METHODS AND NOMENCLATURES

2002 EDITION

Manual on Sources and Methods for the compilation of ESA95 Financial Accounts

First Edition

EUROPEAN COMMISSION

eurostat

THEME 2
Economy and finance

A great deal of additional information on the European Union is available on the Internet.
It can be accessed through the Europa server (http://europa.eu.int).

Luxembourg: Office for Official Publications of the European Communities, 2002

PREFACE

Eurostat and the members of the Financial Accounts Working Party (FAWP) have been engaged over the years in promoting the collection of that complex set of financial statistics that goes under the technical name of 'Financial Accounts'. This body of financial statistics covers the full set of institutional sectors and financial instruments. Furthermore, Financial Accounts are integrated with the rest of National Accounts, through the link to the Capital Account.

The work undertaken by Eurostat and the FAWP has gone through various stages. The first efforts were devoted to working out a common set of definitions, classifications and accounting rules, consistent with the *System of National Accounts of the United Nations* (SNA93). The outcome of this work is incorporated in various sections of the *European System of National and Regional Accounts* (ESA95).

Following this, many efforts were devoted to prepare national statistical sources to the new ESA95 requirements. This was accompanied by a general revision of methodologies. Over time it became clear that it would be valuable to have a Manual with the description of the new national sources and methodologies. There are also a number of issues on which some further guidance would be helpful. The formal decision to produce such a Manual was taken in March 2000. At that time the ambitious decision was taken to include Norway and Candidate Countries from the beginning of the project.

Having been endorsed by the Committee of Financial, Monetary and Balance of Payments Statistics (CMFB), the present *Manual on Sources and Methods for the Compilation of ESA95 Financial Accounts* becomes an indispensable complement to ESA95.

Drafting such a manual is not an easy task: all the information has to be put into a coherent framework and the range of questions touched upon is very wide. Therefore I thank all those involved in this long and difficult exercise.

30 April 2002

Bart MEGANCK
Director

Revision policy

The *Manual* will be revised when further progress is made on general methodological issues and after major changes in national compilation practices have occurred, most probably every two years.

Stocktaking document

A S*tocktaking document* has been elaborated. It is based on the responses to a detailed questionnaire on financial accounts. It contains extensive information on national compilation practices. The S*tocktaking document* will be revised on an annual basis.

Language and diffusion

The *Manual* will be at first available only in English. Translations in other languages of the European Union will be considered in the future, depending on requests. The *Manual* will be disseminated through the Eurostat Datashop network.

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INTRODUCTION

INTRODUCTION

1. PURPOSE

This manual addresses issues related to the compilation of annual Financial Accounts. It concentrates on the identification of the detailed sources and methods needed to compile these accounts in a European context. It records specific recommendations on how to deal with borderline or difficult issues, which arise, in the compilation work.

Most European Union member states provide a statement of national financial accounts to Eurostat in September of each year. The legal framework for the provision of financial accounts in the EU Member States is set out in the Council Regulation 2223/96 (the "Regulation"). The Regulation requires all Member States (excluding those with derogation), from the year 2000, to submit financial accounts annually. The data are to be submitted to Eurostat in a common format comprising a detailed statement of "financial transactions by sectors" (*financial account, table 6*), and a statement of "financial assets and liabilities by sectors" outstanding at market value (*balance sheets, table 7*). EU Member states with derogation will provide national financial accounts in the ESA framework subject to agreed time delays, with a complete set of annual financial accounts expected from 2005 onwards.

Despite the fact that the official requirement is placed presently only on EU Member States, Eurostat's co-ordination work on financial accounts has also included, in recent years, Candidate Countries. This is done in order to ensure that Candidate Countries meet the statistical reporting requirements of the Regulation and to prepare with them for accession to the EU [1]. Therefore, the Manual is extended to also include the work of Candidate Countries on financial accounts.

2. BACKGROUND

The initiative to compile the *Manual on Sources and Methods for the Compilation of ESA 95 Financial Accounts* (hereafter the "Manual") was taken by Eurostat and agreed at the Financial Accounts Working Party held in Luxembourg on 16 and 17 March 2000. The task was delegated to a *Working Group on Sources and Methods for the Compilation of ESA 95 Financial Accounts* (the "Working Group") and chaired by Eurostat. The Working Group is comprised members of Central Banks and National Statistical Institutes of 9 EU Member States, Norway and 3 Candidate Countries, and the European Central Bank. The individual country descriptions are based on a questionnaire designed by the Working Group and subsequently completed by respondent European countries. Eurostat undertook editorial and compilation work.

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1 The Regulation is included in the 'acquis communautaire' that Candidate Countries will have to comply with once they become members of the European Union.

3. THE EUROPEAN SYSTEM OF ACCOUNTS (ESA 95)

The European System of Accounts (ESA 95) constitutes a coherent, consistent and integrated system of national accounts designed to show economic processes in accordance with macroeconomic theory which, among other things, distinguishes between certain economic processes summarised under the headings production, income/use of income and capital formation (accumulation). The accounts also include balance sheets to describe the stocks of assets and liabilities at the beginning and at the end of the accounting period.

4. THE FINANCIAL ACCOUNTS

4.1 Financial account

The financial account deals with the financial transactions taking place between institutional units and between them and the rest of the rest world. It shows how the surplus or deficit on the capital account is financed by transactions in financial assets and liabilities. Thus the balance of the financial account (net acquisition of financial assets *less* net incurrence of liabilities) is equal in value to net lending / net borrowing, the balancing item of the capital account.

The financial transactions are summarised and recorded systematically in the financial account. The financial account indicates how net borrowing sectors obtain resources by incurring liabilities or reducing assets, and how net lending sectors allocate their surpluses by acquiring assets or reducing liabilities. The account also shows the contributions to these transactions of the various types of financial assets, and the role of financial intermediaries.

Most transactions involving the transfer of ownership of goods or assets or the provision of services have some counterpart entry in the financial account. The counterpart may take the form of a change in currency or transferable deposits, an account receivable or payable (e.g. a trade credit) or some other type of financial asset or liability. Moreover there are many transactions that are recorded entirely within the financial account, where one financial asset is exchanged for another or a liability is repaid with an asset. Financial assets may be created through the incurrence of liabilities. Such transactions change the distribution of the portfolio of financial assets and liabilities and may change their total amounts but do not affect the net lending / net borrowing.

Identifying financial transactions necessitates:

- Distinguishing financial from non-financial assets;
- Distinguishing financial transactions from other changes in financial assets;
- Distinguishing transactions in financial assets from operations involving contingent rather than actual assets.

4.2 Other changes in financial assets and liabilities

Certain changes in the volume and value of financial assets take place during an accounting period without being the result of any financial transactions between institutional units to be recorded in the financial account.

4.2.1 Nominal holding gains/losses

The nominal holding gain on a given quantity of an asset is defined as the change in value for the owner of that asset as a result of change in prices or exchange rates. The nominal holding gain on a liability is defined as the change in value of that liability as a result of a change in its price, but with the sign reversed.

A positive holding gain is due to an increase in the value of a given asset or to a reduction in the value of a given liability. A negative holding gain - i.e. a holding loss - is due to a reduction in the value of a given asset or an increase in the value of a given liability.

Nominal holding gains / losses are recorded in the revaluation account. A holding gain is said to be realised when the asset in question is disposed of, or the liability repaid. An unrealised gain is therefore one accruing on an asset that is still owned or a liability that is still outstanding at the end of the accounting period.

Nominal holding gains / losses take place mainly in connection with shares, bonds and foreign assets. For these and other financial assets and liabilities it may be that the content of opening and closing values are not materially comparable due to reclassifications of institutional units etc. This type of effect on balances is difficult to deal with in some cases.

4.2.2 Other changes in volume of financial assets and liabilities

Any changes in financial assets and liabilities that are not due to financial transactions, holding gains and losses or reclassifications are to be recorded here.

They include e.g.:
- Write-offs and write-downs of bad debt by a creditor: Unilateral recognition by a creditor that a financial asset can no longer be collected due to bankruptcy or other factors.
- The allocations and cancellations of SDRs

4.2.3 Changes in classification of assets and liabilities

This includes e.g.:
- Monetisation and de-monetisation of gold.

4.3. Financial balance sheets

Balance sheets are statements of the value of assets and liabilities at a particular point of time, and can be drawn up for institutional units, sectors or the whole economy.
The balancing item is ‘net worth’ or, in the case of the whole economy, ‘national wealth’ – the aggregate of non-financial assets and net claims on the rest of the world.

For any accounting period each financial balance sheet is linked to the previous one by the accounting identity:

stock at the beginning of the accounting period
+ net lending/net borrowing of the accounting period
+ other changes in the volume of assets
+ holding gains *less* holding losses accruing during the accounting period
= stock at the end of the accounting period

The financial balance sheet shows the financial assets held and the liabilities outstanding at a particular point in time. The balancing item of the financial balance sheet is net financial assets. Net financial assets is the result of cumulative revaluation, other changes in volume of financial assets and net lending / net borrowing.
The financial balance sheet can also be extended to show a breakdown of financial assets by debtor sector and a breakdown of liabilities by creditor sector. Therefore, the financial balance sheet by debtor / creditor (of a sector or the rest of the world) provides information on debtor / creditor relationships and it is consistent with the financial account by debtor / creditor.

The net lending / net borrowing is calculated on the basis of the transactions in the different financial assets and liabilities. The holding gains / losses and other changes in financial assets and liabilities must not therefore influence net lending / net borrowing.

4.4 Accounting rules for financial transactions and financial balance sheets

4.4.1 Valuation of transactions in and holding of different financial instruments

The following rules apply to the valuation of the transactions or holdings:

1. Financial transactions are recorded at the transaction value that is the value in national currency at which the financial assets and / or liabilities are created, liquidated, exchanged or assumed on the basis of commercial considerations only. Financial transactions and their financial or non-financial counterpart transactions are recorded at the same transaction value. That is to say the valuation must be the same for the lender and the borrower, or for the purchaser and vendor in the case of transferable instruments. In cases where the transaction is evidently not carried out at market price (a “fair value) the observed amount could be corrected by recording a capital transfer. Three possibilities can here be envisaged:

    a) The financial transaction is a transaction in means of payment in national currency: The transaction value is equal to the amount of the means of payment exchanged.

    b) The financial transaction is a transaction in means of payment in foreign currency and the counterpart transaction is a transaction in means of payment in national currency. The transaction value is equal to the amount of the means of payment exchanged, converted into national currency, and applying the market rate prevailing when the payment takes place.

c) Neither the financial transaction not its counterpart transaction is a transaction in means of payment. The transaction value is identified with the current market value of the financial assets and / or liabilities involved.

The transaction value does not include:

- Fees and commissions (recorded as payments for services)
- Taxes on financial transactions (recorded as taxes on services).

When interest accrues on a financial instrument the amount accruing in the accounting period is recorded as being re-invested in the same instrument or is included in "Other accounts receivable / payable – other".

2. Financial assets and liabilities should in principle be valued at current prices, i.e. they should undergo a market valuation. They should be assigned the same value whether they appear as financial assets or liabilities. The prices should also exclude service charges, fees, commissions etc.

4.4.2 Time of recording

Financial transactions and their counterpart transactions are to be recorded at the same point in time. When the counterpart of a financial transaction is a non-financial transaction, both are recorded at the time the non-financial transaction takes place. For example, when sales of goods or services give rise to a trade credit, this financial transaction is to be recorded when the entries are made in the relevant non-financial account.

When the counterpart of a financial transaction is also a financial transaction, three possibilities can be envisaged:

a) both financial transactions are transactions in means of payment: (see definition in ESA95 paragraph 5.04): They are recorded at the time the first payment is made.

b) only one of the two financial transactions is a transaction in means of payment: They are recorded at the time the payment is made.

c) neither of the two financial transactions is a transaction in means of payment. They are recorded at the time the first financial transaction takes place.

4.5 Consolidation

The financial account and the financial balance sheet may be non-consolidated or consolidated. The non-consolidated financial account of a sector shows the changes in financial assets and liabilities due to all financial transactions in which institutional units classified in the sector are involved. Likewise the non-consolidated financial balance sheet of a sector shows the financial assets and liabilities of institutional units classified in the sector.

Consolidation in the financial accounts refers to the elimination of intra(sub)sectoral transactions or debtor / creditor relationships. Compared to the non-consolidated financial account, the financial transactions between institutional units classified in the same (sub) sector are eliminated from the consolidated financial account. The external financial account is consolidated by definition. With regard to the consolidated financial balance sheet, the counterparts of liabilities or financial assets of institutional units classified in the same (sub) sector are eliminated. The external assets and liabilities account, i.e. the financial balance sheet of the rest of the world, is consolidated by definition. In general, consolidation is more relevant for the financial analysis. Apart from households where intra-sectoral transactions are rather marginal, consolidation is particularly interesting for monetary financial institutions, non-financial corporations and general government.

This item is further detailed in a specific point of the Manual - Issue nº 4 of the Recommendations' part.

5. USE OF FINANCIAL ACCOUNTS

Financial accounts form an important tool for analysing financial flows taking place between well-defined institutional sectors within the economy and between institutional sectors and the rest of the world, and for assessing financial interrelationships within the economy and vis-à-vis the rest of the world at a particular point in time. Because of their link with the capital and use of income accounts, financial accounts serve as an important instrument to monitor the transmission process of monetary policy. The completeness of financial accounts enable analysis of monetary aggregates as well as the analysis of longer-term financial investments and sources of finance. Consequently the financial accounts provide a way of examining the financial effects of economic policy and assistance for decisions regarding future policy. They can be used to investigate factors influencing the holdings of and transactions in, different types of financial instruments: changes in interest rates etc.

For financial institutions the financial account shows the large amounts of funds which are channelled through them as financial intermediaries. The scale of this makes it important to be aware of changes in their sources of funds and in the use of those funds. The transactions of the financial institutions reflect the liquidity, current and capital expenditure of other sectors, and the financing of the government sector net cash requirement.

The financial balance sheets show the financial worth of each sector of the economy at a particular point in time. The changes from previous balance sheets illustrate both the change in the valuation of different instruments as stock markets move, currency exchange rates change etc. and the changing portfolios resulting from the financial transactions of the sectors. This allows measuring "wealth effects" through the change in assets market prices (notably monetary impulses that are transmitted through changes in the relative prices of the whole range of financial assets). As concerns the structure of financial markets balance sheets can be used to measure:

- Share of different financial instruments for different sectors
- Share of different sectors for different financial instruments
- Degree of marketability of financial instruments
- Degree of financial intermediation.

At international level, financial accounts may be used in cross-country comparisons.

6. ASSESSMENT OF QUALITY

The issue of quality, and the need for uniformly high quality statistics to be made available to users is an issue of deep interest for users and producers of data. For these reasons it is helpful to know what is meant by terms such as ‘quality’ when we refer to the financial accounts statistical theme keeping in mind the requirement for national compilers to supply Tables 6 and 7 under the ESA 95 regulation.

A conventional approach to quality of financial accounts lists specific criteria under which the quality of a compilation system and its outputs can be considered[2]. The normal approach in an EU context is to consider quality as being subject to matters agreed between Eurostat and a Member State, with the following specific quality criteria being isolated: relevance, accuracy, timeliness, regularity of results, accessibility, clarity, comparability, coherence, and completeness.

In the context of financial accounts, the following definitions can be ascribed to these elements:

- **Timeliness** deals with the publication calendar, reference periods, etc.
- **Accuracy** deals with: control totals used by sector or instrument heading; adjustments, controls and corrections; the structural views of data when balancing the system, comparison with other published aggregates
- **Accessibility** deals with: availability, ease of access to data, different formats and conditions of data distributions (GESMES, GESMES/CB), etc
- **Clarity** deals with ensuring the data and balancing methods are documented, assistance in using the data and understanding the methodology etc.
- **Comparability** deals with: conceptual differences between sets of financial accounts results over time (sectoral or instrument level) or concordance of results in a particular reference period (e.g. the private / public financing requirements)
- **Coherence** deals with: the extent to which statistics originating from other sources (such as Government Debt and Deficit data; Quarterly financial accounts; Balance of payments, non financial national accounts etc) are compatible with the published financial accounts results.
- **Completeness** deals with providing the entire range of statistics required by the Users, e.g. a full compliance with Tables 6 and 7 of ESA 95.

Describing sub-elements of the general term ‘quality’ in this way allows for a precision in considering issues of quality. Having precise elements of quality concept, the future work of the financial accounts compiler can then envisage the development of specific measures relevant to these sub-elements as a means of assessing the overall quality of the financial accounts statistical product and in measuring change over time.

2 Used in, for example, certain internal Eurostat quality models developed to assess and improve data quality with Member States.

7. COMPILATION THEORY

7.1 Introduction

In discussing financial accounts, a consistent theme for Candidate Countries, and those EU member states who are developing or enhancing their financial accounts, is the need to obtain access to all the technical (i.e. to include know-how) resources needed to develop Financial Accounts. The need to understand the detailed technical questions involved in developing financial accounts leads naturally to a review of other countries practices. In general it can be said that how the financial accounts are compiled in both theory and practice are carefully reviewed and of great interest.

This chapter concentrates on the question of Compilation theory as a natural outcome from the review of the specific reports by respondent countries made by the Working Group. Countries describe their approach to financial accounts in a variety of ways. Here we seek to isolate the elements in the work (as, in principle, separate steps).

This approach – to consider Compilation Theory – has the following benefits:

- it creates a logical description tool, which is itself capable of use when designing detailed work processes (e.g. when commissioning IT resources to develop a system);
- it allows us to identify various steps - and where these are described sufficiently precisely - to discuss these stages together with better precision (e.g. it might be possible to consider questions such as whether there is an optimum way of balancing a financial accounts system);
- it correctly states the statistical problem that is involved in resolving a set of financial accounts;
- it brings into existence a descriptive tool under which information can be organised.

7.2 Financial accounts compilation

The task facing Financial Accountants varies depending on the amount or resources available to complete the task; the extent and variety of data sources to be processed in the compilation system and the detailed nature of the published results sought by the institutions concerned. It is necessary then to be conscious that each national compiler operates in a unique data environment.

Here we seek to describe the compilation problems and the key issues highlighted by the compilers to establish a common descriptive framework.

We first develop a short statement of **stages in the compilation process** which are (in theory) common to all compilers of financial accounts. **Whilst the various stages may be common to compilers it is clearly the case that the sequence in which the stages are addressed will differ.**

7.3 Steps in financial accounts compilation

In considering compilation work from a theoretical point of view, our need here is for a simple descriptive organising tool under which we can organise the information available from national compilers.

It should be emphasised that what is sought is a vehicle to present information and there is no intention to describe a model compilation system per se.

Description of the compilation stages

Compilation of Financial Accounts results in practice can be said to involve a series of distinct steps (‘stages’) once basic data is available to the compiler. Looked at generally, the ‘stages’ in the work can be described as follows:

- **Stage 0: to collect data, to codify it under ESA 95 codes/sectors, to organise it.**
- **Stage 1: to make the partial flow or position data complete**
- **Stage 2: to counterpart the flow or position data**
- **Stage 3: to arrive at a statistical result**
- **Stage 4: to publish and report the data and metadata**
- **Stage 5: accuracy and feedback mechanisms**

7.4 National Practices

Using the descriptive structure developed, the information provided by national compilers can be reorganised to fall broadly within the stages as described. The solutions adopted in particular countries are clearly unique and cannot easily be compared without this structure. (See then the associated Stocktaking document).

7.5 The place of Compilation theory

Almost by definition, the problem faced by financial accounts compilers when seeking to produce a complete set of financial accounts are unique one to another. This is the case because of the differences in basic data which are available, and differences in the degree of reliability of these sources.

It is also clearly the case that a complete understanding of how the compilation problem is approached in a particular country requires an overview of the full nature of the problem. (These complete and detailed descriptions where provided will therefore be placed in the companion Stocktaking document to this manual.).

At a European level, it can be said that work related to Financial Accounts has traditionally been in two main fields:

- methodological issues
- compilation questions.

Compilation theory may be said to not be fully or completely caught by either of these broad headings. Here we present a short general discussion related to the financial accounts compilation problem.

In doing so, we use a short description of the 'steps in the compilation process' identifiable from the individual country descriptions as a tool for describing how the compilation problem is approached and solved in any particular country. The nature of the description offered is thus somewhat generalised. The purpose is to identify some main elements in the compilation process and to develop a basis for describing the compilation task as a statistical problem.

8. STRUCTURE OF THE MANUAL

The Manual should be read in connection with the companion document Stocktaking of Financial Accounts.

The present text presents two aspects of the compilation of financial accounts :

- **Recommendations:** where specific problems were identified, a statement of the problem and a recommended approach is included. These recommendations have as their purpose the goal of achieving comparability of data and a harmonised implementation of the ESA 95 (Part 2 of the Manual).

- **Sources and methods, compilation approaches:** these are described in Part 3 presenting a summary of the status quo as of Summer 2001.

A small number of Annexes are also included to present information on contact points, key legislative references.

PART II

RECOMMENDATIONS

RECOMMENDATIONS

ABSTRACT

This chapter records recommendations agreed at the Working Group on compilation methods. In general, the presentation used here states the issue that was discussed; describes the background to the discussion; and provides a recommendation.

DEVELOPMENT OF THE RECOMMENDATIONS

The Working Group was established on the basis of a decision by the Financial Accounts Working Party in March 2000. It met 3 times between September 2000 and May 2001. In establishing its work agenda, the Working Group identified the following priorities:

- comprehensive coverage, to include all Member states and Candidate countries in the work;
- a focus on meta-data about annual national financial accounts;
- identifying and recording a statement of sources and methods for financial accounts;
- consideration of compilation practices;
- a focus on specific issues raised by participants who needed clarification to ensure comparability between countries.

The latter point – focuses on specific issues – are detailed in this chapter.

By definition what is presented are that set of issues prioritised by the Working Group for discussion rather than a fully comprehensive discussion relating to all sectors and all financial instruments. This practical approach was identified as an important element in the approach designed to ensure the early development of this manual.

In general, the goal for participants has been to identify points where countries encounter methodological or compilation difficulties and to establish solutions that can assure comparability of data at an aggregate level. In so far as possible the Working Group has taken a practical approach acknowledging the need to allow for flexibility in the compilation process.

ISSUE N° 1
CONSISTENCY BETWEEN FINANCIAL AND NON FINANCIAL ACCOUNTS

1. Statement of the issue

ESA95 defines only one balancing item B9, assuming that figures would be similar as shown both in the "acquisition of non-financial assets" of "capital account" and in the financial account. What are the causes of discrepancies between the financial and non-financial accounts and how should these be addressed in practice?

2. Background

The question of statistical discrepancies between the financial and non-financial accounts is not new. For "transparency purposes" Eurostat in designing the data transmission agreements with EU Member states has added two lines in table 6 (provided on a voluntary basis) two lines on the liability side "net financial transactions" and "statistical discrepancy". The inclusion of these lines in the financial accounts transmission standard allows the size and extent of the discrepancy between the accounts to be identified, although it is clear that it does not explain them.

An important starting point in a discussion of such discrepancies is to acknowledge that the discrepancy can be attributed to either of the accounts. From the data received under first official ESA95 transmission program in September 2000, it appeared that discrepancies are less important than under ESA79; most especially they appear rather small for General Government.

This much can be presented by way of a brief introduction to the issue. It is necessary to describe the sources in so far as it is possible for these discrepancies.

3. Reasons for the discrepancies

A variety of key reasons were assessed to understand the possible origin of discrepancies:

Classification of units should in principle not cause discrepancies. This is because institutional units are to be classified to a sector (or sub-sector) in a similar manner by non-financial and financial compilers. However, statistical sources may include some misclassifications and the effect could be significant where counterpart (or "mirror") information is used in compilation.

Use of different sources in compiling the financial and non-financial accounts is of course another important cause of discrepancies. "Basic data" are frequently not consistent concerning coverage and timing. Occasionally it is necessary to rely on estimates to identify non-financial and financial transactions and where these are made separately but different compilers in perhaps different institutions, there will exist no natural guarantee that full consistency can be achieved. For instance, a similar transaction may be valued differently in both accounts where it has not been directly observed but is the result of some calculation. Difference in timeliness for availability of data must also be quoted.

Other causes might be manner in which **accrual recording** for some transactions is achieved, especially where the counterpart entry is not estimated simultaneously or from the similar source.

Finally, some difficulties for **identifying creditors of some financial assets** (notably securities) are also a possibility as these may lead to misstatements of net lending/net borrowing by sector.

The question of **revision of accounts** should also be examined. There can exist differences in the revision policy followed by the non-financial and financial accountant.

Another practical fact is the manner in which the reconciliation procedure between non-financial and financial accounts can be achieved. Where these accounts are developed in **different national institutions** it is clearly the case that identifying and resolving discrepancies are more difficult.

It is recognised that all reasons for discrepancies are not described yet. Some reasons may be become clearer in the near future.

4. Additional input by national experts

The WG agreed on the above-mentioned list of discrepancy sources.

In particular, it was stressed that, in detail, some differences in classification of units, although to be avoided may appear but more important seems the fact that by nature their coverage in different sources may diverge. For instance, for non-financial corporations, non-financial transactions could be based on local units whereas financial accounts would use data based on legal units to which they belong.

Another problem is the move of units from one sector to another that can be taken in effect in different ways or at different periods. The example of financial auxiliaries, not easy to identify in practice, was given.

It was confirmed that there might also be some misclassifications of units in some sources. It is notably the case in statements from banking sector, for instance for government units that might be difficult to classify. Banks are not always quite aware of what is a market producer or of quasi-corporations

An idea expressed by some participants was that individual misclassifications are not very significant (they are not easy to identify, nor can they justify more specific resources) but the addition may be non-negligible. There was a large consensus for stating that the main cause stems from using multiple sources that are not consistent at the level of each individual transaction. However, it is not easy to determine the exact part that is due to basic information and the part that is linked with treatment estimation procedure.

In addition, the causes may vary between sectors, in different hierarchy. On this point, participants were very reluctant to generalise, all the more since the causes may change each year. It is the reason why using a pre-determined model for adjusting data, in priority on some sectors or instruments, could be not appropriate.

A distinction must be introduced between "spontaneous" or "ex ante" discrepancies and "final" or "ex post" discrepancies. The former results from the first stage of compilation and is used in the process of combining different sources. They are often considered as useful indication and seem to be easily corrected for a part. The latter represent the irreducible gap between the accounts for which compilers are not in a position to make reliable assumptions about their origin. Obviously, only discrepancies under this second meaning are to be considered.

Concerning the sectors, frequently discrepancy is very small for Financial Corporations and for General Government as in most cases homogeneous sources are used for units classified within these sectors.

Main discrepancies are shown for non-financial corporations and households. Very often, they have an opposite sign and absolute amounts not very far. However, participants saw any combined adjustment (a kind of netting) as rather arbitrary with some consequences on other items and effects on some important national accounts aggregates.

It was finally considered by a majority of members that normally discrepancies would be usually in the same sense and not appeared in a stochastic way. The latter feature could be the sign of a great instability in the compilation system.
As a result, discrepancies seems unavoidable They must not be considered as an automatic sign of bad quality of financial accounts. Non financial accounts are not necessary the benchmark. Particular examples can be given in each country. In some cases there is little doubt that FA may be better, for instance in the calculation of interest from stocks, notably as interest are recorded on an accrual basis. For some compilers, the most important is to get global consistency assets/liabilities for each category of financial instruments.

