for holding companies, units providing financial services exclusively with own funds, units such as trusts and similar wealth-holding units, estates, or agencies accounts.

³ This is for example, the case of corporate groups’ captive financial institutions which include units, such as financing conduits (or conduits), holding companies, intragroup lending companies (or intragroup financiers), captive factoring and invoicing companies and treasury functions when these functions are undertaken by a separate institutional unit.

⁴ This is for example, the case of SPEs and special purpose government funds.

⁵ See SNA2025, Parag. 23.39-23.42 p. 706-708 and “Table 23.1: Typology of SPEs” p. 708-710. See IMF (2018) “Table 1. Typology of SPEs for External Sector Statistics” p. 21-24.

⁶ For more information on SPEs, see Section 2.1.8 of this paper.

Table 1.1: List of entities composing CFIs (sector S.127): a comparison between ESA2010 and SNA2025

ESA2010 Parag. 2.99 p. 42	SNA2025 Parag. 5.172 p. 174-175, Parag. 29.70-29.74 p. 863-864, Parag. 23.39-23.42 p. 706-708 and “Table 23.1: Typology of SPEs” p. 708-710
(a) Units as legal entities such as trusts, estates, agencies accounts or 'brass plate' companies; (b) Holding companies that hold controlling-levels of equity of a group of subsidiary corporations and whose principal activity is owning the group without providing any other service to the businesses in which the equity is held, that is, they do not administer or manage other units; (c) SPEs that qualify as institutional units and raise funds in open markets to be used by their parent corporation; (d) Units which provide financial services exclusively with own funds, or funds provided by a sponsor, to a range of clients and incur the financial risk of the debtor defaulting. Examples are money lenders, corporations engaged in lending to students or for foreign trade from funds received from a sponsor such as a government unit or a non-profit institution, and pawnshops that predominantly engage in lending; (e) Special purpose government funds usually called sovereign wealth funds, if classified as financial corporations.	a. Holding corporations that hold only the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group without providing any other service to the enterprises in which the equity is held, that is, they do not administer or manage other units; [§ 5.172 and 29.71] They typically receive income (mostly dividends) from their holdings. They are sometimes referred to as “parent companies”, given their ownership of subsidiaries. Holding companies can be domestically or foreign-owned. Often holding companies are set up for mergers and acquisitions activity. [§ 29.71] b. Special purpose units that qualify as institutional units and raise funds in open markets to be used by their parent corporation; [§ 5.172 and 29.71] The specific purpose might be to finance a large project or complex equity financing deals, while insulating the principal firm from any associated risks. These units are usually set up to obtain specific advantages to the global enterprise provided by the host jurisdiction, such as tax lowering strategies. They are usually foreign-owned (<i>i.e.</i>, they have a non-resident parent) and are directly or indirectly controlled by non-residents, in which case they are known as special purpose entities (SPEs). Similarly, brass plate companies are legal entities that lack any connection to the jurisdiction of incorporation – that is, set up in a foreign country with an office and no material operations. They typically only hold liquid assets unless they are shell companies with no assets and are also often associated with tax lowering strategies. Shell companies can be set up prior to cross-border corporate acquisitions or to provide access to a parent financial company to financial markets abroad. Special purpose units included here exclude securitization vehicles that qualify as separate institutional units and are to be classified as other financial intermediaries. [§ 29.72] SNA2025 distinguishes between entities that hold financial assets for securitization, which are classified as CFIs (sector S.127), and securitization vehicles (classified in sector S.125). [§ 23.39-23.42 p. 706-708 and “Table 23.1: Typology of SPEs” p. 708-710] c. Units which provide financial services exclusively with own funds, or funds provided by a sponsor to a range of clients and incur the financial risk of the debtor defaulting, including: Moneylenders; Corporations engaged in lending (for example providing student loans, import/export loans) from funds received from a sponsor such as a government unit or non-profit institution; and Pawnshops that predominantly engage in lending; [§ 5.172 and 29.72] d. Conduits, intra group financiers, and treasury functions when these functions are undertaken by a separate institutional unit. Conduits (often SPEs) typically refer to units that raise funds, which could be debt securities, shares or partnership interest, on open financial markets for passing on to other affiliated corporations or for various types of public projects. Often, the conduit’s liabilities are guaranteed by a parent company or government; [§ 5.172 and 29.71] e. Units such as trusts and similar wealth-holding units, estates, or agencies accounts that solely hold assets and liabilities, along with the associated property income, for a restricted group of investors or beneficiaries. In the case of a single investor or beneficiary assuming the risks and rewards, the accumulated assets should be assigned to the sector of the investor or beneficiary, unless the unit is resident in another economy than its beneficiary/investor. [§ 5.172 and 29.74] Sovereign wealth funds (SWFs) are included here, if they actively manage their portfolios and provide financial services on a market basis to the general government; otherwise, they are part of the general government sector, unless the unit is a resident of another economy. [§ 29.73]

2.1.1 Holding corporations

Holding corporations are entities that own controlling levels of equity in a group of subsidiary corporations. They do not provide any other services to the enterprises in which they hold equity. In other words, they do not administer or manage other units.⁷ Holding companies are sometimes referred to as “parent companies”, given their ownership of subsidiaries. Holding companies can be either domestic or foreign-owned. They are often set up for mergers and acquisitions activity.⁸

Holding corporations differ from head offices in the sense that they only hold assets in a passive manner and are not involved in the active management of affiliates.⁹ On the contrary, head offices are units that exercise some aspects of managerial control over their subsidiaries. Head offices are allocated to the non-financial corporations’ sector (S.11) unless all or most of their subsidiaries are financial corporations, in which case they are treated as financial auxiliaries (sector S.126) in the financial corporations’ sector.¹⁰ ESA2010 and SNA2025 clearly distinguish between the two types of entity, classifying them into different sectors (S.127 for holding corporations and S.11 or S.126 for head offices) and granting them different NACE codes: “64.20: Activities of holding companies” (ESA2010) or “64.21: Activities of holding companies with no management function” (SNA2025) for holding companies, *versus* “70.10: Management activities of head offices” for head offices.

While the definitions of holding corporations in ESA2010 and SNA2025 are broadly similar, the latter provides specific operational criteria for identifying holding companies and head offices, as well as for distinguishing between them. Thus, compared to other institutional units, the balance sheet structures of head offices and holding companies share a common feature in the fact that at least 50 percent of their assets consist of equity *vis-à-vis* their subsidiaries. Information about management services can be used to distinguish between holding companies and head offices. When this information is unavailable, SNA2025 recommends using the employment criterion instead. Head offices are actively engaged in production and tend to have fewer employees, particularly at senior level, than their subsidiaries. Conversely, holding companies that simply hold assets may have very few or no

⁷ See ESA2010 Parag. 2.14 p. 28, ESA2010 Parag. 2.99 p. 42 and SNA2025 Parag. 5.172 p. 174-175.

⁸ See SNA2025 Parag. 29.71 p. 863.

⁹ See ESA2010 Parag. 2.14 p. 28 and SNA2025 Parag. 5.76-5.80 p. 155-156.

¹⁰ See ESA2010 Parag. 2.14 p. 28 and SNA2025 Parag. 5.76 p. 155.

employees. The absence of employees and remuneration for employees can clearly indicate that a unit is a holding company rather than a head office.¹¹

2.1.2 Special purpose units

Special purpose units are legal entities (usually a corporation) that are set up for specific and/or temporary purposes, such as raising funds in open markets to be used by their corporate parent company.¹² The specific purpose might be to finance a large project or complex equity financing deals, while insulating the principal firm from any associated risks. These units are usually set up to obtain specific advantages to the global enterprise provided by the host jurisdiction, such as tax lowering strategies. They are usually foreign-owned (*i.e.*, they have a non-resident parent) and are directly or indirectly controlled by non-residents, in which case they are known as special purpose entities (SPEs).¹³

Similarly, brass plate companies are legal entities that lack any connection to the jurisdiction of incorporation – that is, set up in a foreign country with an office and no material operations. They typically only hold liquid assets unless they are shell companies with no assets and are also often associated with tax lowering strategies.

Shell companies can be set up prior to cross-border corporate acquisitions or to provide access to a parent financial company to financial markets abroad.

Special purpose units included here exclude securitization vehicles that qualify as separate institutional units and should be classified as other financial intermediaries. Both ESA2010 and SNA2025 clearly distinguish between entities that hold financial assets for securitization, which are classified as CFIs (sector S.127), and securitization vehicles (sector S.125).¹⁴

¹¹ See SNA2025 Parag. 5.76-5.80 p. 155-156.

¹² See ESA2010 Parag. 2.99 p. 42, SNA2025 Parag. 5.172 p. 174-175 and SNA2025 Parag. 29.71 p. 863.

¹³ See Section 2.1.8 of this paper.

¹⁴ See ESA2010 Parag. 5.108 p. 138-139, SNA2025 Parag. 5.85 p. 157, SNA2025 Parag. 5.167 p. 172-173, SNA2025 Parag. 23.39-23.42 p. 706-708, and SNA2025 “Table 23.1: Typology of SPEs” p. 708-710. See Section 2.1.7 of this paper.

2.1.3 Units providing financial services with own funds, or funds provided by a sponsor

Units which provide financial services exclusively with own funds, or funds provided by a sponsor to a range of clients and incur the financial risk of the debtor defaulting, can include moneylenders, corporations engaged in lending (for example providing student loans, import/export loans) from funds received from a sponsor such as a government unit or non-profit institution, and pawnshops that predominantly engage in lending.¹⁵

SNA2025 specifies that moneylenders consist of persons or groups of persons who offer small personal loans using mostly own funds. Their assets or liabilities are not transacted in open financial markets.¹⁶ Moneylenders are lenders that can undertake different functions, including making loans, providing cheque-cashing services, money orders, *etc.* Loans often have relatively high interest rates.¹⁷ Pawnshops are a type of used merchandise store that provide financing to clients in return for holding an asset for a specified period of time as collateral. They can also make unsecured loans.¹⁸ Captive specialised lending institutions provide loans from funds received from a sponsor, such as a government unit or a non-profit institution serving households (NPISH). They can be involved in various types of lending such as student loans, farm loans, import/export loans (possibly including some factoring), *etc.* These units can include public corporations.¹⁹

2.1.4 Corporate groups' captive financial institutions

Compared to ESA2010, the list of CFIs in SNA2025 features new entities, notably drawn from the IMF (2018)'s work. This is particularly the case of corporate groups' captive financial institutions. These are institutional units created by a financial or non-financial non-resident or resident corporate group to fulfil specific financial activities, other than insurance, for the sponsor. The directors of corporate captive institutions typically have limited or no discretionary powers; activities are strictly defined by the terms of the institution's contract or arrangement.

¹⁵ See ESA2010 Parag. 2.99 p. 42 and SNA2025 Parag. 5.172 p. 174-175.

¹⁶ See SNA2025 Parag. 5.171 p. 174.

¹⁷ See SNA2025 Parag. 29.72 p. 864.

¹⁸ See SNA2025 Parag. 29.72 p. 864.

¹⁹ See SNA2025 Parag. 29.72 p. 864.

A corporate captive institution is often, though not exclusively, a satellite company of another unit and forms an ancillary part of the associate's business by warehousing particular assets or risks. These captive financial institutions include units, such as financing conduits (or conduits), holding companies, intragroup lending companies (or intragroup financiers), captive factoring and invoicing companies and treasury functions when these functions are undertaken by a separate institutional unit.²⁰ Conduits typically refer to units that raise funds, which could be debt securities, shares or partnership interest, on open financial markets for passing on to other affiliated corporations. Often, the conduit's liabilities are guaranteed by a parent company.²¹

SNA2025 argues that foreign-owned SPEs within the captive financial institutions of these corporate groups deserve particular attention. Indeed, foreign-owned SPEs have generated considerable interest in recent years, reflecting their growth and the need for a better understanding of their purpose.²²

2.1.5 Trusts and similar wealth-holding units, estates, or agencies accounts

CFIs also comprise units such as trusts and similar wealth-holding units, estates, or agencies accounts that solely hold assets and liabilities, along with the associated property income, for a restricted group of investors or beneficiaries. In the case of a single investor or beneficiary assuming the risks and rewards, the accumulated assets should be assigned to the sector of the investor or beneficiary, unless the unit is resident in another economy than its beneficiary/investor.²³

SNA2025 defines trusts and similar types of funds as arrangements whereby a trustee holds property as its nominal owner for the benefit of one or more beneficiaries, but does not have economic ownership of it. The trustee's role is to hold, manage and administer the trust's funds on behalf of the settlor (the trust's creator).²⁴

SNA2025 specifies that trusts, or similar types of funds, with multiple beneficiaries/investors would generally be classified as CFIs, if the beneficiaries/investors are restricted to a particular group of units, and not open to the public at large. If they would be

²⁰ See SNA2025 Parag. 29.85 p. 867.

²¹ See ESA2010 Parag. 2.21 p. 29, SNA2025 Parag. 5.172 p. 174-175 and SNA2025 Parag. 29.71 p. 863.

²² See SNA2025 Parag. 29.85 p. 867. For more information on SPEs, see Section 2.1.8 of this paper.

²³ See ESA2010 Parag. 2.99 p. 42, SNA2025 Parag. 5.172 p. 174-175 and SNA2025 Parag. 29.74 p. 864.

