

Article

# Foreign direct investment, UK-resident special purpose entities: February 2022

Experimental statistics estimating the foreign direct investment associated with special purpose entities (SPEs) in the UK in 2020.

Contact:  
Andrew Jowett  
fdi@ons.gov.uk  
+44 (0)1633 455357

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# 1 . Main points

- In 2020, UK-resident special purpose entities (SPEs) accounted for more than the total (124.0%) of UK flows on foreign direct investment (FDI) liabilities, nearly half (46.0%) of UK FDI debits (income on inward FDI) and over one-quarter (29.1%) of UK FDI liabilities (inward stock of investment).
- UK-resident SPEs also accounted for 11.9% of UK FDI assets in 2020, which was lower than that on FDI liabilities and partly reflects the structures of outward compared with inward direct investment links.
- These results apply the International Monetary Fund (IMF) decision tree to UK FDI statistics; we will continue to develop our methods with the aim of providing more information on resident SPEs in the UK and collaborate actively on this topic in international discussions.

## 2 . Foreign direct investment with UK-resident SPEs

Foreign direct investment (FDI) occurs when a company establishes a long-term presence in a different economy. Internationally-agreed standards for FDI statistics measure the cross-border financial links of companies, which can be affected by special purpose entities (SPEs). These entities exist within multinational enterprises, yet they typically have little or no employment, nor much economic activity in the host economy, but they can account for relatively high FDI values. SPEs can also affect the geographic picture of foreign direct investment links between economies, making it harder to identify where business activity takes place.

The International Monetary Fund (IMF) worked with international partners, including the UK, to develop [a decision tree \(PDF, 1.38MB\)](#) to help compilers of FDI statistics identify SPEs in their economies. This article includes the UK's [experimental statistics](#) identifying the FDI values associated with UK-resident SPEs in 2020.

The FDI values associated with SPEs were higher for liabilities than for assets in 2020. UK-resident SPEs accounted for £570.5 billion of UK FDI liabilities, which was more than double the £225.6 billion for FDI assets (Table 1). Both values also comprised more than 10 percentage points of the respective UK totals: 29.1% of UK total FDI liabilities and 11.9% of FDI assets.

The differences between FDI liabilities and assets can be partly explained by the nature of those companies. FDI liabilities are more associated with inward direct investments, which would be special purpose entities located in the UK but controlled by foreign parent companies. By contrast, FDI assets include those UK-based multinationals that are less likely to meet all the criteria of the SPE decision tree because they have a UK rather than foreign owner. Those that meet the definition have a foreign parent company, which are likely to be smaller relative to UK-controlled global parent companies.

Table 1: Foreign direct investment statistics for UK-resident special purpose entities (SPEs) in 2020

	<b>SPE £ billion</b>	<b>Non-SPE FDI £ billion</b>	<b>UK Total £ billion</b>	<b>SPE Percentage UK total</b>
<b>FDI assets</b>	225.6	1673.1	1898.7	11.9
<b>FDI credits</b>	3.8	54.4	58.2	6.4
<b>FDI flows on assets</b>	12.2	28.7	40.9	29.8
<b>FDI liabilities</b>	570.5	1389.5	1960.0	29.1
<b>FDI debits</b>	20.8	24.4	45.2	46.0
<b>FDI flows on liabilities</b>	30.1	-5.8	24.3	124.0

Source: Office for National Statistics – Foreign Direct Investment Survey

### Notes

1. Totals may not sum because of rounding.
2. The UK totals are taken from quarterly balance of payments statistics summed over the four quarters of 2020. All estimates may be revised after benchmarking, but have been included to indicate special purpose entity values relative to respective UK totals.

UK-resident SPEs accounted for higher proportions for FDI debits (46.0%) and flows on liabilities (124.0%) than SPEs in the level of FDI liabilities. This implies that UK-resident SPEs accounted for more than the total UK flows on FDI liabilities, nearly half of UK FDI debits and over one-quarter of UK FDI liabilities. This also supports what we would expect to see for inward FDI, where those entities have been created to channel the flow of funds around the corporate structure and hold financial assets that generate FDI income.