From a general point of view, there could be two opposite "extreme" attitudes concerning the discrepancy between non-financial and financial accounts. The first one would be ignoring completely the question, arguing that both sets of data are compiled on incomparable basis and are published independently from each other. The second one would be a full reconciliation between financial and non-financial accounts. The latter solution is shown in only one country.

In most countries, there was clearly in recent years a move to an approach, under the form of a full reconciliation in which data are systematically compared during the compilation process. It can be seen as the result of frequently rather strong improvement in data sources and methods used for financial accounts, at the occasion of implementing new ESA95. Under these conditions, financial accounts compilers can be more confident in the quality of their data and therefore limit the size of adjustments in financial accounts in order to bring them closer to non-financial accounts.

The dialogue is organised in various ways and shows a large range of coverage and efficiency. It must be pointed that it is not easy where sources are completely different by nature and, so, not directly comparable. But the objective of such contacts could also trying to get a nearly integrated system of sources of data for some sectors or sub-sectors.

5. Recommendations

1. In classifying institutional units, there is an absolute need for a close and permanent co-operation between Non-financial accounts and Financial accounts compilers, in order to avoid any discrepancy resulting from difference in coverage. The co-operation should also apply to co-operation with those institutions producing primary statistics.

2. This dialogue should be organised on an institutional basis and also cover the question of discrepancies, establishing clear procedures for resolving these. The discussions should take place during the compilation process, before any publication by one party. They should be based on a sector approach as the diversity in basic data for the institutional sectors implies that methods applied to reduce discrepancies would necessarily vary.

3. Given such close co-operation, some sources of discrepancy can be minimised, such as timeliness of sources and revision policy.

4. Any change in size of a discrepancy normally observed in data should always be specifically investigated.

5. It is not realistic to fix a target for the size of discrepancy that could be considered as "acceptable". A reference to "best performing countries" on this point could however be used as "benchmarking", while bearing in mind that the “best performing countries” do not necessarily have to be countries that reduces the discrepancy through allocating it ti one or more financial instruments

6. For transparency reasons, except in case of specific legal constraints, the discrepancies between non-financial accounts and financial accounts measures of B9 should be published according to the model designed for the "official transmission" (currently on a voluntary basis) of annual data to Eurostat. In case of a full reconciliation is exercised pre-balancing measures of B9 should also be made available to Eurostat.

ISSUE N° 2
VALUATION OF FINANCIAL INSTRUMENTS[3]

1. GENERAL ISSUE

1.1 Statement of the issue

There exists a range of problems in deciding how to value financial instruments. This note summarises a present state of play regarding some of these problems. Before looking to specific questions, the central references within ESA 95 are cited to provide a necessary background and to identify some points, which are not precisely clear.

1.2 ESA 95 – reasoning related to valuation of financial instruments

In theory, there are four possible methods for valuing financial assets and liabilities:

- nominal/face value, representing in some cases the value of right/commitment on principal resulting from a financial instrument but with a poor meaning in other cases; in addition, it may not reflect the "instantaneous" value of one asset,

- historical/book value, equal (normally) to the value of the underlying transaction but raising heterogeneity and asymmetry problems,

- fair value, defined as the current economic value of an asset (the cash the holder would expect to get in all likelihood when removing the asset from his balance sheet), but it may be the result of various estimation methods and it raises also asymmetry problems,

- market value, as the current price observed on a market; it is a general reference[4], only applicable for “marketable” assets.

ESA95 states as a general rule for all assets (7.25) that all assets and liabilities are to be valued using current market prices on the date to which the balance sheet relates.

This rule applies to financial assets (7.44): "Financial assets and liabilities should in principle be valued at current prices. They should be assigned the same value whether they appear as financial assets and liabilities."

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[3] Issues on valuation of financial derivatives are not considered in this note.

[4] It is clear that the market value does not mean that all holders of one asset would expect to get proceeds from a sale at this price because they will have on effect on price adjustment (theoretically the price will tend to zero). The market or current price means only that, at a certain point of time, some transacts have agreed on a value that is so economically significant. From that, we can infer that any holder acting under the same conditions would have accepted a similar valuation.

But it is not applicable for assets that are not tradable on secondary markets

Given this, the following are excluded:

- Deposits: "the values to be recorded in the balance sheets are the amounts of principal that the debtors are contractually obliged to repay the creditors under the terms of the deposits when the deposits would be liquidated on the date the balance sheet is set up."(7.46)

- Loans: "The values to be recorded in the balance sheets of both creditors and debtors are the amounts of principal that the debtors are contractually obliged to repay the creditors, even in cases where the loan was traded at a discount or premium." (7.51). These values should be recorded gross of provisions for bad debt, which "are treated as book-keeping entries that are internal to the institutional producer unit and do not appear anywhere in the system" (4.165 f)).

- Other accounts receivable/payable: "They are to be valued for both creditors and debtors at the amount the debtors are contractually obliged to pay the creditors when the obligation is extinguished." (7.61)

An important concept, "marketability" undoubtedly needs further consideration. There is no clear definition of "marketability" in ESA95.

From a general point of view, in ESA, a contingent asset is considered as a financial asset when it has "a market value because it is tradable or can be offset on the market" (5.05, 5.66). Thus, the mark-to-market principle depends on negotiability.
Only instruments within categories AF3 and AF5[5] are to be valued at market price.[6]

However, ESA95 seems to favour a "practical approach" when considering negotiability; see 5.59 "while theoretically possible, is very restricted in practice'; 5.64b cites also "non-negotiable securities" while 5.77 says that "the distinction between transactions in loans and transactions in securities other than shares can be based on the degree of marketability of the financial assets and its implications".

1.3 Summary

At this stage, some key points can be raised:

- **as soon as two units agree on a price**, different from the "face" value of the instrument, is it possible to consider **this as a market value**, even where the asset is normally not traded? In other words the market is not assumed to be pre-existing, and must be created by the transaction itself;

- **negotiable would not necessarily mean "effectively traded"**;

[5] Other equity is considered however as an exception (see 7.56) that could be discussed in some cases.
[6] With the specific case of AF.1, for Monetary Gold.

- a **sufficient condition** for considering an asset as **marketable** could be that the **absence of absolute restriction** (legally or technically as for deposits) to transactions between holders independently from the debtor;

- under which conditions can we consider that **an asset is traded enough** so that a market valuation could be identified? At which extent might a current price considered as economically significant?

The notion of "current price" must also be examined as one of the key elements needed to establish a market price. In general, market prices in the system can be expected to be arms-length, economically significant prices agreed between economic actors.

1.4 Observable prices

ESA95 states that, as much as possible, **prices must be observed** on the market but, frequently, a tradable asset may be not traded or not often. On the securities official lists, there may be a huge concentration on a few items whereas on OTC market, "market makers" may not show permanently bid and offered prices.

Where there would be no price observed on the date to which a balance sheet relates, it should be acceptable to use a price observed another day provided that it was in the recent past. ESA95 states that “an attempt has to be made to estimate what the prices would be if the assets were acquired on the market on the date to which the balance sheet relates.”(7.26)

On this point, ESA proposes first estimations from observed prices (e.g. by analogy with a similar financial asset or by applying change in a given index) and adds that, as a proxy, present or discounted value of future returns may be used. It seems clear that flexibility should be left to countries on this point.

Another point is the question of valuation method that can be based on a global approach or be implemented individually.

Ideally, marketable instruments should be valued on an individual basis, from a "security-by-security" database

Where it is not possible, indexes are used, raising several questions as the choice of a fully representative index, the possible distortions on indexes at some dates (notably end of year), assumptions about portfolio structure for some sectors, etc.

Finally, the question of asymmetries due to valuation must also be raised.

Valuation should be consistent on sides, assets and liabilities.

Information on assets holdings may come from accounting sources where similar assets are valued at different prices.

How are data adjusted? Is the liability side always taken as a reference?
What is the effect on quality of consolidated data?

1.5 Additional input by national experts

The participants confirmed first that they have no problem for recording instruments at nominal value where ESA95 provides such requirement.

The difficulties stem effectively from market valuation. However, the situation on this point is generally considered as rather satisfactory.

Compliance with ESA rules is ensured in most cases, whereas the methods are considered as providing enough accuracy. It is valid for the liability side and, more specifically, for instruments issued by residents of the country. Normally, BOP provides accurate information about securities issuance abroad by residents.

In some countries, the current market value is used for short-term securities only for the most liquid securities. Generally, it is applied to Treasury bills that are frequently traded and are the support of specific transactions as Repos. On the contrary, the issue value is used for the less liquid short-term securities, like certificates of deposits and commercial paper. Effectively, it is often observed that these securities are not traded all along their (short) life and, in some countries, there is in fact no real secondary market. In other countries, the nominal value is systematically recorded for these instruments. Some participants gave example of CDs. For a majority of participants, the effect is negligible on data (accrued interest not paid at the end of the period is overestimated, but only the difference between periods is relevant).

Frequently, Member States use security-by-security database allowing a valuation at market value of good quality for all securities where prices are observed and easily available. However, the situation in Member States seems to be rather heterogeneous on this point. In some cases, the valuation is based on indexes, notably for long term securities. Apparently, this method gives results considered as rather reliable, not at the source of big distortions or large wrong records.

Thus, valuation of instruments on the liability side may be considered as satisfactory. But another point is to split the corresponding total amounts between the different holding sectors and sub-sectors.

Clearly, the information needed for it is not totally available as compilers find in their data sources, generally directly in balance sheets, very often a mix of different valuation methods. It is notably the case for banks because of supervisory rules that ask for differentiating different parts of their portfolio according to the purpose of holdings (trading, investment, etc.). It is generally identifiable. For these units, which is not the case for non-financial corporations where it may happen that compilers are not aware of the exact valuation method used especially where accounting rules are very flexible.

As a consequence, this split between holders is largely realised as a proxy, based necessarily on some hypothesis. An average holding period in portfolio may give information on the average change in valuation to be applied to the amount recorded in portfolios. It may also be assumed that globally the value recorded in portfolios is very close top the nominal (face) value of the securities. Or, the split may be based on a simple rule taking into account the respective share of each sector (and sub-sector) in the total compiled on the asset side. Under this practice, there is a kind of neutral hypothesis considering that the transition from "book value" to market value is very similar for all sectors and sub-sectors. Although some compilers recognise that it may be questionable, they consider that finally results would not show very big errors.

However, it is certain that such proxy would affect the split between non-financial corporations and households. Recording portfolios of the former can be only partial while, in other cases, both are considered globally as "residual". Other information must be used, as already mentioned, notably under the form of surveys where such information is not directly available in some sources as custody bodies.

Concerning recording the reinvestment of accrued interest, different practice may be seen among Member States. Some do not record it under the relevant instruments, using F79. It is notably the case for deposits and loans, while accrued interest on securities is generally recorded under F3.

1.6 Recommendation

Using a security-by-security database must be encouraged, at least for main issuers on the market. It is the case for General Government sector (notably Central Government) but recent trends in the market (as development of Corporate bonds issues) show that such a database should not be confined to this sector. As Stock Exchange is taking more importance in most countries (increasing share in saving invested in bonds, development of pension funds), using a security-by-security database for quoted shares could be also recommended.

If such a security by security database does not exist, then valuation should be based on indexes, notably for long term securities.

2. SPECIFIC CASE OF UNQUOTED SHARES

2.1 The issue

This issue seems very "crucial" for the following reasons:

- in all countries, only a minority of corporations (sometimes very small) is listed on an official stock exchange market,
- unlisted corporations are very heterogeneous in size, status, activity, economic role, etc.
- comparability of data between countries seems to be seriously weakened by use of valuation methods that are rather largely diverging.

A significant work has been carried in EMI then in ECB in 1998-1999 by a sub-group of the Working Group on MUFAs. Three countries (Spain, Italy, and France) participated to a test exercise based on data for two sectors. As a result, there was a clear picture about pros and cons of different valuation methods, while using different methods of valuation showed big gaps in results. After this work, it has been decided to "freeze" any further consideration on the subject until the full implementation of financial accounts under the new ESA95 standards.

Considering data published under the ESA95 format, it is clear that the valuation of unquoted shares (or, in the same cases, the absence of data for them) is the source of heterogeneity between Member States that may weaken the economic meaning and the usefulness of financial accounts. There is a risk that the latter could not be a reliable answer to the huge demand for comparable data within EU. This issue needs again further consideration.

As a reminder, on this issue, ESA95 provisions are based on four guidelines (7.54):

- reference to the values of quoted shares

- taking into account differences between quoted/unquoted shares, notably their liquidity

- considering the reserves accumulated over the life of the corporation

- recommending a sector-based approach (branch of activity)

Although, ESA95 does not impose one specific method, any method should respect, as much as possible, these principles. However, there is ESA95 7.55 a suggested method that would be rather "optimal" on this point. It is a "capitalisation method", described as follows:

1) for each sector (or branch)[7]

2) first, calculate for quoted shares an average ratio between the market capitalisation and the own funds recorded at book value

3) consider as own funds are mainly capital, reserves and some provisions

4) then apply the same ratio to own funds of unquoted shares in order to obtain a mark-to-market.

This method is already implemented by several Member States (even partly, for some sectors). One important point is that it is derived from observed prices, which is clearly a core principle of valuation in ESA95.

This method is favoured by Eurostat that is however aware of a number of difficulties as:

[7] In fact, market information are based on sector (main activity) and not branches (aggregation of "kind-of-activity units", KAUs)

- the need of accurate information on balance sheets of a great number of non-financial corporations

- the limited depth of stick exchange markets in some countries

- the high degree of concentration of market capitalisation in some sector of listed corporations

- the main difference (in size, economic behaviour, management, financing, etc.) shown between the masses of unquoted corporations and the listed firms "at the top"

- some possible difference in the domestic definition of own funds

- the arbitrary measure of "liquidity gap" between quoted and unquoted shares

- the level of detail for sector classification that could be used

- some technical issues in use of statistical tools (as for a simple or weighted average

However, there are different ways of solving some of the difficulties. For instance:

- some information on balance sheets (at least for firms representing a significant share in value added or other variables) is generally available in most countries somewhere;

- it could be possible to use information at an European level, because of progress in market integration; it exist pan-European large indexes (for instance the DJ stock with more than 600 listed firms grouped in sectors);

- in case of specific events on the listed market, the ratio could be corrected in order to take them into account;

- the method should be applied only to "comparable" unlisted corporations, provided that the degree of "comparability" is clearly specified; in other cases, the valuation would be on the basis of "own funds at book value");

- difference in definition of own funds between countries is not assumed to have significant impact;

- where a detailed sector-classification would not be relevant, firms could be grouped into only 4 or 5 “aggregated sectors”.

Obviously, all these points need further consideration. There would be a need for minimum agreement in order to improve harmonisation of data.

2.2 Additional input by national experts

A number of participants stressed on the limited depth of their domestic stock exchange market, even after several of rather huge development. They insisted on the fact that some trends on the market were often very specific and could not be applied to a wider population of firms. It is very difficult to be sure that the market at a point of time is estimating a share at its "exact price", as under-estimation and over-estimation seem on the contrary a quasi-permanent state of the market. There is no reason to think that the same market trend, sometimes very volatile, could apply to firms that the market ignores completely. Thus, the "capitalisation" method seems to be applicable only to some sectors, like for the banking sector.

Actually, the main point during the discussion was the question of the comparability between listed and unlisted corporations. The transposition of market evolution appears for some Members very questionable. On one side, the price market results from transactions, sometimes with a huge daily volume. On the other side, transactions on unlisted shares occur very incidentally and applying similar valuation principle in this case could be seen as very artificial, not reflecting the economic reality of the firm.

There is a big difference between the nature of the two situations. In one case, there is a market where all transactors could reasonably expect to realise a transaction, on the basis of an observed price that in normal conditions would be a relevant indication. In the other case, transactions are infrequent and are generally characterised by a great incertitude on the effective price, as the number of transactors would be necessarily limited. In some occasions, it may take time for a seller to find potential buyers.

Moreover, some participants insisted on the fact that, on the listed market, the valuation of each firm depends on general features (as macro-economic perspectives, government policy orientation, etc.) and on certain trends specific to some sectors (for instance, currently for telecom corporations) but there is also a part that is irreducible to the individual "story" of each corporation. It means that the latter would be "grossed up" to unquoted firms that may have a complete different "story". In addition, trends on the market result from a complex interplay of anticipations that also might not be generalised.

This discussion showed clearly that the capitalisation method could be applied only to certain unlisted firms and absolutely no to thousands and thousands of small firms in some countries. Note that some Member States already implement this method on this basis. Criterion of selection should be nevertheless more specified and harmonised as much as possible. It showed also that it is important to get data by quoted sector with a minimum number of firms in order to imitate the effect of the "individual features" as in this case the latter are rather likely to be offset from a technical statistical point of view.

However, it must also be clear that SNA 1993 and SEC 1995 have made the fundamental choice to value all securities, potentially negotiable, on the basis of a market value. It is a simple reference that does not mean that transactors could expect to get all together and instantaneously a price close to the latter observed price. It is theoretically impossible. But, in normal conditions, the observed price reflect the current judgement of the market based on some information and resulting from a confrontation of anticipations that are diversified and not unique.

As a reminder, it is only in exceptional cases (see ESA95 §.136) that financial accounts compilers are "allowed" to change the value of a transaction between operators. In a market economy (and it is the case for all countries applying SEC95), there is no best value that a price resulting from market transactors.

Under these conditions, there are rationale grounds to consider that the market reference is applicable to all firms that appear to be in fact very close in terms of economic activity and, notably, in the national accounts analysis. Listing on a market is seen as a "secondary" factor. Extending the value of quoted shares to some unlisted corporations is recognising this "common denominator" as predominant.

Finally, some participants ask for a large flexibility, including the choice of the most adapted method, taking into account any particular feature at a domestic level or/and at a sector level. They argue that imposing a "one way approach" could lead to results of low meaningfulness. But again that raises the question related to a degree of "non-comparability" of data between Member States (and the relevance of aggregation) that may be acceptable.

Recommendations

1. A single method of valuation cannot be currently foreseen due to strong difference in "depth" of quoted markets. In some cases, the method rather favoured in ESA95 ("capitalisation method") could give unrealistic results. Countries are however encouraged studying feasibility of its implementation on the basis of the above-mentioned list of points giving more flexibility. Any other method should respect the "General valuation principles" (ESA 7.25 – 7.32) and try to respect the "essence" of financial assets market prices, that is reflecting the state of anticipations of operators.

2. Anyway, market valuation should not apply to firms that could not be considered as comparable to listed companies. It is notably the case of small corporations where recording own funds at nominal value is by far more appropriate. It may also be the case for units (with equity under the form of shares) owned by government sub-sectors for which no price for quoted shares could be relevant. Eurostat, with the contribution of its partners, should propose clear guidelines on this point.

3. Global results of methods used by countries should be regularly compared in order to assess the exact effect on comparability of data.

ISSUE N° 3
CONSISTENCY BETWEEN FLOWS AND STOCKS

1. The issue

The ESA95 framework presents a full set of accounts so that for any financial instrument and sector, changes between opening and closing balance sheets are divided into financial transactions and "other flows". The "other flows" cover changes in volume not resulting from a transaction between units and changes resulting only from a change in price of financial assets and liabilities (including change in exchange rate).

Currently, under the transmission program, Eurostat is asking for complete financial accounts and balance sheets (tables 6.01, 6.02, 7.01, 7.02) and, on a voluntary basis, for only some items of the "revaluation account" (tables 6.03, 6.04).

It is worth examining the different methods of estimation of financial transactions: like "direct information" or "derivation from stocks". In particular, there is a need to identify the "weakest links" in the estimation process.

2. Additional input by national experts

2.1 Identification of transactions

As a general rule, the method used for estimating financial transactions is the "changes in stocks adjusted by information on other flows".

However, compilers should always favour direct data on transactions when they are available. It is notably the case for net issuance of securities where market information exists and is reliable, at least for securities traded on an organised market. Purchases and sales of Mutual Funds Shares are frequently available. Balance of Payments transactions are also an example of "direct information".

It was stressed that in some cases, only transactions are known, as for the example of government taxes on an accrual basis where "other accounts" (F7) are not available for financial accounts. It is nevertheless difficult to imagine that such information would not exist, whatever the form, in government units accounting system. In this case, it seems to be more a question of "mobilisation" and aggregation of information.

But, the question of government stocks is in any case a source of difficulties as government units generally use a specific accounting system that does not allow to compile a complete balance sheet giving an exhaustive view of financial assets and liabilities for these units.

Using Balance of payments information may also raise problems for stocks and also for transactions in some cases. That is why financial account compilers often favour counterpart information from the banking sector.

In some countries, the International Investment Position, estimated under the framework of BOP, is of very little help for financial accounts. It may be calculated only as the simple accumulation of flows. It may only cover foreign direct investment and induce, in addition, valuation problems. But, generally, it is more a question of timeliness since frequently BOP stocks are made available after a long delay. In this case, financial accounts must make a provisional estimation, followed by more or less significant revisions.

In some cases, transactions may be available in a security database. Data on purchases and sales are fully available, which enables to calculate the adjustment for valuation effect for marketable instruments. Of course, such estimates may only cover domestic holdings by residents. Where there is a development of portfolios held directly abroad, coverage would in this way be partial.

There is a specific problem for non-financial corporations and households that are, for some instruments, considered as a "joint residual". It is even the case in some surveys because intermediaries cannot (or simply do not want to) make a split. Under these conditions, transactions may be the result of keys of repartition. It is not seen as a big concern where the latter are determined on the basis of reliable studies or surveys.

2.2. Other changes in volume of assets (OCV)

Identifying items included in "other change in volume" raises specific difficulties.

First, coverage is incomplete due to a lack of information. Information is very often available only for credit institutions and for some specific operations undertaken by government units. However, the effect on quality does not seem to be very significant. For instance, direct loans between other domestic sectors account for a minor part of total loans and one may assume that write-offs are rather limited. Other cases of OCV should be on very small amounts concerning financial assets and liabilities. In several countries, there is no information on OCV from Balance of payments statistics. Again, the most important case (write-offs) should not concern big amounts since low-quality borrowers have a restricted access to credit from non-resident banks or to international financial markets. It could nevertheless be possible to make surveys only for big firms with a view to catching a main part of the information.

Second, it seems that the question of loan write-downs and write-offs is not interpreted in a similar way. In some countries, it is equal to provisions because loans are recorded on a net basis in data sources. In other, OCV is understood as comprising all final losses on loans even in cases a capital transfer should be recorded.

There is a need for clarification on this point.

2.3 Revaluation

Concerning the revaluation effect, an ideal situation is of course an approach based on individual instruments. Where it is not practicable, for some instruments or some sectors, indexes can be used. Yet, they may be the source of miscalculation where these indexes would not reflect exactly the structure of portfolio for some sectors. Distortions could be not negligible.

3. Recommendations

1. The publication of data recorded as other flows, in priority under the form of revaluation effect, is strongly recommended. As other flows are largely used for estimating financial transactions, mostly derived from changes in stocks, no argument about their quality should be opposed.

2. Consistency checks should be undertaken in the form of comparison with other statistics whenever possible. The "economic plausibility" of financial transactions / stocks and other flows, globally and especially by sector, should be closely examined. International comparison should be carried out in order to insure that any strong deviation from general trends in markets is fully explained by clearly identified economic and financial factors at the domestic level.

3. In case of high intra-annual volatility in the price of financial assets, the calculation of revaluation effects for the whole year should be based, as much as possible, on a shorter frequency of estimations in order to increase accuracy of data.

ISSUE N° 4
CONSOLIDATION

1. The issue

ESA95 states in 1.58 that "as a matter of principle", flows and stocks between units classified within the same sector or sub-sectors are not consolidated, meaning that transactions occurring between them and reciprocal assets and liabilities are not eliminated. However, for macro-financial analysis it is clearly relevant to focus on consolidated figures. Thus, in the official transmission programme of financial accounts (flows and stocks), Eurostat asks for both consolidated and non-consolidated data without any order of preference.

Specific rules, agreed by FAWP, 19-20th October 2000, were provided on purpose. (See annex)

A full consolidation is highly demanding concerning the needed information. Compilers must be in a position to get for each instrument information on the counterpart sector or sub-sector according to the ESA95 sector classification. Thus, coverage may be partial.

Comparison between countries shows that the effect of the consolidation on data is quite various. This may reflect the variable degree of integration within sectors but it may also stem from difference in data available both for non-consolidated and consolidated data. In some cases, basic information on a sub-sector (or a group of units) is already on a consolidated basis, whereas it is not the case for the corresponding sub-sector in other countries. It may be a problem for international comparisons.

2. Additional input by national experts

Some countries are not yet in a position to cover all instruments and sectors on a consolidated basis. The picture is however rather various, due to a large diversity in sources of information.

Main difficulties concern non-financial corporations for reciprocal holdings of shares and loans. They can be rather significant, with an impact on the quality of consolidated basis where it is not possible to eliminate them.

Identification of sub-sector counterpart within financial institutions and general government sectors is not possible, or only partial, in some cases.

Lack of information for reciprocal positions within households sectors is rather general. However, all participants agreed that the amounts of direct loans between these units are generally rather limited and, therefore, have a small impact on non-consolidated data.

Problems were also pointed out for other accounts receivable/payable for which the counterpart information is frequently rather limited.

3. Recommendations

1. As much as possible, for comparability reasons, non-consolidated data should be based on a complete picture of all financial transactions and financial assets and liabilities in the balance sheets of units classified under the same sub-sector/sector, independently of the nature of the counterpart. Therefore, basic information should be preferably only the aggregation of data for individual units.

2. The accuracy of the consolidation process should be assessed in order to achieve a more complete, both for instruments and for institutional units. Priority should be given to sub-sectors within financial institutions and general government. Special attention should also be given to relations between non-financial corporations.

3. In principle, financial accounts should rely at the maximum extent on direct information (including counterpart information as it is generally the case for bank deposits and loans). However, in order to improve coverage of consolidated data (and to avoid including non-consolidated data in presumed consolidated data), the process of consolidation could be based on some assumptions (use of partial information, experts' opinion, etc.), where no significant improvement in usual sources of information may be reasonably expected in short delay.

4. Annex - Rules to be Applied for Consolidation of Financial Accounts Data

1. Consolidation rules apply at the level of the sector and the sub-sector:

   Sector level: all transactions and stock positions between institutional units within the boundary of the sector are eliminated.

   Sub-sector level: all transactions and stock positions between institutional units within the boundary of the sub-sector are eliminated. This means that transactions or positions of institutional units in the sub-sector with institutional units outside of the sub-sector concerned are retained.

2. It will clearly follow that the sum of financial assets/liabilities and financial transactions over the consolidated sub-sectors accounts does not necessarily equal the financial assets/liabilities and financial transactions for the consolidated sector accounts. The sum will be equal only in case of no transactions and positions between sub-sectors and for total economy under column 1 of ESA95 reporting tables, but will be higher in other cases.

3. It can be noted that the balancing items (net lending/net borrowing) still add across for the sub-sectors and equal the sector total. Moreover, they are identical with the balancing items in the non-consolidated accounts.