²⁴ See SNA2025 Parag. 5.97 p. 159.

open to other beneficiaries/investors as well, the trust, or fund, can be considered as part of money market funds (MMF, S.123) or non-MMF investment funds (S.124). Non-resident trusts, or funds, with single beneficiaries/investors would always qualify as CFIs. A decision tree for the treatment of trusts and similar types of funds is presented in SNA2025.²⁵

SNA2025 provides additional guidance on family trusts. Disregarding the issue of a family trust being located in a different country than its beneficiaries, which would result in it being treated as a separate institutional unit by convention, the standard criteria for an institutional unit should be applied to trusts located in the same country as their beneficiaries. In practice, if a single beneficiary assumes the risks and rewards, the trust should be consolidated with the household. However, in the case of a trust with multiple beneficiaries, it should be treated as a separate institutional unit and classified as a CFI, provided that the group of beneficiaries is restricted.²⁶

SNA2025 adds that estates, trusts and agency accounts/funds (ETAs) are CFIs that hold assets and liabilities on behalf of a party/parties and for the benefit of another party/parties than itself (beneficiary/beneficiaries). ETAs' beneficiaries bear the risk in these arrangements, and these types of units can hold significant private wealth in certain countries.²⁷

2.1.6 Special purpose government funds

Both the ESA2010 and SNA2025 include special purpose government funds in their list of CFIs.²⁸

ESA2010 specifies that special purpose government funds, also known as sovereign wealth funds (SWFs), are considered CFIs if they are classified as financial corporations.²⁹

SNA2025 offers a more detailed definition. Special purpose government funds, usually referred to as sovereign wealth funds, are included in sector S.127, provided they actively manage their portfolios and provide financial services on a market basis to the general government. Otherwise, they are part of the general government sector, unless the unit is resident in another economy.³⁰ A sovereign wealth fund is created and owned by the general

²⁵ See SNA2025 Parag. 5.101 p. 159-160 and SNA2025, "Figure 5.2: Illustrative allocation of trusts and similar types of funds" p. 160.

²⁶ See SNA2025 Parag. 5.219 p. 182.

²⁷ See SNA2025 Parag. 29.74 p. 864 and SNA2025 Parag. 29.85 p. 867.

²⁸ See ESA2010 Parag. 2.99 p. 42, SNA2025 Parag. 5.159 p. 171 and SNA2025 Parag. 29.73 p. 864.

²⁹ See ESA2010 Parag. 2.99 p. 42.

³⁰ See ESA2010 Parag. 2.99 p. 42, SNA2025 Parag. 5.159 p. 171 and SNA2025 Parag. 29.73 p. 864.

government to hold, manage or administer assets (including foreign investments), with the goal of achieving certain financial objectives. The funds can originate from various sources, including privatisation proceeds, fiscal surpluses and receipts from natural resources, *etc.*³¹

2.1.7 Entities holding financial assets for securitization *versus* securitization vehicles

Both ESA2010 and SNA2025 classify securitization vehicles as part of sector S.125. The two manuals distinguish between securitization vehicles (or entities engaged in the securitization of assets, sector S.125) and entities that are created solely to hold specific portfolios of financial assets for securitization. The latter are classified as CFIs if certain conditions are met. These conditions mainly relate to the entity's portfolio, risk exposure, and the residence of the parent (Table 1.2).³²

Thus, according to ESA2010 and SNA2025, securitization involves raising funds by selling a security backed by specific assets or income streams. For example, an originating mortgage lender could sell a portfolio of loans to a securitization vehicle that issues securities sold to investors. The originator may continue to provide administrative services, but the vehicle is the legal owner of the portfolio. Such vehicles are included in "Other financial intermediaries, except insurance corporations and pension funds" (sector S.125) if the unit is the legal owner of a portfolio of assets, sells a new financial asset that represents an interest in the portfolio, and has or potentially has a full set of accounts.

However, in cases in which the originator issues asset-backed securities on its own books, then securitization may take place without the creation of a separate unit. When the portfolio of loans is not transformed, or the vehicle does not bear market or credit risks, then it can be combined with its parent (if resident in the same economy) or treated as a CFI (if resident in an economy different from that of its parent).³³

³¹ See SNA2025 Parag. 29.73 p. 864.

³² See ESA2010 Parag. 5.108 p. 138-139, SNA2025 Parag. 5.85 p. 157, SNA2025 Parag. 5.167 p. 172-173 and SNA2025 "Table 23.1: Typology of SPEs" p. 708-710.

³³ See ESA2010 Parag. 5.108 p. 138-139 and SNA2025 Parag. 5.167 p. 172-173.

Table 1.2: SNA2025’s distinction between entities holding financial assets for securitization (S.127) and securitization vehicles (S.125)

Entities holding financial assets for securitization (S.127) Parag. 5.85 p. 157, Parag. 5.167 p. 172-173 and “Table 23.1: Typology of SPEs” p. 708-710	Securitization vehicles (S.125) “Table 23.1: Typology of SPEs” p. 708-710
Holding financial assets for securitization if the entity is resident in an economy different from that of its parent. [§ 5.85 p. 157 and Table 23.1 p. 708-710] When the portfolio is not transformed, or the vehicle does not bear market or credit risks, then it can be treated as a CFI (if resident in an economy different from that of its parent). [§ 5.167 p. 172-173]	Carrying out securitization transactions in order to isolate the payment obligations of the undertaking from those of the originator, or the insurance or reinsurance undertaking (in the case of insurance-linked securitizations). Repackaging of existing financial assets. [Table 23.1 p. 708-710]

2.1.8 Special Purpose Entities (SPEs)

Both ESA2010 and SNA2025 provide a broadly similar base definition of Special Purpose Entities (SPEs).³⁴ However, SNA2025 offers a more precise and detailed definition.

According to SNA2025 an SPE, resident in an economy, is (a) a formally registered and/or incorporated legal entity recognised as an institutional unit, with no or little employment up to maximum of five employees, no or little physical presence, and no or little physical production in the host economy; (b) SPEs are directly or indirectly controlled by non-residents; (c) SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services, and/or (ii) isolate owner(s) from financial risks, and/or (iii) reduce regulatory and tax burden, and/or (iv) safeguard confidentiality of their transactions and owner(s); (d) SPEs transact almost entirely with non-residents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities. Special purpose units established by non-resident government units are excluded from this definition.³⁵

Both ESA2010 and SNA2025 state that the concept of SPEs can be applied to entities in different sectors. Therefore, the term “SPEs” can refer to several types of CFIs (sector S.127), as well as to specific entities in other sectors (*e.g.* sectors S.11, S.125, S.126, S.128 and S.15), provided that certain criteria are met.

³⁴ See ESA2010 Parag. 2.17-2.20 p. 29, SNA2025 Parag. 5.81-5.84 p. 156-157 and SNA2025 Parag. 23.39-23.42 p. 706-708.

³⁵ See SNA2025 Parag. 5.81 p. 156 and SNA2025 Parag. 5.94-5.96 p. 158.

In this respect, SNA2025 improves upon ESA2010 by embedding the IMF (2018)’s work on SPEs. Thus, SNA2025 includes operational criteria (*e.g.* residence country of the parent company, number of employees, physical presence, *etc.*) to identify SPEs.³⁶ Additionally, SNA2025 includes a typology of SPEs derived from the IMF (2018)’s work.³⁷

Ultimately, SNA2025 highlights the importance of recording SPEs in a country’s statistics. It states that host jurisdictions should report additional data on SPEs, especially if they are significant. Indeed, although SPEs have little or no physical presence, they can have a substantial impact on macroeconomic statistics. For example, they can inflate direct investment statistics due to pass-through funds, or services export statistics if they own intellectual property products.

Overall, CFIs comprise a variety of entities that perform different functions. Indeed, CFIs can serve a variety of purposes. The multifaceted nature of CFIs makes more granular and fine-tuned definitions essential for improving understanding of sector S.127. In this respect, SNA2025 substantially improves upon ESA2010 by providing a more extensive list of CFI entities and more detailed definitions.

³⁶ See SNA2025 “Figure 23.4: Decision tree to identify resident SPEs” p. 707 based on IMF (2018) “Figure 3. Decision Tree to Identify SPEs for External Sector Statistics” p. 20.

³⁷ See SNA2025 “Table 23.1: Typology of SPEs” p. 708-710 based on IMF (2018) “Table 1: Typology of SPEs for External Sector Statistics” p. 21.

2.2 Typology of CFIs based on prototype balance sheet

A possible way to improve the understanding of CFIs would be to develop a typology of these entities. ECB-Eurostat-OECD (2013) has attempted to create a CFI typology by providing guidance on the balance sheet structure of specific SPEs classified in sector S.127. IMF (2018) developed a typology of SPEs that includes various types of CFIs, along with their respective prototype balance sheets.³⁸ This typology is based on the predominance of specific items within a CFI's balance sheet. While SNA2025 notably builds on the work of IMF (2018) and incorporates a typology of SPEs,³⁹ it does not include the prototype balance sheets associated with each type of CFI, as proposed by IMF (2018). Building on the work of ECB-Eurostat-OECD (2013) and IMF (2018), this section presents a typology of CFIs based on the following prototype balance sheet:

Table 2.1: Structure of the prototype balance sheet

Balance Sheet Items		Assets (A)	Liabilities (L)
Non-Financial Assets		NFA	
Direct (Foreign) investment	Equity	E_DI_A	E_DI_L
	Debt	D_DI_A	D_DI_L
Portfolio investment	Equity	E_PI_A	E_PI_L
	Debt	D_PI_A	D_PI_L
Other investment	Loans	L_OI_A	L_OI_L
	Currency & Deposits	CD_OI_A	

Source: IMF (2018)

In Table 2.1, the assets side includes non-financial assets (NFA), equity and debt as direct (foreign) investment (E_DI_A and D_DI_A, respectively) or as portfolio investment (E_PI_A and D_PI_A, respectively), loans as other investment (L_OI_A) and currency and deposits (CD_OI_A). The liabilities side covers equity and debt as direct (foreign) investment (E_DI_L and D_DI_L, respectively) or as portfolio investment (E_PI_L and D_PI_L, respectively) and loans as other investment (L_OI_L).

³⁸ See IMF (2018) "Table 1: Typology of SPEs for External Sector Statistics" p. 21.

³⁹ See SNA2025 "Table 23.1: Typology of SPEs" p. 708-710.

2.2.1 Holding corporations

Holding corporations hold the assets (owning controlling level of equity) of subsidiary corporations on behalf of their parent corporations without undertaking management activities (ECB-Eurostat-OECD (2013), IMF (2018)).

The International Standard Industrial Classification (ISIC) code⁴⁰ for holding corporations should be K.64.20 “*Activities of holding companies*” (ECB-Eurostat-OECD (2013), IMF (2018)).⁴¹ IMF (2018) adds that holding companies have no resident parent and do not produce goods or services in the host economy. However, they feature FDI pass-through investments.

A holding thus has a majority of equity as direct investment on both the assets and liabilities sides of its balance sheet (Table 2.2). To be considered as direct investment, the holding company should own at least 10% of the voting power (or capital share) in its direct affiliate.

Table 2.2: Prototype balance sheet for holding corporations

Assets		Liabilities	
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency & Deposits			

Source: IMF (2018). NB: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

⁴⁰ The ISIC code (International Standard Industrial Classification of All Economic Activities) is a globally recognised numerical coding system developed by the United Nations Statistics Division. It classifies businesses and organisations based on their primary economic activity and productive output (rather than the goods themselves) to allow for consistent, international statistical comparisons. For more information, see UN (2008).

⁴¹ The holding corporations in sector S.127 should not be confused with the head offices (sector S.11). Indeed, contrary to holding corporations, head offices often exercise some aspects of managerial and operational control over its subsidiaries and undertake strategic planning or organisational decision of its subsidiaries (UN (2008), IMF (2009), EC (2010), UN (2025)). In addition, the head office sometimes may have noticeably fewer employees, and at a more senior level, than its subsidiaries, but it is actively engaged in production. See also UN (2009), “Head offices and holding companies”, Parag. 4.53-4.54 p. 68-69. See also Section 2.1.1 of this paper.

2.2.2 Intragroup lending corporations

IMF (2018) defines intragroup lending corporations as entities lending from and to related companies by relying on debt instruments. The ISIC code of intragroup lending corporations should correspond to K.64.20 “*Activities of holding companies*”. These entities have no resident parent, no production but feature FDI pass-through investments (IMF (2018)).

The balance sheet of intragroup lending corporations consists primarily of debt (as direct investment) on both sides of the balance sheet. More precisely, debt (as direct investment) predominates on the assets side. Direct investments in equity and debt represent the main items on the liabilities side, with debt predominating over equity.

Table 2.3: Prototype balance sheet for intragroup lending corporations

Assets		Liabilities	
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency & Deposits			

Source: IMF (2018). NB: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

2.2.3 Conduit corporations

Conduit corporations raise or borrow funds from unrelated enterprises or the open market and remit those funds to its parent or to other affiliated enterprises. Conduit companies typically do not transact on the open markets on the assets side (ECB-Eurostat-OECD (2013), IMF (2018)). A synonym for conduit is external financing (IMF (2018)).

The ISIC code of these entities should correspond to K.64.99 “*Other financial service activities, except insurance and pension funding, not elsewhere classified (n.e.c.)*” (ECB-Eurostat-OECD (2013), IMF (2018)). IMF (2018) adds that conduit corporations feature no resident parent, no production and no FDI pass-through investments.

The prototype balance sheet of conduit corporations includes primarily debt as direct investment on the assets side. Equity (as direct investment) and external funding in the form of debt (as portfolio investment) predominate on the liabilities side (Table 2.4).

Table 2.4: Prototype balance sheet for conduit corporations

Assets		Liabilities	
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency & Deposits			

Source: IMF (2018). NB: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

2.2.4 Captive factoring and invoicing corporations

Captive factoring and invoicing corporations provide factoring and invoicing services within a group. They can concentrate sales claims and invoicing sales of enterprises (IMF (2018), ECB-Eurostat-OECD (2013)). Their activity involves selling sales claims to a company called the factor. According to ECB-Eurostat-OECD (2013) and IMF (2018), entities that provide factoring and invoicing services within a group are classified as CFIs. However, if they deal with counterparties on open markets, they should be classified as securitisation vehicles (S.125).