A further point to note relates to the UK's status as an international financial centre. These are defined as having advanced financial systems, large domestic economies and deep liquid markets; examples include London, New York and Tokyo. These are distinct from offshore financial centres, which are also important in FDI. Offshore centres tend to be large relative to the size of the domestic economy and provide specialist skills or services for companies located there; examples include the UK Channel Islands, Cayman Islands and British Virgin Islands. London's status as an international financial centre suggests that UK-resident SPEs could comprise a relatively high proportion of UK FDI values where such entities are created to benefit from the available financial services.

Microdata analysis shows that over half of FDI liabilities associated with UK-resident SPEs were with the North Americas and EU in 2020. For SPEs in FDI debits, the North Americas and Asia accounted for the greatest shares of the SPE totals. In flows on liabilities, it was both of those continents plus non-EU Europe that accounted for most of the SPE total. The industrial composition showed that financial services accounted for the highest value of the SPE liabilities total, whereas professional and support industries accounted for the highest proportions in both SPE debits and SPE flows on liabilities.

## Our previous research

The experimental estimates presented in this article are higher than those in [our previous analysis from June 2019](#). Those results related to FDI in 2016 and used directional statistics rather than the asset and liability principle used throughout this article. They also linked FDI microdata with employment and turnover values from the [Inter-Departmental Business Register](#). For 2020, we used a commercial data source to enhance the FDI populations as part of our [wider programme to develop FDI statistics](#). This provided additional detail on company structures and financial values that were not available in previous FDI populations.

Further differences could also come from how SPE compilation guidance has developed. While the structure of the final decision tree is similar to that used in our previous analysis, the IMF have since published a detailed [compilation guide](#) and we have discussed methods to identify SPEs in international meetings. This has enabled us to share knowledge with other compilers to also inform our own approach. Finally, the results may also be sensitive to some of the thresholds used and corporate structures within some of the larger domestic enterprises. We will continue to develop these methods and explore sensitivity testing to enhance our understanding of resident SPEs in the UK.

## 3 . Foreign direct investment data

[Foreign direct investment, UK-resident special purpose entities](#)

Dataset | Released 3 February 2022

Experimental estimates for UK foreign direct investment (FDI) values with special purpose entities resident in the UK using the asset and liability measurement principle.

## 4 . Glossary

### Foreign direct investment (FDI)

Foreign direct investment (FDI) is cross-border investment made with the objective of establishing a lasting interest in the host economy. FDI is also defined by control relationships, where the direct investor (parent company) controls at least 10% of the voting power (ordinary shares) of the direct investment enterprise. These relationships can be measured in two directions:

- outward: the direct investments of UK-resident companies in other countries
- inward: the direct investments in the UK from non-resident companies

## Assets and liabilities

FDI assets is the total stock of direct investment held abroad that is controlled by UK-resident companies. This includes the overseas direct investments of foreign-owned companies in the UK as well as the FDI of UK-based parent companies. FDI liabilities is the stock of direct investments in the UK controlled by foreign companies. This includes investments of foreign parent companies into the UK as well as the reverse investments of UK-controlled affiliates with their UK parent company.

## Credits and debits

Credits and debits measure the income generated on a stock of direct investment over a period of time. FDI assets generate credits while debits come from liabilities. These are both gross values of the total income of all overseas investments (credits) and all foreign-owned investments in the UK (debits).

## Flows on assets and liabilities

Flows measure the cross-border movement of funds within multinational enterprises. FDI flows include changes in shareholdings (equity), debt and reinvested earnings. Outward FDI flows are associated with assets and inward flows with liabilities.

## Special purpose entities

A special purpose entity (SPE) is a legal unit within a multinational enterprise established in a different economy to that of its parent company yet has a very low presence in that host economy. Examples of SPEs are financing subsidiaries, conduits, holding companies, shell companies, shelf companies and brass-plate companies. There is an [internationally-agreed decision tree to identify SPEs in an economy \(PDF, 1.38MB\)](#).

# 5 . Data sources and quality

## Data sources

The main source of information for UK foreign direct investment (FDI) statistics is the annual Foreign Direct Investment Survey; separate surveys are used to collect data on inward and outward FDI. This is combined with data from the Bank of England for all monetary financial institutions, such as banks, and other sources for property and public corporations in FDI.

Survey responses are used to estimate or impute FDI values for every company in the UK's inward and outward FDI populations. This article uses asset and liability statistics which combine information from the outward and inward surveys.