4. Terminology and simplified example:

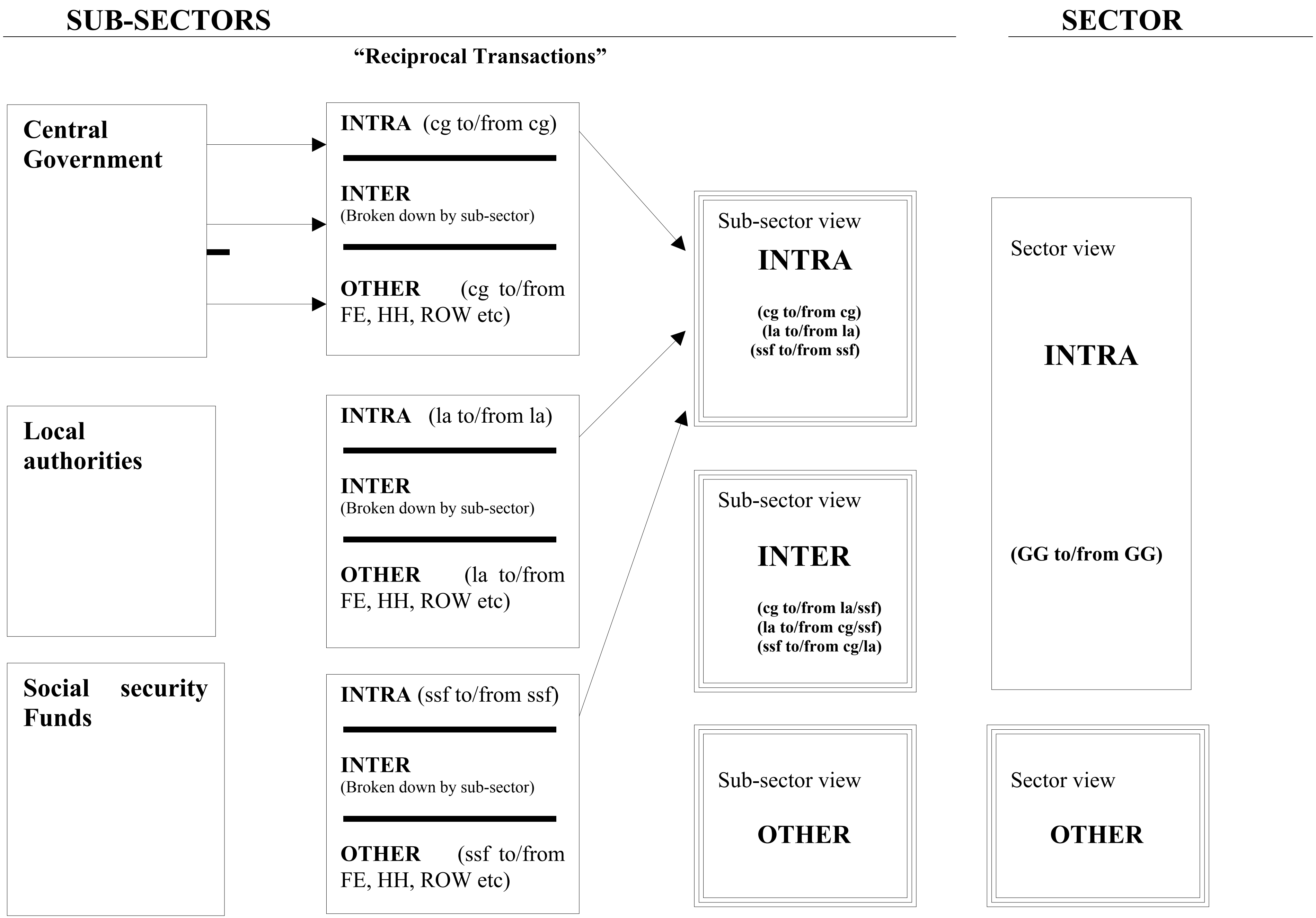
The following graphic introduces a series of terms and explains what is meant by ‘intra’ and ‘inter’:

- *‘Intra’* indicates that it is the relationships within a named sector or sub-sector that are being referred to.

- *‘Inter’* refers to flows or positions between sectors or between sub-sectors that are referred to.

In both cases the context or position within the range of sectors or sub-sectors must be known to correctly specify the set of relationships subject to the discussions. (This context is shown most efficiently in the attached figurine.)

The figurine, and later example, takes the General Government sector as a single main example. It is emphasised that this is for illustrative purposes and that the principles outlined apply to all ESA 95 sectors or sub-sectors.


SUB-SECTORS
SECTOR
"Reciprocal Transactions"
Central Government
INTRA (cg to/from cg)
INTER
(Broken down by sub-sector)
OTHER (cg to/from FE, HH, ROW etc)
Local authorities
INTRA (la to/from la)
INTER
(Broken down by sub-sector)
OTHER (la to/from FE, HH, ROW etc)
Social security Funds
INTRA (ssf to/from ssf)
INTER
(Broken down by sub-sector)
OTHER (ssf to/from FE, HH, ROW etc)
Sub-sector view
INTRA
(cg to/from cg)
(la to/from la)
(ssf to/from ssf)
Sub-sector view
INTER
(cg to/from la/ssf)
(la to/from cg/ssf)
(ssf to/from cg/la)
Sub-sector view
OTHER
Sector view
INTRA
(GG to/from GG)
Sector view
OTHER

Example: Cash deposit – assets	CG	LA	SSF	GG	Notes
Deposits held (non-consolidated)	**100**	**70**	**30**	**200**	
Analysis by Sub-sectors and by counterpart location					
Central Government – intra transactions	40				Transactions with other institutional units in CG
– inter transactions (broken down by sub-sector)	5				Transactions with units in LA, SSFs
– other	55				Transactions with units outside of GG
Local Authorities[8] – intra transactions		10			Transactions with other institutional units in LA
– inter transactions (broken down by sub-sector)		25			Transactions with units in CG, SSFs
– other		35			Transactions with units outside of GG
Social Security Funds – intra transactions			0		Transactions with other institutional units in SSF
– inter transactions			5		Transactions with units in CG, LAs
– other			25		Transactions with units outside of GG
ESA 95 – Consolidated Results for the sub-sectors	**CG**	**LA**	**SSF**		
'intra' transactions (from perspective of sub-sector)	**40**	**10**	**0**		For the sub-sectors, we remove the transactions or positions with units within their own sub-sectoral boundary i.e. intra transactions
= ESA 95 Sub-sectors	**60**	**60**	**30**		
ESA 95 – Consolidated Results for the Sector (GG)					Remove the 'inter' sub-sectoral transactions – these are 'intra' for GG)
– inter	5	25	5	**115**	

8 For simplicity, we assume no State sub-sector in the example.

ISSUE N° 5
USE OF BALANCE OF PAYMENTS DATA IN FINANCIAL ACCOUNTS

1. The issue

ESA95 states in 1.07 that "like the SNA, the concepts in the ESA are also harmonised with those in the major international guidelines on some other economic statistics, in particular the IMF Balance of payments Manual (BPM)…"

However, this harmonisation requirement does not necessarily imply that the measurement of concepts should be fully similar both in ESA95 accounts and in BOP accounts. In addition, it seems that this harmonisation has been reached only at a rather global level, as classification of both units and instruments is more detailed in ESA95. (Some changes foreseen for the euro area BOP in the next few years may contribute to achieve further convergence.)

A first issue is to look at the difference in using BOP statistics for the compilation of financial accounts, whatever the institutional relationships between FA and BOP compilers that can be very close in some cases (same department in the Central Bank). Are BOP data used totally, partially or not at all? As well known, the sector and instruments classifications in BOP are not fully on line with financial accounts. How is this gap filled up? Although valuation principles are broadly consistent in both statistics (generally speaking, marked-to-market prices should be the reference), some valuation methods applied in practice may not be fully consistent. When other sources are used for external transactions and positions, is there a tentative reconciliation with BOP?

Another point is to stress on some deviations between both sets of accounts, concerning instrument, recording of transactions (as direct sources in BOP and as "derivation" in FA), accrued interest i.e. debtor/creditor approach).

A final issue is the problem of BOP adjustment that may be rather large and can be treated under different ways in financial accounts

2. Additional input by national experts

Sector classification is more detailed in ESA95 than in BOP Manual but it does not seem to be a problem in most countries for two reasons. First, frequently, BOP compilers ask for a complete sector breakdown or will ask in the next future. Second, where this classification is not sufficient, counterpart information from Money Banking Statistics is frequently directly used. However, in this case, additional information must be found for some units (mainly non-financial corporations) for the direct transactions with non-residents they can carry out. It is also the case for securities. Some difficulties were mentioned for the classification of some units that may diverge in BOP from national accounts. However, these cases seem to be rather infrequent.

Concerning the instrument classification, the concept of Foreign direct investment, "central" in BOP and only as memorandum item in FA, is not a source of difficulties as BOP generally provides additional details i.e. equity capital, reinvested earnings and other capital (mostly intercompany loans).

On the contrary, problems appear for "other accounts", and notably "trade credit and advances" for which the compilation is often "weak" (or only based on estimates) in the BOP. On this point, countries show a rather large diversity.

Insurance technical reserves are also an information that cannot be provided directly from the BOP compilation. It must be added from other sources.

Concerning the valuation of stock data, there might be some divergences in the way conceptual rules are applied in practice, notably for items included under FDI). However, this problem is very various between countries.

Concerning accrued interest, countries show different situation related to the information provided by Balance of payments. Sources of difficulties that were frequently mentioned is the uncompleted coverage for some instruments (notably for holdings of foreign securities by residents) and the divergence of estimation of accrued interest, with a particular effect for discounted instruments, as it may notably change the split between interest (income) and nominal holding gains. However, this latest problem is not exclusive for BOP but rather a general problem in the compilation of accrued interest figures.

Participants confirmed their concern about BOP adjustment that is generally large. In some cases, it is included as such in Financial accounts without any correction, its counterpart being shown mainly in non-financial corporations and households. In other cases, BOP data are adjusted in order to preserve the whole consistency of financial accounts.

3. Recommendations

1. No deviation should appear in the concept of residency. Therefore, the classification of units should be exactly similar and any critical issue should be discussed by both compilers, coming to a common solution.

2. The difference in methods for estimating accrued interest (debtor or market approach) should give rise to new discussions for harmonisation. Anyway, data from BOP should be adjusted when used for Financial Accounts where they do not comply with the ESA95 rules[9].

9 However, differences in estimating accrued interest is not a problem as long as a country is able to record accrued interest according to ESA 95 rules.

3. As much as possible, as shown in some countries, BOP compilers should take into account, also taking the opportunity of any changes in their reporting system, the specific needs of financial accounts concerning classification issues. This is deemed preferable to an approach where financial accounts compilers try to complete BOP by using additional sources with an effect on final consistency and quality of financial accounts.

4. Delay in compilation of International Investment Position is generally too long for the timetable of financial accounts compilation. It means that annual data first published for a given year are significantly revised in subsequent versions. Compilation on a quarterly basis or provisional compilation on consistent basis should therefore be encouraged.

5. The specific needs of financial accounts must absolutely be considered as output requirements in revising, or designing new BOP collection systems. The feasibility and incidence of possible use of alternative sources should already be closely examined.

6. Besides this, one should seek a better reconciliation between the functional approach of the BOP and the instrument approach of ESA 95.

ISSUE N° 6
RECORDING IN ESA95 CONVERSIONS OF UNQUOTED SHARES INTO QUOTED SHARES

1. The issue

The topic is what transactions to record when a previously unlisted company becomes listed in a stock exchange, so that the existing stock of unquoted shares is transformed into quoted shares (and vice versa, from quoted to unquoted).

2. Additional input by national experts

In the course of various discussions two different statistical treatments have been put forward: (a) to record "other flows"; (b) to record "financial transactions". The recording into "other flows" follows from the observation that no funds are transferred when the conversion of shares takes place. The recording into "financial transactions" takes as its starting point a suggested similarity with two cases explicitly dealt with in ESA95: (a) securities resulting from the conversion of loans; (b) debentures and loan stock convertible into shares. These two cases are treated as the liquidation of the previous financial instrument and the issuance of a new financial instrument (ESA95: paragraphs 5.62k and 5.62l). It was felt that this second treatment would have required a future amendment of the current ESA95.

Most national representatives expressed a preference for the recording of this case into "other flows".

Starting from this choice, it has then been investigated which category of "other flows" is the most relevant one. The general heading to be considered is clearly "other changes in volume" (ESA95: paragraph 6.15). Within it two categories are possible candidates: (a) other volume changes in financial assets and liabilities n.e.c. (K.10); (b) changes in classifications and structure (K.12). Category K. 10 is defined as a residual, hence only category K. 12 is to be analysed.

The applicability of category K. 12 rests on the meaning that is to be given to the expression "change in classification". This expression may in fact mean two quite different things: (a) nothing has happened in the economy, but a statistician re-examines a previous decision about the classification of a financial instrument, or an institutional unit, and opts for a reclassification; (b) something has happened in the economy, and a statistician is led to operate a reclassification.

ESA95 is not clear on the exact meaning of the expression "change in classification". However an example is given. It concerns an institutional unit previously classified in the household sector that becomes a quasi-corporation, and has to be reclassified in the corporations sector (ESA95: paragraph 6.30). In this case it is clear that the reclassification is due to a change that has taken place in the economy.

Summing up, the category “changes in classifications and structure (K. 12)” is the relevant one. As in ESA95 this category is further subdivided in two sub-categories, the one to use is “changes in classification of assets and liabilities (K12.2)”.

3. Recommendations

1. The conversion of existing unquoted shares into quoted shares should be treated as “other flows”.

2. The relevant category of other flows is “changes in classification of assets and liabilities (K12.2)”.

ISSUE N° 7
SELECTED QUESTIONS ON INSTRUMENTS AND UNITS CLASSIFICATION

1. INSTRUMENTS CLASSIFICATION

Borderline cases in instruments classification

1. The issue

ESA95 provides rules for classifying instruments within the different main categories. It is the case for the distinction between deposits and securities (5.59), but mentioned only for short-term securities, between long-term securities and long-term loans (5.64), based on negotiability. ESA95 states that compilers should look at restriction in practice concerning the negotiability of the instruments. This criterion is also used for the classification of saving certificates not recognised as securities but as other deposits F29 (5.47).

There are also general provisions about the distinction between deposits and loans (based on initiative) and between loans and securities (based on "documents" and "degree of marketability", in 5.77).

ESA95 includes also some conventions, as in 5.75 for monetary financial institutions of which short-term liabilities take the form of short-term deposits and not of loans.

Some other issues can be raised concerning the classification of instruments. For instance, the possibility for other sectors than S12, S13 and S2 to manage deposits, as 5.49 is not restrictive on this point.

The treatment of funds in transit between financial institutions (deposits or other accounts) seems unclear.

The identification of categories of mutual funds has also an impact on their classification within the sub-sectors.

Finally, it may exist at a domestic level some specific instruments that are difficult to classify.

2. Additional input by national experts

There was no mention of big difficulties raised by very specific domestic instruments that could not be analysed and classified on the basis of ESA95 criteria that seem to be sufficient. As a result of development of financial markets, some of the "traditional" saving instruments has declined significantly. Under these conditions, all countries are in a position to implement the classification in a quite homogenous way, without effect on comparability of data.

The case of deposits of guarantee between non-financial agents received special attention. In some cases they are treated as loans and not as other deposits, in particular where these deposits bear interest.

3. Recommendations

1. A definition of marketable instruments should be based on "objective" features of the instrument and not on an assessment on the "negotiability in practice" that could be observed on its possible market. It seems rather difficult to "draw" the borderline for an acceptable degree and it could affect seriously the comparability of data.

2. The classification should be based on "family" of instruments, recognised as such on markets, and not a split within this categories for statistical purpose (for instance "tradable bonds" and "not traded bonds").

3. All instruments that are not theoretically tradable should be classified under F29 "other deposits" or F4 "loans", depending on who takes the initiative: the creditor or the debtor.

4. "Securities other than shares" should include only instruments that might be transferred to another holder at a price different from their nominal value, this feature being clearly mentioned at time of issuance. The fact that some financial intermediaries may carry out transactions at request should be considered as a marketability criterion, even the effective realisation of transactions may need some time and could be rather costly.

5. Considering the treatment of similar deposits in financial institutions, it should be recommended to consider deposits of guarantee preferably as other deposits.

Financial leasing

1. The issue

Financial leasing is a significant innovation in the new system of national accounts (and in the new Balance of Payments Manual).

A major issue stems from difficulties in separating financial leasing from operating leasing. The Eurostat Manual on government deficit and debt provides different criteria (see annex in Part IV) in order to make a clear distinction between the two kinds of leasing. As already mentioned for other issues, they can apply to other units. It is notably based on risks carried out by the lessor or by the lessee. However, it requires information included in the contract, which is frequently not easily accessible.

Another issue is the splitting within settlements between interest payments and redemption of principal.

2. Additional input by national experts

Information is based on data from financial institutions specialised in leasing (through surveys or supervision documents) and/or from surveys on non-financial corporations, as users. Direct information is also frequently available for General Government. Thus, the coverage seems generally quite complete.

Difficulties in splitting operating/financial leasing were confirmed by several participants. There is an obvious problem on this point. Basic sources of information may not include this distinction or the split made by operators or users may not totally be in accordance with ESA95. Under these conditions comparability of data is affected.

3. Recommendation

Considering that transactions in financial leasing are currently developing in most countries at a high growth rate, it seems imperative to improve the collection of data and notably the split between operational and financial leasing. The effect on financial accounts may be significant. Priority should be given to ESA95 criteria based on risks for the different parties. In frequent cases surveys method seems to be the most adequate solution.

Traded loans

1. The issue

In ESA95, secondary trade in loans is covered by paragraphs 5.62j, 5.62k and 5.79.

As a basic statement, when a loan is converted into a security (as for the case of "Brady bonds" applied to banking debt of some developing countries since 1989 onwards), the new securities are negotiable instruments. There are two subsequent transactions in the financial account: one for the redemption of the loan and the second for the issuance. A capital transfer may possibly be recorded if a part of the original debt is cancelled.

More generally, ESA95 specifies in §5.79 that "where a loan becomes negotiable on an organised market", it must be considered as a security, and thus valued at market price. In paragraph 6.62j, ESA95 evokes the case of loans "that has become negotiable de facto", with the meaning that they are traded on such a market. However no definition is given for an organised market.

Different interpretations are possible. One could be that the loan is traded several times and not "incidentally", or could be traded at the request of any part because some financial institutions are used to be counterpart. It could also be considered that only one transaction makes a loan tradable (notably where the transaction value is different from the face value), meaning that a market valuation should be used in the balance sheets.

2. Additional input by national experts

All participants agreed that there was no problem where loans are transformed into securities. In this case, ESA95 is very clear about the way of recording such transactions.

It was also stressed that two cases should be clearly separated. The first one concerns trading loans without any change in the legal commitment for the debtor, meaning that the value of principal and other features of the loan remain identical. The second is for the case where there is a change in the present value of the loan, so that the total burden of borrowing is reduced, which must be reflected in a new principal amount, giving rise to transfer.

It was also mentioned that currently this issue does not seem significant for non-financial resident sectors. Except under "securitisation" process (which raises no conceptual question under ESA95 framework but may be the source of practical difficulties in collecting data in some countries where information is not easily available or/and ad-hoc vehicles are not under the normal supervision schemes), trading loans to these agents is very infrequent and is generally linked to reclassification between financial institutions. Under these conditions, it is difficult to argue that an existing organised market implies a minimum frequency of transactions.

Concerning loans to non-residents, transactions in international bank loans are rather infrequent currently, as a large part of the debt to developing countries has been transformed into securities ("Brady bonds") and due to the improvement of the situation of large indebted countries. Meanwhile, the main international debt problem tended to concern "high indebted poor countries", for which a specific initiative has been launched in 1996. Government sector is mainly involved in this question. No trade in such loans is observed.

3. Recommendations

1. The notion of "organised market" should be considered in a rather restrictive way. The negotiability of the loans should be recognised only in case of frequent transactions and of easily and meaningful observed pricing. These loans should be considered as securities, their prices depending on change in interest rate and borrowers' rating, as it is the case for some compartments of bond market.

2. For transfers of loans with no change in the original form of the instrument, financial transaction must be recorded at the effective price but the amount of principal must be recorded in the balance sheets, with an adjustment in the revaluation account. However, in case of mutual agreement on a partial cancellation, a capital transfer should also be recorded and added to the value of the transaction.

Insurance Technical Reserves

1. The issue

Concerning the valuation of ITR (AF.6), ESA95 makes a clear difference between:

- net equity of households in life insurance reserves where "the present value of the individuals' actuarially determined claims to the payment of capital or income" must be used (§7.58)

- net equity of households on pension funds reserves where the valuation depends on the nature of the liability of the funds (§7.59) as, in case of "defined pension scheme", the present value of promised benefits is used and, in case of "money purchase pension schemes", the current market value of the funds assets is used.

Concerning the "prepayments of insurance premiums and reserves for outstanding claims" (AF.62), ESA95 states that the proportion pro rata temporis of premium or present value of amounts expected to be paid must be recorded. (§7.60)

These provisions raise a set of questions about the relevance of the above-mentioned distinction in Member States, the collection system of information, and the valuation at current prices or present value.

There are also, in case of with-profit life insurance, questions about the treatment of profits assigned to police holders and also the inclusion in reserves of holding gains as stated in ESA95.

Finally, the links with the European Insurance Statistics Co-ordinated Framework should also be considered, as a source of information or a "competitive data" possibly used for checking.

2. Additional input by national experts

First, some participants stressed that in some countries, very important amounts were recorded in ITR, as a big part of investment of households saving.

Secondly, the general picture shows still a large variety in countries, notably concerning legal rules on attribution of results (including part of revaluation gains) to households. In some countries full-accrued value of reserves is considered as revaluation but in other a part is rightly considered as earned income and integrated in the non-financial accounts. In addition, currently, some countries have no experience on pension funds, as all retirement schemes are classified under Social Security activity.

Third, financial account compilers do not seem to face great difficulties in obtaining the relevant information. The sources are rather complete and are essentially provided by specific official bodies (or bodies in some countries) in charge of supervision or from professional information. Generally speaking, coverage for this sector is considered as quite good. Quality is however variable. A problem, already mentioned, is the question of reserves held by residents in foreign insurance corporations that are not recorded through balance of payments.

For a majority of participants, the current corresponding amounts are considered as rather small (insurance services are performed mainly through local affiliates and not directly across borders). However, it cannot be assumed that this shortcoming could be more significant in the near future, taking in account the huge developing market integration. In addition, even currently, such cross-border transactions in ITR are not at all negligible for some countries.

The main difficulty comes in fact from long delay for data availability. A correct recording is only possible after a period time that seems currently too long. Under these conditions, first annual financial accounts are often based on estimates of low quality, implying subsequent significant revisions.

Rules of valuation, at market or present value, seems to be generally respected, as there is a similar request from supervisory authorities.

3. Recommendations

1. Special attention should be given to technical reserves held abroad, as they are normally not covered by domestic supervisory sources. A specific recording procedure for direct cross border transactions and counterpart information should be implemented based on surveys or estimation methods. The possibility of using international or European co-ordinated statistics should also be considered under the form of exchange of information.

2. Efforts should also be made for the reduction of delay for reliable sources of information, notably by the way of using quarterly sources when available and fully consistent with annual data.

2. UNITS CLASSIFICATION

Holding companies

1. The issue

A first problem is relates to the general definition in ESA95 paragraph 2.14 that is based on the notion of control. The latter is defined in 2.26 and states a condition of holding more than half of the voting power. However, it may be difficult to identify the effective degree of control when access to information is limited. It is notably the case for unlisted companies that are not required to provide regular and complete information on market. Some countries have implemented databases on inter-companies links but the coverage is generally not exhaustive. Thus, some units may be classified in a wrongly.

A second problem is allocating such holdings into one sector or sub-sector in accordance with ESA95 rules. They are given in 2.23e (in non-financial corporations), 2.43 (classification within "other financial institutions" as a general rule with the exception of the case of financial corporations), 2.52 (case of other monetary financial institutions), 2.55h (like 2.43), 2.59 (case of financial auxiliaries) and 2.63b (case of insurance companies). Again, detailed data are necessary. Basic sources of information (portfolios of shares) may be based on other criteria.

In addition, Eurostat has introduced specific rules for some public holdings that are to be classified within General Government sector (see ESA95 Manual on government deficit and debt) but it concerns very specific cases that, normally, are well known by compilers.

2. Additional input by national experts

Many participants expressed difficulties to comply with the ESA95 rules.

Information on voting power is effectively often not available or only partially. Control is in fact often estimated on the basis of share in equity capital. In addition, cases of effective control (meaning determining the general strategy of the unit, as mentioned in ESA95) with less than 50% of shares is very frequent. Nevertheless, it is very infrequent to observe holding companies that would hold only minor participation and that would rather be considered as mutual funds.

It is also difficult to get all the information that would be necessary in order to classify correctly these units within the sectors and sub-sectors. Notably, data on value added may be not available. The rationale of the ESA95 classification was also questioned, with participants expressing their preference for a classification in a single sub-sector.

Thus, where a holding company has not an identified status of financial institution (taking into account the relevant sub-sector), it cannot be taken for granted that the allocation is correct. In some cases, all holdings identified as such are put in the same sector, S.123 (OFIs). At this stage, it is difficult to infer that there are strong effects on the comparability of data.

3. Recommendation

It seems important to comply with the current rules stated in ESA95. Any specific deviation at national level could have an impact on the comparability of data. Use of business register or specific surveys may be a source of significant improvement in the reporting system.

Financial auxiliaries

1. The issue

The classification of financial auxiliaries under the S12 sector is an innovation in the new system of accounts. Although these units are not carrying out directly financial inter-mediation, they are considered as part of financial institutions because they technically contribute to achieving financial transactions.

A list of units to be included in this sub-sector is provided in 2.58. A main point is its very heterogeneous nature. In some cases the definition of activities is rather vague, for instance concerning the provision of "infrastructure for financial markets." It may be interpreted in a broad or narrow sense.

As a result, sources of information are necessarily very various.

Another difficulty stems from the distinction to be introduced between security and derivative dealers for own account considered as OFI, from those who are "pure" intermediaries. Both activities may be mixed and the difference not shown in basis information.

2. Additional input by national experts

The situation among Member States seems rather diverse, based on surveys and for some activities on regulatory sources. The delays are also frequently high. It is clear that recording in an exhaustive way data for this sub-sector needs significant efforts that could be considered as disproportionate with the effective amounts of involved data.

In particular, the population of units is very highly unstable, due to intensive competition, restructuring, financial innovation, access to markets, etc. It means that at each compilation, the list of units should be revised permanently (with, in theory, an entry in the other change in volume account).

As a result, current data are not fully comparable between countries.

Several participants describe their particular practice concerning dealers. Some rely on supervisory rules that make a clear distinction between both categories. Others take into account the nature of financial assets involved in the transactions.

