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IMPLEMENTATION OF THE ESA 2010 SUB-SECTORS OF FINANCIAL CORPORATIONS IN THE MONETARY AND FINANCIAL STATISTICS OF THE ECB

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Executive Summary

The ESA 2010 will be applicable in the European Union from 2014. As the statistics compiled by the ECB are based on the international standards and definitions set by the ESA, the ECB, in close cooperation with the national central banks in the EU, is currently reviewing the necessary changes to its statistics, and the legal framework underpinning them. This paper focuses on the expected impact and changes regarding the ESA sector classification in the ECB's balance sheet statistics for financial corporations, which are also input into the ECB's euro area accounts and the euro area balance of payments statistics.

The new ESA breakdown of financial sectors into nine sub-sectors reflects the increased overall importance of the financial sector, and the increased relative importance of financial sub-sectors such as money market and investment funds as well as other financial intermediaries. In contrast to the banking sector, the non-bank financial sector is, however, in many cases very unevenly distributed across the euro area and concentrated in few countries. Therefore, while the more detailed sub-sectoring undoubtedly

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will contribute to an improved analysis at euro area level, providing high quality statistics for all the new sectors and counterpart sectors is not straightforward.

Subject to limited amendments, the existing ECB statistics will be sufficient to provide separate data for four of the nine sub-sectors (central banks, other MFIs, money market funds, investment funds), covering more than 70% of the euro area financial sector. The statistical basis for the new financial sub-sectors other financial intermediaries, financial auxiliaries and captive financial institutions is, however, much less complete, harmonised and detailed (only statistics for securitisation vehicles are currently covered by an ECB regulation). For presentational purposes these three sectors are likely to be merged into one aggregate sector and counterpart sector in ECB statistics (similar to the current ECB practice, but separating the investment funds). For insurance corporations, the ECB has launched a project for a long-term enhancement of the data, which will, to a large extent, build on new European reporting currently being established for supervisory purposes. For the pension funds sector, a similar approach is considered, but still at a very early stage.

Looking ahead, apart from improving statistics for insurance corporations and pension funds, the significant size and heterogeneity of certain other financial intermediaries suggest that euro area statistics for these sectors need to be further improved. This concerns institutions such as security and derivative dealers, financial institutions engaged in lending and central counterpart clearing houses. A better coverage of these sectors would also improve the status quo to respond to requests for better information on shadow banking and for cross-border financial exposures, as formulated for example by the G-20 data-gaps initiative and the recent Green Paper published by the European Commission.

1. Introduction

In 2009, the UN Statistical Commission adopted the new System of National Accounts **(SNA 2008)** and encouraged countries to implement it. For balance of payments, the revised IMF Balance of Payments and International Investment Position Manual, 6th edition **(BPM6)** was published in the same year.

In Europe, the **European System of National and Regional Accounts in the Community (ESA 2010)** will be the legal framework for compiling national accounts statistics of the 27 (and soon 28) European Union (EU) Member States and replace its predecessor, the ESA 1995. The ESA 2010 is firmly anchored in the SNA 2008; it nevertheless incorporates some additional elements, in particular more detailed definitions, classifications and accounting rules. Relevant for the purpose of this paper is the new sub-sectoring of the financial corporation sector into nine sub-sectors, and its implementation in the statistics compiled by the European System of Central Banks (ESCB).

The close to final draft legal text of the ESA 2010 is currently under review by the EU's Council Working Party. The Opinion of the European Central Bank (ECB) of the draft ESA was adopted on 19 May 2011.[2] Assuming the adoption of the regulation by the European Parliament and Council by about end-2012/early-2013, the implementation of the new methodology will start in parallel, so that the new data could be compiled and transmitted by all EU countries in the course of 2014.

Unlike the SNA 2008 at worldwide level, the ESA 2010 (as its predecessor the ESA 95 based on the SNA 93) will be binding, providing mandatory recording standards as well as a compulsory data transmission programme of EU Member States to Eurostat. The ESA is an essential tool at EU level not only for compiling statistics, but as a data basis for major administrative purposes (EU budget, excessive deficit procedure relating to national budgets, and EU structural policies).

The ECB is responsible at European level for monetary and financial statistics. Responsibility is shared with the European Commission for balance of payments (b.o.p.), in international investment position (i.i.p.), financial accounts and non-financial institutional sector accounts. This paper focuses on the implementation of the new sub-sector classification of the ESA 2010 in the monetary and financial statistics of the ECB, and in particular the balance sheet statistics collected and compiled by the ECB for the financial corporations sector. The results of these statistics are direct input into the ECB's monetary analysis and policy for the euro area; the consolidated balance sheet for the monetary and financial institutions sub-sector – covering data on monetary aggregates and the counterparts to money (e.g. credit) - is the most prominent example. They are also input into several other ECB tasks, such as monetary policy operations, financial stability analysis and research. Furthermore, balance sheet statistics for financial corporations are used for other ESCB statistics, in particular the euro area accounts and the balance of payments (b.o.p.). Finally, the data collected by national central banks (NCBs) are used to meet the compulsory reporting requirements of EU Member States towards the European Commission.

Accordingly, aligning primary ECB balance sheet statistics for financial corporations in the EU with the ESA concepts and definitions has three main benefits: First, it ensures that different ECB primary statistics use the same concepts and definitions, and therefore provide users with a consistent picture of the economy (and reporting agents with a consistent reporting framework). Second, it provides a consistent basis into ECB other statistical outputs. Third, it contributes to the statistical basis used by EU Member States for meeting the obligations under the ESA Transmission Programme.

Financial sector balance sheet statistics of the ECB are fully consistent with international and European statistical standards in terms of the definitions of the reporting population itself, counterparty sectors, and instruments.[3] The statistics are also very largely consistent with these standards in terms of valuation and

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[2] See Opinion of the European Central Bank of 19 May 2011 on the proposal for a regulation of the European Parliament and of the Council on the European system of national and regional accounts in the European Union (CON/20111/44), http://www.ecb.europa.eu/ecb/legal/pdf/c_20320110709en00030010.pdf.

