

Financial Sector Delineation in ESA 2010

Implementation in the Netherlands

(Paul den Boer)



Subsectoring of financial corporations

ESA 1995

S.121	The central bank
S.122	Other monetary financial institutions
S.123	Other financial intermediaries, except insurance corporations and pension funds
S.124	Financial auxiliaries
S.125	Insurance corporations and pension funds

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ESA 2010

S.121	Central bank
S.122	Deposit-taking corporations, except the central bank
S.123	Money market funds (MMF)
S.124	Non-MMF investment funds
S.125	Other financial intermediaries, except insurance corporations and pension funds
S.126	Financial auxiliaries
S.127	Captive financial institutions and money lenders
S.128	Insurance corporations
S.129	Pension funds

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Content

- Financial vehicle corporations (FVC)
- Head offices and holding companies
- Special purpose entities (SPE)

Financial vehicle corporations (1)

Financial vehicle corporations (FVC) are classified in subsector S.125 (Other financial intermediaries):

- engaged in **securitisation** transactions
- satisfy the criteria of an **institutional unit**
- otherwise they are treated as an integral part of the parent (par. 2.90)

Financial vehicle corporations (2)

What is an institutional unit (par. 5.108)?

- **Institutional unit in subsector S.125 Other financial intermediaries:**
 - the **legal owner** of a portfolio of assets
 - **issues debt securities** that present an interest in the portfolio
 - **has a full set of accounts**
 - **bears market and credit risks**
- **Not an institutional unit, same sector as parent:**
entities that are created **solely to hold specific portfolios** of financial assets and liabilities are combined with their parent corporation, if **resident** in the same country as the parent
- **Institutional unit in subsector S.127 Captive financial institutions:**
as **nonresident** entities (different country as parent) they are treated as separate institutional units and are classified in S.127

Registration form FVC

Is the FVC engaged in securitisation and an institutional unit?

- Type of the securitisation
- Name('s) of the Dutch originator(s)
- Nature of the securitized assets
- Proportion of the country of the originator('s)
- Proportion between sectors of originator('s) within euro area
- Expected date of the issuance
- Global note of the securities to be issued be deposited with a domestic or foreign (central) securities depository
- ISIN-code of the largest issuance
- (Estimated) balance sheet total after issuance

Head offices and holding companies (1)

Head office:

- exercises **managerial control over its subsidiaries**
(par. 2.14)
- ***managing*** of other units
- undertaking ***planning*** and ***decision-making***
- exercising ***operational control***
- *managing the day-to-day operation of their related units*
(NACE Rev. 2, M 70.10)

Classified in subsector S.126 Financial auxiliaries

Head offices and holding companies (2)

Holding company:

- holds the assets of subsidiary corporations but **does not undertake any management activities** (par. 2.14)
- *principal activity is owning the group*
- *do not provide any other service to the businesses in which the equity is held; **do not administer or manage** other units* (NACE Rev. 2, K 64.20)

Classified in subsector S.127 Captive financial institutions

In practice the difference is difficult!