However, participants confirmed that data in financial accounts should be small as these units are essentially providers of services or are active on markets only on behalf of their customers. It is notably the case for balance sheets as direct holding of financial assets is rather limited. It is the reason why shortcomings in collection of data are not considered as having a big impact on the meaning of financial accounts, even if most countries should still try to improve their collection methods. Therefore, generally, the issue is not seen as very crucial.

3. Recommendations

1. Where the splitting between the two kinds of dealers is not available or would be very difficult to realise on reliable basis, preferably all dealers should be classified within S.123 as OFIs

2. Compilers should be aware that no significant amount should be normally recorded in financial data set for the sub-sector financial auxiliaries. Under these conditions, significant amounts compared to other countries or a big change in the size of the sub-sector should give rise to close consideration.

Guarantee funds

1. The issue

The activity of giving guarantees is not considered in ESA95 as financial inter-mediation, as defined in 2.33 ("acquiring financial assets and incurring liabilities on own account"). In the system guarantees are "contingent assets" as financial transactions take place only if one or several conditions are fulfilled. Therefore, units specialised in this activity should be normally classified within the sub-sector "financial auxiliaries".

Among these funds, some units are controlled by Government and moreover are mainly financed by it. Government provides all resources that are needed in case of call of guarantees. It does not imply that these units have a government status, depending on domestic legal context. However, these funds should be reclassified within General Government sector as they have an obvious and recurrent effect on government finance.

2. Additional input by national experts

In most countries guarantee funds are generally classified within financial auxiliaries, as they do not act directly as financial intermediaries, according to ESA95 2.33, but contribute to carry out of financial transactions, notably making the creation or the circulation of financial assets easier by increasing safety of transactions and reducing risks for issuers or holders.

In addition, paragraph 5.58j seems to cover a large number of such units, notably in the case of funds set up for the protection of depositors. From a general point of view, a great number of guarantee funds are closely linked to financial corporations and can be considered as "servicing" them.

However, there seems to be various treatments among countries for institutions that have very similar activities. It may happen that such funds are considered as non-financial corporations.

There is a clear need for further harmonisation on this point.

Another problem is to make a clear distinction from insurance activity that can have a very close result for economic agents as they would receive some compensation in case of occurrence of some events. It is obviously the case where non-financial transactions are covered but some financial transactions (as loans to households) may be completed by specific insurance contracts. In this specific case, a basic distinction could be that such insurance is based on strictly individual features whereas a guarantee fund takes into account the global situation for a group of units concerning some specific financial transactions.

3. Recommendations

1. From a general point of view, guarantee funds, in a strict definition of the term, should be classified preferably as financial auxiliaries.

2. Guarantee funds should be classified within General Government sector, regardless their legal status, where their resources are mainly provided by government units that, in addition, have a strong influence for fixing the conditions in which the guarantees are granted.

ISSUE N° 8
PRACTICAL ISSUES ON ACCRUED INTEREST

1. Introduction

In 1998-1999, a special Task Force was organised by EUROSTAT in order to examine some specific issues concerning accruals for interest, especially in the case of financial instruments issued by General Government. Indeed, ESA95 was considered as incomplete or too general concerning the implementation of what is seen as a main change in the new system of national accounts.

FAWP and CMFB approved the results of the work undertaken by the Task Force. They were included in part III of the "ESA95 Manual on government deficit and debt", a first edition being available in June 2000.[10]

Although the Task Force focused mainly on government financial instruments, it was clear that the conclusions would be applied to all sectors, since there is no reason to state specific treatments in the case of General Government, contrary to other issues treated in the Manual.

As a reminder, there was first an agreement on some general rules, as follows:

- "full coverage" (any instrument bearing interest)
- "debtor approach" (using interest rate prevailing at the time of the creation of financial instruments)
- flexibility for method of calculation (both simple and compound formula are acceptable)
- reinvestment of accrued interest under the instrument (where ESA95 gave a choice)[11]
- single treatment for discounts (where ESA95 made a distinction based on significance)
- arrears of interest kept under the instrument (for conceptual and practical reasons)

Second, the Task Force came to recommendations related to specific features of instruments (notably floating rates, fungible bonds, saving premium, index-linkage, stripping), instruments denominated in foreign currencies and some transactions, as early redemptions.

[10] A second edition of the Manual will be published at the end of 2001. No change is planed for accrued interest.

[11] However, accrued interest may be identified under a specific item within the categories of instruments that are concerned.

During its work, the Task Force dealt with some implementation questions, some having an impact on the final solutions. Thus, no mention of these implementation issues was made in the final version of the Manual.

Recording accrued interest may however be a source of difficulties in the process of compiling financial accounts, both for their estimation (very often under the responsibility of FA compilers) and for their impact on financial transactions and assets/liabilities stocks.

The following issues were discussed within the Task Force on Sources and Methods in May 2001. There were considered as the main ones worth being examined.

2. Issues on the calculation

In order to get the best estimates of accrued interest, compilers need some precise information, notably: the yield prevailing at the time of issuance (taking into account the issue price where it is not at par) and the effective remaining outstanding amounts (considering any exchange or early redemption). For each period of compilation, a relevant rate applied to an exact average stock is to be known. Otherwise, there is a risk that the effective payment of interest would not fit the reinvestment of accrued interest in the financial account. Some “false transactions” would appear. Consistency between flows and stocks would be affected.

Concerning securities, all the information may be provided by security-by-security databases that usually record all the features relating to each individual security. These bases may be restricted to securities issued by residents. These databases would be very useful for the calculation of accrued interest since, according to the “debtor principle”, the relevant information relies on the liability side of balance sheets. However, for foreign securities held by residents, there is also a need to get reliable information, which could be given by such individual databases.

This kind of databases may be very costly, requiring a permanent, quick and complete maintenance, notably where markets are particularly active, with a very large number of issues for several types of negotiable debt instruments. A comprehensive coverage is thus expected in only a few European countries. Generally, short-term instruments (CDs, commercial paper) are more difficult to include, even in the case of General Government. In addition, for the latter, some sub-sectors are generally not or partially covered, as local government units. It must be stressed that a large coverage may be achieved without large-scale databases if they focus on the larger outstanding amounts of securities and the more significant volumes of transactions. There is generally a rather strong concentration on these markets. Consequently, individual database could be set up firstly for securities issued by General Government.

For compilers managing their own database (or at the level of the institution they belong to, for instance Statistical Institutes or Central Banks) may be seen rather preferable. However, in some cases and at least for some data (as with the original features of the securities), they could use “external” databases set up for other purposes. The latter may be private and some specialised international firms offer such services. They could be used in the case of securities issued by non-residents in order to make reliable estimates of accrued interest for holdings by residents.

Where a detailed database is not available, compilers must provide reliable estimates from other sources of information as surveys, regulatory data, market publications, profit and loss accounts, etc. Only global figures may be provided. It seems important in this case to try to compile at a sufficient level of detail, distinguishing for instance the main categories of securities, where specific features have an impact on the results (the currency used for denomination, the spreads, etc.).

From a general point of view, for securities, compilers should get a reliable "idea" about the average time elapsed since the instruments were issued in order to apply to relevant stocks (assumed to be correctly known) a rate prevailing at this time. It could be derived from the actual market rate with the delay resulting from this average time. Implementing this kind of "time-adjustment" method would be rather easy.

Information must be permanently updated as market conditions sometimes may suddenly change, affecting significantly the average period. Strong variations of issues (in amount and within a period) could lead to under-estimating or over-estimating effective interest and so the exact cost of borrowing could not be estimated.

The question of discounts also seems to raise some accuracy problems, when discounts cannot be followed on an individual basis.

→ *Use of security-by-security database is largely spread among Member States but coverage is in fact very diverse. At a minimum, long-term central government securities are available on this basis. Enlarging use of such database is therefore strongly encouraged, at least for covering main issuers on the markets. However, although national experts stressed that for some instruments and sectors accrued interest is estimated on the basis of rather global assumptions, it has to be noted that there does not seem to be a significant impact on the accuracy and quality of data.*

3. Issues related to some instruments

In the case of fungible bonds, discounts (or premiums) are a basic feature of these instruments. It was assumed that all information could be available, even where no database including each tranche is available. The reason was that issuers of such bonds are in a rather small number and largely concentrated in General Government sector. In most countries, it is a technique used by the State. Information is normally available through market releases and compilers should be in a position to identify the rate of interest to be applied from the liability side, possibly in the form of a global weighted average discount/premium.

For strips, a conclusion of the above-mentioned Task Force was that accrued interest would continue to be calculated on the basis on the underlying bond, since in most cases it should be possible to identify it.

Concerning short-term securities, coverage in individual databases is likely to be partial. Except for Central Government, whose Treasury bills generally represent a main vehicle of transactions on money markets. Accrued interest would be calculated by applying an estimate rate on the average relevant outstanding during a period. Exact references and spreads could be determined through reliable surveys. There is a crucial point on stocks. As the maturity of a large number of these instruments is less than three months, stocks cannot be determined only as the average between two end-year points or even two end-quarter points. A sudden and short increase of issues within a period could lead to an underestimation of accrued interest.

For floating rates, one specific problem is to measure the level of exact spreads according to the issuers' quality. Using only money market reference, usually based on lowest risks (as first ranking banks) would not be relevant since spreads are often rather large. This information may be available through surveys or different market sources. In addition, cash payments could be a good proxy for accrued interest, notably since floating rate bonds are mainly set on a quarterly basis.

Other difficulties could stem from treatment of specific instruments, index-linked bonds (notably with reference to shares prices), saving certificates (in case of specific arrangements for availability of interest), instruments with premiums under holding conditions (due to assumptions on holders' behaviour), etc.

As regard to loans and deposits, a great number of references may be used, with a large range of spreads due to the quality of debtors/creditors and various payment practices for interest. In addition, in the case of some loans, the rate can float only under the condition of a minimum change in the index and within specific upward limits. Individual information is not available and in this case only global information can be used provided that relevant categories of loans or deposits are clearly distinguished where any specific feature would have a significant effect on the amount of interest.

Assuming that principal amounts are correctly recorded (at nominal value) and that reliable information is available for other flows (for change in exchange rates and other change in volume), from various other sources, it could be possible to check the quality of estimates relating to accrued interest on loans and deposits. Any difference between the change in stocks corrected by other flows and the transactions could mean that a part of the reinvestment of accrued interest has not been offset by actual payments. An adjustment could be recorded both in the property income and in the financial account.

→ *From a general point of view, there was no mention of strong difficulties regarding the above-listed instruments. Compilers consider that they get sufficient information (except in some cases which seem to have only marginal impact on total figures) since a very predominant part of instruments issues do not need specific rules.*

<u>However the treatment of some specific instruments, notably issued by private sector, should be checked in order to assess that it complies with the provisions</u>.

Concerning loans and deposits, for financial institutions, information is usually available in the reporting system used for these units and is considered as quite reliable. Information from Mutual Funds is in most cases of satisfying quality.

Thus, countries that still encounter difficulties on some instruments should take advantage of successful compilation experience in several countries and carry out works, including bilateral contacts, in order to examine in which conditions some transpositions could take place.

4. Issues concerning the allocation of accrued interest between holding sectors

In the compilation process, the first stage is to determine the amount of accrued interest from the point of view of the debtor, on the basis of their liabilities, according to the above mentioned methods. On a second step, this amount is distributed between the relevant counterpart sectors. Finally, accrued interest on financial assets managed or issued by non-residents and held by residents has to be estimated.

It raises the problem of identifying for all debt instruments the exact counterpart sectors. This raises undoubtedly a more general issue concerning reconciliation of assets and liabilities in financial accounts. It may be realised in different manners, depending on the various sources used for compilation. This point was already mentioned among the "other points" examined by the Compilation Task Force. There are problems of valuation on the assets side (which may be very different) and the allocating key for the amounts of accrued interest. The effect on consolidated data needs also specific attention.

The situation seems rather different between countries and within them as far as institutional sectors are concerned. Some satisfying detailed information is generally available through regulatory forms, for the financial sector and, by using administrative sources, for units classified in General Government. For other sectors, financial statements may be used directly, but in most cases surveys are required (for instance on holders or on custodian agents where it seems to be relevant). Another source may be the profit and loss accounts, provided that interest is quite separable from capital gains for all portfolio elements.

In addition, there is a risk to make adjustment on sectors for which information is more difficult to get or derived from other sources as it is the case for non-financial corporations and especially households. However, this would have no impact on the consistency between non-financial and financial accounts as both interest in the property income and the concomitant reinvestment in the financial account are recorded on an accrual basis. But, the question of offsetting payment would lead to distortions between flows and stocks for these sectors.

A major issue is also to identify some categories of instruments on the assets side where the allocation of accrued interest would require specific information. For instance it is the case for some securities like fungible and strips. For fungible, it is clear that there is no sense in identifying, on the assets side, the individual tranches since only the complete line of the bond may be identified. Consequently, accrued interest should be allocated in proportion of the holdings for the line. Concerning strips, the problem is that the new securities are individually traded and included in portfolio. The corresponding underlying bond (basis of the estimation of accrued interest) may be split between investors classified in different sectors. Some methods allow measuring in terms of non-stripped bond the different strips held by the investors. It would provide a ratio applied to the global amount of accrued interest relating to the underlying bond.

Compilers would be in a more delicate position where only global information on securities holdings would be available, notably for sectors like financial institutions and non-residents that realise a large part of transactions. In this case, specific surveys (on samples of investors) could provide a proxy measure of holdings for some categories of assets, completed by some specific hypothesis. For instance, it may be assumed that investors tend to hold portfolios that reflect the structure of the total issued amount of bonds of one category. This hypothesis would apply to bonds issued by non-residents and held by residents, considering (in the most “neutral” way) that the latter hold a portfolio whose maturity equals the average maturity of the bonds issued by non-residents, according to some features like the currency used for denomination.

→ *It was confirmed that in many cases, for securities, accrued interest is allocated on the assets side proportionally to holdings that have been recorded and not according to a "whom-to-whom" process;*

Due to valuation problems, the accuracy of this method can be questioned but the effect on the consistency of accounts (notably non-financial/financial discrepancy) is generally considered as rather small. However, this statement has to be checked in some cases.

On the contrary, allocation of accrued interest generally does not seem to raise difficulties in case of loans and deposits, at least for information provided by financial corporations.

5. Issues on the reinvestment of accrued interest

For conceptual reasons (notably the assimilation to new issuance of principal as explained I ESA95), the Task Force expressed on this issue a strong preference for recording the reinvestment of accrued interest under the relevant instrument, with the possibility of showing it under a specific sub-item within the main instrument categories. This is on line with ESA95 that recommends "preferably" this kind of solution but does not exclude the possibility to use also "other accounts receivable/payable". The Task Force was in favour of restricting this flexibility. This single treatment was also considered as allowing better comparison of data between countries. This proposal was endorsed by consultative bodies to which the Task Force reported the results of its works.

→ *In a majority of countries, accrued interest is reinvested under the instrument. It is a general practice for securities other than shares. However, some of them prefer recording accrued interest for loans and deposits in "other accounts", although the needed information is fully identified in sources of data.*

<u>Even if this issue cannot be considered as a cause of large inconsistencies in international comparison (at least for the level of interest rates currently observed within the European Union), homogeneity of data should be improved on this point</u>.

PART III

COMPILATION PROCEDURES

COMPILATION PROCEDURES

CHAPTER 1 INSTITUTIONAL ARRANGEMENTS

This chapter describes the existing institutional arrangements for compiling financial accounts. In particular, it indicates the division of responsibility between institutions and bodies/committees (incl. departments and number of persons) directly involved in the compilation of financial accounts and the relationships between them. The description is made with respect to methodology, production of data directly used for financial accounts, compilation of financial accounts, dissemination of financial accounts data, and timetable and numbers of revisions (revision policy) at national level and for international organisations.

Responsibility for the compilation of financial accounts varies among EU Member States, Norway and Candidate Countries. In some countries, central banks compile the entire or parts of financial accounts, whilst in others, national statistical institutes are responsible for the compilation.

In order to ensure agreements on co-ordination, financial accounts are often produced in close co-operation between institutions, and amongst departments of financial statistics, national accounts and balance of payments statistics.

In the following sections we provide some additional detail by country relating to the institutional arrangements.

Table 1 - Institutions responsible for annual financial accounts

Country	Methodology	Compilation	Dissemination
Belgium	Banque Nationale de Belgique	Banque Nationale de Belgique	Banque Nationale de Belgique
Denmark	Statistics Denmark	Statistics Denmark	Statistics Denmark
Germany	Deutsche Bundesbank	Deutsche Bundesbank	Deutsche Bundesbank
Greece	Bank of Greece	Bank of Greece	Bank of Greece
Spain	Banco de España National Institute for Statistics National Audit Office	Banco de España	Banco de España
France	Banque de France / Insee	Banque de France	Banque de France / Insee
Ireland	Central Statistics Office	Central Statistics Office	Central Statistics Office
Italy	Banca d'Italia / Istat	Banca d'Italia	Banca d'Italia / Istat
Luxembourg	-	-	-
Netherlands	Statistics Netherlands	Statistics Netherlands	Statistics Netherlands
Austria	Oesterreichische Nationalbank Bundesanstalt Statistik Österreich	Oesterreichische Nationalbank	Oesterreichische Nationalbank
Portugal	Banco de Portugal National Statistics Institute	Banco de Portugal	Banco de Portugal
Finland	Statistics Finland	Statistics Finland	Statistics Finland
Sweden	Statistics Sweden	Statistics Sweden	Statistics Sweden
United Kingdom	Office for National Statistics	Office for National Statistics	Office for National Statistics
Norway	Statistics Norway Norges Bank	Statistics Norway Norges Bank	Statistics Norway Norges Bank
Cyprus			
Czech Republic	Czech Statistical Office	Czech Statistical Office	Czech Statistical Office
Estonia	Statistical Office of Estonia	Statistical Office of Estonia / Bank of Estonia	Statistical Office of Estonia
Hungary	National Bank of Hungary	National Bank of Hungary	National Bank of Hungary
Latvia	Central Statistical Bureau of Latvia	Central Statistical Bureau of Latvia	Central Statistical Bureau of Latvia
Lithuania	Statistics Lithuania	Statistics Lithuania	Statistics Lithuania
Romania	National Bank of Romania	National Bank of Romania	National Bank of Romania
Poland	Central Statistical Office	Central Statistical Office	Central Statistical Office
Slovak Republic	Statistical Office of the Slovak Republic	Statistical Office of the Slovak Republic	Statistical Office of the Slovak Republic
Slovenia	National Bank of Slovenia	National Bank of Slovenia	National Bank of Slovenia

Belgium

Institutional aspects

The Banque Nationale de Belgique is responsible for compiling the financial accounts on a quarterly basis. Currently, the financial accounts production is being re-organised. Up to September 2000, the Research Department was responsible for the methodology and the Monetary and Financial Division of the Statistics Department for the production of data directly used for financial accounts. After that, the compilation has transferred to an autonomous Division (a chief executive, three executives and four employees) entirely responsible for all work on financial accounts.

The methodology is a responsibility of the executives of the division. The division of work is based on the main institutional sectors: one person is in charge of the general government sector (S13), another one of the non-monetary financial sectors (s123 to s125) and a third person of the rest of the world sector (s2). The chief executive is in charge of the other sectors and is responsible for the co-ordination of the work.

The employees and the executives of the financial accounts division jointly process the data to be used for the financial accounts. The executives obtain the sources of information for their sectors and integrate the results in summary tables.

The Financial Accounts Division compiles the financial accounts.

Dissemination

The Financial Accounts Division disseminates the financial accounts data to Eurostat and the ECB (using Gesmes CB). The dissemination of data to be used in the Annual Report, Statistical Bulletin and website (www.nbb.se), however, take place through the central data base tool Tsunami and a special dissemination cell at the level of the Statistics Department.

Time table and numbers of revisions at national level and for international organisations

Until now, quarterly data are compiled with a time lag of t+6 months. For the Annual Report of the Bank, however, (published in the beginning of February), data are provided on the third quarter (thus with a time lag of t+4 months). It is possible to include revisions of earlier data in each subsequent publication.

Denmark

Institutional aspects

The office for national Wealth of Statistics Denmark (and Public Finances and Prices with regard to compilation of the general government sector) is responsible for the development of methodology, compilation of annual financial accounts and dissemination. Danmarks Nationalbank will compile quarterly financial accounts.

The number of persons involved amounts to 4.5 economists and 0.5 programmers.

Dissemination

The first financial accounts (1995(end of 1994)-1999 – final versions for 1995-1997 except for unquoted companies) were finalised at the end of January 2001. The publication strategy (nationally and internationally) is t+13 months for the time being. The data are available nationally on paper (News from Statistics Denmark and Statistical News) and on Internet (Stat Bank Denmark).

Time table and numbers of revisions at national level and for international organisations

Data are being revised on an annual basis (except for data declared final).

Germany

Institutional aspects

The Deutsche Bundesbank is responsible for compiling the financial accounts. Up to now the financial accounts have been compiled annually. Quarterly data will be compiled for the non-financial sectors (finance and investment tables).

The financial accounts unit compiling the financial accounts consists of two economists and four persons for statistical and technical support.

The unit is in close contact with the public finance department and the different statistical departments where the relevant primary statistics are produced. However the departments are not involved in the production process.

Dissemination

The annual financial transaction accounts are compiled with a time lag of t+6 months, and the balance sheet accounts are completed with a time lag of 9 months. The dissemination of the financial accounts is as follows: in June selected results of the last compilation process are published in the monthly report of the Bundesbank. Additionally in a special statistical publication detailed annual data is published (for a longer time period). Both publications are available on the Bundesbank website (in German and English).

Time table and numbers of revisions at national level and for international organisations

Until now (due to a lack of staff) financial accounts are not revised when, for example, the national accounts are revised after June.

Greece

Greece has derogation under ESA95 Transmission Programme until 2005. The Bank of Greece is responsible for compiling financial accounts. Currently financial accounts are being developed within the Financial Accounts Section of the Statistics Department of the Bank of Greece.

Spain

Institutional aspects

The Banco de España is the institution responsible for preparing the financial accounts. Within the Bank, the Statistics and Central Balance-Sheet Office of the Research Directorate General is the department that carries out this work.

The methodology is also the responsibility of the Banco de España. However in certain aspects, including sectorisation and the links between financial and non-financial accounts, there is close co-ordination with the INE (the National Institute for Statistics, which compiles the Spanish Non-financial Accounts) and the IGAE (National Audit Office, which compiles general government statistics).

The process of production and compilation is closely linked to the work of the units responsible for primary data (money and banking statistics, security issues statistics, general government statistics, balance of payments statistics, etc.). The relevant units update quarterly the different parts/blocks of the financial accounts. The actual editing of the accounts is carried out by a small team which, over a period of two or three weeks, co-ordinates the work of the various units, ensures consistency and prepares the various sets of information for subsequent dissemination.

Dissemination

The financial accounts are published quarterly in a bilingual Spanish/English edition on the Banco de España website (www.bde.es). The time series produced are quarterly. Quarterly updates are disseminated on the Internet with a lag of t+16 weeks in relation to the calendar quarter to which the latest observation refers. Additionally, once a year, in June, the financial accounts are published in a printed version, along with the Annual Report.

Time table and numbers of revisions at national level and for international organisations

The latest quarters published are always provisional, as all of the necessary information is still not available. Enhancements and revisions are included in each quarterly update.

France

Institutional aspects

While the Insee is responsible for French national accounts as a whole, compiling annual financial institutions' financial and non-financial accounts is a responsibility of the Banque de France (Monetary Research and Statistics Directorate – Statistics and Financial Transactions Department). Quarterly financial accounts have not yet been completed.

The methodology is a shared responsibility between the Department and Insee's National Accounts Division.

The Statistics Department compiles the financial accounts.

Two kinds of data are used for financial accounts: basic data which are then processed by the Statistics Department, and data which the services have specifically drawn up to meet French accounting needs. These are not (or are only slightly) modified, as the methodology was determined jointly. Data concerning transactions with non-residents are provided by the Banque de France's Balance of Payments Directorate, while data on public administration are provided by the Public Accounts Directorate of the Ministry for Economic Affairs.

Dissemination

The financial accounts are published as a joint Insee-Banque de France product. The data are available on paper (*Rapport sur les comptes de la Nation*) and on the Internet (the Insee's and the Banque de France's web sites). Financing and investment tables (TFP – *Tableau des financements and des placements*) are published every three months.

Time table and numbers of revisions at national level and for international organisations

Three versions of the accounts are prepared: a provisional version, which has a less detailed classification and is based on slightly different basic data, is published in the spring of the year n+1, a semi-definitive version is published in spring of the year n+2, and a definitive version in spring of the year n+3. No changes may be made to the latter version. Any further information, which comes to light are now stored so that they may be taken into account the next time the base, is changed. Base changes are now expected to take place every five years, but there will not necessarily be any major changes to the methodology.

Ireland

Institutional arrangements

Financial accounts are still under development in Ireland[12]. Primary responsibility lies with the Central Statistics Office (CSO). No final arrangements are yet in place to develop full sectoral quarterly financial accounts except for the General Government sector.

Current staffing (mid 2001) of the Financial Accounts Unit within the National Accounts Directorate of the CSO is 2 to 2½ persons. The Unit also has responsibility for related work e.g. Quarterly Government Financial Accounts. The staffing number excludes staff engaged in the primary collection of data elsewhere within CSO (e.g. in the Financial Statistics/BOP Data collection Units) or other agencies (e.g. Central Bank for MFI data etc., Department of Enterprise, Trade and Employment for insurance sector data etc.).

Dissemination

Arrangements for publication of the first annual results have yet to be determined.

Time table and numbers of revisions at national level and for international organisations

The timetable and policy on number of revisions are not yet determined.

Italy

Institutional aspects

Banca d'Italia and Istat are jointly responsible for the annual financial accounts. Banca d'Italia also compiles and disseminates quarterly financial accounts consistent with the annual accounts, with the exception of the sub-item "other" of "other accounts receivable and payable", not available on a quarterly basis at the moment.

The methodology is a shared responsibility between the two institutions.

The collection of data used for the compilation of financial accounts is mainly the responsibility of Bank of Italy. Data for "other accounts receivable and payable" and part of the "insurance technical reserves" are provided by Istat. The analysis of the results is conducted jointly by the two institutions.

Dissemination

Financial accounts are disseminated by both institutions in separate publications.

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[12] Ireland currently has derogation under the ESA95 Transmission Programme for production of ESA Financial Accounts tables 6 (annual transactions) and table 7 (annual balance sheets) until 2005.

Time table and numbers of revisions at national level and for international organisations

Both organisations are independent with respect to the time table and revisions policy for production at national level and for international organisations.

Luxembourg

Institutional aspects

Dissemination

Time table and numbers of revisions at national level and for international organisations

The Netherlands

Institutional aspects

Statistics Netherlands is responsible for the compilation of financial accounts on an annual basis. A number of research projects have started to develop financial accounts on a quarterly basis.

The methodology is a responsibility of the Statistics Netherlands.

The National Accounts Department (which is part of the Division of Macro-economic Statistics and Dissemination) compiles the financial accounts. The compilation, publication and dissemination of the full set of financial accounts and balance sheets involve about 4 persons.

Data used for financial accounts are collected and further processed by different departments of Statistics Netherlands. The information on Monetary Financial Institutions and Mutual Funds is collected from the Central Bank and information on the State Government is mostly derived from the Ministry of Finance. Balance of payments data and the International investment position is obtained from the Central Bank.