[3] The ECB publishes a manual to provide guidance on the sectoral classification of institutional units (both MFIs and their counterparties) as well as on the distinction between the euro area and the "rest of the world", following international standards – see *Monetary financial institutions and markets statistics sector manual*, ECB, March 2007.

other accounting practices, the notion of transactions and the timing of their recording. This means that these balance sheet data do not stand alone, but exhibit a high degree of consistency with other related statistics within the comprehensive framework provided by international and European standards, thereby ensuring comparability with data of other EU Member States and countries outside the EU, and meeting the information needs of other international organisations.[4]

The ESA 2010 differs in some specific respects from the international or local accounting standards applicable to business. ECB regulations addressed directly to reporting agents leave these institutions for the reporting of their balance sheets some discretion to follow the applicable accounting standards, in order to reduce the reporting burden and to obtain monthly or quarterly data at high timeliness.[5] This results in some degree of deviation from SNA/ESA statistical standards, but also some degree of heterogeneity across countries (e.g. regarding the valuation concepts used, or the treatment of on- and off-balance sheet items), as the implementation of internationally comparable accounting standards varies across countries and financial sectors. Similar effects may have the alignment of reporting under statistical and supervisory frameworks. An example for this is the project carried out by the ECB aiming at developing new statistics for insurance corporations in the euro area derived from supervisory reporting under the new EU-wide reporting requirements of insurance under the EU Directive Solvency II.[6] Therefore, for the use of the primary ECB statistics as input into the national and financial accounts some additional adjustments are to be made.

2. Framework for ECB statistics

Article 5 of the Statute of the ESCB and of the ECB[7] requires the ECB, assisted by the NCBs, to collect the statistical information necessary to carry out its functions. The relevant EU legislation setting a framework for the ECB's statistical work is Council Regulation (EC) No 2533/98, as amended by Council Regulation (EC) No 951/2009.

To carry out the functions of the Eurosystem, the ECB may adopt legal instruments that have a direct effect on the reference population for ECB statistics, which includes the entire sector 'financial corporations' as defined in the ESA 95. These legal instruments are ECB ***regulations***, which are binding on the entities to which they are addressed, and are directly applicable, meaning that they do not need to be transposed into national law. The regulations instruct reporting entities on, for example, statistical

4 For a detailed comparison of the ESA definitions and the implementation of these in the ECB's MFI balance sheet statistics see *"Manual on MFI balance sheet statistics"*, European Central Bank, April 2012.

5 The ECB's monetary and financial statistics are collected at high frequency (monthly or quarterly), and with in general short reporting deadlines. For example, the reporting of monetary and financial institutions (MFIs) for the ECB's monthly MFI balance sheet statistics requires that MFIs report about 5-10 working days following the month-end to the NCB.

6 Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

7 See: http://www.ecb.europa.eu/ecb/legal/pdf/en_statute_from_c_11520080509en02010328.pdf

reporting requirements in terms of definitions, classifications, frequency and timeliness. The currently applicable ECB regulations apply to monetary financial institutions (MFIs), investment funds and financial vehicle corporations.

The ECB also adopts ***guidelines*** which are binding on the Eurosystem (NCBs and the ECB) itself. They instruct central banks on what data must be submitted to the ECB, leaving some discretion as to the choice of source for the data, provided that certain standards are met. A guideline is *not* directly addressed to the financial corporations. The currently applicable ECB statistical guidelines concern the euro area accounts, the euro area balance of payments and international reserve position data, government finance statistics as well as additional reporting requirements regarding certain other financial intermediaries in the ECB's monetary statistics.

The ESCB's Statistics Committee (STC) agreed to coordinate the necessary amendments to the ECB regulations and guidelines to comply with the new ESA standards. Furthermore, statistics that are under development and for which an ECB legal act is expected to be prepared in the future (in particular statistics for insurance corporation, and security-by-security holdings data), should also take account of these new standards.

Before major amendments to ECB legal acts are made, a comprehensive *merits and costs procedure* is carried out, which also involves the financial corporations concerned. In the field of balance sheet statistics for the financial sector this procedure has been launched in March 2012. In preparation for this, the main issues arising from the new ESA have been discussed since end-2009 by the STC and its Working Group on Monetary and Financial Statistics. The discussion covered, in addition to the new instrument definitions in the ESA 2010, also the discussion of changes necessary for the reporting units and sectors and counterpart sectors or sub-sectors.

Non-euro area EU countries compile in many cases the statistics discussed in this paper using the same standards and definitions as euro area countries. While this paper refers to the euro area statistics only, most of the issues discussed therefore also apply to other EU countries which have not adopted the euro.

3. The euro area financial sector and its sub-sectors at a glance

The SNA 2008 and ESA 2010 divide the financial corporations sector into nine sub-sectors. For the following analysis, available ECB data under the ESA 95 are shown for seven corresponding sub-sectors (combining three of the other financial intermediaries and auxiliaries in one category), which is likely to be the presentation for ECB statistics under the ESA 2010. The data do not reflect the effect of possible moves from the non-financial to the financial sector (see further below for more information on this).

Financial intermediaries and auxiliaries account for overall about 58% of total financial assets outstanding in the euro area in 2010. The remaining shares are held by households (20%), non-financial corporations (18%) and general government (4%).The value of total euro area financial assets has almost doubled between 1999 and 2010, and their value relative to nominal GDP has grown from 800% to 1,000%. As it can be seen from Chart 1 (see annex), this growth was particularly high in the banking (MFI) sector, in the investment fund and other financial intermediaries sector.[8]

The structure of the euro area financial corporations sector is dominated by the **MFI sector**, accounting for 63% of the total (measured in terms of financial assets). **Other MFIs** (i.e. MFIs excluding the central bank and money market funds) dominate the financial corporations sector also in most euro area countries (see Chart 2 and Table 1 below). Important exceptions are Ireland (other MFI share: 32%), Luxembourg (15%) and the Netherlands (35%). These low MFI shares are, however, due to the large size of non-bank financial sub-sectors rather than a, in absolute terms or relative to other countries, small banking sector.