ECB-Eurostat-OECD (2013) specifies that the ISIC code of these entities should correspond to K.64.99 “*Other financial service activities, except insurance and pension funding, not elsewhere classified (n.e.c.)*”. IMF (2018) adds that captive factoring and invoicing corporations feature no resident parent, no production and no FDI pass-through investments.

On the assets side of their balance sheet, captive factoring companies hold a majority of debt (as direct investment), as well as currency and deposits (as other investment) since the latter include accounts receivable and invoices. On the liabilities side, direct investments in equity and debt represent the main items, with debt predominating over equity.

Table 2.5: Prototype balance sheet for captive factoring and invoicing corporations

Assets		Liabilities	
Non-Financial Assets	Yes		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency & Deposits			

Source: IMF (2018). NB: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

2.2.5 Captive financial leasing corporations

Captive financial leasing corporations undertake financial leasing activities within a group (ECB-Eurostat-OECD (2013)). More precisely, these entities are engaged in lease-in lease-out agreements, or as a financial intermediary in a chain of vehicles in which the end vehicle is involved in the leasing of equipment or fixed asset. The Lessee is considered to have ownership of the asset (IMF (2018)).

Their ISIC code should correspond to K.64.91 “*Financial leasing*” (ECB-Eurostat-OECD (2013), IMF (2018)). IMF (2018) adds that, while these corporations have no resident parent or FDI pass-through investments, they can be involved in production activities in the host economy.

The balance sheet of captive financial leasing corporations shares similar characteristics with intragroup lending corporations (Table 2.6). The assets side includes a majority of debt (as direct investment). On the liabilities side, direct investments in equity and debt represent the main items, but debt predominates over equity. As the lessor does not have ownership of the fixed assets to be leased, the balance sheet of captive financial leasing corporations excludes non-financial assets. Hence:

Table 2.6: Prototype balance sheet for captive financial leasing corporations

Assets		Liabilities	
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency & Deposits			

Source: IMF (2018). NB: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

2.2.6 Personal and family wealth-holding corporations

Personal and family wealth-holding corporations are entities registered or incorporated to manage personal (individual or family) wealth (ECB-Eurostat-OECD (2013), IMF (2018)). This would encompass foundations, limited liability companies, *etc.* Trusts are treated as quasi corporations.

The ISIC code of personal and family wealth-holding corporations should fall under category K.64.30 “*Trusts, funds and similar financial entities*” (ECB-Eurostat-OECD (2013), IMF (2018)). IMF (2018) adds that these corporations have a resident parent but feature no production and no FDI pass-through investments.

The assets side of wealth-holding entities features several predominating items, including non-financial assets, equity (whether as direct or portfolio investment), debt securities (whether as direct or portfolio investment) and currency and deposits (as other investment). The liabilities side shares similar characteristics with that of holding corporations with a majority of equities (as direct investment).

Table 2.7: Prototype balance sheet for personal and family wealth-holding entities

Assets		Liabilities	
Non-Financial Assets	Yes		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency & Deposits			

Source: IMF (2018). NB: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

2.2.7 Loan origination corporations

IMF (2018) defines loan origination companies as entities that obtain funding from their parent company or related enterprises and then provide it to external companies. IMF (2018) notes that these entities may be linked to investment funds (sector S.124), in which case the entity is considered a separate institutional unit.

IMF (2018) specifies that their ISIC code should correspond to K.64 “*Financial services, except insurance and pension funds*”. Additionally, these corporations have no production or FDI pass-through investments. Having a resident parent is not a necessary condition.

The prototype balance sheet of loan origination companies includes primarily loans as other investment on the assets side. On the liabilities side, direct investments in equity and debt represent the main items, with debt predominating over equity.

Table 2.8: Prototype balance sheet for loan origination corporations

Assets		Liabilities	
Non-Financial Assets	No		
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency & Deposits			

Source: IMF (2018). NB: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

2.2.8 Entities holding assets for securitisation

Securitisation vehicles are entities used to raise funds by securitising assets. Both ECB-Eurostat-OECD (2013) and IMF (2018) distinguish between securitisation vehicles (sector S.125) and entities holding assets for securitisation (sector S.127). While the former purchase assets and raise funds on the open market, the latter do not operate on the open market with regard to either assets or liabilities (ECB-Eurostat-OECD (2013)).

IMF (2018) specifies that the ISIC code of these entities should correspond to K.64.99 “*Other financial service activities, except insurance and pension funding, not elsewhere classified (n.e.c.)*”. Additionally, in order to be considered as CFIs, these corporations should have a non-resident parent and feature neither production, nor FDI pass-through investments.⁴²

The prototype balance sheet includes primarily loans (as other investment) on the assets side. On the liabilities side, equity (as direct investment) and debt (as portfolio investment) are the main items, with debt predominating over equity.

Table 2.9: Prototype balance sheet for entities holding assets for securitisation

Assets		Liabilities	
Non-Financial Assets			
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency & Deposits			

Source: IMF (2018). NB: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

2.2.9 Special purpose units of general government

IMF (2018) defines special purpose units of general government as government entities that raise or borrow funds on behalf of the general government. In order to be considered a CFI, the entity must have a non-resident parent.⁴³

⁴² See also Section 2.1.7 of this paper.

⁴³ See also Section 2.1.6 of this paper.

IMF (2018) also states that the ISIC code of these entities should correspond to the broad category K “*Financial and insurance activities*”. Additionally, these corporations have no resident parent, no production and no FDI pass-through investments. Having a non-resident parent is a necessary condition.

The prototype balance sheet of special purpose units of general government includes primarily debt (as direct investment) on the asset side. On the liabilities side, equity (as direct investment) and debt (as portfolio investment) represent the main items.

Table 2.10: Prototype balance sheet for special purpose units of general government

Assets		Liabilities	
Non-Financial Assets			
Direct (Foreign) Investment		Direct (Foreign) Investment	
Equity		Equity	
Debt		Debt	
Portfolio Investment		Portfolio Investment	
Equity		Equity	
Debt		Debt	
Other Investment		Other Investment	
Loans		Loans	
Currency & Deposits			

Source: IMF (2018). NB: Relevance of the instrument by colour intensity. Financial derivatives and other instruments non-highlighted are also possible.

Overall, the IMF (2018)’s work on SPEs deserves recognition as it allows to derive a possible typology of CFIs based on prototype balance sheets. However, this work has several limitations. First, it does not offer any analytical tool for applying the CFI typology to empirical data. Other studies have developed empirical typologies of CFIs based on specific country-level datasets (see Section 2.2.10). Second, the IMF (2018)’s prototype balance sheets may omit certain items. The absence of these items may prevent the identification of other possible types of CFIs not included in the IMF (2018)’s typology. Third, while IMF (2018) presents a general CFI typology, specific CFIs peculiar to certain countries may exist due to their financial and regulatory specificities, though they may not appear in the IMF (2018)’s typology.

2.2.10 Empirical evidence

To the best of our knowledge, four studies have built a CFI typology at the empirical level, as far as the literature shows. These studies focus respectively on Ireland (Barrett *et al.* (2016)), the Netherlands (De Nederlandsche Bank (2021)) and Luxembourg (Di Filippo and Pierret (2020, 2022)). It is important to note that the definitions of CFI types and the methods used to create the typologies may differ among these studies.

Barrett *et al.* (2016) developed a CFI typology using data collected from a subset of special purpose vehicles (SPVs) based in Ireland. The authors define SPVs as entities primarily engaged in activities other than securitization.⁴⁴ In terms of total assets, SPVs include intragroup lending companies (24%), followed by external financing companies (23%), fund-linked asset management vehicles (21%),⁴⁵ loan origination companies (8%), and operational leasing vehicles (6.5%).⁴⁶ Together, these corporations represent approximately 82.5% of the total assets held by SPVs in Ireland.

De Nederlandsche Bank (2021) created a typology of CFIs in the Netherlands by applying a threshold-based method to CFIs' balance sheet structures. DNB (2021) considers six specific types of CFIs.⁴⁷ The most prevalent types, in terms of total balance sheet, are mixed financing companies (47%), followed by intragroup lending companies (26%), holding companies (14%) and conduit companies (6%). In terms of total number, the most important types of CFIs are intragroup lending companies (40%), followed by holding companies (28%), conduit companies (12%) and mixed financing companies (5%).

Di Filippo and Pierret (2020, 2022) presented a typology of CFIs in Luxembourg. In an attempt to encompass all possible types of CFI, they propose several variants of prototype

⁴⁴ This paper considers most of the SPVs in the study by Barrett *et al.* (2016) to be CFIs (S.127).

⁴⁵ According to Barrett *et al.* (2016), fund-linked asset management vehicles are linked to investment funds/firms, which hold debt, equity, loans, or other financial assets with the goal of capital appreciation, interest or dividend income. See Barrett *et al.* (2016), Table 1: Identified Irish SPV Types and Activities p. 39. See also Annex A.1 of this paper.

⁴⁶ According to Barrett *et al.* (2016), operational leasing vehicles hold fixed assets, such as plant and machinery, for the purposes of leasing them out. See Barrett *et al.* (2016), "Table 1: Identified Irish SPV Types and Activities" p. 39. See also Annex A.1 of this paper.

⁴⁷ See DNB (2021), "Table 3: Distribution by type based on average balance sheet size 2015-2019" p. 34. See also Annex A.2 of this paper.

balance sheets and compare them to those of IMF (2018). They use a non-threshold-based method applied to CFIs' balance sheet structures to identify different types of CFI. Di Filippo and Pierret (2020) used a database that only provides data for CFIs with balance sheets totalling at least EUR 500 million. Di Filippo and Pierret (2022) used an alternative database that includes CFIs with total assets below this amount. Di Filippo and Pierret (2022) demonstrate that CFIs exhibit distinct characteristics based on their balance sheet size. CFIs with total assets exceeding EUR 100 million are primarily holding companies, followed by intragroup lending corporations, mixed structures and conduit companies. In contrast, CFIs with total assets below EUR 100 million are mostly mixed structures. Additionally, while holding corporations own the majority of total assets, mixed structures account for the largest number of companies. The authors also highlight new types of CFIs, including mixed structures, extra-group loan sourcing corporations, and companies with predominantly non-financial assets. Mixed structures bring together a mix of holding and intragroup lending corporations, companies declaring losses (negative capital) all over their living period and other mixed structures. The prototype balance sheets of mixed structures are distinct from the prototype balance sheets of the other types of CFIs. Extra-group loan sourcing corporations rely on loans obtained from entities outside the group to finance specific assets, namely equity and debt securities (both as portfolio investment) and loans (as other investment). Companies with predominantly non-financial assets have these as their primary asset on their balance sheet.⁴⁸

⁴⁸ Box A provides an update of the main results by Di Filippo and Pierret (2022).

Box A: Typology of CFIs: Evidence from Luxembourg-based CFIs

This box provides an update of Di Filippo and Pierret (2022)’s work based on available data. Chart A.1 illustrates the typology of CFIs based on total assets held. From 2011 to 2024, on average, the largest asset holders were holding corporations (53%), followed by intragroup lending companies (21%), mixed structures (13%), conduits (10%), loan origination companies (1%), and companies with predominantly non-financial assets (1%). These corporations represent approximately 99% of the total assets held by CFIs.

Chart A: Typology of CFIs in Luxembourg

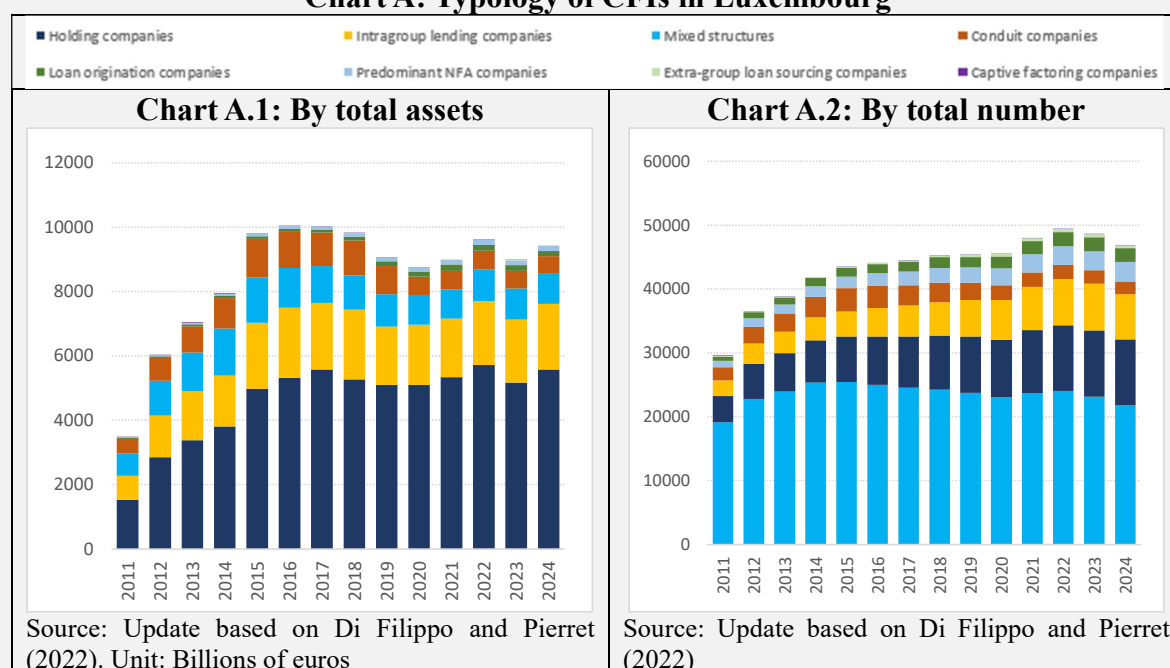


Chart A.2 shows the typology of CFIs by total number. From 2011 to 2024, on average, the CFI population was primarily made up of mixed structures (55%), holding corporations (18%), intragroup lending companies (11%), conduits (6%), companies with predominantly non-financial assets (5%), and loan origination companies (4%). These corporations represent approximately 99% of the total number of CFIs.