Two divisions of Statistics Netherlands are involved in the collection and processing of financial accounts information. The Division on Business Statistics, especially the Business Surveys Department, collects profit and loss and balance sheet data on non-financial corporations. Collection, processing and dissemination of these data involve about 7 persons.

Moreover, the Department of Financial Institutions and Government of the Division of Macro-economic Statistics and Dissemination, is involved in the gathering and processing of data on financial corporations and the various government institutions. Within this department, the Taskgroup Municipal Government is involved in the collection of financial data for the various municipalities. This involves about 2 persons. The Taskgroup Other Government is, amongst others, responsible for the collection and processing of financial data of all the other government institutions, including the State Government and the Provincial Government. The Taskgroup of Financial Institutions is responsible for the collection and processing of financial data on financial corporations including Central Bank, Other monetary financial institutions, Other financial intermediaries, Financial auxiliaries, Insurance corporations and pension funds, and Social Security Institutions. These activities involve about 3 persons.

Dissemination

The financial accounts data are published by Statistics Netherlands with a time lag of t+8 months as part of the annual publication on National Accounts of the Netherlands. These data are disseminated to Eurostat and the OECD. Quarterly financial accounts are expected to become part of the compilation cycle within a period of 5 years, and for the government already within two years. The compilation is normally finalised with a time lag of t+7 months.

Time table and numbers of revisions at national level and for international organisations

The financial accounts are produced as an integral part of the yearly compilation cycle of the Dutch National Accounts. Every cycle involves compilation of three consecutive years; year t-1 (very preliminary), year t-2 (preliminary) and year t-3 (final estimations). Revisions have taken place in 1992 (for the years 1987 onwards) and in 1999 (for the years 1995 onwards). The next revision is planned in 2003 or 2004 (for the year 2000 or 2001).

Austria

Institutional aspects

The Oesterreichische Nationalbank (OeNB) is responsible for the compilation annual financial accounts on behalf of and in close co-operation with the National Statistical Office. Quarterly financial accounts will be developed by the OeNB in 2001.

The Economic Analysis Division within the Economic Analysis and Research Section compiled the annual financial accounts till to the end of the calendar year 2000. From 2001 onwards the Balance of Payments Division within the Statistics Section is responsible for the compilation of the financial accounts data (both quarterly and annual data).

The group dealing with the financial accounts within this division is responsible for the compilation of data produced by Financial Statements as well as the Accounting Divisions both within the Accounting Section, by the Banking Statistics Division and Balance of Payments Division both within the Statistics Section, by the Economic Analysis Division itself using information from other domestic institutions like NSO and Ministry of Finance.

The following institutions are involved in the process of compiling financial accounts (number of persons):

Oesterreichische Nationalbank:
- Economic Analysis and Research Section, Economic Analysis Division
- Accounting Section, both Financial Statements and Accounting Divisions
- Statistics Section, both Banking Statistics and Balance of Payments Divisions
- Data Processing

Ministry of Finance:
- National Statistics Office.

Dissemination

On the national level the data will be published within the framework of the regular publications of statistics by the Oesterreichische Nationalbank in the monthly bulletin called „Focus on statistics“. The new release will be published in monthly bulletin no. 9 with a time lag of t+10 months after reference period. The results also available on Internet by the Oesterreichische Nationalbank: www.oenb.at/pubs_p.htm /other publications (German version).

Time table and numbers of revisions at national level and for international organisations

The first revision will take place after the dissemination of the data on a national and international level. This revision includes data mainly for the government sector and the insurance companies due to the updated data for this sector and subsector. Normally the second results are available at the end of the year following the reference period. The second revision takes place during the compilation of the financial accounts of the following reference year. This second version will also be sent to Eurostat and ECB at the same time as the first results of the following reference year are available. On the national level the third version will also be published as an update of the time series in the statistics bulletin.

Portugal

Institutional aspects

The Banco de Portugal is responsible for the compilation of financial accounts on an annual basis. At present, the Banco only compiles annual financial accounts, although it already compiles some quarterly indicators.

The methodology is a shared responsibility between the Banco de Portugal and the National Statistics Institute.

The Banco de Portugal has set up a specific unit in the Statistics Department that is responsible for the compilation of the financial accounts. This Unit is composed by five persons - one head and four technicians. Each person is responsible for the compilation of the financial accounts of one / two institutional sectors. In what concerns the specific sector the person has to deal with all the aspects, namely methodology, collection of primary data and compilation of accounts.

Dissemination

The Banco de Portugal has produced a first version of annual financial transactions, that has been published with a time lag of t+6 months after the reference period in the Annual Report.

Time table and numbers of revisions at national level and for international organisations

The first version is revised when the complete annual accounts (transactions and stocks) are compiled and reported to Eurostat (with a time lag of t+12).

Finland

Institutional aspects

Statistics Finland is responsible for the methodology, compilation and dissemination of annual financial accounts and for the development of quarterly financial accounts for the public sector. Statistics Finland also produces other financial market statistics.

Within Statistics Finland the Economic Accounts Division is in charge of all work for financial accounts, as well as for national accounts. Production of financial accounts is organised in separate unit with seven persons at the moment, 5-6 of them being involved with mere financial accounts. Each person is in charge of the accounts of one or more sectors; in addition some financial instruments are compiled by one or two persons for all sectors (like quoted shares or currency). Summing up and adjusting the sector data and compiling the financial transactions is done together in a team led by the chief executive of the unit.

Dissemination

Statistics Finland disseminates financial accounts data to Eurostat. Statistics Finland also disseminates two annual publications, one in Finnish (Rahoitustilinpito, published annually with a time lag of t+10 months) and the other one in English (Financial Accounts, published annually at the end of November t+1). Financial balance sheets by sector are also published in Finnish in Statistics Finland's free database StatFin (published annually with a time lag of t+11 months).

Time table and numbers of revisions at national level and for international organisations

The figures may be revised in October t+2. At the moment only few revisions are made because of the lack of resources.

Sweden

Institutional aspects

The unit for financial market statistics of Statistics Sweden is responsible for the development of methodology, compilation and dissemination of financial accounts and also produces other financial market statistics.

Statistics Sweden has compiled financial accounts on an annual basis since 1970. Quarterly financial accounts were introduced, also by Statistics Sweden, at the beginning of the 80s. In 1999 a flash compilation of household sector was introduced on a quarterly basis (time lag 5 – 6 weeks).

Financial market statistics are produced in co-operation between the Financial Supervisory Authority, Statistics Sweden and the Central Bank. Broadly, the division of work consists of that the Central Bank produces data on monetary financial institutions (MFI:s), the Supervisory Authority on insurance corporations and Statistics Sweden on other financial market statistics used in the financial accounts.

The personnel resources used and required to produce financial accounts - both annual and quarterly - is about 5 - 6 persons (economists and one technical support) full time work a year. In the group working on financial accounts each person is responsible for one or several sector/sub-sectors. One person is responsible for the product "financial accounts" and co-ordinates the work within the group.

Dissemination

The financial accounts are published in quarterly and annual series available on Statistics Sweden's website (www.scb.se). The annual financial accounts with a time lag of approximately t+11 months and the quarterly accounts with a time lag of about t+16 weeks. The quarterly accounts are also available in Statistics Sweden's databases (SSD), free of charge, on the Internet.

Time table and numbers of revisions at national level and for international organisations

For the time being the timetable for annual accounts are t+9 months. However the quarterly accounts (by the production of the fourth quarter) is a good estimate, a very first preliminary version of the annual accounts and are published in t+5 months. There is no strict revision policy. Figures are revised once a year (combined with the annual production) and revisions are made for the years necessary. The quarterly accounts are provisional and revised continuously when necessary, but always published when the latest quarter is produced.

United Kingdom

Institutional aspects

The Office for National Statistics is responsible for compiling the financial accounts on a quarterly and annual basis. There is a central area responsible for co-ordinating the financial accounts production process and agreeing methodological changes. Responsibility for proposing methodology and supplying the data resides in two compiler divisions within which the division of work is based on the main institutional sectors with one person in charge of the each of the following:
Central Government; Local Government, Public Corporations, Households, Financial Corporations, Private Non-Financial Corporations and the Rest of the World.
Each person is also responsible for a number of Financial Transaction lines according to the sector they are in charge of.
The data is processed by a central Data Management Unit which is autonomous from the work of the compiler and co-ordination divisions and provides a service across the whole of the national accounts.

Dissemination

The Data Management Unit disseminates the data to Eurostat and the ECB.

Time table and numbers of revisions at national level and for international organisations

Quarterly data are compiled with a time lag of t+3 months. For the annual data the typical year (it varies according to policy needs) would be provided with a time lag of t+6 months. It is possible to include revisions of earlier data in each subsequent publication.

Norway

Institutional aspects

Statistics Norway and Norges Bank work closely together on compiling the financial accounts, first and foremost by data sharing but also in methodology. Meetings are held regularly and task forces are set up with members from both institutions.

Statistics Norway, Division of Public Finance and Credit Market Statistics is responsible for the compilation and dissemination of the annual financial balance sheets.

The division also compiles the primary statistics used in the compilation for the sectors central government, local government, insurance corporations and pension funds and public non-financial corporations and the rest of the world. Furthermore, the division compiles the statistics used for financial holding companies and some institutions belonging to the financial auxiliaries sub-sector. For the rest of the financial corporations, the compilation is based on statistics compiled by the Central Bank (central bank, monetary institutions, other credit institutions and mutual funds) and by the Division of Income and Wage Statistics at Statistics Norway (development, venture and investment companies, and the rest of the financial auxiliaries). This division also provides primary data for private, non-financial corporations and households.

The Division of Public Finance and Credit Market Statistics uses about 1,5 persons in the compilation and dissemination of the annual financial balance sheets.

The quarterly financial accounts are based on primary statistics from Statistics Norway and from Norges Bank (mainly quarterly data form two other sections responsible for the primary statistics for financial corporations excl. insurance and the securities market, and the rest of the world, respectively).

The Statistical Method Section uses between 2 1/2 and 3 persons in the compilation and dissemination of the quarterly financial accounts.

Dissemination

Quarterly financial accounts data for *S14+S15 Households and non-profit institutions serving households* are published with a time-lag of t+3 1/2 months after the reference quarter (paper publication and on the Internet). At the same time the whole database is made available for the users.

Annual financial accounts as reported to Eurostat by Norges Bank are published on the Internet with a time-lag of 10 months after the end of the reference period.

Time table and numbers of revisions at national level and for international organisations

Statistics Norway published annual financial balance sheets for the period 1988 to 1993 in 1995 (in connection with the main revision of the National accounts). The sector and financial instrument classifications were based on the recommendations of the SNA 1993. Statistics Norway released a new set of financial balance sheets for the period 1993 to 1997 in June 2001. Classifications and methods have been improved according to ESA 95. Accounting statistics for private non-financial corporations and tax return account statistics for households were integrated for the first time.

In Norges Bank's quarterly financial accounts, data revisions are made on a current basis. The revisions are made when new yearly statistics are published and available. The revised annual financial balance sheets published by Statistics Norway in June 2001 have created a need for a more profound revision of the quarterly financial accounts. Norges Bank is making plans for a comprehensive revision of the compilation system. The project will be initialized in the beginning of 2002 and will continue to the end of the third quarter of 2003. The objective is to transmit data to Eurostat in September 2003 according with the recommendations of the ESA 1995.

Cyprus

Financial accounts are not currently compiled in Cyprus. In order to set-up institutional arrangements and proceed in practice with the compilation, a committee has been recently set-up, comprising representatives of the Statistical Service, the Central Bank and the Ministry of Finance.

Czech Republic

The Czech Statistical Office (CSO) is responsible for the compilation of financial accounts on an annual basis.

The Annual National Accounts Department compiles and publishes the financial accounts. The Department includes two units. The Sector Accounts Unit (9 persons) is responsible for compiling all set non-financial and financial accounts. One person is responsible for accounts of one sector (S.11, S.14, S.15); two persons are responsible for accounts of S.12 and S.13.

The CSO´s Annual National Accounts Department is responsible for the methodology.

Dissemination

Financial accounts are published annually, approximately the second year after ending of reference year in the CR" publications and in the "Statistical Yearbook CR". Financial accounts are published in two versions - as semi-definitive (t+18) and definitive (t+24).

Time table and numbers of revisions at national level and for international organisations

The financial accounts are produced as an integral part of the yearly compilation cycle of the National Accounts. Every cycle and publication involves compilation of three consecutive years; t (semi-definitive version), t-1 (definitive version, i.e. revised semi-definitive version) and t-2. The publication of the National Accounts 1999 CR includes time series of main aggregates from 1995 to 1999.
The annual National Accounts of CR in time series (from 1995) will be made in 2003.

Estonia

Institutional aspects

Statistical Office of Estonia (SOE) (Macroeconomic division) is responsible for the compilation of annual financial accounts. However, as a result of negotiations in February 2001, an action plan was signed between the SOE and the Bank of Estonia (BOE) stipulating that Bank of Estonia will be involved in the compilation of the financial account more actively starting from the year 2001. The action plan defines certain steps and deadlines in the construction of the financial accounts compilation system for 2001, which can be used as basis for further co-operation. According to the action plan financial accounts for 1999 must be compiled by the end of 2001.

At present SOE and BOE concentrate only on annual financial accounts compilation but several steps in the collection of quarterly data have been made.

Most of the data used for compilation of financial account are obtained from outside statistical office (Bank of Estonia etc).

Dissemination

SOE is responsible for the data dissemination (actually will be responsible, because till now only two sets of experimental financial accounts have been sent to Eurostat). For the moment being no financial accounts have been published in Estonia.

According to the present view of future dissemination annual financial accounts will be published with a time lag of 17-18 months after the reference period in the same publication as annual non-financial accounts.

Time table and numbers of revisions at national level and for international organisations

SOE will publish only annual financial accounts in the near future. For the time being there is no idea about the need for revisions.

Hungary

Institutional aspects

The National Bank of Hungary (NBH) is responsible for the compilation of financial accounts.

The Financial Accounts Group of the Statistics Department compiles the financial accounts. Two persons are involved directly in compilation of financial accounts.

Dissemination

For the time being, there is neither regular dissemination of, nor time table and revision policy for financial accounts because they are in experimental phase.

Latvia

Institutional aspects

The Central Statistical Bureau of Latvia (CSB) is responsible for the compilation of annual financial accounts. Quarterly financial accounts are not compiled yet.

The Macroeconomic Statistics Department compiles the financial accounts. Three persons from the CSB are involved in the calculation of financial accounts based on primary data from the statistical surveys received from other CSB sections, the Bank of Latvia, the State Insurance Supervision Inspection and other data.

Six persons are involved in the processing of primary statistical data: two persons from the CSB collect and verify the statistical survey forms (1-f and 1-annual). Besides, two persons from the Bank of Latvia are involved in the primary data production (in the processing of banking institutions data) and 2 persons from the State Insurance Supervision Inspectorate are engaged in the processing of the surveys of the insurance companies.

Dissemination

Financial accounts are published once a year in the statistical bulletin “National Accounts of Latvia” for which the responsible unit is the National Accounts Section, with a time lag of t+18 months after the end of the accounting period.

Time table and numbers of revisions at national level and for international organisations

For the time being, no revision is made after the publishing the financial accounts.

Lithuania

Division of responsibility

The Lithuanian Department of Statistics (Statistics Lithuania) is responsible for the compilation of annual financial accounts. Quarterly financial accounts are not compiled yet.

The National Accounts Division of the Statistics Lithuania engaged in the preparation of methodology, production of macro-aggregates and compilation of financial accounts.

The compilation of financial accounts is done by one person of the National Accounts Division. The Head of Division is responsible for the co-ordination of the work and supervision of the results. The process of production and compilation is closely linked to the work of units responsible for the collection of primary data in the Bank of Lithuania, in the Ministry of Finance, in other institutions and the divisions of the Statistics Lithuania.

Dissemination

The first set of Financial accounts for 1996-1999 is made on the experimental basis and has not been published yet. They were provided to Eurostat only. Dissemination and publication of the financial accounts' data is foreseen in 2002 in the annual publication "National Accounts of Lithuania".

Time tables and numbers of revision at national level and for international organisations

Preliminary annual financial accounts are compiled with a time lag of t+11 months. Nevertheless, they are revised in 15 months after the reference year. General revisions of the financial accounts will be done together with the ESA' 95 non-financial accounts for 1995-1999 by the end of 2001.

Poland

Institutional aspects

The National Accounts and Finance Division (NA&FD) of Central Statistical Office (CSO) is responsible for the compilation of financial accounts on an annual basis. Only annual financial accounts have been compiled in Poland so far.

The methodological work is carried out by the NA&FD, and Deputy Director under supervision of Director of Division is involved.

Data used for compilation of financial accounts are worked out by several institutions, first of all:

- the National Bank of Poland (NBP)
- the Ministry of Finance (Department of State Budget, Department of Public Debt, Department of Financial Policy, Analysis and Statistics)
- the Commission for Securities and Stock Exchanges
- the Warsaw Stock Exchange
- the State Office of Insurance Supervision
- the Ministry of Education etc.
- the Enterprise Statistics Division and Living Conditions Statistics Division of NA&FD.

Within NA&FD 3 sections (6 employees) deal with working out the data used for of financial accounts:

The financial accounts are compiled in National Accounts and Finance Division in Section of Financial Accounts in the following way:

- the first employee in the CSO compiles sub-sectors of central bank, other monetary financial institutions and rest of the world sector;
- the second employee compiles financial accounts for insurance corporations and pension funds sub-sector, and households sector;
- the third employee compiles financial accounts for non-financial corporations sector and non-profit institutions serving households sector;
- the fourth employee compiles financial accounts for other financial intermediaries sub-sector and financial auxiliaries;
- the fifth employee compiles FA for central government sub-sector, social security funds sub-sector and also conducts state budget statistics (monthly, quarterly and yearly information, published in yearbooks and publications)
- the sixth employee compiles financial accounts for local government;

Dissemination

The financial accounts are published in December of the year ”n” and comprise data for the year ”n-2” and previous years.

Time table and numbers of revisions at national level and for international organisations

Relatively significant delay of financial accounts compilation declines the necessity of introducing revisions of these accounts. Usually revisions are implemented on the occasion of carrying out works on financial accounts for the next year. They are result of adjusting the methodology to ESA‘95 and also revisions implemented in non-financial accounts as well as changes in stocks in opening balance sheets of the next year in relation to stock closing balance sheets of the previous year.

Romania

Division of responsibility

Since 1993, the National Bank of Romania (NBR) has been responsible for the compilation of the national financial accounts. For 1992-97 period, two employees from Research and Publication Department were involved in compiling the financial accounts, according to ESA 79 methodology based on data provided by other departments in the central bank, in close co-operation with the National Institute of Statistics and Economic Studies (NISES).

In 2000, the harmonisation with ESA 95 methodology required an enlarged panel comprising two employees from the Research and Publication Department and five employees from the Statistics Department. The implementation of ESA 95 methodology requires that the NBR issues the methodological specifications in close co-operation with the National Institute of Statistics and Economic Studies (NISES) and the Ministry of Public Finance (MPF).

The labour division in compiling the financial accounts based on institutional sectors is the following: one employee for the non-financial sector (S11), two employees for the financial sector (S12), two employees for the general government (S13), one employee for non-profit institutions serving households (S 15) and one employee for the rest of the world (S 2).

For each sector, the employees are in charge of primary data collection and processing, the analysis being carried out by the panel members.

Dissemination

The financial national accounts (NBR) and non-financial accounts (NISES) are published by the NBR in the "National Accounts" report on an annual basis. The published data are final; the methodological specifications for compiling the national accounts are also included in the publication.

Slovak Republic

Institutional aspects

The Statistical Office of the Slovak Republic (SO SR) is responsible for the compilation of financial accounts on an annual basis. Quarterly financial accounts are not compiled yet.

National Accounts and prices, division of Accumulation Accounts, department of Financial Accounts compiles the financial accounts. Two persons from the department of Financial Accounts are involved in compilation of sector annual financial accounts.

Production of data directly used for financial accounts is a responsibility of the Ministry of Finance of the SR, National Bank of Slovakia Slovakia and particular institutions of the public sector (National Property Fund, Slovak Land Fund).

Dissemination

Financial Accounts are published annually by the SO SR. The data published for years 1992-1995 are according to ESA79. Data for 1995 have been transformed from ESA79 into ESA95, but not published. Starting with 1996 Financial Accounts are compiled according to ESA95.

Time table and numbers of revisions at national level and for international organisations

Revisions of annual financial accounts have not been done yet.

Slovenia

Institutional aspects

According to an agreement has been reached recently within the statistical co-council for monetary, balance of payments and financial statistics that the Central Bank of Slovenia is responsible for the compilation of financial accounts on an annual basis.

In practice so far, the Bank of Slovenia has compiled financial balance sheets for all sectors on an annual basis. Only existing sources of data have been used for the compilation of financial accounts. As much as the data sources permitted, the methodology of ESA 95 has been followed. The problems with the availability of data sources have not allowed any regular timetable and only one version of statistics has been compiled.

National Accounts and prices, division of Accumulation Accounts, department of Financial Accounts compiles the financial accounts. Two persons from the department of Financial Accounts are involved in compilation of sector annual financial accounts.

Dissemination

The compiled financial accounts of Slovenia have not been disseminated to the public at all. Their only purpose was transmission to Eurostat.

Time table and numbers of revisions at national level and for international organisations

Revisions of annual financial accounts have not been done yet.

COMPILATION PROCEDURES

CHAPTER 2 INSTITUTIONAL SECTOR CLASSIFICATION

Introduction

This chapter focuses on the classification of institutional sectors used by European countries in the compilation of financial accounts. The chapter recalls the fundamental rules for sector classification contained within ESA 95. It then identifies the degree to which sector classifications issues or problems exist for responding countries. The material presented is based on a detailed questionnaire completed by respondent countries.

For each institutional sector and sub-sector, the following structure is established:

1) Whenever necessary, the ESA95 definition of the sector or sub-sector is cited and additional comments are provided.

2) For each country, the national content and/or definition of the sector or sub-sectors in financial accounts compilation is detailed

3) Finally, the potential deviations from ESA95 classifications and borderline cases, which the countries have identified, are listed.

The logic of this structure is to start with the theoretical norm (the ESA 95 sector classification rules) and to identify cases where potential deviations from ESA 95 classifications exist.

ESA 95 sectors

Here we recall the ESA 95 sectors and sub-sectors. This listing then establishes the structure under which the following material is organised.

Under ESA 95, the institutional sectors and sub-sectors mentioned are[13]:

S.11 Non-financial corporations

S.12 Financial corporations

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

S.13 General government

S.1311 Central government
S.1312 State government
S.1313 Local government
S.1314 Social security funds

S.14 Households & S.15 Non-profit institutions serving households (NPISH)

S.2 Rest of the world[14]

[13] For further details concerning the definition of these institutional sectors and sub-sectors, please refer to ESA95 paragraphs 2.17 to 2.92.

[14] Complementary developments are made, under this item, on the criteria for the classification of resident/non-resident units

S11 NON-FINANCIAL CORPORATIONS

Sector Boundary: According to ESA95, paragraph 2.21 to 2.24, the sector non-financial corporations (S.11) consists of institutional units (non-financial corporations or non-financial quasi-corporations, private or public) which are market producers (i.e. respecting the 50% criterion, see ESA95 paragraphs 3.31, 3.32 and 3.37) and whose principal activity is the production of goods and non-financial services.

These institutional units must be independent legal entities, yet they may be listed or not, national or private controlled, of any size, of any legal status, etc.
Sector S.11 may include in particular, one-person firms, general or limited partnership, holding companies or co-ordination centres.

S 11 - Country Detail

The following detailed information are given on sector S.11 by the countries which replied to the questionnaire:

Belgium

Sector S.11 covers private companies with legal personality, which produce goods and non-financial services, including one-person firms, holding companies and co-ordination centres. The sector covers also public enterprises controlled by general government which are market producers. Intermunicipal, communal and provincial enterprises, municipal and provincial services acting as public enterprises, as well as hospitals and rest homes, constitute the largest part of corporations controlled by government. These corporations are to be considered as public non-financial corporations or quasi-corporations. Individual entrepreneurs without legal personality are classified as households.

Denmark

Owing to the lack of adequate accounting statistics, the non-financial corporation sector is calculated as a residual by the usage of supplementary sources on e.g. (un-) quoted shares and other equity, quoted securities other than shares, loans and deposits.

In connection with the delimitation of the general government sector, a number of market producing units included in the public accounting system have to be classed with the non-financial corporation sector. That is quasi-corporations, which are characterized by having output sold at a value of least 50% of their production costs and which do not have independent legal status, since the corporations are owned and supervised by the general government. Public corporations to be classified as non-financial corporations are public transportation corporations such as DSB and a number of municipal supply corporations.

Germany

Sector S.11 covers private limited enterprises (so-called GmbH) and public limited enterprises listed and not listed (so-called AG). Additionally, quasi-corporations: general partnerships (OHG) and limited partnerships (KG) are included.

Greece

Sector S11 consists of non-financial corporations, private or public, whose principal activity is the production of goods and non-financial services. These corporations are limited liability companies, unlimited liability companies, and partnerships.

Spain

Sector S.11 covers all corporations using a fiscal identity code beginning with a letter in their relations with credit institutions and the tax authorities. Those enterprises controlled by general government which, despite of their corporate legal nature, are not market producers (as defined by ESA 95) are not included in this sector. Such corporations have been re-classified in the general government sector (S.13). Individual entrepreneurs undertaking production activities in an unincorporated form are classified as households.

France

Sector S.11 covers:

- Private companies with legal personality, which produce non-financial goods and services, including non-financial holding companies.
- Public corporations, whether industrial or commercial, which are run by the State or by other public organisations: Charbonnages de France, EDF, GDF, SNCF, RATP, Air France, France Télécom, La Poste[15] and other public corporations, either industrial or commercial (semi-public companies, industrial and commercial public institutions, municipal agencies (transport, water, tourism, garbage collection, etc), public offices and low-cost housing associations, independent ports, large-scale regional development (GAR – Grands aménagements régionaux)).
- One-person firms and limited liability agricultural holdings (EURLs and EARLs) created under Law No 85/697 of 11 July 1985.
- Economic interest groupings, co-operatives and their unions, and non-stock corporations whose main economic activity is the production of goods or non-financial services.

[15] Except for French giro accounts (CCP) and the *Caisse Nationale d'Épargne* (CNE)

- Non-profit organisations whose sales of goods and services make up at least 50% of their total resources or whose activities are solely available to enterprises and are financed by them: Establishments for young workers; Social tourism organisations (holiday villages, youth hostels, holiday homes, etc.); Works councils; Racing firms, Pari Mutuel des Hippodromes, Pari Mutuel Urbain; Dispensaries, clinics, hospitals outside the public sector, retirement homes, institutions providing care and lodging for handicapped adults or children, independent crèches; Sheltered workshops; Blood transfusion centres ; Commercial teaching and research establishments ; Professional associations and employers organisations ; Technical centres receiving professional parafiscal charges (smelting, mechanical and rendering industries, etc.); French Petrol Institute (IFP); Organisations assisting students (CROUS, CNOUS, etc.).