The euro area **money market funds (MMF)** sub-sector, which is, according to the ESA 2010, a separate part of the MFI sector, accounts for below 2% of the euro area financial sector. It is highly concentrated in three countries (IE, FR, LU) which together account for 94% of the euro area MMF balance sheet. In many cases, these funds are set-up by credit institutions domiciled in other EU countries, and/or the holders of the shares/units are resident in other EU countries. MMFs are a source of short-term funding, and are regarded as MFIs because the shares/units issued by them are close substitutes for MFI deposits. In six euro area countries MMFs are non-existent or have a negligible size.

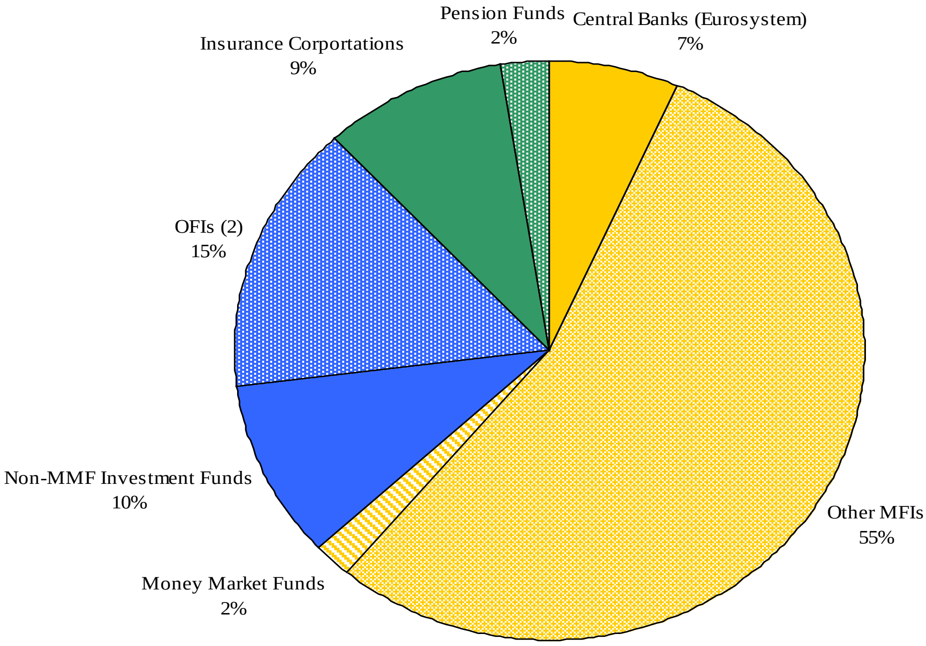
The **investment funds** sector (other than MMFs) – which will be distinguished in the new SNA and ESA from the other financial intermediaries (OFI) sector - accounts for about 10% of all financial sector assets in the euro area (and is therefore the third largest financial sector). While significant in most euro area countries, the geographical differences are high. In 11 euro countries, investment funds account for +/-5% of the financial sector. The shares are much higher in Ireland (20%) and Luxembourg (almost 40%). Investment funds exist in all EU countries, and most of them are governed by EU-wide rules under the UCITS Directive.

Other financial intermediaries excluding investment funds (OFIs) account for 15% of the euro area financial sector financial assets, the second largest sub-sector. Accurate estimates of its size and composition of the ESA 2010 OFI sector at the euro area level are, however, difficult to obtain, as primary ECB data collection currently covers only about 1/4th of this sector (financial vehicle corporations engaged in securitisation). The new coverage of holding companies of non-financial corporations (which so far have been recorded in the non-financial corporation sector) will further widen this gap.

[8] See "*The interplay of financial intermediaries and its impact on monetary analysis*", ECB Monthly Bulletin, January 2012.

Chart 2: Financial Corporations in the euro area

Share of total assets, end-September 2011



Source: ECB

Securitisation vehicles (FVCs) are part of the OFI sector and represent about 4% of total euro area financial sector assets. They are particularly important in the Irish, Spanish and Portuguese financial sectors. FVCs do not exist in seven euro area countries, in most cases because a legal framework for securitisation and securitisation vehicles is lacking. **OFIs other than FVCs** are important in Estonia, Ireland and Cyprus and particularly important in Luxembourg and the Netherlands where they hold more than 1/3 of all financial sector assets.[9] The composition of this sector is heterogeneous.

Finally, **insurance corporations and pension funds** – which are in the current ESA and ECB statistics combined in one sector - account together for 12% of the euro area financial sector. The ICPF sector is dominated by insurance corporations, while the pension fund sector is small at euro area level, and highly concentrated in two countries (DE and NL account for 83% of the euro area total). Pension funds are not existent or of negligible size in 10 euro area countries, where they contribute less than 2% to the national financial sector total.

[9] For more information on the case of the Netherlands see the paper by Paul den Boer under the same agenda item.