Overall, the relative proportions of the various types of CFIs differ depending on whether the typology is considered by total assets or total number. Although holding corporations hold the majority of total assets, mixed structure companies outnumber them.

3. Motives to use CFIs

CFIs can be used by investors across different sectors, including the financial sector (*e.g.* banks, insurance companies, investment funds, venture capital firms, asset leasing corporations, *etc.*) and the non-financial sector (*e.g.* real estate development, infrastructure construction, *etc.*). CFIs can be established by individual entrepreneurs, private companies, or public bodies. They can also involve public-private partnerships.⁴⁹ CFIs are typically used for group financing and project financing. The former involves financing the entities that make up the group, while the latter involves acquiring and financing specific assets. Investors may use CFIs for various reasons, including risk management, financing, regulatory compliance, political stability, legal protection, tax matters, as well as management and strategy.

3.1 Risk management and financing

3.1.1 Risk management

CFIs are typically established for the purpose of risk management. CFIs are financial vehicles that offer financial risk isolation, asset protection, and bankruptcy remoteness. This benefits both the sponsors setting up the CFI,⁵⁰ as well as the inside and outside investors financing it.

Investments typically involve uncertainty and risk, including financial risks such as underperformance or failure. If these risks materialise, they could harm the sponsor's financial condition and threaten the financial health of its affiliates through cascading effects. This could jeopardise the ongoing activity of the entire group. However, CFIs can contain the financial risks of a project within the entity. Although the parent company owns or controls the CFI, the CFI has its own independent legal status, assets, liabilities, and financial transactions. These are separate from those of the parent company and its affiliates. This financial and legal separation protects the parent company and its affiliates from the financial risks of a specific project or investment. If a parent company undertakes several risky projects, it can create a distinct CFI for each one. This protects the assets and liabilities of each investment, keeping

⁴⁹ A public-private partnership is a contractual arrangement or cooperation between a public or government agency and a private company. Public-private partnerships are often formed to help financing large infrastructure projects.

⁵⁰ The sponsor (or parent company) can be defined as the company that establishes and ultimately owns the CFI.

the risks associated with each project separate. This contributes to protecting the financial stability of the parent group as a whole.

CFIs also provide security to outside investors because they are bankruptcy remote. Transferring specific assets to a CFI protects those assets from creditors' claims, lawsuits, and bankruptcy arising from the activities of the parent company or its affiliates. External investors bear risks only from the CFI and the project it finances, regardless of the risks taken by the parent company or its affiliates.

3.1.2 Financing

CFIs are usually employed to raise funds from several investors, who contribute to a single entity for project financing. The funds raised through CFIs can be substantial and potentially exceeding the amounts that can be raised at the sponsor level.⁵¹ This helps meet the project's financing needs. Unlike parent companies, CFIs are often new businesses with no financial history, debts, liabilities, or outstanding legal cases. This makes CFIs more attractive to outside investors. These investors can be of different types, enabling the sponsor to diversify its funding sources. CFIs often offer flexible financing options, typically involving equity, debt, or hybrid securities, which are tailored to investors' objectives. Using debt creates financial leverage, increasing the return on investment for investors funding the project. This leverage can potentially be high because CFIs usually have lower capital requirements than alternative financial vehicles, which may be subject to stricter regulations. Since CFIs allow for optimised project risk management,⁵² they can benefit from lower borrowing costs than the parent company.

CFIs also allow for flexible allocation of funding. For example, this benefits private funds, which often use one or more CFIs to channel investors' contributions, which are pooled into a fund, towards various portfolio assets. Indeed, due to financial considerations (*e.g.*, assets may have different acquisition prices) and strategic purposes (*e.g.*, the need to control a larger equity stake in a given asset), CFIs enable the allocation of adequate financing to each asset. CFIs also accommodate the heterogeneity of investors' preferences. CFIs allow certain Limited

⁵¹ See BCBS (2009), Korgaonkar and Nini (2010).

⁵² See Section 3.1.1.

Partners⁵³ to allocate more capital to a particular asset without interfering with those who do not wish to participate.

CFIs also facilitate the integration of risk management and financing. As financing a project often involves several investors with different risk preferences, counterparties may agree to set up a holding and acquisition structure incorporating a series of new companies (“NewCos”). This structure aims to establish a clear payout hierarchy between investors in the event of project liquidation. CFIs facilitate this through structural subordination between investors.⁵⁴ This means that investors funding CFIs further down the hierarchy (*i.e.* closer to the actual investment) have a higher priority for payouts in the event of insolvency. For example, private investment funds may use CFIs for structural subordination when several external investors contribute to the financing of investments in private companies or real estate properties (Gilligan and Wright (2020)).⁵⁵

**Box B: Illustration of the use of CFIs for structural subordination
by private investment funds**

This box illustrates the use of CFIs for structural subordination by private investment funds, when several investors provide financing for investments (target assets) in private companies or real estate.

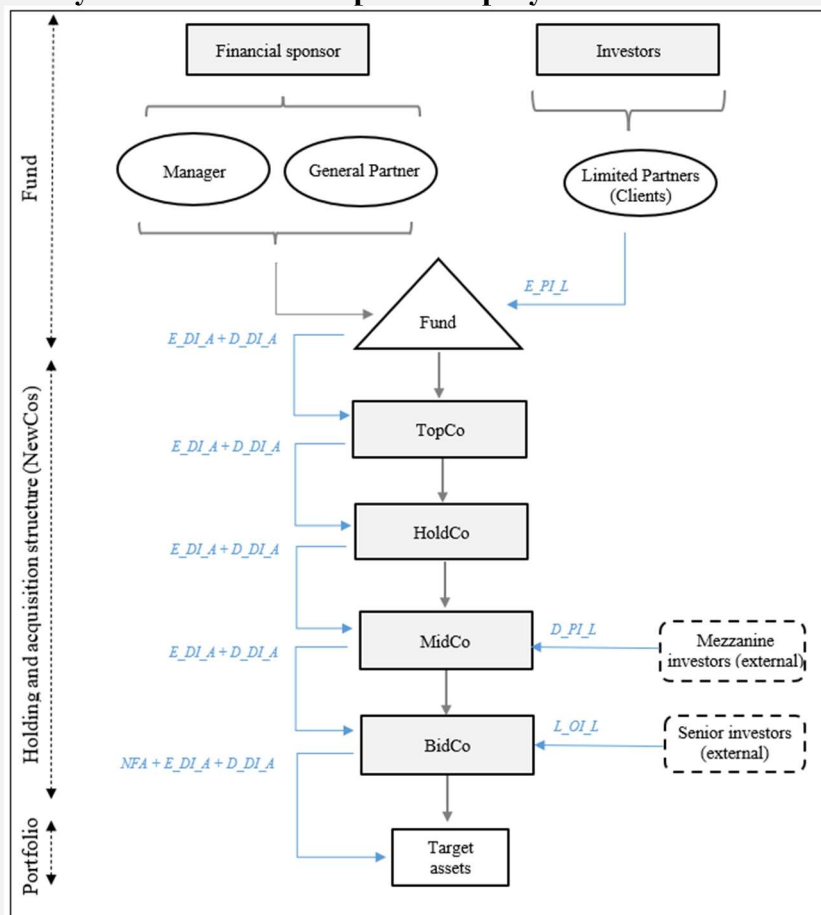
Diagram 1 presents a simplified structure typically used by private investment funds. In this diagram for example, the “MidCo” is situated further from the investment (or target assets) than the “BidCo”. This means that senior creditors, such as banks providing loans to the BidCo, would have the right to make a prior claim on the underlying assets, compared to junior or mezzanine investors, who purchase debt securities issued at the MidCo level.

⁵³ The Limited Partners (LPs) are usually the main investors of a private fund. LPs may include different types of institutional investors, such as pension funds, investment funds, endowment funds, insurance companies, investment banks, family offices and funds of funds.

⁵⁴ An investor can obtain a payoff priority either contractually or structurally. In a contractual subordination, an agreement prevails between the various counterparties regarding who is repaid, in what order, and what rights the investors have, in case of investment failure. This is the inter-creditor agreement. An alternative to contractual subordination is structural subordination. The latter involves creating a cascade of CFIs within a holding and acquisition structure. In this setup, investors who fund CFIs further down the hierarchy (*i.e.* closer to the actual investment) have a higher priority for payouts in the event of insolvency.

⁵⁵ See Box B.

Diagram 1: Stylised structure of a private equity or real estate investment fund



Source: ESRB (2025) and Di Filippo (2023), adapted from Hudson (2014) and Gilligan and Wright (2020). Note: The target assets may be a private company (for private equity funds) or a real estate property (for real estate funds). E_PI_L and D_PI_L stand for portfolio investment through equity or debt respectively, E_DI_A and D_DI_A for direct investment through equity or debt respectively, NFA for non-financial assets, and L_OI_L for loans as other investments.

Thus, if the project fails, repayment of the subordinated debt at the MidCo level cannot take place until the senior debt at the BidCo level has been paid in full. For this reason, the subordinated debt at the MidCo level is generally considered riskier by investors and tends to carry a higher interest rate than the senior debt at the BidCo level.

3.2 Compliance, legal and tax matters

3.2.1 Regulatory compliance

Since regulatory compliance is not standardised across jurisdictions, cross-border investments often must meet different regulatory requirements in different countries. Using CFIs can help investors navigate these varied and complex regulatory environments by

establishing clear legal and operational structures for specific projects. This is particularly important for multinational corporations that hold various subsidiaries through CFIs in different geographical and functional positions.

Some jurisdictions, for example, impose legal and regulatory requirements that limit foreign ownership or prevent foreign companies from owning assets directly. In such cases, the parent company must establish a local entity, such as a CFI, to hold the asset.

Regulatory requirements may differ between a parent company and a CFI, especially regarding specific investment projects. In industries with specific regulations for certain activities, establishing a CFI can simplify adherence to those regulations within the CFI's limited scope of activities without affecting the parent company's operations.

Since CFIs are usually formed for specific purposes, the regulatory requirements for their operations tend to be simpler and more precise than those of the parent company. This simplifies the compliance process, ensuring that the necessary regulations are met for the project or transaction at hand and allowing for smoother operations.

3.2.2 Political stability and legal protection

Political stability varies by jurisdiction. When dealing with cross-border investments in risky countries, sponsors may wish to establish a CFI in a politically stable country. This approach fosters confidence among external financiers and provides access to financing solutions that support the project.

Legal regimes are not standardised across countries. In particular, the level of protection and flexibility offered to investors by insolvency procedures varies significantly from one country to another. Investors may want the strongest possible protection combined with enough flexibility to suit their preferences. In particular, the domiciliation of CFIs in certain jurisdictions may enhance investor protection (Lavery (2025)). Consequently, the parent company may choose a location that aligns with investors' preferences. These investors may favour "lender-friendly" countries over "debtor-friendly" ones. Therefore, structuring investment holdings *via* CFIs established in "lender-friendly" jurisdictions can strengthen lenders' positions by providing better protection and easier enforcement of security interests during insolvency proceedings. This helps gain the trust of investors and secure project funding.

3.2.3 Tax matters

Since tax regimes are not harmonised across jurisdictions, sponsors can strategically choose to establish CFIs in countries with favourable tax regulations to optimise their tax strategy for a given investment. This allows sponsors to legally minimise their tax liabilities and take advantage of specific tax incentives. In turn, this makes the project more financially viable and improves the return on investment for the various stakeholders.

For example, some jurisdictions offer CFIs benefits such as low corporate income taxes, an absence of capital gains taxes, and no withholding taxes on dividends. Additionally, some jurisdictions allow the full deduction of expenses from taxable profits, including for instance mortgage interest on loans issued to the CFI for real estate project financing. Furthermore, to encourage cross-border trade and investment, some jurisdictions have established bilateral tax agreements. These tax treaty networks aim to make cross-border investment “tax neutral” by avoiding the double taxation of income or capital generated in one country by an entity residing in another. Failure to achieve tax neutrality can result in a given investment being taxed twice: once in the country of investment and again in the investor’s country of residence. This “double tax” reduces the profitability of cross-border investments.

The variety of tax regimes in different jurisdictions can allow multinational corporations to develop complex international tax strategies that involve CFIs. In 2013, the OECD and the G20 countries launched the Base Erosion and Profit Shifting (BEPS) Project to address aggressive corporate tax strategies and ensure that profits are taxed where economic activity and value are created. This initiative was implemented into European Union law through the Anti-Tax Avoidance Directive (ATAD) and the Pillar Two Directive. The ATAD includes various rules aimed at preventing corporations from exploiting loopholes in tax rules to artificially erode their tax base. The Pillar Two Directive establishes a global minimum effective tax rate of 15% for large multinational enterprises in the European Union.

3.3 Management and strategy

3.3.1 Management

CFIs play an important role in optimising management, whether at the parent or project level.

For example, a parent company can use a CFI to enhance its financial ratios by transferring liabilities, such as debt or non-performing receivables, from its balance sheet to the CFI's. Through off-balance sheet accounting, the parent company is not required to consolidate the CFI on its balance sheet. This prevents significant liabilities from appearing on the parent company's financial statement.⁵⁶ Governments can use CFIs in public-private partnerships to raise funds from private investors, thereby limiting public spending while maintaining sound public finances. If a CFI has a better credit rating than a government, for example, raising funds *via* the CFI can help keep expenses or debt-servicing costs low. This can also help governments maintain financial and fiscal flexibility, allowing them to issue bonds for other projects if needed. In a public-private partnership, using a CFI can protect the government's financial health because valid claims by private investors are limited to the project assets.

