

Article

Foreign direct investment, UK-resident special purpose entities: January 2023

Experimental statistics estimating the foreign direct investment associated with special purpose entities (SPEs) in the UK in 2020 and 2021.

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

Release date:
23 January 2023

Next release:
To be announced

Table of contents

1. [Main points](#)
2. [Foreign direct investment with UK-resident SPEs](#)
3. [Foreign direct investment data](#)
4. [Glossary](#)
5. [Data sources and quality](#)
6. [Future developments](#)
7. [Related links](#)
8. [Cite this article](#)

1 . Main points

- In 2021, UK-resident special purpose entities (SPEs) accounted for 29.2% of the total value of UK foreign direct investment (FDI) liabilities (inward stock of investments), which was a higher proportion than in 2020 (27.2%).
- However, the value of UK-resident SPEs accounted for a lower proportion of total FDI assets in 2021 (7.1%) compared with 2020 (8.6%).

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. FDI statistics follow internationally-agreed standards to measure the cross-border financial links of companies. Special purpose entities (SPEs) can have an impact on these statistics. SPEs exist within multinational enterprises, yet they typically have little or no employment, and minimal economic activity in the host economy. Examples of SPEs include financial conduits and holding companies. They can, however, represent relatively high FDI values. This can affect the picture of FDI links between countries, making it harder to identify the amount of business activity taking place. Separate statistics on resident SPEs help to show the contribution that they make to UK FDI totals.

The International Monetary Fund (IMF) worked with international partners, including the UK, to develop an [IMF decision tree \(PDF, 1.38MB\)](#), to help compilers of FDI statistics identify SPEs in their economies. This article includes revised Experimental Statistics for 2020 and our latest 2021 estimates.

FDI values associated with SPEs continued to account for a higher proportion of total FDI for liabilities than for assets in 2021. UK-resident SPEs accounted for £156.4 billion or 7.1% of total FDI assets in 2021, £15.5 billion lower than 2020, from £171.9 billion (8.6%). In contrast, the SPE value in total FDI liabilities has increased by £76.8 billion in 2021, from £629.7 billion in 2020 (27.2% of total FDI liabilities) to £706.5 billion in 2021 (29.2%).

Table 1: Foreign direct investment statistics for UK-resident special purpose entities (SPEs) in 2020 and 2021
£ billion or percentage of UK total

Variable	Year	SPE FDI value (£ billion)	Non-SPE FDI value (£ billion)	UK total FDI value (£ billion)	SPE percentage UK total
FDI assets	2020	171.9	1,816.8	1,988.7	8.6
FDI assets	2021	156.4	2,031.6	2,188.0	7.1
FDI credits	2020	5.3	51.9	57.1	9.2
FDI credits	2021	11.0	130.7	141.7	7.8
FDI flows on assets	2020	-5.9	3.1	-2.9	[z]
FDI flows on assets	2021	-0.7	117.9	117.3	[z]
FDI liabilities	2020	629.7	1,683.0	2,312.7	27.2
FDI liabilities	2021	706.5	1,714.5	2,421.1	29.2
FDI debits	2020	7.5	59.8	67.2	11.1
FDI debits	2021	13.6	65.1	78.7	17.3
FDI flows on liabilities	2020	30.5	73.1	103.5	29.4
FDI flows on liabilities	2021	-3.8	7.6	3.8	[z]

Source: Office for National Statistics – Foreign Direct Investment Survey

Notes

1. [z] denotes value not applicable for negative percentages.
2. Totals may not sum because of rounding.
3. The UK totals are taken from balance of payments statistics.

There are differences between UK-resident SPEs in assets and liabilities, which can be partly explained by the characteristics of these populations. Liabilities are more commonly associated with inward direct investment, where the SPEs are located in the UK but controlled by a foreign parent company. In contrast, assets are more likely to be controlled by a UK parent rather than a foreign owner, and therefore less likely to meet the criteria for being classified as a UK-resident SPE. The SPEs that do meet this definition are likely to have a foreign parent company and be smaller compared with UK-controlled global parent companies.

UK-resident SPEs also accounted for a higher proportion of FDI debits (17.3%) than FDI credits (7.8%) in 2021. The value of FDI debits attributed to SPEs almost doubled from £7.5 billion in 2020 (11.1% of total) to £13.6 billion in 2021. Although the value of SPE FDI credits more than doubled from £5.3 billion in 2020 to £11.0 billion in 2021, the percentage attributable to SPEs fell (from 9.2% to 7.8%) because of a large increase of £78.8 billion in non-SPE FDI credits.

Microdata analysis reveals the distribution of SPE links across different continents. In 2021, just under half of the UK's FDI assets held by UK-based SPEs were with the EU, while a further one-quarter were located in the North Americas. For FDI liabilities in 2021, more than half of the UK total SPE value was with the North Americas and nearly one-third with the EU.

Holding companies can be considered a type of SPE. For example, a holding company can own the shares of other companies, rather than engaging in the production of goods or services itself. Using microdata, we explored the links between UK-resident SPEs and holding companies abroad. Our indicative results suggest that around 15% of UK FDI assets associated with holding companies had links with a UK-resident SPE in 2021. This could suggest that multinational enterprises form chains of SPEs across international boundaries. We also found that around 5% of the FDI assets of non-holding companies were associated with UK SPEs. These are indicative results and could be explored further, in addition to possibly applying the IMF decision tree to identify the non-resident SPEs of companies with UK FDI links.

3 . Foreign direct investment data

[Foreign direct investment, UK-resident special purpose entities](#) Dataset | Released 23 January 2023

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 are 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 are 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 IMF 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 we have 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 that can be used with the [International Monetary Fund \(IMF\) decision tree \(part of the Final Report of the Task Force on Special Purpose Entities\) \(PDF, 1.38MB\)](#).

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:

- be legally registered in the UK
- 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
- transact almost exclusively with non-residents; we identified companies that control affiliates outside the UK but have limited direct links to the UK
- have fewer than six employees
- have little physical presence in the host economy, where we used turnover below £1 million
- 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 possible 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 either 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 but more research could be done to assess what role they play in the UK economy.

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 \(PDF, 1.38MB\)](#) to UK foreign direct investment (FDI) statistics. This is a topic that continues to be discussed in international meetings and 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

[UK Balance of Payments, The Pink Book: 2022](#) Statistical bulletin | Released 31 October 2022 Balances between inward and outward transactions, providing a net flow of transactions between UK residents and the rest of the world and reports on how that flow is funded

[Foreign direct investment involving UK companies: 2021](#) Statistical bulletin | Released 23 January 2023 Investment of UK companies abroad (outward) and foreign companies into the UK (inward), including investment flows, positions and earnings, by country, component and industry.

8 . Cite this article

Office for National Statistics (ONS), released 23 January 2023, ONS website, content type, Article, [Foreign direct investment, UK-resident special purpose entities: January 2023](#)