Table 1: Financial Corporations in the euro area

Total assets, EUR billions and percentages, end-September 2011

	Total Financial Corporations [1] S.12	Central Banks (Euro-system) S.121	Other MFIs S.122	Money Market Funds S.123	Non-MMF Investment Funds S.124	OFIs [2] S.125, S.126, S.127	OFIs [2] of which FVC	Insurance Corpor-ations S.128	Pension Funds S.129
	Euro billions								
euro area	59724.6	3928.6	32560.9	1100.7	6080.9	8993.0	2202.1	5609.2	1451.2
BE	1760.6	-	1202.4	4.4	78.8	209.1	86.5	253.8	12.1
DE	12221.6	-	8481.6	7.8	1152.9	629.1	64.1	1572.8	377.4
EE	25.0	-	19.3	-	0.5	3.2	-	0.8	1.2
IE	3285.0	-	1045.5	367.3	661.8	923.2	510.9	228.2	59.1
GR	524.8	-	489.3	0.9	5.6	13.4	-	15.6	-
ES	4787.2	-	3561.4	7.9	159.9	686.7	458.7	288.1	83.3
FR	12156.8	-	8065.4	379.9	1009.4	781.5	172.8	1920.6	-
IT	5401.6	-	3953.3	32.2	208.0	680.0	328.1	500.7	27.4
CY	195.5	-	137.1	-	1.6	45.1	-	3.5	8.0
LU	5227.3	-	806.0	284.5	2064.1	1929.1	101.2	142.7	0.9
MT	61.1	-	51.1	0.2	n.a.	n.a.	-	9.8	-
NL	6980.2	-	2458.4	1.8	515.2	2746.1	412.8	423.7	835.1
AT	1375.4	-	1006.3	2.3	139.5	90.4	3.2	122.4	14.6
PT	777.9	-	572.3	0.1	27.5	96.9	63.7	61.5	19.7
SI	68.1	-	52.7	0.0	1.8	6.1	-	5.5	2.0
SK	79.1	-	58.6	1.5	1.9	4.6	-	6.9	5.6
FI	737.4	-	598.5	11.8	44.9	24.7	-	52.7	4.9
	Share of total assets in the country (%)								
euro area	100.0	6.6	54.5	1.8	10.2	15.1	3.7	9.4	2.4
BE	100.0	-	68.3	0.3	4.5	11.9	4.9	14.4	0.7
DE	100.0	-	69.4	0.1	9.4	5.1	0.5	12.9	3.1
EE	100.0	-	77.1	-	2.0	13.0	-	3.2	4.8
IE	100.0	-	31.8	11.2	20.1	28.1	15.6	6.9	1.8
GR	100.0	-	93.2	0.2	1.1	2.5	-	3.0	-
ES	100.0	-	74.4	0.2	3.3	14.3	9.6	6.0	1.7
FR	100.0	-	66.3	3.1	8.3	6.4	1.4	15.8	-
IT	100.0	-	73.2	0.6	3.9	12.6	6.1	9.3	0.5
CY	100.0	-	70.2	-	0.8	23.1	-	1.8	4.1
LU	100.0	-	15.4	5.4	39.5	36.9	1.9	2.7	0.0
MT	100.0	-	83.6	0.4	n.a.	n.a.	-	16.0	-
NL	100.0	-	35.2	0.0	7.4	39.3	5.9	6.1	12.0
AT	100.0	-	73.2	0.2	10.1	6.6	0.2	8.9	1.1
PT	100.0	-	73.6	0.0	3.5	12.5	8.2	7.9	2.5
SI	100.0	-	77.4	0.0	2.6	9.0	-	8.0	2.9
SK	100.0	-	74.1	1.9	2.4	5.9	-	8.7	7.1
FI	100.0	-	81.2	1.6	6.1	3.4	-	7.1	0.7

Source: ECB.

Note: Financial corporations according to ESA 95 and therefore excluding holding companies of non-financial corporations. Differences due to rounding and not fully consistent data sources.

(1) National data excludes central banks, which are shown as component of the Eurosystem.

(2) Financial assets only.

For financial institutions covered by ECB regulations, a **list (register) of the financial institutions** is maintained by the ECB.[10] In end-2011 there were 6,240 other MFIs registered in the euro area, 1,275 MMFs, 49,050 Investment Funds and 2,865 FVC resident in the euro area. There is no list of institutions compiled yet by the ECB for insurance corporations and pension funds. However, available (mainly supervisory) information suggests that there are about 4,000 insurance corporations and more than 80,000 pension funds (of which very many small pension funds resident in Ireland) which meet the statistical criteria.

Some preliminary conclusions may be drawn from this overview of the euro area financial sector:

First, measured by size of the sector and the heterogeneity of the business features, the <u>separate presentation of the investment fund sector</u> (from other OFIs) may be seen as the major improvement for analysis under the new ESA sector classification both at euro area and at euro area country level.

Second, at euro area level the <u>separation of money market funds</u> (from other MFIs) and of <u>pension funds</u> (from insurance corporations) will support economic analysis. Information on MMFs and investment funds provides users with a complete picture of the euro area mutual fund industry. Separate information on the pension fund sector will be useful with ageing societies and institutional changes of the pension systems, leading to an increased role of autonomous pension funds (supplementing existing pay-as-you-go and book reserve systems).

Third, at <u>country level</u> this conclusion may need to be somewhat qualified, given the very uneven distribution of, in particular, money market funds and pension funds (and also FVCs) across countries. For about half of the euro area countries these sectors are negligible or non-existent as reporting and counterpart sectors. Very small entities (relative to the total euro area market, or relative to the national market) usually benefit from reduced reporting obligations in ESCB statistics (e.g. lower frequency and less detailed reporting). Apart from the reporting of the new sectors themselves, the accurate identification of increasingly detailed counterpart sectors (domestic and in other euro area countries) will be difficult for reporting agents, in particular where there are no appropriate euro area wide lists or registers for the institutions.

Finally, the significant size of the <u>OFI sector excluding investment funds</u>, its above-average growth over the last decade and the fact that only about ¼ of this sector is presently covered by common reporting requirements under an ECB regulation suggests this as a field for further statistical enhancements. The same applies for the <u>insurance corporations and pension funds sector</u>, for which the ECB has launched a work stream towards completed and harmonised statistics. More information on these is provided in the following chapter, which review the planned implementation of the ESA 2010 sub-sectors in the ECB's balance sheet statistics for financial corporations.