CFIs benefit sponsors, investors, and investees by streamlining administrative processes and centralising project management. This improves management efficiency, making projects more viable. Rather than managing relations with various investors, the investee only engages with the CFI, which represents a syndicate of investors. This is particularly true when a CFI pools funding from several investors. In addition, sponsors benefit from clear reporting and transparent accounting when they centralise and channel all financial transactions through a single CFI. All project-related operations, revenues, and expenses are consolidated under one entity. When dealing with multiple projects, this helps build a track record of financial performance for each project. This simplifies due diligence, risk assessment, performance monitoring, expense tracking, cash flow management, and regulatory compliance. Additionally, CFIs usually have few or no employees - often just directors and a company secretary - and contract out services. Centralising management of a specific project into a single entity may improve governance and facilitate cooperation between stakeholders throughout the project. Clear roles and responsibilities, as well as focused management structures, reduce potential conflicts among stakeholders, thereby improving a project's viability.

⁵⁶ See Niam (2006) and BCBS (2009).

3.3.2 Strategy

CFIs allow investment strategies to be tailored to the preferences of the various stakeholders involved in an investment project. They are particularly useful for determining the optimal timing of investments, preventing ownership losses, and maintaining the secrecy of assets and the anonymity of transactions with competitors, all while enhancing transparency for stakeholders.

A parent company can use CFIs to keep its assets and investment strategies confidential. This protects assets, such as intellectual property resulting from technological innovations, from external competitors and prevents internal investors from disapproving of asset allocations or transactions. According to BCBS (2009), sponsors may be motivated by anonymity when raising funds indirectly *via* CFIs rather than directly at the parent level. Similarly, investors who wish to keep their financial affairs private can use CFIs to invest in particular assets.

As they prevent equity dilution when raising capital, CFIs can be used to maintain strategic control and ownership of a target company. Equity dilution usually happens when a company issues new shares. CFIs can be used to obtain non-dilutive funding. This means that the company does not need to issue new equity to raise capital, thus avoiding equity dilution for existing shareholders. For instance, CFIs can be employed to establish cascade ownership structures. These structures allow the sponsors (or ultimate investor) to raise additional outside capital to finance the acquisition of a target while minimising their required equity commitment and preserving maximum control over the final target.⁵⁷

Ultimately, market timing is an important factor for investors to consider when planning their entry and exit strategies. In this context, CFIs may benefit from quick and easy settlements (Niam (2006)). If the settlement period is too long, competitors may exploit investment opportunities, or these opportunities may be lost due to deteriorating economic conditions.

⁵⁷ Cascade ownership structures involve creating a chain of holding companies in a vertical hierarchy to control a target entity, while minimising the initial equity commitment of the ultimate investor. The top-tier investor (or ultimate investor) acquires a majority stake (e.g. 51%) at each level of the hierarchy, thereby retaining complete operational control of the final target. External shareholders or lenders then provide the remaining capital at each level. This strategy relies on separating voting control and economic ownership. Each tier acts as a capital multiplier. For instance, if a top-tier investor owns 51% of HoldCo A, which in turn owns 51% of HoldCo B, which then owns 51% of the target asset, their economic stake in the target asset would be significantly reduced ($51\% \times 51\% \times 51\% = 13.27\%$). The benefit to the top-tier investor is that they retain 100% operational control of the EUR 100 million target, but their actual capital commitment at the top is only EUR 13.27 million instead of EUR 51 million.

3.4 Flexibility

Overall, CFIs can fulfill a variety of objectives that align with the needs of sponsors, internal investors, external investors, and investees. One of the most compelling arguments for corporations using CFIs is their versatility. CFIs are typically flexible and customisable, enabling them to meet the requirements of all stakeholders involved in a given investment project. This adaptability enables investors to customise their level of involvement, whether as passive participants or active decision-makers. Although CFIs can be classified into a typology, none are alike due to their flexibility. Their structure is tailored to the needs of the parties involved. This flexibility allows CFIs to manage complex financial transactions, which are often involved in project financing and frequently include multiple parties, significant assets, and intricate arrangements.

3.5 Empirical evidence

To the best of our knowledge, only a few studies in the literature have sought to identify, distinguish, and rank the motives for using CFIs.⁵⁸

For instance, Feng *et al.* (2009) examined the factors influencing the use of special purpose vehicles (SPVs) by multinational corporations.⁵⁹ The authors examined a sample of 6,473 firms from 1997 to 2004 for which data were available in Exhibit 21 released by the U.S. Securities and Exchange Commission (SEC),⁶⁰ as well as other necessary data. The results showed that the use of SPVs differed depending on the economic activities of the parent group. Industries with a high volume of leasing activities (such as trading, real estate, and construction) demonstrated a greater interest in SPVs. SPVs are also frequently used in banking and telecommunications. This is consistent with these industries using SPVs for project financing or creating new avenues for SPV use, such as securitizing financial assets and broadband capacity, in the 1990s. Regarding the investigation of the determinants of SPV use,

⁵⁸ See for example, Feng *et al.* (2009), Galstyan *et al.* (2019), Korgaonkar and Nini (2010) and Sainati *et al.* (2020).

⁵⁹ This paper considers most of the SPVs in the study by Feng *et al.* (2009) to be CFIs (S.127).

⁶⁰ The SEC's Exhibit 21 lists the subsidiaries of any company that files a SEC's Form 10-K, whether US-resident or not, if that company meets the filing requirements. The SEC's Exhibit 21 is thus not exclusively for US companies. The Annual Report on Form 10-K provides a comprehensive overview of the company's business and financial condition and includes audited financial statements.

the results show that SPV activity increases with financial reporting incentives (*e.g.*, debt leverage and CEO bonus compensation) and economic motivations (*e.g.*, availability of internal funds and tax benefits). However, strong corporate governance, such as board independence and independent directors' stockholdings, mitigates SPV use.

Galstyan *et al.* (2019) analyse the macroeconomic determinants of debt issued through Irish-resident special purpose entities (SPEs) from 2005 to 2017. The authors divided the sample of SPEs into two categories: securitization vehicles or financial vehicle corporations (FVCs), and non-securitization vehicles or special purpose vehicles (SPVs).⁶¹ The authors focus on five domestic factors: financial development,⁶² investor protection,⁶³ taxation,⁶⁴ common law⁶⁵ and information asymmetries.⁶⁶ Empirical results vary depending on the model specification. Overall, for sponsors of Irish-resident securitisation vehicles (FVCs), the results suggest that distance and taxation are important motives contrary to investor protection and financial development.⁶⁷ For sponsors of non-securitisation vehicles (SPVs), investor protection and common law are important determinants, contrary to taxation.⁶⁸

Sainati *et al.* (2020) investigated the functions and types of SPVs used in infrastructure megaprojects involving large-scale, complex, one-time capital investments in various public and private sectors.⁶⁹ The authors used data from interviews conducted between May 2014 and November 2016 with senior lawyers, bankers, and SPV managers, primarily from global financial centres in Europe, the United States, and Hong Kong. These individuals had over 15 years of experience working with SPVs in international infrastructure megaprojects, covering activities such as oil and gas, transportation, energy, and nuclear projects. The authors

⁶¹ Following guidance from ESA2010 and SNA2025 (see Section 2.1.7 of this paper), securitization vehicles (FVCs) would be classified in sector S.125 while non-securitisation vehicles (SPVs) would be considered as CFIs (sector S.127).

⁶² Proxied by the financial development index of the World Bank Doing Business indicators in Galstyan *et al.* (2019).

⁶³ Investor protection includes institutional factors relating to property rights.

⁶⁴ The number of bilateral double tax treaties in the sponsoring country enables to control for the effect of tax optimisation.

⁶⁵ Common law is a dummy variable indicating whether the sponsor country has a common law legal origin.

⁶⁶ Information asymmetries are measured by the distance between the sponsor country and Ireland, as a proxy for cross-border information frictions.

⁶⁷ The impact of common law may be significant or not, depending on the model specification.

⁶⁸ The impact of financial development and distance may be significant or not, depending on the model specification.

⁶⁹ This paper considers most of the SPVs in the study by Sainati *et al.* (2020) to be CFIs (S.127).

correspond three primary functional categories (legal, project contracting, and organisational)⁷⁰ with four types of SPVs (project companies, industrial vehicles, intermediate SPVs, and jurisdictional shell companies). Their results show that project companies and industrial vehicles can fulfill legal, project contracting, and organisational functions. Intermediate SPVs are associated only with legal and project contracting functions. Jurisdictional shell companies target jurisdictions that provide benefits in terms of specific laws and judicial systems.

Overall, the literature suggests that investors may use CFIs for a variety of reasons. However, due to differences in the samples and methods employed in the studies, it is difficult to identify a motive that consistently predominates over the others.

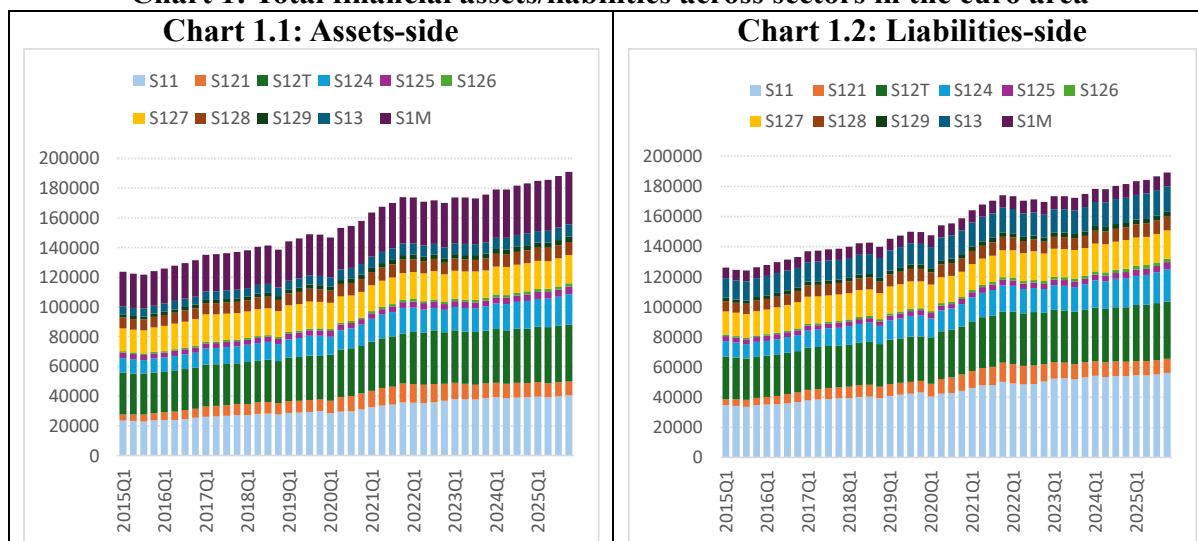
4. CFIs in the euro area: insights from specific datasets

4.1 Total financial assets and liabilities held by CFIs: cross-sector comparison

Chart 1 breaks down the euro area total financial assets and liabilities by sector. In terms of financial assets, monetary financial institutions other than central banks (sector S.12T=S.122+S.123) hold the most important share, accounting for an average of 21% of the total, over the period Q1 2015 - Q4 2025. This sector is followed by non-financial corporations (S.11, 20%), households and non-profit institutions serving households (S.1M=S.14+S.15, 18%), and CFIs (S.127, 12%). In terms of financial liabilities, non-financial corporations (S.11) account for the most important share, with 29% of the total on average over the period Q1 2015 - Q4 2025. This sector is followed by monetary financial institutions other than central banks (S.12T, 20%) and CFIs (S.127, 11%).

⁷⁰ *Legal functions* include contracting (to establish contractual relationships (e.g. borrowing funds) and structure complex transactions), collecting and hiring (to pool assets, financial liabilities and project resources, including personnel), co-owning and investing (to own assets with multiple investors), transferring (to transfer the ownership of assets), constraining (to limit the use of assets, the ability to leverage financial liabilities, management's decision-making power, the contractual abilities), isolating (to isolate assets, financial and legal liabilities to separating ownership, risks and responsibilities from third parties) and targeting jurisdictions (to benefit from specific law and judicial systems). *Organisational functions* include performing activities (to build, operate, and maintain infrastructures), managing activities, administering contracts (to employ staff to administer their contracts), governing (to define the decision-making process *via* shareholder agreement, article of incorporation, etc.). *Project contracting* regroups the following functions: channelling risk and responsibilities, channelling assets and fund, transforming and transferring risks, clustering and institutionalising multiple stakeholders.

Chart 1: Total financial assets/liabilities across sectors in the euro area



CFIs are financial corporations that may qualify as non-bank financial institutions (NBFIs)^{71,72} and notably as non-monetary financial institutions (non-MFIs).⁷³ On average over the period Q1 2015 - Q4 2025, CFIs account for 20% of the financial sector's and 36% of the non-MFIs' total financial assets or liabilities. This is followed by non-MMF investment funds (S.124) which represent 30% of non-MFIs' total financial assets or liabilities. However, CFIs' share in non-MFIs' total financial assets/liabilities has decreased over time, while the share of non-MMF investment funds has increased. In fact, during this period, the total assets and liabilities held by sector S.124 increased faster than those held by CFIs.

⁷¹ Non-bank financial institutions (NBFIs) are entities that engage in financial intermediation - such as investment, risk pooling, or credit provision - without holding a full banking license or accepting deposits from the public. They usually include money-market funds (MMF, sector S.123), non-MMF investment funds (sector S.124), other financial intermediaries except insurance corporations and pension funds (S.125), financial auxiliaries (S.126), captive financial institutions and money lenders (S.127), insurance corporations (S.128) and pension funds (S.129). Non-bank financial institutions (NBFIs) play a pivotal role in the real economy, offering financial services that complement and often compete with financing provided by traditional banks (S.122).