We have been [developing our FDI statistics](#) and used information from a commercial data source to inform the 2020 FDI population. This provides details on corporate structures along with the employment and turnover of UK companies with either inward or outward FDI links than can be used with the [International Monetary Fund \(IMF\) decision tree \(PDF, 1.38MB\)](#).

## Identifying special purpose entities in UK FDI

The IMF decision tree has six stages that can be applied in any order. An entity must satisfy all six stages to be identified as a special purpose entity (SPE). For these UK statistics, we applied the criteria that entities must:

1. be legally registered in the UK
2. be directly or indirectly controlled by at least one non-resident company; where there are multiple owners of the UK company, the majority control must be with non-UK enterprises
3. transact almost exclusively with non-residents; we identified companies that control affiliates outside the UK but have limited direct links to the UK
4. have fewer than six employees
5. have little physical presence in the host economy, where we used turnover below £1 million
6. be established for at least one of the objectives identified in the IMF definition; this information is hard to find, therefore where a UK company meets all of the other criteria, it is deemed that this one has been met as well

There were some challenges to applying the decision tree to the UK FDI populations beyond little information on the objective of an entity. There were also cases of missing values for some companies in the commercial data source. Any company passing the first three criteria were marked as maybe SPEs if their employment information was missing. We continued with the other criteria, which if met suggests these too would be SPEs. A similar approach was taken for companies with fewer than six employees but missing turnover values; these too were reviewed later. Finally, if one of employment or turnover was not available for the UK entity, but it had "Holding" in its name, this has also been interpreted as meeting the SPE objective criterion and has been included in our results.

In addition, there are some companies that look like SPEs, but are part of a larger domestic group which suggests that, as a whole, the enterprise does play a role in the domestic economy. If the SPE directly controls a foreign affiliate with no direct control of a UK company, then the FDI for the whole company was included. This could imply our results overestimate the actual FDI related to the SPE because the other domestic operations could be included in the value.

It may also be possible for UK-owned companies to have SPE-like entities in their structure, but these do not meet the definition of a SPE because there is no foreign control. These entities have not been included in our results yet more research could be done to assess what role they play in the UK economy. Exploring this information in more detail, alongside sensitivity testing of the parameters used, should lead to a better understanding and will also be included in our future research.

## Annual FDI statistics

The annual UK FDI results for 2020 were delayed from December 2021 to February 2022 to allow further time to prepare and analyse the information. This has also delayed our benchmarking exercise with the balance of payments and the release of our detailed asset and liability statistical tables. The UK total results in this article are based on aggregated quarterly FDI information for the 2020 calendar year. Once benchmarking has been completed, we may need to update our asset and liability FDI statistics. This could then lead to changes to these results for resident SPEs.

## Quality

More quality and methodology information on strengths, limitations, appropriate uses, and how UK total FDI statistics were calculated is available in the [Foreign direct investment Quality and Methodology Information \(QMI\) report](#).

## 6 . Future developments

These results apply the [International Monetary Fund \(IMF\) decision tree](#) to UK foreign direct investment (FDI) statistics. This is a topic that continues to be discussed in international meetings, therefore, the methods and guidance may change. We will continue to develop our methods with the aim of providing more information on resident special purpose entities (SPEs) in the UK and will consider how these methods can be applied to other parts of the UK balance of payments. We will also continue to contribute actively to these international discussions.

## 7 . Related links

### [Foreign direct investment statistics, overview of methods changes: 2020](#)

Article | Released 3 February 2022

Summarising how we have used commercial information to enhance the UK's foreign direct investment (FDI) populations and stratification methods, with further information on the composition of microdata behind these estimates.

### [Foreign direct investment involving UK companies: 2020](#)

Statistical bulletin | Released 3 February 2022

Investment of UK companies abroad (outward) and foreign companies into the UK (inward), including investment flows, positions and earnings, by country, component and industry.

### [Classifying special purpose entities in UK foreign direct investment statistics: experimental analysis](#)

Article | Released 3 June 2019

Presenting the International Monetary Fund's Task Force on Special Purpose Entities' definition of special purpose entities (SPEs), along with experimental statistics that attempt to classify how much UK foreign direct investment is accounted for by SPEs.