[10] http://www.ecb.europa.eu/stats/money/mfi/html/index.en.html

4. The euro area financial sub-sectors in detail

Monetary financial institutions (MFIs) (S.121-S.123)

The ESA 2010 continues to classify all institutions contained in the three sub-sectors ***central bank* (S.121)**, ***deposit-taking corporations except the central bank* (S.122)** and ***money market funds (MMFs)* (S.123)** in the ***Monetary Financial institutions*** sub-sector as defined by the ECB (draft ESA 2.67). The sector is defined by the Regulation ECB/2008/32 concerning the balance sheet of the MFI sector.[11] The ECB's reporting requirements are directly addressed to the reporting institutions resident in the euro area. These institutions report to the national central banks. From the individual statistical returns the NCBs derive national euro area contributions and transmit to the ECB (a) monthly statistics for MFIs except the central bank, (b) monthly statistics for the NCB balance sheet; (c) additional quarterly detail for the MFI sector, as well as (d) quarterly statistics for MMFs and for electronic money issuing MFIs. From these the ECB compiles the consolidated balance sheet of the euro area MFI sector, monetary aggregates, and also derives quarterly statistics for euro area credit institutions.

The MFI sub-sector is for the policy and analysis of the ECB of paramount importance. The sector defines, in broad terms, the "*money issuing sector*" (in contrast to the "*money holding*" and "*money neutral*" sector), and therefore the basis for deriving monetary policy indicators such as monetary and credit aggregates. Furthermore, deposit-taking corporations except the central bank (S.122) are the basis for defining the reserve requirements and the counterparts to the ECB's monetary policy operations. All institutions are recorded on the list of MFIs, which is published by the ECB.[12]

The separation of the MMF sub-sector from deposit-taking corporations required under the ESA 2010 is already supported by the existing ECB statistics. Besides the monthly and quarterly consolidated balance sheet statistics for the entire MFI sector, the ECB publishes quarterly euro area breakdowns for the money market fund sector as well as for the credit institutions sector. The latter are similar but not fully identical to the deposit-taking corporations sector (S.122). The difference is explained by institutions that are not licensed as a credit institution, but which fulfil the MFI definition irrespective of the nature of their business. The degree of substitutability between the instruments issued by these institutions and the deposits placed with credit institutions determines their classification. In end- 2011, there were 6,210 credit institutions and only 30 other institutions recorded on the ECB's MFI list, which together constitute the other MFI sector (S.122). Electronic money issuing institutions principally engaged in financial intermediation, which, since 2011, are not required to operate as a licensed credit institution are included in the 30 other institutions.[13]

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[11] See http://www.ecb.europa.eu/ecb/legal/pdf/l_01520090120en00140062.pdf

[12] See http://www.ecb.europa.eu/stats/money/mfi/general/html/index.en.html

[13] Directive 2009/110/EC of the European Parliament and the Council. The ESA definition refers to e-money issuers principally engaged in financial intermediation and distinguishes these from e-money issuers whose principal activity is non-financial.

Regarding MMFs, ECB statistics apply since early 2012 an enhanced and tightened definition of MMFs. The change resulted from experiences in the course of the financial crisis, when financial difficulties of some MMFs indicated that these had followed an investment policy that is not consistent with the criteria of *"close substitutes for deposits"* commonly used for the MMF identification. A novelty for ECB statistics is that this definition is fully aligned to the European definition of MMFs established for supervisory purposes. This helps to increase market transparency and facilitates the reporting of quantitative information of MMFs for statistical and supervisory purposes.[14]

While the ESA 2010 leaves the sector delineation of the entire MFI sector untouched, specific improvements to enhance the S.121/S.122/S123 sub-sector reporting and counterpart sector reporting are currently considered by the ESCB, in particular to improve the distinctions between the central bank sector and the other MFIs, and to allow for a proper distinction MMFs from other MFIs.

Non-MMF investment funds (S.124)

Similar to the MFI sector, ***non-MMF investment funds*** **(S.124)** are already subject to reporting obligations for monthly and (more detailed) quarterly statistics.[15] Detailed position and flow data are collected and used to compile monthly and quarterly euro area investment fund statistics, and therefore the introduction of the new sub-sector under the ESA will not require changes in ECB statistical data collection from the funds. A list of all investment funds registered in the euro area and subject to reporting obligation for ESCB statistics is published by the ECB.[16] As for the MFI sector, the delineation of the investment fund sector to other sectors remains unchanged. At the same time, the ECB currently investigates the amendments necessary for the reporting of counterpart sector information by investment funds (e.g. to separate insurance corporations from pension funds, see also below).

Other financial intermediaries, except ICPF (S.125)

Sub-sector S.125 is subject to significant changes under the ESA 2010, mainly due to the creation of new sub-sectors covering main parts of the ESA 95 OFI sector. ESA 2010 (para 2.87) refers the *long-term financing* as well as the *non-existence of liabilities in the form of investment fund shares or insurance/pension funds technical reserves* as special feature of this sector. Only one of the components of this sector – Financial Vehicle Corporations – is currently covered by an ECB regulation addressed directly to reporting agents.

[14] For the amended MFI definition covering the new definition of e-money issuers and money market funds see Regulation ECB/2011/12 (http://www.ecb.europa.eu/ecb/legal/pdf/l_22820110903en00130015.pdf)

[15] Regulation ECB/2007/8 concerning statistics on the assets and liabilities of investment funds. http://www.ecb.europa.eu/ecb/legal/pdf/l_07220090318en00210023.pdf.

[16] See: http://www.ecb.europa.eu/stats/money/mfi/funds/html/index.en.html

- Financial Vehicle Corporations (in S.125)

As a result of Regulation ECB/2008/30[17], ***financial vehicle corporations engaged in securitisation transactions (FVC)*** have started reporting balance sheet statistics for ECB statistics in 2010.[18] FVCs are more explicitly referred to in the ESA 2010 than in the ESA 1995, which reflects the strong development of the securitisation market in the last decade. Accordingly, the ECB's euro area accounts consider to launch a new sub-sector presentation for FVCs. The necessary data for this – subject to the necessary amendment of the counterpart sector reporting due to new ESA counterpart sectors – are generally available in current ECB statistics.