Italy

Sector S.11 includes all corporations and co-operatives whose principal activity is the production of goods and non-financial services. Non-financial partnerships and individual enterprises having more than five employees are also included.

Netherlands

Sector S.11 covers:

- all corporations, quasi-corporations (100 employees or more and separate accounts available) and co-operatives which do not belong to the financial corporations (some of these quasi-corporations were formerly classified as household enterprises)
- all non-financial NPISH which do not pertain to the other sectors such as old people’s homes, hospitals and housing corporations
- public enterprises like Dutch Railways and Amsterdam Airport.

Austria

Sector S.11 contains non-financial corporations which are either public, national private controlled or foreign controlled including companies of all market producing industries either in the form of unincorporated or incorporated enterprises. This sector includes also public enterprises like the state owned enterprise holding company (Austrian Industries Holding – ÖTAG) as well as the Austrian Railways company (ÖBB), motorway financing and building company (ASFINAG), the Telekom Austria and Vienna Airport.

Finland

Sector S.11 covers:

Non-financial corporations (S.111)

Non-financial corporations consists of economic units which are market producers and whose principal activity is the production of goods and services:

- private and public corporations, co-operatives, general and limited partnerships and bankrupt's estates of corporations;

- non-profit institutions or associations serving non-financial corporations and household's business activities, recognised as independent legal entities;
- holding corporations controlling a group of corporations which are market producers;
- private and public quasi-corporations, which are principally market producers, engaged in the production of goods and services.
- (notional resident units whose principal activity is not the production of financial services)

Housing corporations (S.112)

In the ESA95 revision, housing corporations were moved from non-profit institutions serving households to a sub-sector of non-financial corporations. The sub-sector includes all corporation forms of housing units: housing companies, housing co-operatives, residential real estate companies, right of occupancy associations and other housing corporations. The most important financial item of the housing corporations sector is the housing corporation share debt.

United Kingdom

Non-financial corporations (S.11) are institutional units whose transactions are distinct from those of their owners, are market producers and have the production of goods and services as their main activity. It includes: Private corporations (mainly companies); public corporations; co-operatives and partnerships which are recognised as independent legal entities; government market producers which are recognised as independent legal entities; non-profit institutions or associations serving non-financial corporations, which are themselves recognised independent legal entities (e.g. trade associations); holding corporations where the preponderant activities of the group they control fulfil the above criteria; quasi corporations.

ESA95 sub-sectors: Public Corporations (S.11001), Private national and foreign owned corporations (S.11002 and S.11003).

Norway

Sector S.11 includes non-financial corporations owned by the private sector, the public sector and by the rest of the world. The largest contribution to sector S.11 is from private incorporated companies (e.g. limited liability companies). Private non-profit institutions serving enterprises are also included.

Central government enterprises and other state enterprises: The sector comprises the Central Government enterprises (unincorporated state enterprises) and other state enterprises (incorporated).

Municipal enterprises: All business activities that correspond to those entered under the chapter for business operations in the municipal accounts come under the institutional sector municipal enterprises. The sector also includes all electricity and energy companies where one or more municipalities own at least 50 per cent of the paid-in share capital. For enterprises partly owned by municipalities or counties that are engaged in other business activities the sector coverage is not complete.

Czech Republic

Sector S.11 covers joint stock companies, limited companies, co-operatives (e.g. agricultural), 'generally beneficial companies' and further state corporations, the Market Regulation Fund, the Czech Radio and Television, The Czech Railways and semi-budgetary organisations (on 50% criterion) and so on, engaged in production goods or non-financial services. 'Generally beneficial companies' are special companies with market or non-market output. The classification of such institutional unit between sector S.11 and S.15 is carried out when the identification number is registered by the Czech Statistical Office and recorded in the CSO´s Register of economic entities, too. The classification is based on information from the Business Register.

Estonia

Sector S.11 contains all domestic (private or public) corporations and quasi-corporations whose principal activity is the production of goods and non-financial services. Since 1999 the State Forest Management Centre is classified into S.11. Legally this Centre is a state profit institution but due to market production and freedom to take decisions we treat it as public non-financial corporation.

Hungary

Sector S.11 includes all corporations engaging primarily in the production of goods and non-financial services. State Privatisation and Asset Management Co. (ÁPV Rt.) and Government Debt Management Company are excluded.

Latvia

Sector S.11 includes all enterprises that are registered in the Enterprise Register and perform economic activities by producing goods and services.

Lithuania

Sector S.11 includes all corporations (public, private and foreign controlled) whose principal activity is the production of market goods or non-financial services. Public enterprises, joint stock companies and agricultural partnerships are covered by this sector.

Poland

Sector S.11 covers all institutional units, whose basic activity is to produce goods and non-financial services, according to the ESA95 system.

In works on classifying units to the suitable institutional sectors, some assumptions have been used:

- until 1999, enterprises of natural persons with number of persons employed more than 5 persons have been included to the non-financial corporations sector, and from 2000 - with number of persons employed more than 9 persons;
- the sector non-financial corporations comprise also budgetary establishments and auxiliary of budgetary entities as quasi-corporations.

Slovakia

Sector S.11 includes all entrepreneurial subjects which are registered in the Business Register, which means all resident national and foreign controlled legal entities and foreign personal entities, and resident national personal entities performing activity for the purpose of gaining profit in all fields of non-financial activities.

Slovenia

Sector S.11 includes all corporations, which are obliged to send balance sheets to the Agency for Payments of the Republic of Slovenia.

S.11 - Borderline cases & Deviations from ESA95

For the compilation of financial accounts, respondent countries mention the following issues:

1) **Some categories of financial intermediaries and financial auxiliaries are not separately recorded.**

   Consequently, some financial intermediaries and financial auxiliaries are occasionally implicitly included in sector S.11 instead of being included in sectors S.123 or S.124.

   This is the case for BELGIUM where, until now, financial auxiliaries and financial holding corporations are not fully incorporated into the financial accounts. Only partial information (namely the assets and liabilities vis-à-vis the credit institutions) are available so it was decided not to isolate those two sub-sectors in the present version of the financial accounts. Consequently, both are implicitly included in the non-financial corporations sector. This will be changed in the future.

2) **The classification of some units between sector S.11 and sector S.14 (Households) may raise difficulties.**

   This is the case for AUSTRIA where the correct classification of private funds (established by companies and private persons for the saving of their earnings) is difficult, due to a lack of information on the owner of these private funds.

   This is also the case for NORWAY where the private quasi-corporate enterprises (for example, general partnerships and general partnerships with shared liability) are included in sector S.14, and not in S.11. This is due to the fact that the assets and liabilities for these enterprises are not derived from their balance sheets, even if they have to keep complete sets of accounts, but based on statistics from tax returns. The tax regulations include these enterprises in the owners' tax returns, and therefore quasi-corporate enterprises owned by households can not be treated separately.

   The same issue is raised in CYPRUS, where the identification of quasi-corporations (especially in the borderline case where households are to be distinguished from non-financial corporations) seems to be the most difficult issue.

In ESTONIA, self-employed people whose turnover does not exceed the level of 250 000 kroons are excluded from calculations at the present time. As a result of negotiations with Tax Office SoE hopes to solve that problem in the near future.

3) The classification of certain units may vary along time, notably for holding companies from sector S.11 to sector S.12 (Financial corporations).

This is the case for PORTUGAL, where, in practice, the classification of holding companies as financial or non-financial enterprises is not straightforward. The classification of these holding companies depends on their portfolio, that changes quite often overtime. Therefore, it is difficult to achieve a full consistency in this classification among the various reporting entities.

That's also the case for SWEDEN where some holding companies which control institutional units principally engaged in financial intermediation but which are not financial corporations are included in sector S.11. This is due to that the primary statistics for the financial sector is depending on the Swedish Financial Supervisory Authority (FI). The FI does not consider them as financial corporations and therefore no statistics is produced. In the quarterly survey these holding companies are included in the non-financial sector.

In the CZECH REPBLIC, the classification is, in the opinion of Czech experts, consistent with ESA95, but deviations owing to time lags may occur.

4) Data on non-profit institutions serving households (NPISH, sector S.15) are available only to a very limited extent, with the consequence that the sector non-financial corporations may include some NPISHs.

This is the case for AUSTRIA, where data on non-financial corporations are mainly available by counterpart information derived from the balance sheets of financial corporations, data provided for central government and the balance of payments statistics.

This is also the case for ESTONIA, where NPISHs are not fully identified yet. Most of them are still treated as NPISHs. This work should be completed within 2001. It means that by the end of 2001 all units in the statistical register will have a characteristic of institutional sector.

In LITHUANIA, semi-budgetary and non-profit institutions, which are not reclassified according to 50% criterion, are included in sector S.11.

5) Some specific difficulties appear as far as the treatment of public corporations in sector S.11 is concerned.

This is the case for SLOVAKIA, where there are problems with subsidised organisations, which are (in non-financial accounts) split according to the 50% rule into the market and non-market units and thus are classified in the general government sector and non-financial corporation sector. In financial accounts, all subsidised organisations are in S.13, because enterprise balance sheets do not enable to split them according to 50% criterion into S.11 and S.13 yet. This is one of the inconsistencies between non-financial and financial accounts.

S.12 FINANCIAL CORPORATIONS

Sector boundary : According to ESA95, paragraph 2.32, the sector financial corporations (S.12) consists of all institutional units (corporations or quasi-corporations) which are principally engaged in financial intermediation and/or in auxiliary financial activities.

Each five sub-sectors of sector S.12 present specific delimitation problems, which are detailed below.

S.121 - The Central Bank

Sub-Sector boundary : according to ESA95, paragraph 2.45: "the sub-sector the central bank (S.121) consists of all financial corporations and quasi-corporations, whose principal function is to issue currency, to maintain the internal and external value of the currency and to hold all or part of the international reserves of the country".

In general, the delimitation of this sub-sector does not seem to raise any difficulty for financial accounts.

All the countries, which replied to the questionnaire, mentioned that this sub-sector only includes the national central bank, except for France where it comprises the Banque de France, but also the Exchange stabilisation funds (FSC) and the IEDOM (institution of currency issuance for the French overseas departments). The particular treatment in UK should also be noted.

S.122 - Other Monetary Financial Institutions

Sub-Sector boundary : according to ESA95, paragraph 2.48: "the sub-sector other monetary institutions (S.122) consists of all financial corporations and quasi-corporations, except those classified in the central bank sub-sector, which are principally engaged in financial intermediation and whose business is to receive deposits and/or close substitutes for deposits from institutional units other than monetary financial institutions, and, for their own account, to grant loans and/or make investments in securities".

In general, the delimitation of sub-sector S.122 does not present major difficulties in the financial accounts.

S 122 - Country Detail

The following detailed information are given on sub-sector S.122 by the countries which replied to the questionnaire:

Belgium

Sub-sector S.122 covers credit institutions (including the Postbank since its creation in April 1998) and undertakings for collective investment of a monetary nature.

Denmark

Sub-sector S.122 includes mortgage banks. In Denmark special mortgage banks finance the mortgage loans. The business of the mortgage banks is to receive repayable funds from the public in the form of continuing issue of bonds and, for their own account, to grant loans – according to ESA95 2.51 the Danish mortgage banks are therefore to be classified as other monetary financial institutions. The Danish mortgage banks are of a magnitude analogous to the largest Danish banks and constitute about half of the S.122 sub-sector.

Germany

The MFIs consist of credit institutions, savings and loan associations, and money market funds.

Greece

Sub-sector S.122 consists of credit institutions and money market funds (MMFs)

Spain

Sub-sector S.122 covers resident credit institutions (banks, savings banks, credit co-operatives, Official Credit Institute, specialised credit institutions) and money market funds (MMFs).

France

Sub-sector S.122 covers:

- Banks: members of the Association française des banques (AFB), cooperative credit banks, credit unions, caisses d'épargne et de prévoyance, caisse Nationale des caisses d’épargne et de prévoyance (CNCEP), municipal credit institutions, financial institutions in the DOM (French overseas departments).
- Saving banks: Caisse nationaled'épargne (La Poste).
- Consignments and loans fund: Caisse des dépôts et consignations.
- Financial corporations and similar: financial corporations subject to special provisions (list A), individually authorised financial corporations (SFHTI) (list B), financial corporations specialised in investment services.
- Specialised financial institutions.
- Monetary mutual funds: monetary SICAVs, monetary FCPs.

Italy

Sub-sector S.122 consists of banks and money market mutual funds.

Netherlands

Sub-sector S.122 covers credit institutions, which are part of the register as stated in Article 52 of the Act on Supervision on Credit Institutions 1992 (‘Wet Toezicht Kredietwezen 1992), and other monetary financial institutions such as money market funds. Also included in this sector are operational leasing companies of credit institutions (formerly classified in the non-financial corporations sector).

Austria

Sub-sector S.122 covers all banks in Austria, which are included in the regular updated list of MFI´s in accordance with the regulations of the ECB. The sub-sector also includes money market funds, which are also classified as MFI´s.

Portugal

Sub-sector S.122 covers: banks, mutual agricultural credit banks, savings banks and money market funds.

Finland

Sub-sector S.122 consists of three sub-sectors: deposit banks (S.1221), money market funds (S.1222) and other monetary financial institutions practising financial intermediation (S.1223). Sub-sector 'Deposit banks' includes all deposit banks operating in Finland, including branches of foreign credit institutions engaged in banking in Finland. Sub-sector 'Money market funds' are mutual funds which invest their assets on short-term, mainly negotiable instruments, such as central government treasury notes and bills, banks’ certificates of deposits, short-term bonds, and so on. The investment is often not a fixed term but it can be exchanged for cash partly or totally when required. Sub-sector ' Other monetary financial institutions practising financial intermediation' includes other financial corporations classified as monetary financial institutions (MFI) by the ECB apart from deposit banks and money market funds.

Sweden

Sub-sector S.122 comprises banks, housing credit institutions and other monetary credit market corporations.

Norway

Sub-sector S.122 includes all banks licensed to take deposits from the public, such as commercial and savings banks operating mainly on a local basis. The sector includes both domestically owned and foreign-owned commercial banks in Norway, including branches of foreign banks operating in Norway. The Postal Bank merged recently with a commercial bank.

Cyprus

Sub-sector S.122 covers deposit money banks and other financial institutions.

Czech Republic

The sub-sector covers banks, mortgage banks, building savings banks and co-operative savings banks.

Estonia

Sub-sector S.122 covers all credit institutions and savings and loan associations. Also money market funds are classified into S.122 but for the time being there is not much information on them. In the beginning of 2001 the number of S.122 units was following: 6 commercial banks and 1 branch of the foreign bank, 8 savings and loan associations, 5 money market funds.

Hungary

Sub-sector S.122 encompasses the commercial banks, special credit institutions, building societies, saving and credit co-operatives.

Latvia

Sub-sector S.122 is defined under the law on credit institutions of 5 October 1995, and includes institutions, which can be described as commercial or all-purpose banks, savings unions and mortgage banks.

Lithuania

Sub-sector S.122 covers depository corporations as commercial banks, credit unions and the Property Bank.

Poland

Sub-sector S.122 covers banks and Co-operative Saving-credit Office, whose the purpose of activity is to collect deposits and allowing credits to households at low interest rates.

Slovakia

Sub-sector S.122 covers commercial banks, savings banks, post-banks and specialised (merchant) banks, agricultural credit banks, and branch offices of foreign banks.

S122 - Borderline Cases & Deviations from ESA 95

For the compilation of financial accounts, the following issues are mentioned as far as sub-sector S.122 is concerned:

1) The classification of some units between sub-sector S.122 and sector S.13 (General government) is still pending.

This is the case in the CZECH REPUBLIC where sub-sectors S.122 and S.123 include so-called 'transformation institutions', i.e. Consolidation Bank, Czech Collection Company, Czech Financial Company (quasi government institutions). These corporations took over bad claims from private corporations, as well as government-owned profitable and unprofitable units. They purchase or sale claims or grant loans, the Consolidation Bank issues deposit certificates and similar bonds etc. These institutions are principally engaged in financial intermediation. However, this time – transformation institutions are unprofitable, financed principally from government budgets. Their deficit and debt – it is, in fact, government deficit and debt. These 'transformation institutions' will be classified in the general government sector, as government units – in the National Accounts 2000 (and in the CSO Statistical Register, too).

This is also the case in SLOVAKIA, where there are still problems with sector delimitation of Eximbank, which is classified in sector 122. Yet, there are some considerations to classify it in S.13, or in S.123, S.124 or S.125. This institutional unit was created by government according to special law on Eximbank in 1997 with the purpose to give support for export and import (to finance through credits) and to insure export/import. All available information on Eximbank is currently being verified in order to reach a final decision in sector delimitation according to ESA95 rules.

2) Some inconsistencies in the delimitation of sub-sector S.122 may remain.

This is the case for SWEDEN where, monetary mutual funds and monetary securities brokerage companies are not included in sub-sector S122 for the financial accounts, whereas they are classified in this sub-sector for the money and banking statistics delivered to ECB. However, the volumes are not significant.

In ESTONIA, the definition of S.122 units needs further investigations.

S.123 - Other Financial Intermediaries, Except Insurance Corporations and Pension Funds

Sub-sector boundary : according to ESA95, paragraph 2.53 "the sub-sector other financial intermediaries except insurance corporations and pension funds (S.123) consists of all financial corporations and quasi-corporations which are principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than monetary financial institutions, or insurance technical reserves".

The delimitation of sub-sector S.123 raises minor difficulties for financial accounts.

S.123 - Country Detail

The following detailed information are given on sub-sector S.123 by the countries which replied to the questionnaire:

Belgium

Sub-sector S.123 covers non-monetary undertakings for collective investment supervised by the Banking and Finance Commission, the Postal Cheque Office (up to the creation of the Postbank in April 1998), the Securities Regulation Fund and the Rediscount and Guarantee Institute (up to its dissolution in 1999).

Denmark

Sub-sector S.123 covers e.g. Financial leasing corporations, Credit card companies, Investment companies, mutual funds, financial holding corporations and Social security funds (LD and DMP). Financial holding companies in S.123 are not fully covered by accounting records, but counterpart sector information and statistics for quoted bonds and shares completes the coverage.

Germany

Sub-sector S.123 currently only covers open-end mutual funds (mainly securities based funds and open-end real estate funds).

Greece

Sub-sector S.123 consists of Other Financial Intermediaries (OFIs) i.e.:

- Investment companies;
- Mutual Funds (excluding money market funds), i.e. shares funds, bonds funds, special funds, and mixed funds;
- Leasing companies;
- Venture capital companies.

Spain

Sub-sector S.123 covers:

Collective investment institutions other than MMFs. Comprises: capital market mutual funds (FIMs), closed-end investment companies (SIMs), open-end investment companies (SIMCAVs) and real-estate investment companies and mutual funds.

Securities-dealer companies. These are included here since, as part of their business, they can take positions for their own account. By contrast, securities agencies, which cannot engage in such business, are considered as financial auxiliaries.

Asset securitisation funds. Comprise: mortgage securitisation funds, asset securitisation funds and the nuclear moratorium securitisation fund.

France

Sub-sector S.123 covers:

- miscellaneous similar financial institutions: private-debt funds, professional societies for the distribution of collective loans to agents other than banks, autoroutes de France, interprofessional housing committees (CIL), groups of banks issuing bonds (GBPE), investment firms, regional shareholding institutes (IRP – Instituts régionaux de participation), counterpart societies (Sociétés de contrepartie), mutual guarantee companies (SCM), national motorway fund (CNA), national telecommunication fund (CNT)
- monetary mutual funds: long-term general SICAVs and FCPs, SICAF, enterprise FCPs, futures mutual fund, high-risk FCPs, non-stock real-estate investment companies.

Italy

Sub-sector S.123 includes securities investment firms, (non-money market) mutual funds, securities and derivatives dealers, financial corporations engaged in lending (leasing, factoring and consumer credit).

Netherlands

Sub-sector S.123 is further subdivided into Mutual funds (S1231), which include all institutions which are part of the register as meant in Article 18 of the Act on Supervision of Mutual Funds ('Wet Toezicht Beleggingsinstellingen') and the Other financial intermediaries (S1232) which comprises of holdings of financial institutions, mortgage banks, building societies, municipal credit banks, credit card organisations, regional development banks, and the not-MFI subsidiaries of MFI's.

Austria

Sub-sector S.123 contains banks, which are not, classified as MFI´s (including mainly banks with special purposes like mortgage banks or leasing banks), mutual funds, corporations engaged in financial leasing (in the balance of payments statistics only) and corporations engaged in factoring.

Portugal

Sub-sector S.123 covers: credit card issuing or managing companies, credit-purchase financing companies, dealers, factoring companies, financial holding companies, financial leasing companies, investment companies, regional development companies, risk capital companies, etc.).

Finland

Sub-sector S.123 covers financial corporations engaged in financial intermediation by incurring liabilities in forms other than receiving deposits and/or close substitutes for deposits. Other mutual funds than money market funds, holding companies of banks, asset management companies, as well as bank guarantee funds belong to this sub-sector.

Sweden

Sub-sector S.123 is further sub-divided into non-monetary credit market corporations (finance companies)[16], mutual funds, securities brokerage companies and investment firms. Finance companies provide credit to enterprises as well as households and principally via hire-purchase credits and promissory notes.

Norway

Sub-sector S.123 comprises state lending institutions, mortgage companies, finance companies and mutual funds:

State lending institutions: State lending institutions were established to ensure the supply of credit to specific sectors according to social, economic or regional criteria. Loans are often offered on friendly terms, regarding interest, repayment period and security. The Norwegian State Housing Bank is the largest institution. It was established in 1946 in order to ensure the financing of the post-war reconstruction of housing and long-term improvement of housing conditions. State lending institutions are administered by the Central Government. Originally, these lending institutions were meant to finance their operations by bond issuance, but they have been almost entirely financed directly through Government funds, which the Government raises on the bond market.

Mortgage companies: The mortgage companies provide financing for, inter alia, industrial and residential buildings, shipbuilding and export credit, mainly as medium and long-term mortgage loans. They obtain most of their funds by issuing bearer bonds in the domestic and the foreign market.

Finance companies: Finance companies render financial services in the same way as the banks in the form of loans against promissory notes, but they mainly offer complementary services such as leasing, factoring and instalment credit. The companies are to a large extent owned by banks or insurance companies. They largely obtain funds by borrowing in the money market.

Mutual funds: The sector includes equity funds, bond funds, mixed funds and money market funds registered in Norway. The sector has been growing rapidly the last ten years.

Czech Republic

Sub-sector S.123 covers investment funds and companies, corporations principally engaged in financial leasing or hire purchases, security dealers on own account, holding corporations.

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[16] As from 2002 classified as monetary financial institutions.

Estonia

Sub-sector S.123 covers following institutions: leasing companies (they provide also factoring and other type of services), investment companies, financial holding companies, dealers, Compensation Fund, etc.

Hungary

Sub-sector S.123 includes all mutual funds, leasing companies, investment companies, security dealers and other financial corporations engaging in financial intermediation by raising funds accepting non-deposit liabilities. Insurance corporations and pensions funds are excluded.

Latvia

Sub-sector S.123 includes investment funds, specialised corporations engaged in financial leasing and factoring, and corporations which specialise in export/import financing. These activities are also done by S.122 institutions, on their own books. Consumer credit activities, e.g. through credit cards [or through 'traditional' hire-purchase finance], are just beginning but are done mainly on their own books by S.122 institutions. Consumer credit loans are a separate category in their monthly financial position reports.

Lithuania

Sub-sector S.123 includes financial leasing companies and investment companies.

Poland

Sub-sector S.123 comprises mainly investment funds, unit trusts, corporations dealing with financial leasing, national investment funds, trust funds and brokerages.

Slovakia

Sub-sector S.123 covers investment funds, investment companies, specialised units engaged in financial leasing, own account traders with securities, which performs bank and insurance activities in connection with import and export.

Slovenia

Sub-sector S.123 includes investment funds and companies, privatisation investment funds, brokerage houses, insurance companies, pension funds and companies and other financial intermediaries and agents.

S123 Borderline cases & Deviations from ESA95

For the compilation of financial accounts, the following issues are mentioned as far as sub-sector S.123 is concerned:

1) **The coverage of sub-sector S.123 may be incomplete.**

   That is the case for BELGIUM where some categories of other financial intermediaries are not recorded until now (financial holding companies, which are not isolated from non-financial holding companies, financial leasing enterprises, and securities dealers).

   In Spain, financial holdings are not specifically regulated as such and so those existing are included residually under the category of non-financial corporations.

2) **The classification of some units between sub-sector S.123 and sector S.13 (General government) raised some difficulties.**

   That is the case for FINLAND, where, the financial defeasance body Arsenal Co. is now classified in S123 and not in general government. The unit was active in 1993-2000.

   This is the case for the CZECH REPUBLIC, where sub-sectors S.122 and S.123 include so-called 'transformation institutions', i.e. Consolidation Bank, Czech Collection Company, Czech Financial Company (quasi government institutions). These corporations took over bad claims from private corporations, as well as government-owned profitable and unprofitable units. They purchase or sell claims or grant loans, the Consolidation Bank issues deposit certificates and similar bonds etc. These institutions are principally engaged in financial intermediation. However, this time – transformation institutions are unprofitable, financed principally from government budgets. Their deficit and debt – it is, in fact, government deficit and debt. These transformation institutions will classify in government sector, as government units – in the National Accounts 2000 (and in the CSO Statistical Register, too).

3) **The classification of holding companies and the delimitation with sub-sector financial auxiliaries (S.124) remains problematic.**

   This is the case in NORWAY, where, "New" financial companies, such as financial holding corporations, development, venture and investment companies are included in S.124. Financial auxiliaries in the annual financial accounts. This is partly due to borderline problems between the two sectors and partly to avoid big changes when units are entering and leaving the sector (until the boundary is clear). In the quarterly accounts these institutions are included in the non-financial sector.

   This is the case for POLAND, where the problematic issue is to classify all brokerages into sub-sector S.123. Some of them conduct only servicing activity, so according to ESA`95 should be classified in S.124 sub-sector. The CSO obtains aggregated balance-sheet reports, what does not enable to select brokerages conducting investment activity on their own.

S.124 Financial Auxiliaries

Sector boundary : according to ESA95, paragraph 2.57 "the sub-sector financial auxiliaries (S.124) consists of all financial corporations and quasi-corporations which are principally engaged in auxiliary financial activities, that is to say activities closely related to financial intermediation but which are not financial intermediation themselves".

The delimitation of sub-sector S.124 raises some difficulties for financial accounts compilation.

S.124 Country Detail

The following detailed information are given on sub-sector S.124 by the countries which replied to the questionnaire:

Denmark

Sub-sector S.124 covers e.g. Copenhagen stock exchange and the Danish securities centre (VP), Stock market brokers, Insurance brokers. S.124 includes financial auxiliaries based on accounting records for all major companies.

Greece

Sub-sector S.124 consists of financial auxiliaries defined as institutions which engage in activities closely related to financial intermediation, but which are not financial intermediaries themselves.