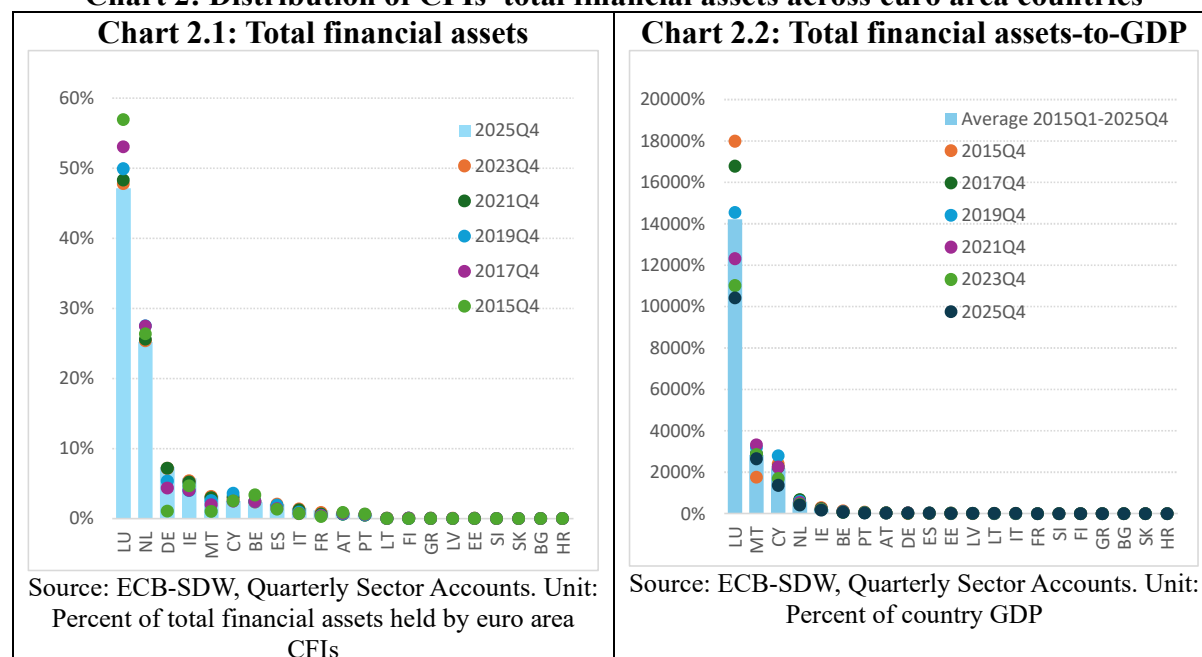
⁷² FSB (2018) notes that CFIs likely have different business models and risk profiles across jurisdictions. Thus, the classification of CFIs as NBFIs may differ across countries and may depend on the assessment made by individual jurisdictions.

⁷³ A non-monetary financial institution (non-MFI) is an entity whose main economic function is to channel or help channel funds from savings-holding entities to entities that need funds to invest, but which are not authorised to receive deposits or do not receive close substitutes for deposits. The non-MFI sector includes the following institutions: investment funds except money market funds (S.124), other financial intermediaries except insurance corporations and pension funds (S.125), financial auxiliaries (S.126), captive financial institutions and money lenders (S.127), insurance corporations (S.128) and pension funds (S.129). For more information, see <https://data.ecb.europa.eu/methodology/what-non-monetary-financial-institution>

4.2 Total financial assets held by CFIs: cross-country comparison

The relative importance of CFIs varies substantially between euro area jurisdictions, with some countries accounting for the majority of CFIs (Chart 2). In terms of CFIs' total financial assets (Chart 2.1), Luxembourg (LU) represents the most important country gathering 48% of CFIs' total financial assets in the euro area, followed by the Netherlands (NL) with 25%, Germany (DE) with 7%, Ireland (IE) with 6%, Malta (MT) and Cyprus (CY) with 3% each, and Belgium (BE) with 2%. Together, these countries account for around 95% of CFIs' total financial assets in the euro area. When considering the countries' economic size, as measured by GDP (Chart 2.2), CFIs' total financial assets are most important in Luxembourg, followed by Malta, Cyprus, the Netherlands, and Ireland.

Chart 2: Distribution of CFIs' total financial assets across euro area countries



4.3 Breakdown of CFIs' aggregate balance sheet

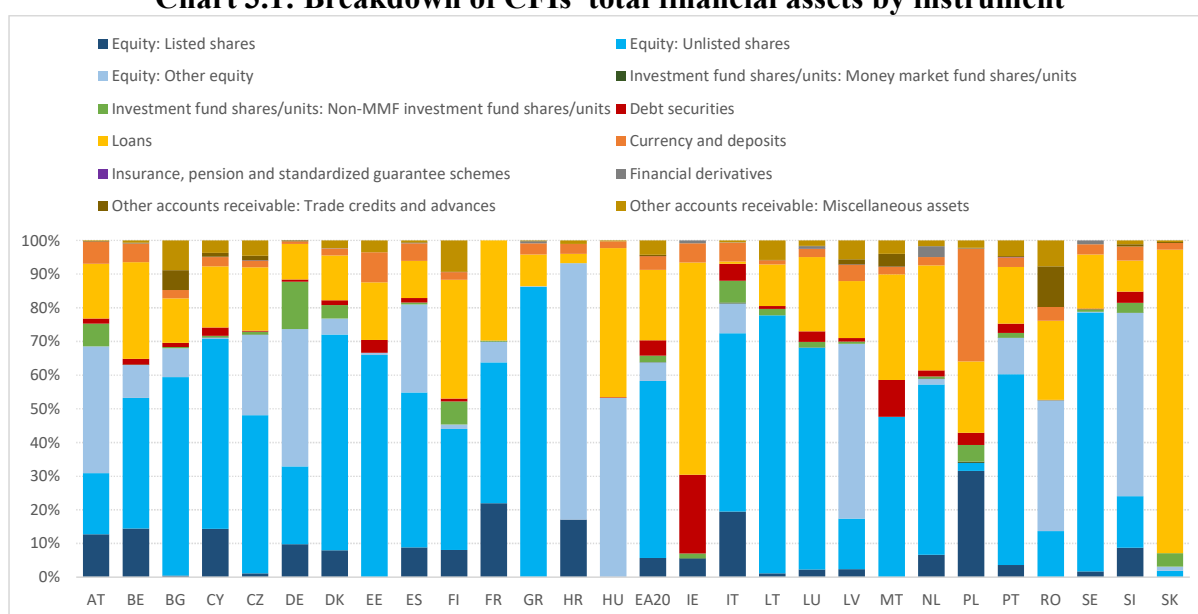
Charts 3.1 and 3.2 provide a breakdown of the aggregate balance sheet of CFIs in selected European countries (including those in the euro area), categorised by instrument on the asset and liability sides, respectively.

At the euro area level (EA20), the most significant assets over the period Q1 2015 - Q4 2025 are, on average, unlisted shares (57%), followed by loans (22%) and debt securities

(4%).⁷⁴ The same pattern emerges on the liabilities side, with unlisted shares again dominating at 53%, followed by loans at 24% and debt securities at 11%.⁷⁵

Both charts show that this observation applies to most countries, where equity securities (especially, unlisted shares and other equity) represent the most significant asset and liability, followed by loans and debt securities.⁷⁶ This is consistent with the fact that a significant part of CFIs' activities involves holding unlisted shares in group affiliates, financing group affiliates by granting intragroup loans or raising funds from extra-group entities, by issuing debt securities or sourcing loans.

Chart 3.1: Breakdown of CFIs' total financial assets by instrument



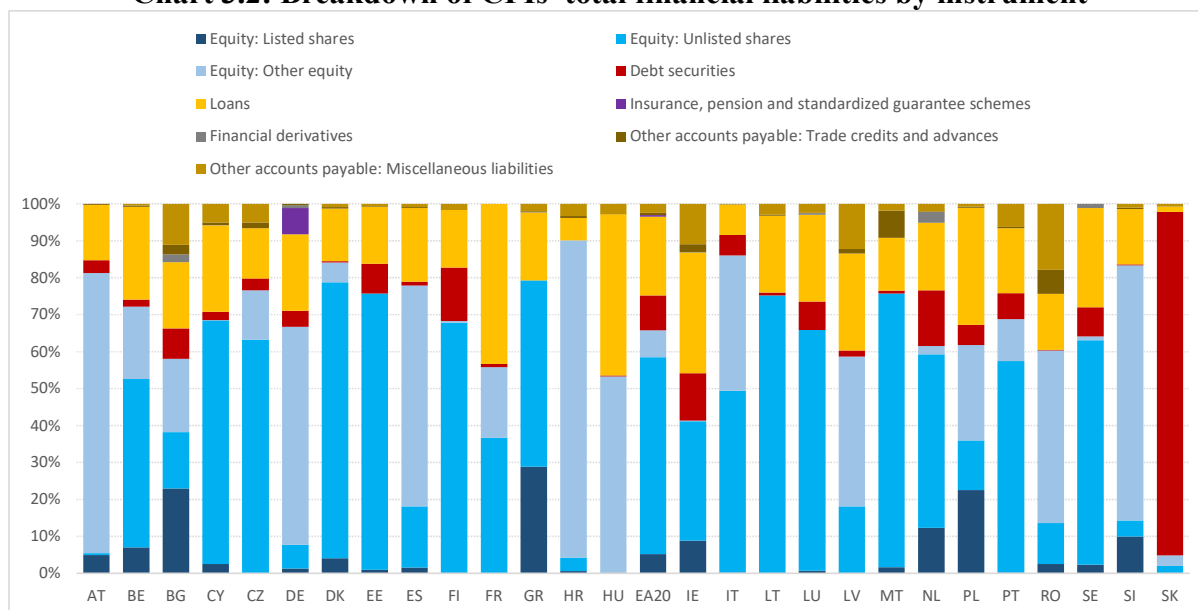
Source: ECB-SDW, Quarterly Sector Accounts. Period: Q4 2025. Unit: Percent

⁷⁴ Annex B.1 provides a definition of unlisted shares.

⁷⁵ Note that Charts 3.1 and 3.2 present the loans item on a non-consolidated basis. This means that they include positions between entities within the same sector and may therefore encompass loans between entities belonging to the same parent group. In other words, the loans item includes both intragroup and extra-group loans. Intragroup loans are loans between entities belonging to the same group. Extra-group loans are those between a debtor and creditor affiliated with two different groups.

⁷⁶ Annex B.2 provides a definition of other equity.

Chart 3.2: Breakdown of CFIs' total financial liabilities by instrument



Source: ECB-SDW, Quarterly Sector Accounts. Period: Q4 2025. Unit: Percent

4.4 CFIs issuing debt securities

Chart 4.1 illustrates the total amount of outstanding debt securities (F3) issued across sectors in the euro area. As of Q4 2025, the most important sectors issuing debt securities are the general government (sector S.13, 51%), followed by monetary financial institutions other than central banks (S.12T=S.122+S.123, 21%), other financial intermediaries except insurance corporations and pension funds (S.125, 10%), non-financial corporations (S.11, 9%) and CFIs (S.127, 8%). In Q4 2025, these sectors accounted for 99% of the total amount of outstanding debt securities issued.

Chart 4.2 shows the distribution of the total amount of outstanding debt securities issued by CFIs across euro area countries. Most of the activity involving CFIs issuing debt securities is concentrated in Luxembourg and the Netherlands. Together, these two countries account for almost 85% of the total amount of outstanding debt securities issued by CFIs in the euro area.