The ECB Opinion on the draft ESA 2010 proposed further clarification to the draft ESA 2010 regarding FVCs, aiming at ensuring that FVCs that satisfy the criteria of an institutional unit under the ECB regulation are also considered institutional units under the ESA 2010. This was necessary as the draft text for the ESA mentions securitisation vehicles as a component of captive financial institutions (ESA 2.21, "*holding assets for securitisation*"), and also mentions that securitisation vehicles may not pass the test for an institutional unit. In particular, draft ESA 2.90 and 5.108 suggested that FVCs typically would not be institutional units, as they would not "*bear market or credit risk* ". This criteria, however, would be in contradiction to the actual business purpose of any securitisation vehicle, which is to transfer the credit risk to the note holder.

Following the clarification of this point, the expectation is that all securitisation vehicles meeting the definition of Regulation ECB/2008/30 will be classified as FVC under ESA 2010, and will be a part of Sector S.125.

The ECB publishes a list of FVCs in the euro area.[19] Based on this list, quarterly balance sheet statistics for FVCs are already available. Moreover, MFIs already report the holdings of FVC securities and the deposits placed by FVCs, i.e. important counterpart sector information. In addition, the ECB currently evaluates the need to amend the FVC regulation regarding the reporting of counterpart sector information. Furthermore, an extension of the definition of FVCs is considered to include also the securitisation of insurance risk, given the increasing role of securitisation vehicles issuing insurance linked notes ("catastrophe bonds").

- Other (non-FVC) components of S.125

For other sub-sectors of the OFI sector, no direct reporting by financial institutions is currently required. Instead, the ECB collects – on a best effort basis via Guideline ECB/2007/9[20] - data for ***security and derivative dealers*** (i.e. intermediaries dealing on own account) and ***financial corporation engaged in***

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[17] See: http://www.ecb.europa.eu/ecb/legal/pdf/l_01520090120en00010013.pdf.

[18] For the quarterly press release see: http://www.ecb.europa.eu/press/pr/stats/fvc/html/index.en.html

[19] http://www.ecb.europa.eu/stats/money/mfi/corporation/html/index.en.html

[20] http://www.ecb.europa.eu/ecb/legal/pdf/02007o0009-20100701-en.pdf

lending (e.g. financial leasing and factoring). Furthermore, for the purposes of euro area accounts, most NCBs provide estimates for the overall OFI sector, which residually allows the estimation of the "missing" OFIs (encompassing also financial auxiliaries and captive financial institutions and money lenders). All these data originate from different national sources and estimates.

Out of the various components of this sub-sector, the role of ***Central Counterparty Clearing Houses*** (CCPs) has recently received attention. Due to the tendency that unsecured lending between MFIs is replaced by secured interbank lending, and that the involvement of CCPs as intermediates in these repurchase transactions reduces the counterparty risk for the lending and the borrowing MFI, CCPs have become a major counterpart to MFI repurchase agreements (during 2011, the amount outstanding of euro area MFI repurchase agreements involving euro area CCPs exceeded EUR 300 bn). CCPs may further gain importance with the regulatory initiatives at European level to strengthen the roles of CCPs in derivative contracts.

Financial auxiliaries (S.126)

At present, ***financial auxiliaries*** (S.126), covering financial corporations which themselves are not involved in financial intermediation, are not subject to direct reporting obligations under ECB statistics. Estimates suggest that their total size at euro area level is small measured in terms of their financial assets and liabilities, which reflects the nature of their business (e.g. brokerage, management, oversight). Financial auxiliaries include in the ESA 2010 also head offices exercising managerial control over subsidiaries which are mostly financial.

Reporting data for the entire OFI sector to the ECB for the purpose of the euro area accounts, NCBs currently include an estimate for financial auxiliaries. The individual identification of financial auxiliaries is voluntary and only some NCBs provide it. It is expected that this practice will continue, and no mandatory reporting by financial auxiliaries under an ECB regulation will be introduced by 2014.

Captive financial institutions and money lenders (S.127)

Captive financial institutions and money lenders (S.127) are neither financial intermediaries nor financial auxiliaries. Their assets and liabilities are in most cases not transacted on open markets. The sector is a new breakdown in the ESA. It is currently not covered by ECB regulations, though for euro area accounts and balance of payments purposes estimates are included in the data for broader current sectors, in particular the OFI sector, but partly also the non-financial corporation sector.

Two of the components of the sector – special purpose entities and holding companies – raise particular challenges for statisticians.

- Special purpose entities (SPEs) (in S.127)

The ESA 2010 devotes attention to newly defined ***Special Purpose Entities (SPE) and Special Purpose Vehicles (SPVs)*** (para 2.17-2.20), a term that is used with different meanings in different context, by statisticians and by financial market participants. The ESA 2010, the SNA 2008 and the BPM6 discuss this category, and further useful detail is included in the UNECE manual on the impact of globalisation on national accounts.[21]

The main characteristics of SPEs, according to ESA 2010, are that they have no employees, no non-financial assets and little physical presence beyond a brass plate. They relate to another (often multinational) corporation which is often resident in a different territory, and they are managed by employees of this related or another corporation. While its only production activity relates to the services it provides, it often incurs liabilities on behalf of its owners, and hold financial assets. Therefore, despite the fact that SPEs are not significantly contributing to output, they can be significant in terms of financial assets and liabilities, and in significant in relative size in certain countries.[22] Often, the SPE's residence reflects favourable conditions offered by the countries in which they locate (e.g. taxes, regulation, legislation). The SNA and ESA allocates these entities to sector S.127 (captive financial institutions and money lenders) provided they meet certain criteria (ESA 2.99).