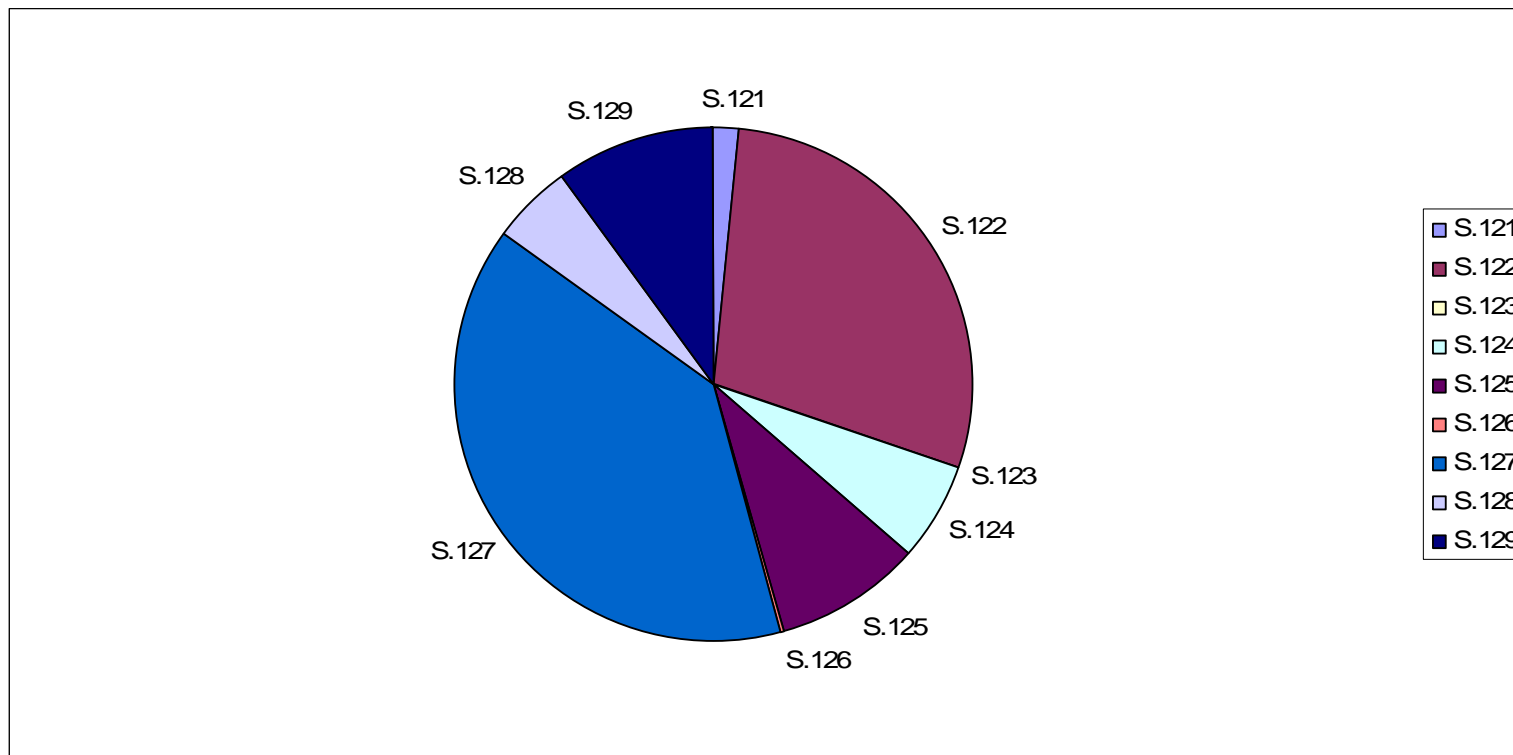
Special purpose entities (1)

- **cannot act independently of its parent** and is simply a passive holder of assets and liabilities
- **resident in an economy different from that of its parent**
(par. 2.23)

Classified in subsector S.127 Captive financial institutions

Special purpose entities (2)

Balance sheet 2009 after revision



Decision tree SPE (1)

QUESTION 1: RESIDENT?		
NO	→	NOT IN STATISTICS
YES	↓	
QUESTION 2: FOREIGN CONTROL?		
NO	→	GO TO 2
YES	↓	
QUESTION 3: 90% CRITERIUM?		
NO	→	NOT SPE
YES	↓	
QUESTION 4: DOMESTIC TURNOVER?		
NO	→	SPE
YES	→	DISCUSSION SPE/NOT SPE
2. QUESTION 5: FVC? ASSETS/LIABILITIES CRITERIUM?		
NO	→	NOT SPE
YES	→	SPE

Decision tree SPE (2)

- Question 1: Is legal entity (LE) resident in the Netherlands?
- Question 2: Is the ultimate control over the LE in direct/indirect ownership of one or more (joint venture) foreign entities for more than 50%?
- Question 4: Is domestic annual turnover of the LE higher than 25 million euros?
- Question 5: Is the LE a FVC with foreign originator AND does LE satisfy the assets/liabilities criterium (1)?

Decision tree SPE (3)

Question 3:

- Do the financial assets and liabilities of the LE (excl. trade credit/advances) consist of at least 90% of foreign assets/liabilities?

OR

- Does at least 90% of the turnover concern the export of services of royalties and licences?

OR

- Does at least 90% of the turnover and costs concern re-invoicing with foreign intra-concern subsidiaries?

OR

- Does at least 90% of the turnover and the liabilities concern foreign countries?

Decision tree subsector S.127

- Is legal entity (LE) resident in the Netherlands?
- Is the LE a SPE?
- Is the LE a holding/finance company/treasury without management/administration tasks?
- Does the LE have, direct or indirect, a domestic parent which itself is not a CFI?
- Is the LE with its financial assets/liabilities primarily oriented (direct/indirect) towards non-SPE intra-concern subsidiaries?