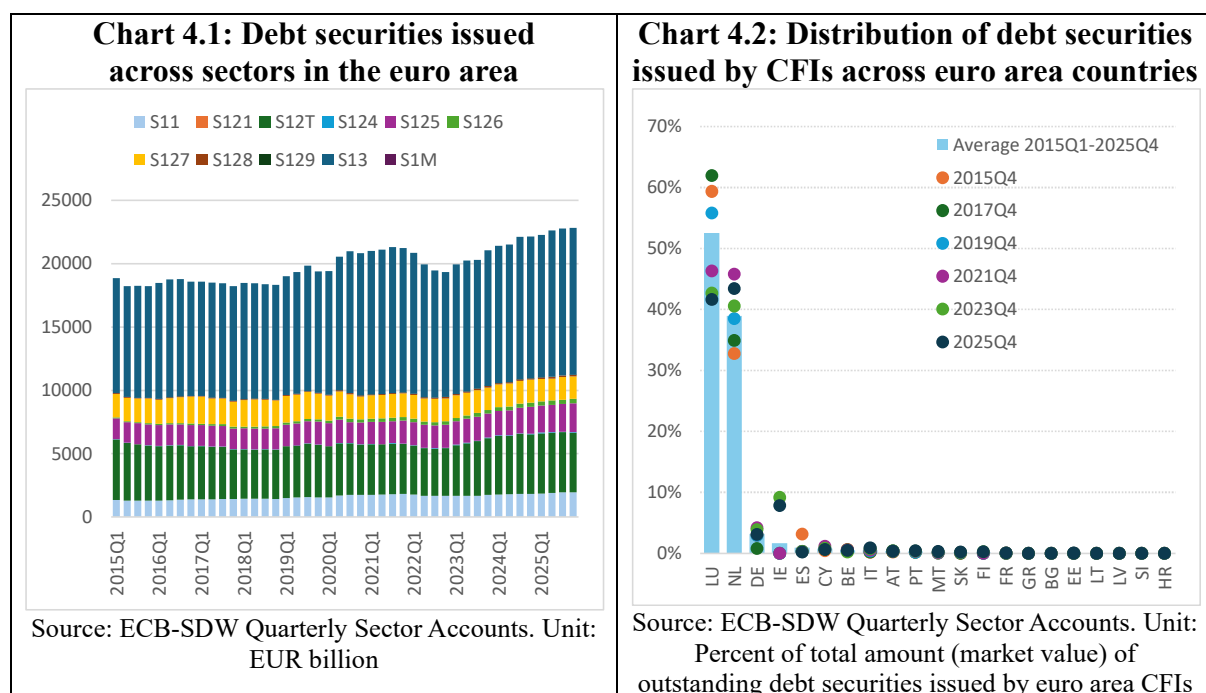
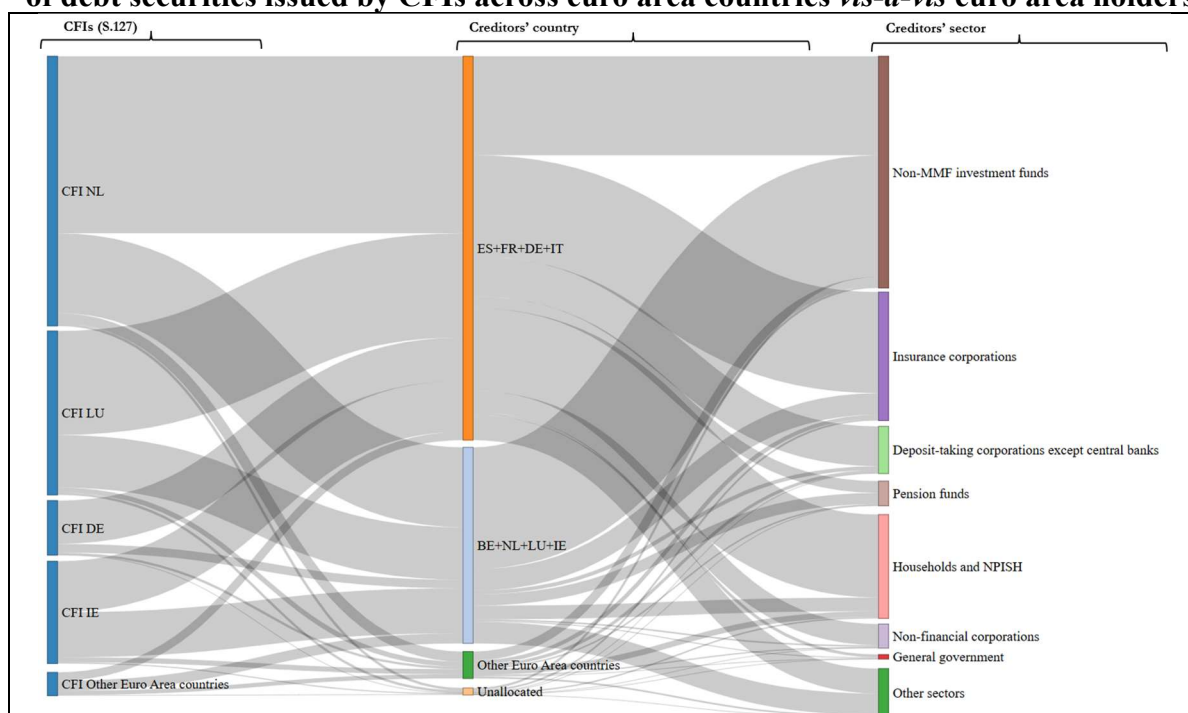


Chart 4.3 breaks down the geographical and sectoral counterparties of debt securities issued by CFIs across euro area countries. This chart is drawn from the Centralised Securities Database (CSDB) and the Securities Holdings Statistics by Sector (SHSS) database.⁷⁷ The chart focuses on euro area holders. This is because the scope of the SHSS is primarily euro area holdings, whereas for non-euro area holders, the information may be incomplete or inaccurate and of limited quality. In addition, to ensure confidentiality clearance, the chart categorises specific geographical counterparts in the euro area into distinct groups of countries.

In Q4 2025, the most important euro area investors in debt securities issued by CFIs are financial corporations, with non-MMF investment funds (S.124) accounting for the largest share, followed by insurance corporations (S.128), deposit-taking corporations excluding central banks (S.122) and pension funds (S.129). The majority of debt securities issued by CFIs are long-term, with an original maturity period exceeding one year.

⁷⁷ The *Centralised Securities Database* (CSDB) is a security-by-security reference database that contains data on instruments, issuers and prices for debt securities, equity instruments and investment fund shares issued worldwide. The CSDB data are available as a panel dataset with monthly frequency from April 2009 onwards. Thus, the CSDB contains notably securities (e.g. debt securities) issued by CFIs. The *Securities Holdings Statistics by Sector* (SHSS) dataset is collected on a security-by-security basis. It provides information on securities held by euro area resident sectors, broken down by instrument type, holder country and further classifications. SHSS series are compiled starting from reference period Q1 2021. Less detailed aggregates at euro area level are available from Q4 2013 onwards in the discontinued SHSS data set. Thus, the CSDB allows us to identify CFIs in euro area countries that issue securities, primarily debt securities. The SHSS, on the other hand, enables us to gather data on the geographical and sectoral entities purchasing these securities.

Chart 4.3: Breakdown of geographical and sectoral counterparties of debt securities issued by CFIs across euro area countries *vis-à-vis* euro area holders



Source: CSDB-SHSS. Period: Q4 2025. Unit: Percent of total amount (market value) of outstanding debt securities issued by CFIs.

4.5 CFIs sourcing loans

Chart 5.1 illustrates the total amount of outstanding loans (F4) granted to entities across sectors in the euro area. As of Q4 2025, the most important sectors sourcing loans are non-financial corporations (sector S.11, accounting for 44%), followed by households and non-profit institutions serving households (S.1M, 24%), captive financial institutions (S.127, 12%), general government (S.13, 9%) and other financial intermediaries except insurance corporations and pension funds (S.125, 5%). In Q4 2025, these sectors accounted for 94% of the total amount of outstanding loans.

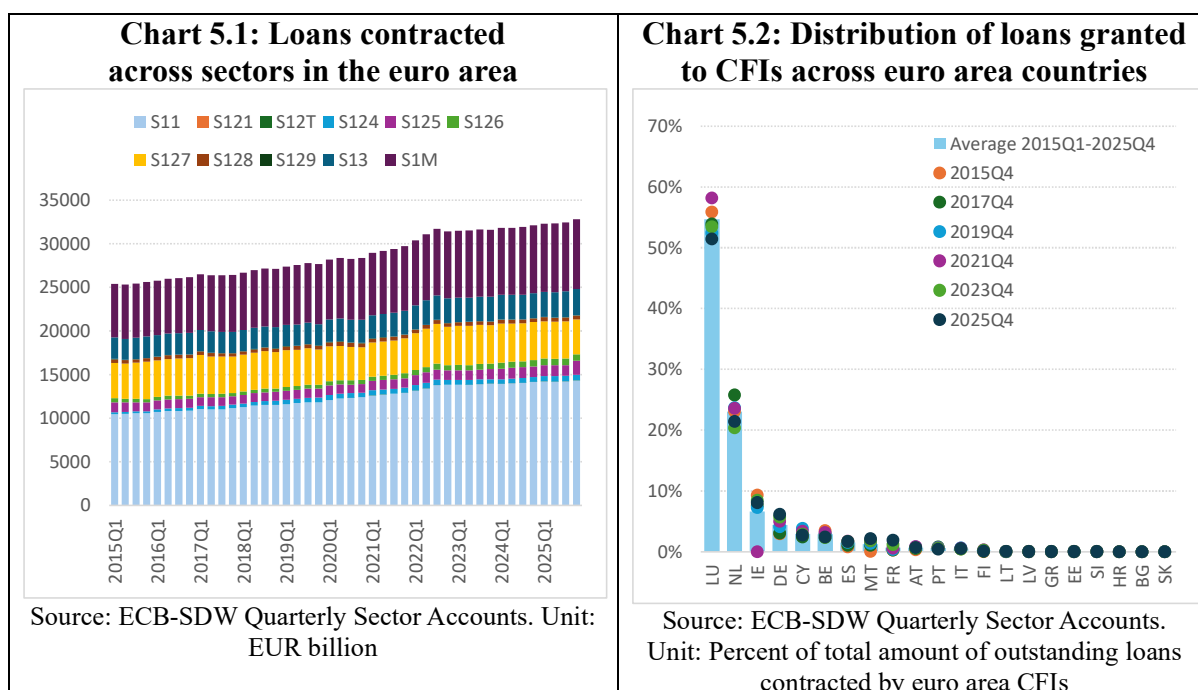


Chart 5.2 shows the distribution of the total amount of outstanding loans granted to CFIs in euro area countries. Most of the activity involving CFIs sourcing loans is concentrated in Luxembourg and the Netherlands. Together, these countries account for almost 80% of the total amount of outstanding loans granted to CFIs in the euro area.

Note that Charts 5.1 and 5.2 present the loans item on a non-consolidated basis. This means that they include positions between entities within the same sector and may therefore encompass loans between entities belonging to the same parent group. This means that the loans item includes both intragroup and extra-group loans. Intragroup loans are loans between entities belonging to the same group. Extra-group loans are those between a debtor and creditor affiliated with two different groups. In Luxembourg, intragroup loans account for a significant proportion of the loans held by CFIs in their aggregate balance sheets.⁷⁸ In other words, the proportion of intragroup loans is larger than that of extra-group loans. The typology of Luxembourg-based CFIs also shows that intragroup companies predominate over those that source loans from outside the group.⁷⁹

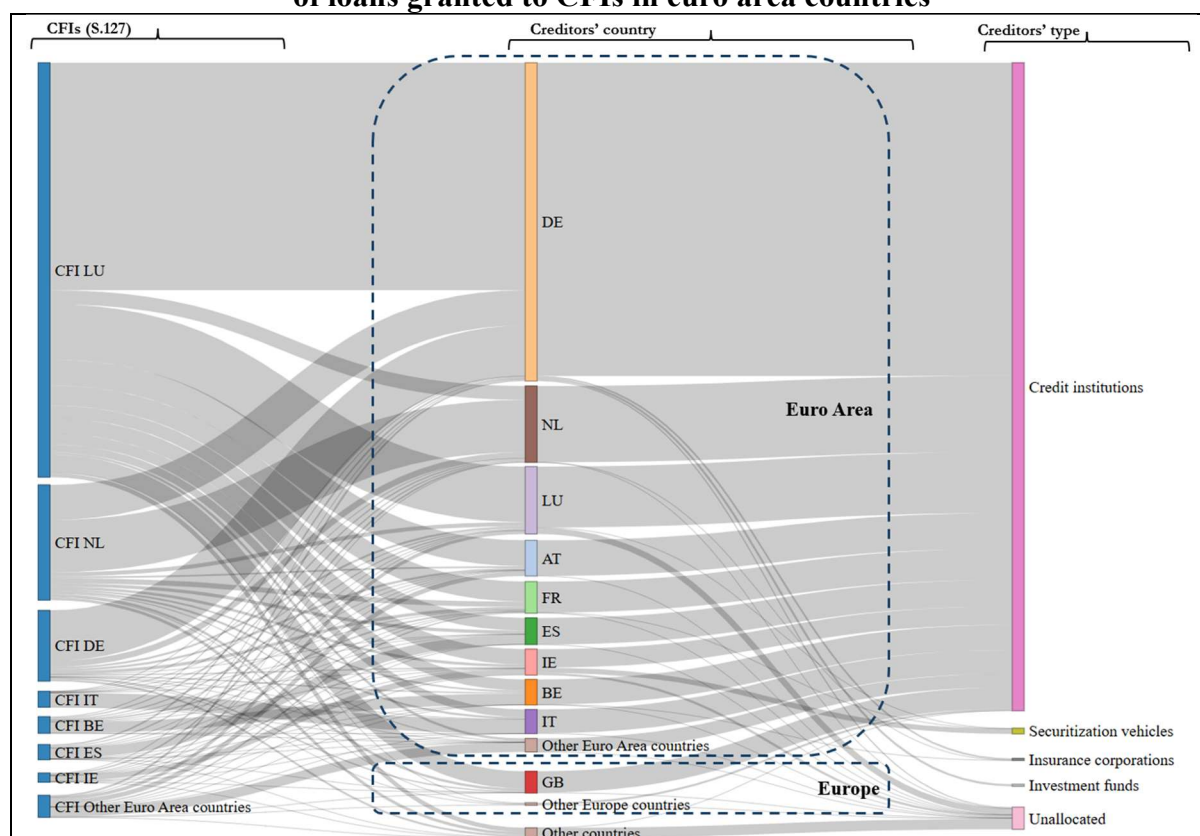
Focusing on extra-group loans, one possible way of representing the relationships between CFIs and their external creditors is to use the AnaCredit database. This dataset contains

⁷⁸ See Annex C.

⁷⁹ See Box A.

detailed information on loans granted by individual banks to corporations in the euro area.⁸⁰ Chart 5.3 uses the AnaCredit database to illustrate the geographical and creditor-type counterparties between CFIs and their external lenders. As of Q4 2025, most external loan creditors are based in the euro area. The most significant of these are credit institutions based in Germany and the Netherlands. Note that while creditors lending to Luxembourg CFIs are mostly located in Germany, those lending to Dutch CFIs are located in the Netherlands.

Chart 5.3: Breakdown of geographical and creditor-type counterparties of loans granted to CFIs in euro area countries



Source: AnaCredit, Period: Q4 2025. Unit: Percent of total amount of outstanding loans granted to CFIs in euro area countries. NB: Statistics for NL may be subject to revisions.