Types of entities belonging to this sector (illustrative list):
- Investment advisers
- Managers of mutual funds Securities firms
- Stock market intermediation services
- Foreign exchange offices

Spain

Sub-sector S.124 includes deposit guarantee funds, securities agencies, mutual guarantee companies, appraisal companies and management companies (of pension funds and mutual funds and holding companies) and the managing companies of organised markets and of securities clearing and settlement.

France

Sub-sector S.124 covers financial holding companies not officially recognised as a credit institution and not controlled by the CCA: asset management companies, manual money changers, G.I.E Carte Bleue (Supervisory body), G.I.E. Carte Bancaire (Supervisory body).

Yet, it has to be noticed that service providers whose goal is to simplify financial intermediation without taking part in it, and who make up only a small part of the market (possible examples are asset management companies, the bank card supervisory body (G.I.E. Carte Bancaire), manual money changers, etc.) have relatively large non-financial accounts given the outstanding amounts that make up the financial accounts.

Italy

Sub-sector S.124 includes agencies and authorities regulating and supervising financial markets, like Consob (for the stock exchange market) and Isvap (for the insurance market). The office for the foreign exchange (UIC) belongs to this sub sector since January 1999, due to the transfer of the international reserves of the Country to Banca d'Italia.

Netherlands

Sub-sector S.124 covers Other financial auxiliaries serving financial institutions (S1241), which includes the Amsterdam Stock Exchanges, stockbrokers, market makers, credit and mortgage brokers, financial advisory and asset management institutions, and the Other financial auxiliaries serving insurance corporations and pension funds (S1242), which consists of insurance brokers and advisors.

Austria

Sub-sector S.124 covers managers of mutual funds located in Austria. All other categories described in the ESA95 do not play any important role in the financial accounts of Austria.

Portugal

Sub-sector S.124 covers: brokers, exchange offices, foreign-exchange and money-market mediating companies, group-purchase managing companies, investment funds managing companies, pension funds managing companies, wealth managing companies, etc.

Financial auxiliaries supervised by the Banco de Portugal are fully incorporated into the Accounts – balance sheet data are available for all types of financial auxiliaries, although in many cases the detail by instrument necessary to the Accounts has to be estimated. Data from the2 Pension funds management companies are also included. The remaining auxiliaries are not incorporated.

Finland

Sub-sector S.124 covers financial corporations and quasi-corporations which are principally engaged in auxiliary financial activities, that is to say activities closely related to financial intermediation, but which are not financial intermediation themselves. These corporations do not acquire financial assets by incurring liabilities on their own account.

Such corporations include stockbroking corporations, securities markets (such as stock exchanges), corporations rating credit information and creditworthiness, corporations arranging derivatives, and insurance brokers. The category also contains financial corporations managing mutual funds and organisations serving intermediation and insurance.

Norway

Sub-sector S.124 includes some institutions, which according to ESA 95 should have been included in sub-sector S.123. These institutions are financial holding corporations, development, venture and investment companies.

Sub-sector S.124 also includes deposits guarantee funds, foreign exchange bureaux, pension fund management companies, insurance brokers, stock exchange management companies, futures and options market management companies, securities clearing and settlement services, security brokers, security agencies, mutual funds management companies, portfolio management companies, venture capital fund management companies, investment advisors, insurance agents, insurance and pension consultants.

Czech Republic

Sub-sector S.124 covers financial consultants, security brokers, the Centre of Securities, associations of financial companies. Financial auxiliaries are legal persons and they are incorporated into the financial accounts. Statistical questionnaire includes information on non-financial flows, financial transaction and information on balance sheet, too.

Estonia

Sub-sector S.124 covers following institutions: exchange offices, brokers, Tallinn Stock Exchange, financial advisory and asset management institutions, insurance auxiliary institutions (advisors, brokers), etc.

Hungary

Sub-sector S.124 covers security brokers, insurance brokers, stock and commodity exchanges, clearing houses, guarantee funds and other financial auxiliaries engaging activities closely related to financial intermediation. Direct information is available for financial auxiliaries from their tax returns. Some meaningful data can be drawn the balance sheets of monetary institutions as counter party information.

Latvia

Calculated as financial auxiliaries are the activities of enterprises registered in activity auxiliary to financial intermediation. The sub-sector covers security brokers, investment funds, insurance brokers, corporations that manage the floatation of securities, stock and commodity exchanges, foreign exchange offices functioning as independent units and registered with Enterprise Register.

Lithuania

Sub-sector S.124 covers the National Stock Exchange of Lithuania, stock-brokerage companies and insurance brokers.

Poland

Sub-sector S.124 covers all financial institutions and quasi-corporations, whose basic activity is auxiliary financial activity. In particular, the following units are classified in this sub-sector: the Warsaw Stock Exchange, foreign currency exchange offices, managers of investment and unit trusts, insurance brokers, tax advisors, National Securities Depository etc. All financial auxiliaries are incorporated into the financial accounts.

Slovakia

Sub-sector S.124 covers security brokers, investment advisors, the stock exchange, corporations that manage the floatation of securities, commodity exchanges, foreign exchange offices functioning as independent units.

S124 Deviations from ESA 95

1) **On account of a lack of specific recording, sub-sector S.124 may be included in another sub-sector or sector.**

   It is included in sector S.11 (non-financial corporations) for BELGIUM and SWEDEN (for most financial auxiliaries, yet a reclassification procedure with the purpose of identifying the financial auxiliaries is planned to take place in the near future).

   In SLOVAKIA, financial corporations are fully incorporated into the financial accounts, but no data is divided into sub-sectors S.123 and S.124, but recorded together.

2) **The coverage of sub-sector S.124 may be incomplete.**

   This is the case for GERMANY, where until now for financial auxiliaries no data is available.

   This is also the case for SPAIN where information on currency-exchange bureaux and insurance agents and brokers is not available yet.

   In FINLAND, the coverage of sub-sector S.124 in the financial accounts is not full but rather good. As a rule, financial auxiliaries do not incur debts on their own account and, therefore, the financial assets and liabilities of their balance sheets are insignificant. However, some units of this sector may have significant items, which are external to the balance sheet and on which no comprehensive statistics are available.

   In PORTUGAL, the Financial auxiliaries that are not supervised by the Central Bank (with the exception of Pension funds managing companies) are not included in the accounts.

3) The classification of some holding companies in sub-sector S.124 is incorrect.

his is the case for FRANCE, where holding corporations that are neither categorised as non-financial corporations, financial intermediaries nor insurance corporations. According to the ESA, these bodies should have been included in sector S123. However, in order to maintain statistical consistency with the Insee databases, they were included in S124. Unlike the first type of financial auxiliaries, holding corporations, who control and manage groups of corporations, typically have marginal production, and therefore a low non-financial account in comparison with their outstanding amounts. This group is characterised by a certain lack of stability, as the corporation may be classified as a financial or non-financial holding corporation depending on the activities it happens to be carrying out at any given time.

The accounts for financial auxiliaries are drawn up by the Insee using the SIE (Intermediate system for business statistics). They are based on a selection from the SUSE database done enterprise by enterprise every year. This database includes all data from tax sources submitted by taxpayers to the Directorate General for Taxes. The financial and non-financial accounts, based on a single source, should automatically produce results that are similar, if not strictly identical. For statistical reasons, this is not the case here.

This is the case for NORWAY, where - for practical reasons - sub-sector S.124 includes some institutions, which according to ESA 95 should have been, included in *S.123 (Other financial intermediaries, except insurance corporations and pension funds)*. These institutions are financial holding corporations, development, venture and investment companies. The financial holding corporations are characterised by being parent companies in a group of financial companies or parts thereof. It is a relatively modest number of licensed holding corporations and their role in the credit market is mainly as managers of ownership interests in other financial enterprises. The Financial Institution Act requires a clear separation of e.g. bank and insurance activity when conducted within the same group of company, and due to this fact it has been an increase in the numbers of financial holding corporations.

Development, venture and investment companies are included in this sector, but the boundary between these companies and non-financial companies is not clear. In Norway there are a great number of companies whose main activity is to manage capital for a small closed group of owners (i.e. family or company group) by portfolio or direct investment. The classification problem occurs when the company is a minority owner, and exists primarily with the purpose to invest in other businesses or in securities. Development, venture and investment companies are not subject to any kind of financial supervision.

In the CZECH REPUBLIC deviations from ESA95 classification of finance units in S.122, S.123 and S.124 may occur owing time lags.

In ESTONIA, there are some minor deviations on the level of sub-sectors. Mainly concerning the borderline between S.123 and S.124.

S.125 Insurance Corporations and Pension Funds

Sector boundary: according to ESA95, paragraph 2.60 "the sub-sector insurance corporations and pension funds (S.125) consists of all financial corporations and quasi-corporations which are principally engaged in financial intermediation as the consequence of the pooling of risks ".

The delimitation of sub-sector S.125 raises few specific difficulties for financial accounts compilation.

S.125 Country Detail

Belgium

Sub-sector S.125 covers all insurance corporations and pension funds supervised by the Insurance Control Office, as well as the Fund for the Protection of Deposits and Financial Instruments.

Denmark

Sub-sector S.125 covers private insurance corporations e.g. non-life insurance corporations, life insurance corporations, pension funds and re-insurance corporations. Sub-sector S.125 does neither include social security funds (LD and DMP), which are classified as other financial intermediaries nor labour market supplementary pension corporations (ATP and SP), which are classified as social security funds.

Germany

Sub-sector S.125 covers insurance enterprises including autonomous pension funds that are subject to insurance supervision, as well as occupational pension funds and supplementary pension funds (for government sector employees).

Greece

Sub-sector S.125 covers insurance corporations, that is: financial corporations engaged in financial intermediation as the consequence of the pooling of risks, the main liabilities of which are insurance technical reserves.

Types of entities belonging to this sector :
- Life insurance companies
- General insurance companies

Spain

Sub-sector S.125 covers:

- Private insurance corporations: These include both Spanish and foreign corporations and “mutualidades” (mutual companies), whose operations are similar to those of the corporations and which should not be confused with the entities with the same name which are either included under social security funds (sub-sector S.1314) or within non-profit insurance entities, which are described below.

- Non-profit insurance entities: These are welfare entities set up by certain groups as a means of corporate support (they provide small benefits in the event of death, birth, etc. and grant small loans).

- Insurance Compensation Consortium: The Insurance Compensation Consortium is a Public law entity whose object is to cover the extraordinary risks of individuals and property. It is financed by the surcharges on the premiums paid by policyholders and by State contributions and loans, although it also receives premiums directly.

- Pension funds. Funds created under Law 8/1987 are considered to be pension funds. These funds, which are known as autonomous funds, fall under the control of the Directorate General of Insurance, and they are separate and independent from the assets of the institutions that promote them; they do not have separate legal status, and are formed by the resources assigned for previously established purposes in their corresponding pension scheme. The funds' management is entrusted to a management and depository institution, and they are monitored by a supervisory committee. Non-autonomous pension funds, set up by certain credit institutions and non-financial corporations by means of contributions to provision funds or internal reserves, are not included here. These funds figure in the liabilities of the sectors, which formed them, where they are recorded as "insurance technical reserves" vis-à-vis, the employees (households) entitled to claim them.

France

Sub-sector S.125 covers:

- Life insurance and capitalisation corporations, Non-life insurance corporations, Pension funds, Corporations specialising in reinsurance, *Caisse Nationale de Prévoyance* (CNP) and *Compagnie Française d'Assurance pour le Commerce Extérieur* (COFACE)

- The central and departmental funds for mutual agricultural insurance and reinsurance (Decree of 23 May 1964); bodies of the mutual insurance scheme for farmers, whose main activity is the management of farmers’ social security schemes, are not included here.

- Supplementary pension fund institutions, set up within an enterprise or, more rarely, by a professional sector, which provide services in addition to the basic level provided by social security
- *Institutions de prévoyance*: bodies with equal representation from employers and employees which insure all physical risks for their members (employees or former employees), generally through collective insurance, with obligatory dues collected within the enterprises.

- Associations and autonomous funds operating under the *Mutualité* code: *mutuelles* for civil servants and workers in the public sector (except for the CAS of EDF-GDF, for which membership is obligatory), enterprises, craftsmen, retailers and manufacturers, war veterans, surgeons, pharmacists and the medical professions, and those insuring against accidents due to sport, or accidents had by students.

Netherlands

Sub-sector S.125 consists of the sub-sectors Insurance Corporations (S1251), which includes all commercial risk insurance and life insurance, annual saving funds, funeral in kind insurers supervised by the Chamber of Insurance. Furthermore, pension funds (S1252), which encompasses the pension funds for branches of industry, company pension funds, and pension funds for professions supervised by the Chamber of Insurance. Finally, the sub-sector includes Insurance corporations and pension funds not supervised (S1253). This rather small sub-sector manages the pensions of some special interest groups; their total claims are, however, less than 1 percent of the overall insurance technical reserves.

Austria

Sub-sector S.125 consists of all insurance companies and pension located in Austria which are under the scrutiny of the Ministry of Finance (acting as supervisory body). Both entities have to report data on their assets and liabilities on a quarterly basis to the OeNB and to the Ministry of Finance, which are used for the compilation of the financial accounts.

Portugal

The sub-sector covers insurance corporations and pension funds.

Finland

Sub-sector S.125 covers life and non-life insurance corporations, insurance associations, corporations engaged in individual voluntary pension insurance, and their holding companies are included in this sector. This category does not include pension insurance corporations, pension funds, pension societies and public corporations providing statutory or comparable employment pension security (TEL), which are classified in the sector social security funds.

Sweden

Sub-sector S.125 includes insurance companies (life insurance, unit –linked companies and non-life insurance) supervised by the Swedish Financial Supervisory Authority and benevolent societies. Pension funds are not fully covered since they are not obliged to give statistical information.

Norway

Sub-sector S.125 comprises life insurance and non-life insurance companies as well as autonomous private and public pension schemes that are subject to supervision by the

Banking, Insurance and Security Commission. They obtain funds in the form of premium payments and contributions to pension schemes. The funds are mainly used for purchase of bearer bonds, shares and granting of loans to customers. Sub-sector S.125 also includes *Joint Pension under Collective Agreement (FTP)* and *Agreement Based Pension (AFP).* The Norwegian Public Service Pension Fund, which is unfounded, is part of the *Central government sector* and not of sub-sector.

Czech Republic

Sub-sector S.125 covers insurance companies and pension funds.

- Insurance companies are corporations engaged in life and non-life insurance (30 units in 2000; NACE 66,01 and 66,03)).

- Pension funds were established in 1994 under an Act on additional pension insurance with government contribution (NACE 66,02). This insurance is organised on voluntary base by government (as insurance pension supplementary to compulsory pension insurance). Their receipts are from voluntary pension contributions paid mainly by employees, self-employed persons and (in some cases) employers, too.

Estonia

Sub-sector S.125 covers only insurance corporations. For the time being there are no private specialised pension funds in Estonia. There are only some insurance corporations which provide services similar to pension funds but in fact they are not pension funds and the service they provide is rather mixture with life insurance.

Hungary

Sub-sector S.125 comprises all insurance corporations, insurance societies, pension funds, health funds and private income replacement funds.

Latvia

Sub-sector S.125 includes 25 private insurance corporations and 4 pension funds in Latvia supervised by the State Insurance Supervision Inspectorate and are defined by the Insurance Law of September 1998.

Lithuania

Sub-sector S.125 comprises insurance enterprises. Pension funds are not established yet.

Poland

Sub-sector S.125 includes insurance corporations, managers of mutual insurance companies and since 1999’ pension funds (with their managers) of so called II pillar.

Slovakia

Sub-sector S.125 covers commercial insurance companies, which engage in direct life and non-life insurance, foreign branch offices of insurance corporations in the SR.

S.12 Country Detail

United Kingdom

Financial corporations (S.12) are all corporations and quasi-corporations which are principally engaged in financial intermediation (financial intermediaries) and/or in auxiliary financial activities (financial auxiliaries). It includes: banks (including the central bank); building societies; corporations engaged in finance leasing and other forms of personal and commercial finance; securities and derivatives dealers (on own account); mutual funds including money market funds, unit trusts, investment and other collective investment schemes; insurance corporations and pension funds; financial auxiliaries including securities brokers, fund managers, investment advisers, insurance brokers etc; holding corporations, if the group of subsidiaries within the UK economic territory as a whole is mainly engaged in financial intermediation or auxiliary activities; partnerships which are principally engaged in financial activities; financial quasi-corporations.
ESA95 sub-sectors: The central bank (S.121); other monetary institutions (banks and building societies) (S.122); other financial intermediaries (except insurance and pension funds) (S.123) and financial auxiliaries (S.124); insurance corporations and pension funds (S.125).

S.13 GENERAL GOVERNMENT

Sector boundary : according to ESA95, paragraph 2.68 "the sector general government (S.13) includes all institutional units which are other non-market producers [institutional units whose sales do not cover more than the 50% of the production costs, see ESA95 paragraph 3.26] whose output is intended for individual and collective consumption, and mainly financed by compulsory payments made by units belonging to other sectors and/or all institutional units principally engaged in the redistribution of national income and wealth".

Further precision on the delimitation of sector S.13 is available, notably in the **ESA95 Manual on Government Deficit and Debt**. This precision has had and continues to have an influence on financial accounts compilation.

S.1311 Central Government

S.1311 Country Detail

The following detailed information are given on sub-sector S.1311 by the countries which replied to the questionnaire:

Belgium

Central government, called the “Federal Government” in Belgium, covers all the administrative departments of the Belgian State and a number of government entities, the majority of which belonging to categories defined in the Law of 16 March 1954. Included are also some scientific and cultural institutions, economic and social advisory boards, as well as other institutions such as the Belgian Monetary Fund and the Société fédérale de participation (public holding company).

Denmark

Sub-sector S.1311 includes institutions financed by the State and the church. Judiciary, legislature, ministries, state church and government agencies.

Greece

“Central Government” consists of all administrative departments of the state (i.e. Ministries); there are no state governments in Greece. Also included are certain public entities as listed below:

Types of entities belonging to this sector (illustrative list):
- Public schools, universities and various further education public organisations;
- Stock exchanges;
- Chambers of commerce and industry.

Entities belonging to this sector (illustrative list):
- Organisation of School Buildings;
- The Church;
- The National Defence Fund;
- The National Roadways Fund;
- The National Theatre, the National Opera Theatre, the State Theatre of Northern Greece.

Spain

Sub-sector S.1311 covers the State and all administrative and similar autonomous agencies reporting to central government, except for those classified in the sub-sector Social security funds. It also includes enterprises controlled by the State that do not comply with the ESA 95 rules for sectorisation as non-financial corporations.

France

Sub-sector S.1311 covers: the State and miscellaneous public sector bodies (universities, higher education establishments, research institutions (CNRS, CNES, INRA, etc.), theatres and national museums, guarantee and intervention funds (housing benefit, agricultural disasters, etc.), *Caisse d'amortissement de la dette sociale* (CADES), administrative bodies, regulatory bodies for agricultural markets (ONIC, OFIVAL, ONILAIT, SAV)).

Italy

Sub-sector S.1311 includes the State Treasury and Cassa Depositi e Prestiti.

Netherlands

Sub-sector S.1311 consists of the State Government, including all the ministries and some budget funds like the Municipal and Province Budget Fund, the Mobility Fund and the Infrastructure Fund, Universities, and a number of non-profit institutions controlled and mainly financed by the central government such as the National Investment Bank for Developing Countries and several charity, relief and educational organisations.

Austria

Sub-sector S.1311 includes: The Federal Government and miscellaneous public sector authorities (higher education schools, various funds of public activities (e.g. ERP-Fonds, Österreichische Bundesfinanzierungsagentur), various public organisation for the co-ordination of certain types of professionals and industries (Bundeskammern), diplomatic academy in Vienna).

Portugal

The sub-sector Central government covers: the state and the autonomous funds and services.

Finland

Sub-sector S.1311 comprises economic units belonging to State budgetary finances: ministries and State agencies and institutions, and ten extra-budgetary funds.

Sweden

Sub-sector S.1311 includes the Riksdag (Parliament), administrative departments and authorities. It also includes some foundations controlled by the central government.

United Kingdom

General government (S.13) includes all institutional units which are other non-market producers whose output is intended for individual and collective consumption, and mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national wealth or income. In the UK, the sector exists at two levels: central government (S.1311) and local government (S.1313).

Norway

Sub-sector S.1311 includes the central government's fiscal accounts including the National Insurance Scheme, other central government accounts, some other social security accounts and the tax collection accounts.

Czech Republic

Sub-sector S.1311 covers:

- Central budgetary organisations: Office of President, Office of the Government, Chamber of deputies, 13 ministries, 11 central offices (for instance Czech Statistical Office, Control Office, etc), Security Information Service, Grant Agency, Science Academy, Constitutional Court, National material reserves, Radio and TV, Screen Executive and other budgetary organisations managed by ministries or central offices;
- Universities (they changed their legal statute in 1998; they are not semi-budgetary organisations; they have non-profit institutions features and they are financed especially by state budget);
- Extra-budgetary funds: 4 (6) National funds (Cinematography, Cultural, Environmental, Soil Reclamation Fund and Housing Development Fund and Transport Infrastructure Fund established in 2000), National Property Fund, Land Fund, Farming and Forestry Supporting Fund;
- Children and Young People Fund (from 1996);
- Semi-budgetary organisations managed by central authorities (classified on basis of 50% rule)

Estonia

Sub-sector S.1311 includes all administrative departments of the State and other central agencies whose competence extends normally over the whole economic territory (except social security funds) and which are mainly financed from the state budget (50% criteria). It includes also institutions, which are mainly financed and controlled by the central government.

These institutions are included also in the statistical register, which is updated on the basis of State, and Local Authorities Register.

Hungary

Sub-sector S.1311 covers institutions of central budget, the extra-budgetary funds and State Privatisation and Asset Management Co. (ÁPV Rt.).

Latvia

Sub-sector S.1311 covers Central budgetary institutions: Office of President, Office of the prime minister, Parliament, ministries, budgetary organisations, special budgetary funds (state property privatisation fund, public road fund, environment protection fund, forestry development fund, fishery fund, etc.), Central commission of privatisation of dwelling houses, Radio and TV board, institutions under 50% rule.

Lithuania

Sub-sector S.1311 covers all institutional units and extra-budgetary funds financed from the state-budget.

Poland

Sub-sector S.1311 covers includes state authority, state administration, non-profit institutions financed by central government and central appropriated funds.

Slovakia

Sub-sector S.1311 includes all central bodies of general government, budgetary organisations established and financed by units of central government, subsidised organisations established by central government units, state purpose funds (i.e. extra-budgetary funds), privatisation funds National Property Fund, Slovak Land Fund.

S.1312 State Government

S.1312 Country Detail

Only 3 countries, which replied to the questionnaire, are concerned by sub-sector S.1312 (State government). They give the following detailed information:

Belgium

State government, referred to in Belgium as the "Communities and Regions", covers all the administrative departments of the French, Flemish and German-speaking communities, the Walloon Region, the Brussels Capital Region and the French, Flemish and joint community commissions, including institutions controlled by these entities, universities and non-state education.

Greece

Not applicable.

Spain

Sub-sector S.1312 covers *regional (autonomous) governments.* Included here are the management institutions of the regional (autonomous) governments and their administrative and similar autonomous agencies, including the universities for which such governments are responsible, but not their service-producing enterprises or their commercial autonomous agencies (except those that do not comply with the rules of ESA 95 for sectorisation as non-financial corporations, which are included here). Social security transferred to the regional (autonomous) governments appears in Social Security funds.

Austria

Sub-sectors S.1312 and S.1313 includes: State and local government authorities, lower and primary education schools, fire fighting departments as well as local based funds of public activities (e.g. Wirtschaftsförderungsfonds, Nationalparkfonds) and local based public organisations for the co-ordination of certain types of professionals and industries (e.g. Ärztekammer, Notariatskammer, etc.).

S.1313 Local Government

S.1313 Country Detail

The following detailed information are given on sub-sector S.1313 by the countries which replied to the questionnaire:

Belgium

Sub-sector S.1313 covers the provinces, towns and municipalities, the public social welfare centres (CPAS) excluding their hospitals and rest homes, the new created local police entities (from 2001 onwards), the Brussels conurbation, the power and water management authorities and, finally, the intermunicipal associations which do not produce market services.

Denmark

Sub-sector S.1313 comprises municipalities, county councils, institutions financed by local governments, government organisations, city of Copenhagen.

Greece

Sub-sector S1313 consists of all Local Government units defined as all public administration bodies, the authority of which covers a geographical area of the economic territory.

Types of entities belonging to this sector:
- Municipalities;
- Associations of municipalities;
- Harbour funds;
- Prefectures' funds.

Spain

Sub-sector S.1313 comprises the provincial, municipal, island, town and minor local authorities, and the groupings to which these units belong. Also included here are the administrative and similar autonomous agencies, which report to them, but excluded are service producing enterprises (except those that do not comply with the criteria of ESA 95 for sectorisation as non-financial corporations, which are included here).

France

Sub-sector S.1313 covers:

- Local communities and groups: municipalities, departments, regions and bodies which stemming directly from them (districts, local organisations, associations of municipalities, etc.)
- Miscellaneous local administrative bodies: public and private secondary schools (*lycées* and *collèges*) working under a contract of association, welfare offices, trade associations, chambers of agriculture, commerce and industry, land improvement and rural development corporations (SAFER – *société d'aménagement foncier et d'équipement rural*), departmental fire-fighting and emergency services

Italy

Sub-sector S.1313 includes local authorities, communes and provinces, and public hospitals, universities and chambers of commerce.

Netherlands

Sub-sector S.1313 consists of municipalities, provinces, district water boards, joint ventures of municipalities in the field of waste processing, water treatment, fire brigades, social work provisions, privatised government services such as employment services offices and regional police organisations, and local private law institutions like special educational centres, museums and public libraries.

Austria

Sub-sectors S.1312 and S.1313 includes: State and local government authorities, lower and primary education schools, fire fighting departments as well as local based funds of public activities (e.g. Wirtschaftsförderungsfonds, Nationalparkfonds) and local based public organisations for the co-ordination of certain types of professionals and industries (e.g. Ärztekammer, Notariatskammer, etc.).

Portugal

Sub-sector S.1313 comprises the bodies of local and regional power.

Finland

Local government comprises municipalities, municipal federations and the regional government of the Autonomous Territory of the Åland Islands. Also included are municipal non-profit institutions serving several municipalities, such as municipal central organisations and Helsinki Metropolitan Area Council (YTV). Not included are those units belonging to local government budgetary finances principally engaged in business activities, and local government departmental enterprises. They belong to the category non-financial corporations.

S.1314 Social Security Funds

S.1314 Country Detail

The following detailed information are given on sub-sector S.1314 by the countries which replied to the questionnaire:

Belgium

Sub-sector S.1314 covers the central and primary bodies of the various branches of social security for employed persons and the self-employed, including subsistence security funds, business closure fund and the overseas social security office, but excluding the “annual holidays” branch (recorded in S.1311) and non-compulsory insurance schemes.

Denmark

The sub-sector comprises national supplementary pension (ATP), SP, unemployment funds and Employees Guarantee Fund.

Greece

Sub-sector S.1314 consists of Social Security Funds defined as funds that provide pension benefits, supplementary pension benefits and health care.

Types of entities belonging to this sector:
- Insurance funds;
- Supplementary insurance funds;
- Health insurance funds.