Already for some time, ECB statistics have treated SPEs as resident in their country of registration for euro area statistical purposes. The reason is that although they may not be considered resident for national data and analysis as their transactions may be entirely offshore, they may be not offshore from a euro area perspective[23] (e.g. a Maltese SPE related to a German manufacturer). This recording therefore may promote the consistent recording of the transaction in euro area statistics. Respective provisions for the coverage of resident entities without a physical presence are already included in ECB regulations for MFIs, Investment Funds and Financial Vehicle Corporations. This clarifies that SPEs which meet the definition of MFIs, investment funds or FVCs under the respective ECB regulations, and which are included in the list of MFIs, investment funds and FVCs published by the ECB, are to be allocated to these sectors, rather than to sector S.127. The discussion on the treatment of securitisation vehicles (FVCs) in the ESA (see above) underlines that this has to be considered when implementing the ESA, and to avoid classification discrepancies between ECB statistics and the national accounts.

Contrary to SPEs set-up in countries other than its parent, SPEs set up in countries of the parent are to be consolidated with the institutional unit of the parent provided they do not meet the criteria for an institutional unit, i.e. autonomy of decision (and provided they do not meet the above definitions of, for

[21] See: United Nations Economic Commission for Europe: "*The impact of globalisation on National Accounts*", chapter 4, 2011.

[22] The UNECE manual mentions that SPEs accounted for almost three times Dutch GDP at end-2007 (this number included the contribution of securitisation vehicles).

[23] See: Peter Bull, "*Statistics for Economic and Monetary Union - enhancements and new directions, 2003-11*", publication forthcoming.

example, FVCs). Furthermore, SPEs are to be classified in the financial sector of the host country only if they perform financial intermediation, otherwise they are (likely) a non-financial corporation. Finally, exceptional rules exist for SPEs of General Government.

- Holding companies in S.127

Captive financial institutions also include ***holding companies*** that simply own assets and which, according to the ESA, do not provide any other service (unlike head offices which exercise managerial functions). Holding companies may resemble SPEs, and criteria for their distinction may, in practice, not always be clear-cut and in some cases the two populations may coincide, i.e. the population of holding companies resident in a different country than its parent may be the same as the population of SPEs in that country. Holding companies holding non-financial subsidiaries will be reclassified from non-financial to financial corporations.[24] Work by international organisations (e.g. OECD) is going on to clarify the difficult borderlines between head office (S.125) and holding companies and SPEs (S.127), and borderline between financial and non-financial institutions for SPEs and holding companies.

Merging sub-sectors S.125-S.127 and way ahead

According to current plans, ECB euro area monetary statistics and euro area accounts will not provide separately identifiable statistics on the individual sub-sectors S.125, S.126 and S.127 as reporting and counterpart sector. Instead, it is envisaged that sectors S.125, S.126 and S.127 will be merged. Compared to the current OFI sector delineation used in ECB statistics the new OFI sector will exclude investment funds, but will include additionally those holdings companies which so far have been classified as non-financial. A new general ECB regulation (in addition to the exiting FVC regulation) for sub-sectors of S.125-S.127 is currently not planned. For the purpose of euro area accounts NCBs will provide – as at present – aggregate estimates for the OFI sector.

However, in view of the considerable size of the sector S.125-S.127 sector, further extension of ECB statistics may be considered at a later stage. Given the heterogeneity of the sector it seems likely that any enhance data collection would be decided case-by-case for each sub-sector. Three possible future enhancements could concern:

- direct reporting of Central Counterparty Clearing houses (CCPs) for ECB statistics could be a major step forward to close a current gap in the reporting for the non-FVC OFI sector, and could be adequate for a group of financial intermediaries that is likely to gain importance due to market developments (secured lending, tri-party repurchase agreement involving MFIs) and regulatory requirements (derivatives clearing);

[24] For the example of Austria it was estimated that this effect leads to an increase of financial assets of Sector S.12 amounting to 13% of GDP; see: Andreasch Michael (OENB), "*New financial sector delineation in ESA 2010: First assessment for the financial accounts in Austria*", paper prepared for OECD Working Party on Financial Statistics, October 2011.

- enhancing already available data for SDDs and FCLs, which are transmitted to the ECB on a best effort basis but which are neither complete nor comparable at euro area level; collecting data on CCPs and improved data for SDDs and FCLs would lead to a high coverage of sector S.125 for ECB statistics;

- enhancing data for captive financial institutions S.127. As mentioned, the fact that holding companies included here now also include holding of non-financial corporations will increase the size and relevance of it in monetary and financial statistics. Moreover, the recognition of certain SPEs as resident units may have an impact on the overall size of this sector in at least some jurisdictions. Some countries have pointed to the potentially large size of the S.127 sector, and a euro area wide quantification of the expected changes and its size is required.

Overall, the transition from the present to the new sub-sectoring in the Sectors S.125 to S.127 is perhaps the most important challenge regarding the sectorisation of the economy under ESA. While for ECB statistical reporting requirements this effect is somewhat mitigated by the reporting of a merged sector/counterpart sector S.125-S.127, national compilers working at a granular data level face new challenges.

Insurance Corporations (S.128) and Pension Funds (S.129)

The ECB has launched in 2005 an imitative to enhance quarterly statistics for the ***insurance and pension funds sector*** (ICPF). As a result, the ECB has been publishing since mid-2011 quarterly balance sheet statistics for the ICPF sector, and a limited breakdown into the insurance corporations and pension funds sub-sectors.[25] Aggregate data for the ICPF sector are also part of the transmission of NCBs to the euro area accounts compiled by the ECB, as required by the respective ECB Guideline.

However, despite the progress achieved in recent years, these data and the available data sources will not be sufficient to derive adequate data for the new separate sub-sectors insurance corporations and pension funds at the euro area level. National sources currently used for compiling national contributions to euro area statistics are of differing and sometimes insufficient quality. Furthermore, where supervisory sources are important input in the compilation of insurance data - and this is the case in the majority of EU countries - the forthcoming EU wide changeover to the new supervisory reporting requirements under the EU Directive Solvency II requires a review of current compilation practices – and, at the same time - offers the opportunity for developing much enhanced and harmonised EU-wide statistics for the ***insurance sector***.[26]

With this objective, the ECB has launched a co-operation with the European Insurance and Occupational Pensions Authority (EIOPA). While supervisory concepts and national accounts based statistical concepts are in some respect fundamentally different, the planned reporting under Solvency II could be used to

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[25] For the quarterly press release see http://www.ecb.europa.eu/press/pr/stats/icpf/html/index.en.html.

