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Special Purpose Entities within EU Direct Investment Statistics



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Special Purpose Entities within EU Foreign Direct Investment Statistics

For information of the IMF Balance of Payments Committee

Special Purpose Entities (SPEs) continue having an increasing importance in the global organisation of the multinational enterprise groups and to their extension to new geographic areas. The creation of SPEs impacts FDI flows since these structures, generally located in countries offering tax advantages, generate cross transactions between subsidiaries located in different countries.

Because of the SPEs the real potential for economic activity shown through EU FDI statistics may be inflated and the geographical breakdowns may be distorted. For these reasons Eurostat proposed and had approved new FDI statistics transmission strategy which came into force when moving from BPM5 to BPM6 methodology from reference year 2013 on. The novelty in the transmission was that the FDI need to be reported separately for *resident SPEs*.

This strategy also streamlined the cross-country presentations of the FDI statistics of Eurostat. While in the past the national data sets may have been published without SPEs (so called national concept) which led to inconsistencies in the presentation of the EU and national FDI data sets, the data sets have been consistent i.e. all including resident SPEs since 2013. It also became evident in that context that for some EU Member States the inclusion of the SPEs only began with reference year 2013.

Resident SPEs may be defined as a legal entity incorporated in the resident economy or a branch registered in the country. It is ultimately controlled, directly or indirectly, by a parent not resident in the reporting economy, and has no or few employees. The core business of the unit frequently consists of group financing

or holding activities. They are often used as devices to raise capital or to hold assets and liabilities and usually do not undertake significant production.

From reference year 2015 onwards the provision of the data for EU Member States separately for the SPEs becomes mandatory for transactions (in 2016). Several interesting issues can already be identified in the FDI positions data transmitted. The table below presents the 2014 FDI data for the Member States where published non-zero SPEs data are available. Because of these limitations in the current availability or publication of the data the results presented in the table can only be taken as indicative. The line for the EU consists of available data for Member States (including confidential data) and only vis-à-vis extra-EU partners.

**Foreign Direct Investment positions in 2014 (with rest of the world),
million euro**

Country	Direct investment in the reporting economy			Direct investment abroad		
	Total	in Special Purpose Entities	%	Total	by Special Purpose Entities	%
EU	4,582,548.5	2,902,680.3	63.3%	5,748,568.4	2,861,552.5	49.8%
Belgium	405,543.0	28,125.0	6.9%	379,620.0	16,007.0	4.2%
Denmark	86,257.8	6,325.5	7.3%	153,124.5	7,270.5	4.7%
Spain	472,619.0	26,648.0	5.6%	425,450.0	19,661.0	4.6%
Luxembourg	1,932,229.0	1,783,614.0	92.3%	2,454,474.0	2,347,235.0	95.6%
Hungary	179,742.9	98,524.1	54.8%	139,743.9	107,664.0	77.0%
Malta	142,894.0	136,233.0	95.3%	60,685.9	59,921.3	98.7%
Netherlands	3,305,850.0	2,744,247.0	83.0%	3,981,385.0	3,131,074.0	78.6%
Poland	171,236.4	2,507.0	1.5%	22,287.3	1,819.7	8.2%
Portugal	88,522.0	11,894.0	13.4%	41,417.0	5,436.0	13.1%
Sweden	256,804.7	22,271.8	8.7%	308,455.8	20,326.7	6.6%
United Kingdom	1,435,147.0	255,157.3	17.8%	1,244,646.3	220,491.7	17.7%

Source: Eurostat FDI statistics August 2016

The role of the SPEs in inward and outward FDI positions seems to be considerably steady in most of the Member States which have provided the data for publication. Only in Hungary and in particular in Poland there is a notable difference of contribution of SPEs between inward and outward FDI (although the amounts remain relatively modest).

On the contrary the situation between the Member States varies a lot. The share of the FDI positions registered through SPEs reach nearly the full amount of FDI positions for Luxembourg and Malta. This can be contrasted to Belgium, Denmark, Spain, Poland or Sweden, for example, where the SPEs contribution

remains less than 10% of the total FDI positions. In addition there are number of Member States where the reported SPEs FDI is zero in 2014.

Apart from singling out the SPEs in FDI, there is an important element in the assessment of the economic distribution of FDI capital and their controlling countries which merits to be mentioned. Eurostat and the Member States have been assigned to develop the appropriate methodology for compiling FDI statistics based on the ultimate ownership concept in addition to the immediate counterpart principle in cooperation with the relevant international partners.

The mandate for this work include pilot studies to establish the conditions to introduce new data collections on annual FDI statistics and to assess the costs of the related data collections, the implied statistical quality, as well as the cross-country comparability. The time span of the development is extended to 2020 when new legal based FDI data collection on ultimate ownership concept basis shall be proposed.

Questions for the Committee:

1. *Is the inclusion of the SPE in FDI data secured also for other countries outside the EU?*
2. *If data are available, would the Committee members be in favor of reporting these data separately?*
3. *Can the SPE related FDI have a role with regard to asymmetries in mirror data on FDI? Could the FDI based on ultimate ownership concept improve the situation?*