Overall, this section demonstrated that CFIs account for an average of 20% of the financial sector's total financial assets/liabilities and 36% of those of non-monetary financial institutions over the period Q1 2015 - Q4 2025 (Chart 1). The relative importance of CFIs

⁸⁰ AnaCredit stands for Analytical Credit Dataset. This dataset contains detailed information on individual bank loans granted to corporations in the euro area and are harmonised across all euro area member states. Creditors include credit institutions, foreign branches located in euro area countries, and foreign branches located outside the euro area that are affiliated with a bank headquartered in the euro area. The data has been available on a monthly basis since September 2018. A key feature of AnaCredit is the reporting threshold since only loans granted to legal entities with a value of at least 25,000 euros at any time during the reference period are reported.

varies considerably between euro area jurisdictions, with some countries hosting the majority of CFIs (Chart 2). This is particularly the case in Luxembourg, Malta, Cyprus, the Netherlands and Ireland. Within the aggregate balance sheet of CFIs, unlisted shares represent the most significant asset and liability, followed by loans and debt securities (Charts 3.1 and 3.2). This is consistent with CFIs' activities, which include holding unlisted shares in group affiliates, financing group affiliates by granting intragroup loans, and raising funds from entities outside the group by issuing debt securities or sourcing loans.

Most of the activity involving CFIs sourcing loans or issuing debt securities from outside the group is concentrated in Luxembourg and the Netherlands (Charts 4.3 and 5.3). The creditors that provide loans to CFIs are primarily based in Western Europe, particularly in the euro area with Germany and the Netherlands being important partners (Chart 5.3).

While banks are the most important sectoral counterparties for loans (Chart 5.3), the sectoral counterparties for debt securities issued by CFIs are more diversified among financial corporations (Chart 4.3), primarily non-money market investment funds, followed by insurance corporations, banks, and pension funds.

5. Conclusion

The United Nations Statistical Commission has recently published the System of National Accounts 2025 (SNA2025), a new version of SNA2008 which formed the basis of the European System of Accounts 2010 (ESA2010). The latter is the current reference manual used by all European Union Member States to ensure the comparability of their economic, social and commercial statistics. The SNA2025 may, in turn, form the basis of the next revised version of the ESA2010.

This paper provides a comprehensive overview of CFIs (sector S.127) by reviewing their definitions and highlighting the main differences between SNA2025 and ESA2010. Additionally, it reviews the typology of CFIs proposed by ECB-Eurostat-OECD (2013), as well as IMF (2018) which is based on prototype balance sheets. The paper also lists the main reasons why investors may use CFIs. These relate primarily to risk management, financing, regulatory and legal matters, and tax optimisation, as well as management and strategy.

From an empirical perspective, the paper draws insights about CFIs in the euro area from specific datasets. The results show that on average over the period Q1 2015 - Q4 2025, CFIs account for 20% of the financial sector's total financial assets or liabilities in the euro

area. In addition, the importance of CFIs varies substantially across euro area jurisdictions, with Luxembourg, Malta, Cyprus, the Netherlands, and Ireland hosting most of these institutions.

Unlisted shares are the most significant asset and liability on CFIs' aggregate balance sheets, followed by loans and debt securities. This is consistent with CFIs' activities, which include holding unlisted shares in group affiliates, financing group affiliates by granting intragroup loans, and raising funds from entities outside the group by issuing debt securities or sourcing loans.

Most of the activity involving CFIs sourcing loans or issuing debt securities from outside the group is concentrated in Luxembourg and the Netherlands. The creditors that grant loans to CFIs are primarily based in Western Europe, particularly in the euro area with Germany and the Netherlands being important partners. While banks are the most important sectoral counterparties for loans, the sectoral counterparties for debt securities issued by CFIs are more diversified among financial corporations, primarily non-money market investment funds, followed by insurance corporations, banks, and pension funds.

Although CFIs are relatively important among the euro area's financial corporations, few studies have been conducted on CFIs.⁸¹ Therefore, further research is required to improve our understanding of CFIs, including their various types, the motives behind their use by investors, their impact on capital flows, their role in financing chains and their relationships with other financial institutions.

⁸¹ See for example the work by Di Filippo (2024, 2025). Di Filippo (2024) demonstrated that, in Luxembourg, a jurisdiction with a large presence of CFIs, considering the ultimate parent (sponsor counterpart) and final destination (target counterpart) of pass-through FDI *via* CFIs owned by (resident and non-resident) investment funds focusing on private equity or real estate provides a more meaningful mapping of FDI than considering the immediate country counterpart alone. Indeed, the concept of immediate counterpart country can be misleading especially for countries hosting a global financial centre, as it blurs the initial provider of capital (usually located at the top of the ownership structure) and the final recipient of capital (at the end of the ownership chain). Di Filippo (2025) has shown that in Luxembourg, certain types of CFIs may act as intermediaries between financial institutions, particularly between CFIs owned by private investment funds and external lenders, especially banks.

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Annexes

A. Literature review of available CFI typologies: selected tables

A.1 CFI typology by Barrett *et al.* (2016)

Table A.1: CFI typology by Barrett *et al.* (2016)

Vehicle type	Activity description
Intra-Group	Financing loan funding from, and to, intra-group companies
External Financing	Funding obtained from external sources and provided to the parent as a loan
Fund-Linked Asset Management	Linked to investment funds/firms, which hold debt, equity, loans, or other financial assets with the goal of capital appreciation, interest or dividend income
Loan Origination	Funding obtained from the parent and furthered to external sources
Operational Leasing	Hold fixed assets, such as plant and machinery, for the purposes of leasing them out
National Asset Management	Set up by national authorities to resolve insolvent financial institutions (incl. NAMA)
Bank-Linked Asset Management	Linked to deposit-taking corporations, which hold debt, equity, loans, or other financial assets with the goal of capital appreciation, interest or dividend income
Receivables Financing	Funding secured by trade/other receivables, furthered to the parent/external sources
Repackaging	The proceeds and/or capital gains/losses from the SPV's financial assets are structured so that investors obtain different exposure than had they simply purchased the assets
Client Managed Account	Set up by financial institutions on behalf of clients which hold debt, equity, loans, or other financial assets with the goal of capital appreciation, interest or dividend income
Insurance-Linked Asset Management	Primarily hold insurance-linked securities such as catastrophe bonds, or investments in life settlement policies
Financial Leasing	Engaged in lease-in lease-out agreements, or as a financial intermediary in a chain of vehicles in which the end vehicle is involved in the leasing of equipment or fixed assets
Holding Company	Owns enough voting stock in another company to control its policies and management and exists for this sole purpose
Other Financial Asset Management	Not linked to banks, client accounts, or investments funds/firms, but hold debt, equity, loans, or other financial assets with the goal of capital appreciation, interest or dividend income

Source: Barrett *et al.* (2016), "Table 1: Identified Irish SPV Types and Activities", p. 75

A.2 CFI typology by the De Nederlandsche Bank (DNB (2021))

Table A.2.1: CFI typology by DNB (2021)

Type	Description	Definition
Intermediate holding	Holding company	Participations in subsidiaries/ of parent company > 70% of both assets and liabilities
Loan conduit	Passes on loans from parent to subsidiaries	Group loans make up > 70% of both assets and liabilities
Intra-group financing company	Combination of the two above	Participating interests and group loans jointly account for > 70% of both assets and liabilities
Fund raising vehicle	Issues debt and lends proceeds to parent	Securities (plus derivatives) represent > 70% of liabilities and loans represent > 70% of assets
Mixed financing company	Combination of all of the above	Participations and group loans constitute > 70% of the assets and there is no criterion concerning the liabilities
Other	For example, assets are not intra-group	Other, for example > 30% securities on asset side

Source: DNB (2021), "Table 3: Distribution by type based on average balance sheet size 2015-2019", p. 34

B. Definitions of unlisted share and other equity

B.1 Unlisted shares

According to ESA2010, unlisted shares (F.512) are equity securities not listed on an exchange. They include shares issued by unlisted limited liability companies as follows: a) capital shares which give the holders the status of joint owners and entitle them to a share in the total distributed profits and to a share in the net assets in the event of liquidation; (b) redeemed shares whose capital has been repaid but which are retained by holders who continue to be joint owners and to be entitled to a share in the profits left after dividends have been paid on the remaining registered capital and also to a share in any surplus which may be left on liquidation, i.e. the net assets less the remaining registered capital; (c) dividend shares, also called founders' shares, profits shares, and dividend shares, which are not part of the registered capital. (d) Participating preference shares or stocks, which entitle holders to participate in the distribution of the residual value of a corporation on dissolution. The holders have also the right to participate in, or receive, additional dividends over and above the fixed percentage dividend. For more information, see ESA2010, Parag. 147-148 p. 142-143.

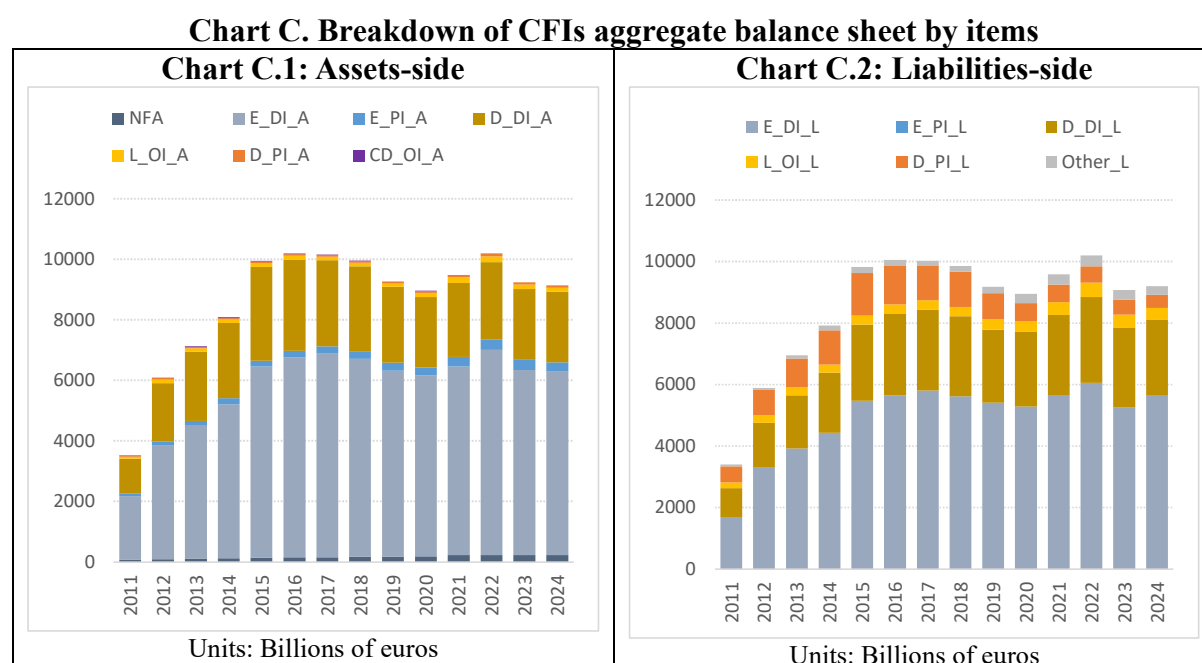
B.2 Other equity

According to ESA2010, other equity (F.519) comprises all forms of equity other than those classified in sub-categories listed shares (F.511) and unlisted shares (F.512). Other equity includes: (a) all forms of equity in corporations which are not shares, including the following: (1) the equity in incorporated partnerships subscribed by unlimited partners; (2) the equity in limited liability companies whose owners are partners and not shareholders; (3) the capital invested in ordinary or limited partnerships recognised as independent legal entities; (4) the capital invested in cooperative societies recognised as independent legal entities; (b) investment by general government in the capital of public corporations whose capital is not divided into shares and which by virtue of special legislation are recognised as independent legal entities; (c) investment by general government in the capital of the central bank; (d) government investments in the capital of international and supranational organisations, with the exception of the IMF, even if these are legally constituted as corporations with share capital (e.g. the European Investment Bank); (e) the financial resources of the ECB contributed by the national central banks; (f) capital invested in financial and non-financial quasi-corporations.

The amount of such investments corresponds to new investments in cash or kind, less any capital withdrawals; (g) the financial claims that non-resident units have against notional resident units and vice versa. For more information, see ESA2010, Parag. 5.153-5.154 p. 144.

C. Aggregate balance sheet structure of Luxembourg-based CFIs

Charts C.1 and C.2 break down the aggregate balance sheet of Luxembourg-based CFIs entities by items, respectively on the assets-side and on the liabilities-side. The following items appear on both sides of the balance sheet: equity as direct investment (E_DI_A, E_DI_L) or as portfolio investment (E_PI_A, E_PI_L) and debt as direct investment (D_DI_A, D_DI_L) or as portfolio investment (D_PI_A, D_PI_L). The assets-side also includes currency and deposits (CD_OI_A) and non-financial assets (NFA). The liabilities-side covers loans as other investment (L_OI_L) and other liabilities (Other_L).⁸²



Both charts show that equity as direct investment (E_DI) and debt as direct investment (D_DI, also known as intragroup loans) account for the most important items on both sides of the aggregate balance sheet of CFIs. On the assets-side, the share of equity as direct investment (E_DI_A) amounts to 65% of total assets and that of debt as direct investment (D_DI_A) to

⁸² For more details, see Di Filippo and Pierret (2020).

28%, on average over the period 2011-2024. On the liabilities-side, the share of equity as direct investment (E_DI_L) amounts to 58% of total assets and that of debt as direct investment (D_DI_L) to 26%. In comparison, loans as other investment (or extra-group loans) account for a lower share in the aggregate balance sheet accounting for 1% on the assets-side (L_OI_A) and 4% on the liabilities-side (L_OI_L).



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