[26] For information on Solvency II see EIOPA website: https://eiopa.europa.eu/activities/insurance/solvency-ii/index.html

derive major building blocks for ECB statistics. These are, in particular, reporting of detailed information at quarterly frequency at a solo basis, following a residency concept and sector definition that is close to the concept used in the national accounts. Another important building block will be the reporting of assets on an item-by-item basis, which – if linked with information contained in the ECB's Centralised Securities Database – could be the source for compiling detailed and largely complete statistics for the assets of insurance corporations.

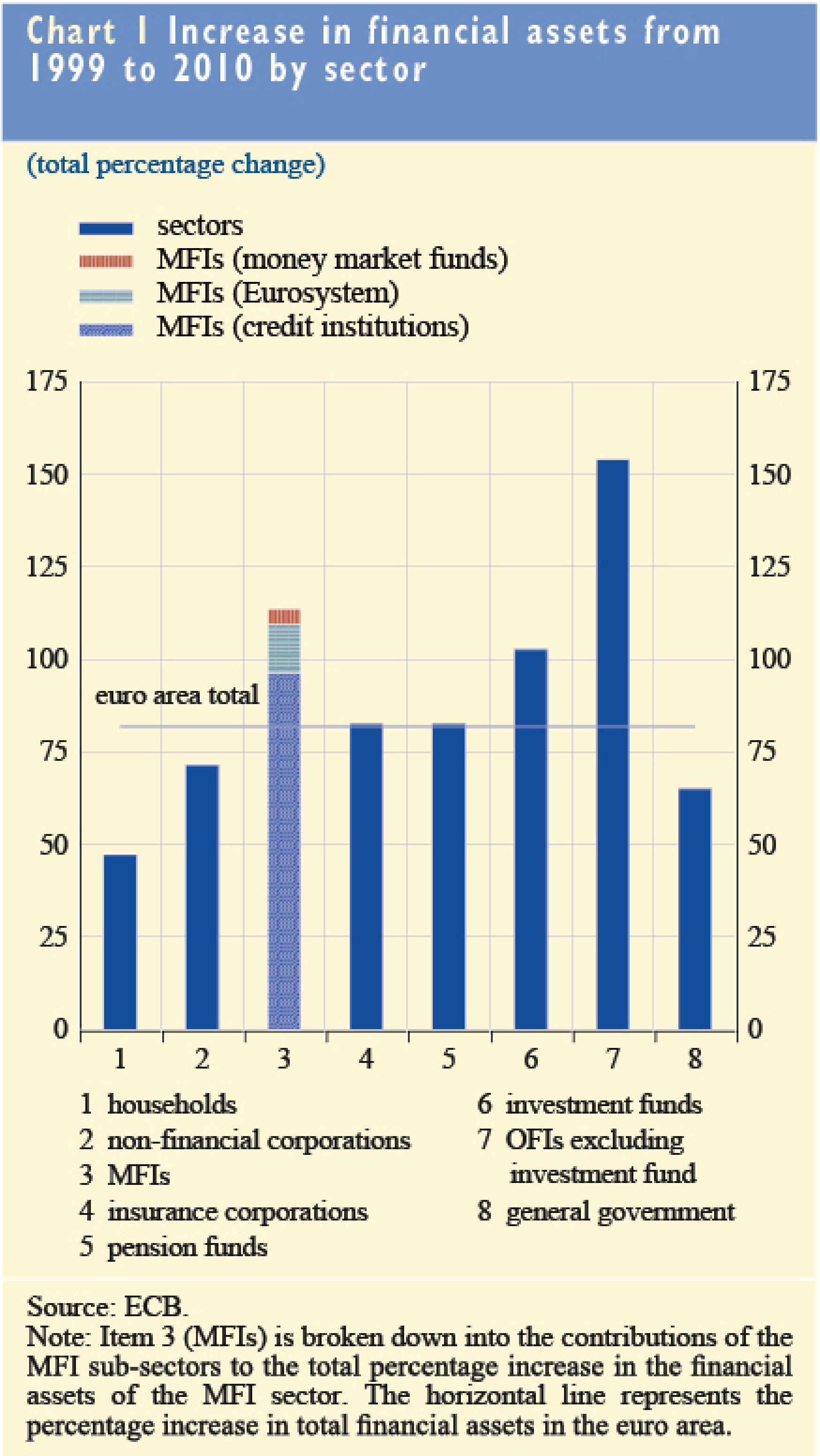
The ECB intends to underpin the collection of insurance statistics with an ECB regulation. This regulation would enable NCBs to use, to the extent possible, supervisory data for the statistics compilation. Additional requirements that could not be met from the Solvency II data would be specifically addressed to reporting agents in the ECB regulation. Supervisory reporting under Solvency II is planned to be implemented – with transition periods – from 2014. ECB statistics for the new insurance sector under the ESA 2010 would then become available from 2015.

Regarding statistics for the new sub-sector of ***pension funds***, in principle a similar development as for insurance corporations could be envisaged. A review of the respective supervisory standards for autonomous pension funds has been launched at European level.[27] Nevertheless, the outcome of the process is less certain at this stage, given the immense differences across countries and national legislation for pensions, and the resulting challenges which a European harmonisation of supervision and reporting faces. Taking this into account, it is expected that the ECB will have to rely for several years on the currently available data at the national level.

[27] For information on the review of pension funds supervision see also the EIOPA website: https://eiopa.europa.eu/press-room/press-releases/index.html

Annex:

Chart I: Financial assets by holding sector 1999 and 2010



Source: ECB Monthly Bulletin, January 2012.