Entities belonging to this sector (illustrative list):
- Social Insurance Fund (IKA);
- Seamens' Pension Fund (NAT);
- Farmers' Insurance Fund (OGA).

Borderline cases:
Also included are hospitals, old people's homes, nurseries and kindergartens controlled and financed by the state.

Spain

Sub-sector S.1314 is comprised of the General Treasury and other management entities (mutual insurance companies covering industrial accidents and occupational illnesses within the Social Security System, the National Migration and Social Security Institute, the National Health Institute, the National Social Services Institute and Naval Welfare Institute), as well as the National Employment Institute and the Wage Guarantee Fund, even though the latter both have the legal status of autonomous administrative agencies. The social security activity transferred to the regional autonomous governments is also included here, as are the following State administrative autonomous agencies: the social security scheme for State civil servants (MUFACE), the Armed Services Welfare Institute (ISFAS) and the social security scheme for the legal sector (MUGEJU).

France

Sub-sector S.1314 covers:

1) Social security schemes:
   - General: National health insurance (CNAM) and its regional (CRAM) and primary (CPAM) funds, family benefits (CNAF and CAFs), Old age pension fund for former employees (CNAVTS), URSSAF, ACOSS, ASSEDIC, UNEDIC
   - Specialised professional schemes: agricultural (CCSMA, CCAFMA, CNAVMA, departmental funds), non-agricultural employees (mines, dockers, etc.), non-agricultural self-employed (ORGANIC, CANCAVA, CANAM, professional sectors, etc.)
   - Statutory schemes: central (CNMSS, etc.) or local (CNRACL, etc.) government employees, public sector employees
   - Supplementary old-age pension schemes (AGIRC, ARRCO, IRCANTEC)

2) Bodies administered by social security authorities: public and private hospitals taking part in the public hospital service, welfare provided by social security schemes

Italy

The sub-sector includes INPS, INAIL, INPDAP and other units providing social benefits.

Netherlands

Sub-sector S.1314 covers:

- Supervisory and executive bodies for social security regulations like the Supervisory Board for Social Insurance, the Social Security Bank, the Medical Insurance Board, industrial insurance boards and the Industrial Insurance Administration
- Social security funds for the execution of the various acts such as the Compulsory Pension Funds Act and the Unemployment Insurance Act. As a consequence of stricter interpretation of the ESA 95 guidelines this sub-sector currently only includes compulsory and collective social security arrangements that apply for the total population or a very large part. Social security arrangements between employers and employees are classified under private insurance (S1251).

Austria

Sub-sector S.1314 includes all domestic social security funds for employees, self-employed persons, retired persons and employees working within the government sector.

Portugal

Sub-sector S.1314 includes the institutional units, both central and local, that have as main activity the distribution of social benefits and that are financed by obligatory social contributions paid by other entities.

Finland

Sub-sector S.1314 includes:

- Employment pension schemes. The sub-sector comprises employment pension corporations, pension funds and foundations providing statutory employment pensions and supplementary additional pensions, and independent public institutions such as Local Government Pension Institution.
- Other social security funds. The sub-sector includes units performing other social security tasks, such as the Social Insurance Institution and unemployment insurance system units. The category also includes sickness benefit, death benefit and severance pay funds.

Sweden

Sub-sector S.1314 includes the first, second, third, fourth and sixth National Pension Funds (the AP-funds) and the Premium Pension Authority (PPM).

Czech Republic

Sub-sector S.1314 covers 9 active health insurance companies (+ 7 health insurance companies in liquidation). Their receipts are mostly from compulsory health insurance contributions paid by employers, employees and self-employed persons.

Estonia

Sub-sector S.1314 covers: State Pension Fund, State Medical Insurance Fund, State and municipal health care institutions. The first two institutions are financed through compulsory social security contributions paid by employers, employees, self-employed people.

Hungary

Sub-sector S.1314 covers the Pension Security Fund and Health Security Fund and their institutions.

Latvia

Sub-sector S.1314 includes social security fund and their regional offices.

Lithuania

Sub-sector S.1314 covers the Social Security Fund and the Health Insurance Fund.

Poland

Sub-sector S.1314 covers: Social Insurance Fund, Pension Fund and Labour Fund. These funds guarantee the social benefits and fulfil criteria mentioned in ESA`95.

Slovakia

Sub-sector S.1314 of social security funds consists of health insurance companies, the Social Insurance Company and the National Labour Office.

S.1314 Borderline cases

In FINLAND, all employment pension institutions providing statutory employment pensions and supplementary additional pensions, if they fulfil the criteria of an independent institutional unit, are classified into social security funds according to the Eurostat decision on pension funds (3.2.1997). These institutions are classified into social security funds because they are compulsory and collective by nature and because there's no individual risk in the schemes. The central government also controls the schemes by confirming annually the level of the contributions and the benefits.

State Pension Fund is classified into S1311 Central government and not into S13141 Employment pension schemes, even it is a part of the collective statutory employment pension system in Finland. The State Pension Fund is an extra-budgetary fund under the administration of the State Treasury. It is collecting and funding all pension contributions under the state pension law (VEL). However, the VEL-benefits are not paid from the pension fund, but from the state budget. To finance these benefits part of the funds have been annually moved to the budget. A law of State Pension Fund ratified in 2000 has permitted the pension fund to invest its funds independently from the Treasury, but the benefits have remained to be paid only from the state budget. In National Accounts it is considered, that the State Pension Fund still does not fulfil the criteria of an independent institutional unit, and it should be classified into central government.

The Finnish unemployment insurance schemes consists of voluntary unemployment funds paying the salaries-linked benefits to their members, and the Unemployment Insurance Fund collecting the statutory unemployment contributions and financing the unemployment benefits paid from different schemes. The statutory unemployment contributions are gathered from all employers and employees, being members in some unemployment fund or not. The salaries-linked unemployment schemes are voluntary, but only 5,5 % of the financing of these schemes is covered by the voluntary contributions of their members, whilst the rest comes from the central government or from the statutory contributions collected by the Unemployment Insurance Fund. The Ministry of Social and Health Affairs annually confirms the level of statutory contributions collected from employers and employees, and appoints the members of the Board of Unemployment Insurance Fund. Because being mainly financed by statutory payments and being controlled by the government, all unemployment schemes are classified into the sector social security funds.

S.1314 Deviations from ESA 95

In FINLAND, pension foundations providing voluntary employment pensions (not important in Finland) are included in S13141. Because these foundations nowadays fulfil the criteria of an institutional unit, they will be reclassified into the sector S125 Insurance corporations in the near future.

In LITHUANIA, semi-budgetary and non-profit institutions, which are not reclassified according to 50% criterion, are excluded from sub-sector S.1314.

S.13 Borderline cases & deviations from ESA95

For the compilation of financial accounts, the following issues arise when considering the General Government sector.

1) Some institutions have been reclassified inside or outside of sector S.13.

This is the case for BELGIUM, for example where, following the discussions on the implementation of the ESA95 manual on government deficit and debt, the Belgian Monetary Fund, the SFP (Société fédérale de participation) and the Amortization Fund for social housing (Fonds d'amortissement des emprunts du logement social - FADELS) have been included in the central government sub-sector.

In DENMARK, in the context of the delimitation of the general government a number of market units are included in the public accounting system, so-called quasi-corporations, that from a accounting point of view belong to the corporation sectors. These are characterised by the fact that more than 50% of the production costs are covered by sales, have no independent legal status and are owned and controlled by general government. Examples of such corporations are DSB and other public transport companies and a number of municipal corporations. The investments of quasi-corporations are financed by general government. In Denmark this type of corporations have historically been more important than in other European countries.

In SPAIN, following the ESA 95 manual on government deficit and debt, some enterprises, despite their corporate legal nature, have been classified in the general government sector, on the basis of the main source of their financing. Specific holdings created for privatisation or particular events (EXPO92, etc) and legal units created to manage efficiently some public services are in this situation.

The NETHERLANDS mentions that the delimitation of the government sector and its various sub-sectors has been extensively discussed in the framework of EDP-procedure. Because of a stricter interpretation of the guidelines, several units have been included as part of the government sector among which organisations that develop and maintain the infrastructure for railways, some research institutions, aid organisations, museums (foundations), libraries, National Investment Bank for Developing Countries (formerly part of the financial sector). A clear distinction has also been made between non-profit institutions serving the Central government and those serving the Local government. Some other units have been included in the sector non-financial enterprises.

In FINLAND, the financial defeasance body Arsenal Co. is now classified in sub-sector S.123 and not in central government. The unit was active in 1993-2000.

In ESTONIA, there may be some minor deviations concerning the borderline between sectors S.13 and S.15.

In HUNGARY, the most significant problem is the separation of general government sector and corporation sectors. There are some companies with non-profit nature are fully owned and controlled by the central government. The most important and significant institution of these is the State Privatisation and Asset Management Co., which is responsible for the management and supervision of privatisation in Hungary, and classified under central government. Government Debt Management Company is also classified under the central government.

In LATVIA, the General Government sector includes all units financed from the budget and consists of budgetary institutions and non-financial enterprises registered with the Enterprise Register which main incomes is budgetary allocations and therefore reallocated from sector S.11 to S.13.

In SLOVAKIA, there is a problem is with subsidised organisations, which are in S.13 because enterprise balance sheets do not enable to split them according to 50% criterion into S.11 and S.13.

2) The sub-sectors of sector S.13 are not - or insufficiently - distinguished.

This is the case in GERMANY, where central, state and local government are presented together (Germany has a derogation until 2005 to provide separate data for the sub-sectors).

In AUSTRIA, the sub-sectors 'state government' and 'local government' (S.1312 and S.1313) are not distinguished.

In NORWAY, the social security funds are included in the Central government sector.

In LATVIA, where General Government sector (S.13) is calculated only in total, not dividing by sub-sectors because some institutions (especially in health and education) receive financing from different budgets (central government and local government and extra-budgetary funds).

In SLOVENIA, central government, local governments and Social security funds (there is no state government level) are included together in sector S.13.

S.14 HOUSEHOLDS & S.15 NON-PROFIT INSTITUTIONS SERVING HOUSEHOLDS (NPISH)

Sector boundary : the delimitation of sectors S.14 and S.15 raise some difficulties for financial accounts compilation, mainly concerning the distinction between the two and concerning their delimitation with sector S.11 (non-financial corporations) as far as individual entrepreneurs are concerned.

S.14 & S.15 Country Detail

The following detailed information are given on sectors S.14 and S.15 by the countries which replied to the questionnaire:

Belgium

Sector S.14 covers in principle all natural persons including their business activities (self-employed workers without independent legal status) and non-profit institutions serving households.

Denmark

Sector S.14 covers natural persons including sole proprietors. Calculations for sector S.15 are based on accounting records with partial coverage obtained specifically for financial accounts. Sector S.15 includes trade unions, political parties, charity funds, aid organisations (e.g. Red Cross). Sector S.14 and sector S.15 are calculated separately.

Germany

In Germany NPISHs are in general not distinguished in primary statistics (except for money and banking statistics), it is therefore not possible to compile a household sector without these units.

Greece

Sector S.14 consists of individuals, as consumers and purchasers of residential housing.

Sector S.15 consists of all non-profit institutions not classified under the “Public sector”.

Types of entities belonging to this sector (illustrative list):
- Trade unions
- Political parties
- Charities and aid organisations

Spain

Sector S.14 covers individuals and groups of individuals which, in their relations with credit institutions and the tax authorities, use as their fiscal identity number (NIF) their national identity card number (DNI) followed by a letter. This implies that their business activity carried out in an unincorporated form is also included.

Sector S.15 consists of non-profit institutions, which are separate legal entities, which serve households and which are private, other non-market producers (trade unions and professional, scientific, religious, recreational and cultural associations etc.) Their principal resources, apart from those derived from occasional sales, are derived from voluntary contributions in cash or in kind from households, from payments made by general government (provided that they are not controlled and mainly financed by general government since, if they are, they will be included in this latter sector), and from property income. If occasional sales cover more than 50% of their costs of production, they must be sectorised as non-financial or financial corporations, as the case may be etc. Provisionally, these institutions are published together with households.

France

Sector S.14 covers:

- Enterprises legally categorised as a physical person or groups established under private law which have no legal personality (except where jointly possessed by a legal person, created with a legal person, or where a legal person is a shareholder): professionals, craftsmen, retailers, farmers, independent enterprises in industry or the service sector

- Legal persons whose members are taxed under the flat-rate system, whatever their legal category

- Physical persons with the exception of individual entrepreneurs

Sector S.15 covers: Trade unions, Consumer associations, Political parties, Churches and religious societies, Social, cultural, recreational and sports clubs (libraries, film clubs, cultural associations, etc.), Charities, relief or aid agencies and foundations (institutions financing medical research), Youth movements, The Red Cross.

Italy

Sector S.14 covers individuals and groups of individuals whose principal function is consumption, individuals and groups of individuals producing goods and non-financial services for own final use, non-financial co-operatives and partnership having five or less employees, financial auxiliaries and non profit institutions serving households with no employees.

Sector S.15 covers non-profit institutions, which are separate legal entities, which serve households and which are private non-market producers unless they have no employees.

Netherlands

Sectors S.14 and S.15 are combined, as financial information is either not available or of insufficient quality to allow for the separate publication. The sector households consists in principle of all natural persons including their business activities (self-employed persons). The NPISH comprise of units such as sporting clubs and religious organisations

Austria

Sector S.14 includes individuals or groups of individuals whose principal function is consumption and non-profit institutions serving households as far as they are not incorrectly classified as non-financial corporations (see above). Sector S.15 is mainly comprised by private foundations, the Catholic Church and trade unions. Apart from loans granted by banks no data are available at present. Non-profit institutions serving households are included in sector S.14.

Portugal

Sector S.14 comprises Families, Employers and own account workers and Non-profit institutions serving households. The distinction between Households and Non-profit institutions serving households (NPISH) is not considered in the accounts.

Finland

The financial balance sheet of sector S.15 contains primarily data on foundations and the Finnish Evangelical Lutheran Church. The data exists only for Finnish Evangelic Lutheran Church and for most important foundations. The coverage of the data for financial accounts point of view can still be considered rather good.

United Kingdom

In the ESA95, the household sector (S.14) may be divided into sub-sectors according to various criteria such as main source of income. This is not being done in the UK.

Norway

Sector S.14 includes resident households, unincorporated and quasi-corporated businesses, unincorporated unlimited partnerships, and private non-profit making bodies serving households. All unincorporated enterprises are included, regardless of size. Due to lack of information, the non-profit institutions serving households are included in *the household sector* in the financial accounts. The private quasi-corporate enterprises are included in the household-sector, and not in *S.11 (Non-financial corporations)*.

Czech Republic

Sector S.14 includes natural persons doing business in compliance with the Trade Licensing Act, self-employed farmers and natural persons doing business according to other acts and individual consumers.

Sector S.15 includes political parties, trade unions, churches, foundations, associations, sport or recreational clubs, professional chambers, generally beneficial companies etc.

Estonia

Sector S.14 includes all natural persons whose principal function is consumption.

According to monetary and financial statistics also self-employed people who do not have employees are classified into S.14.

Sector S.15 consists of following institutions: dwelling management units (ca 35% of all NPIs), garage and gardening co-operatives/associations, sports clubs (ca 10% of all NPIs), religious organisations, charity organisations, etc.

Hungary

Sector S.14 includes resident individuals and sole proprietors.

Sector S.15 covers all non-profit institutions financed or controlled by the households such as social, cultural, sport clubs, political parties, churches, trade unions, and other organisations. The three-way classification of non-profit institutions is carried out by the Central Statistical Office (CSO) every year. The CSO collects some rather limited balance sheet data from theoretically all NPIs that is for NPISH-s as well. These direct data comprise only their total assets and liabilities, outstanding against banks and every other institutions. Some indirect counter party information can be gained from the balance sheets of monetary institutions.

Latvia

Sector S.14 includes all private residents of Latvia as consumers and small private producers not registered with the Enterprise Register. All private producers in NACE Agriculture, hunting and forestry are also included in the Households sector.

Sector S.15 includes social organisations - trade unions, associations of fire fighters, sports clubs, unions of composers, architects, actors, political parties and other small institutions in accordance with the register of these institutions monitored by Central Statistical Bureau. We use statistical survey data for non-profit institutions serving households and in addition information we use balance sheets of credit institutions.

Lithuania

The households sector is defined as a small group of persons, who share the same living accommodation, pool some, or all, of their income and wealth, consume certain types of goods and services collectively (mainly housing and food), also may produce goods or services for the market or for own final use. Households, as producers, includes individual enterprises (unincorporated enterprises), farmers, natural persons as patent and licence holders.

Sector S.15 includes legal or social entities created for the purpose of producing goods and services the status of which does not permit them to be a source of income, profit or other financial gain to the units that establish, control or finance them. It includes the political parties, trade unions, religious and professional associations, recreational and sport clubs, etc

Poland

Sector S.14 includes the natural persons conducting economic activity up to 9 persons, individual farmers, doctors lawyers etc. are included in this sector.
Sector S.15 includes political parties, trade unions, churches, sport clubs, charity units, associations etc.

Slovakia

Sector S.14 includes entrepreneurs - personal entities, self-employed farmers, professional self-employed ('freelancers') - personal entities that undertake business activities on the basis of other than the tradesmen law.

Sector S.15 includes political parties and movements, trade unions, church and religious associations, church schools, church health and charitable establishments, various volunteer and other organisations, consumer associations and professional organisations connected with job performance, social, cultural establishments, recreation and sports clubs, educational companies and hobby associations, further private schools, kindergarten establishment, charitable companies and foundations also belong to this sector, if they fulfil the criterion of other non-market producer serving households or other non-profit institutions.
For NPISHs are used the accounting statements (enterprise balance sheets) processed by the Ministry of Finance. These administrative sources of data are processed for key non-profit institutions whose incomes including subsidies exceeded the level of 3 million SKK, from which there resulted basic duty to submit accounting statements to the Ministry of Finance of the SR. The Ministry of Finance of the SR, besides processing of accounting statements, registers these institutional units as non-profit institutions.

Slovenia

Sector S.14 includes physical persons.

S.14 & S.15 Deviations from ESA 95 & Borderline Cases

1) Sectors S.14 and S.15 are not distinguished.

Sectors S.14 and S.15 are mentioned as undistinguished in BELGIUM, GERMANY, SPAIN, the NETHERLANDS, AUSTRIA, PORTUGAL, SWEDEN and NORWAY.

In GERMANY, data for NPISHs are available from money and banking statistics and therefore it is possible to compile a household sector without these units.

In AUSTRIA, at present, data on non-profit institutions serving households (NPISHs S. 15) are available only to a very less extent, the sector non-financial corporations could also include such NPISHs because data on the non-financial corporations are mainly available by counterpart information derived from the balance sheets of financial corporations, data provided for central government and the balance of payments statistics.

2) The distinction between sectors S.14 and S.11 raises difficulties.

In AUSTRIA, the classification of private funds, established by companies and private persons for the saving of their earnings. Due to lack of the owner of these private funds, the correct classification of non-financial corporations and households is difficult.

In NORWAY, the private quasi-corporate enterprises are included in the household sector, and not in *S.11 (Non-financial corporations)*.

In the CZECH REPUBLIC, the households sector is not split by sub-sectors; some units should have been classified in S.11 (as quasi-corporations). Furthermore, some of units classified in S.15 could have been classified into non-financial corporations (as non-profit institutions) or general government sector. However, information is not available, this time. The sector S.15 includes 90 thousand units. Information on non-profit institutional units is obtained only from annual statistical survey, which is organised as sample survey. Special department of the Czech Statistical Office executes grossing up on full population. Information on political parties we obtain from financial statements (not only from statistical survey). The Czech National Bank provides information on deposits, loans and interest of S.15. Information on established units is obtained from the Ministry of interior.

In ESTONIA, for the time being the borderline between NPISH and NPISE is not fully identified yet. Most of NPIs are still treated as NPISHs but there are also many NPISEs. This work should be completed within 2001. It means that by the end of 2001 all units in the statistical register will have a characteristic of institutional sector. For the time being there are no separate data available for non-profit institutions serving households. The data are for all NPI (monetary and banking statistics, ECDS).

In LITHUANIA, churches, and non-profit institutions which are not reclassified according to 50% criterion are included in sector S.15.

In SLOVAKIA, there are problems with NPISHs, which are in S.15, because enterprise balance sheets do not enable to split them according to 50% criterion into S11 and S15, whereas this split is made in non-financial accounts.

S.2 REST OF THE WORLD

Sector boundary : The criteria for the distinction of resident/non-resident units is specifically stated as equivalent to that used in the balance of payments statistics by most countries (e.g. GERMANY, SPAIN, the NETHERLANDS, AUSTRIA, PORTUGAL, FINLAND, SWEDEN, NORWAY, ESTONIA, LATVIA, LITHUANIA, POLAND and SLOVENIA.)

S.2 Country Detail

The following detailed information are given on sector S.2 by the countries which replied to the questionnaire:

Belgium

The Rest of the world is in fact the counterpart sector of the national economy. It only covers the transactions between resident and non-resident units.

The criteria for the classification of resident/non-resident units are similar to those of the Balance of Payments statistics, with the exception of the Grand Duchy of Luxembourg, which is considered a foreign country, while it is not treated separately from Belgium in the financial account of the balance of payments.

Denmark

The criteria for the classification of resident/non-resident units are similar to those of the balance of payments statistics with the exception of Faroe Islands and Greenland, which are considered foreign countries in the financial accounts. However, from mid-2000 this exception will no longer apply.

Greece

The institutional units covered by the sector rest of the world (S.2) at the input level into the Greek financial accounts are according to the definition of the ESA 95. It consists of transactions between residents and non-residents.

The Criteria for the classification of resident/non-resident units follow the proposals of the United Nations and the IMF (SNE 1993, section 14B). Thus “Resident" means: any natural person, irrespective of nationality, residing or intending to reside in Greece for at least one year; any legal person that has its registered office in Greece, including legal persons established and operating in Greece.

Finland

Transactions of the sector rest of the world are described from the viewpoint of foreign countries; thus, its financial assets constitute some domestic sector's debt. According to the sector definition, an establishment of a domestic unit, such as a bank, located abroad is included in the sector rest of the world. Correspondingly, a foreign bank's branch in Finland is included in the sector Finnish financial corporations. The criteria for the classification of resident/non-resident units is equivalent with the balance of payments statistics.

United Kingdom

Rest of the world (S.2) can be broken down into: the member countries of the EU (S.211); the Institutions of the EU (S.212) and third countries and international organisations (S.22). However, for many items, data are only available at a total level.

Under ESA95, UK offshore islands - the Channel Islands and the Isle of Man - are excluded from the economic territory of the UK because, although there is free movement of goods and people between the UK mainland and these islands, fiscal policy is administered independently by the islands.

Norway

The accounts of the rest of the world show residents' claims on and liabilities to non-residents. In this context, financial assets and liabilities vis-à-vis the rest of the world also includes fixed assets (real estate, etc.) acquired by residents (investing abroad) and by non-residents in Norway.

Czech Republic

The "sector" includes embassies and other foreign representative authorities or international units. They are not split in sub-sectors; information is not available.
Criteria for the classification of resident/non-resident units:

In our opinion, criteria for the classification of resident/non-resident units consist with ESA95. They are discussed with the Czech National Bank. Statistical questionnaires include explanatory note of resident/non-resident units. The Czech National Bank elaborated explanatory notes for classification of resident/non-resident units, which are used by commercial banks. For instance: Foreign units (non-financial corporations, banks etc.), which are principally engaged in production or finance and so on, which have residence on economic territory of the Czech Republic more tan one year, are classified as resident units. Foreign employees – especially border workers (workers from Slovakia), workers who have job permission for several months (usually for 3 months) and than must leave the Czech Republic – they are treated as non-resident units.

Hungary

The sector covers the non-Hungarian residents. Hungarian residents are those institutions whose direct economic interest are related primarily to Hungary, that is, they carry out their economic activity for more than one year in Hungary.

Slovakia

Comprise all non-resident units, which carry out transactions with resident institutional units. Data used in financial accounts are not in full compliance with definition of residents and no-residents according to ESA 95 (activities related to output in order to GFCF and installation works). There is not in full compliance because data are obtained from balance of payments statistics.

S.2 Borderline cases

In FINLAND, the following comments can be made as far as the criteria for the classification of resident/non-resident units is concerned:

- In the Balance of Payments Manual of the IMF (paragraph 362) the direct investment enterprises are defined to include the incorporated and unincorporated enterprises in which the direct investor owns either directly or indirectly 10 per cent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). If the financial services group in the reporting economy is foreign owned, the reinvested earnings created in the parent corporation of the group, as well as the reinvested earnings created in the subsidiaries of the parent corporation are to be recorded as inward direct investment flows in the balance of payments statistics.

- In 1995 ESA (paragraph 14.152) foreign-controlled enterprises are defined to include direct investment subsidiaries and branches, but associates may be included or excluded by individual countries according to their qualitative assessment of foreign control.

- Following the IMF Manual the reinvested earnings of indirectly owned direct investment enterprises are included in direct investment flows in Finland's b.o.p. statistics. On the contrary in Finland's financial accounts statistics *the basic principle* is that the financial transactions recorded against the rest of the world include only the reinvested earnings created in the directly owned parent corporation.

S.2 Deviations from ESA 95

For the compilation of financial accounts, the following potential **deviations from ESA95** are mentioned as far as sectors S.2 is concerned:

1) **Sub-sectors S.21 (European Union) and S.22 (third countries and international organisations) are not distinguished within sector S.2.**

   This is mentioned to be the case for Belgium, Germany, Spain, Italy, the Netherlands, Austria (where the distinction is planned to be implemented), Finland, Sweden, the United Kingdom, Norway, the Czech Republic, Estonia, Lithuania and Poland.

2) **The delimitation of sector S.2 raises difficulties**

   This is the case for Belgium, where, with regard to mutual funds (S.123) and insurance companies and pension funds (S.125), the distinction between resident and non-resident units is not directly based on a territorial notion but on a legal concept: units submitted to the control of a Belgian authority (Banking and Finance Commission, Insurance Control Office) are included in the respective sectors.

COMPILATION PROCEDURES

CHAPTER 3 THE CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

1. INTRODUCTION

Financial Accountants focus on the form in which financial assets or liabilities are held. This is an unique feature of the financial accounts tables as presented under ESA 95. In contrast with other statistics (such as BOP statistics) the focus on the functional purpose of transactions is a secondary consideration.

The need for accuracy when defining instrument categories or sub-categories is essential when designing the compilation process. This chapter therefore concentrates on the manner in which instrument categories or sub-categories are defined in practice by the compilers. The approach is to first recall the ESA 95 definition, which is then taken as the norm to which the compiler aims. Following the citation of the definition for the category or sub-category, only substantial departures from the definition are mentioned where these have been highlighted by the compilers.

This chapter is organised by ESA 95 financial instrument. For each instrument, the ESA 95 definition is recalled; and **the main deviations from ESA 95 are explained**, analysed by country. From the contributions made by responding countries, it is also possible to present a discussion of **borderline cases identified** by individual countries. Three main issues are considered under the heading Borderline cases. These are a variety of general remarks offered by compilers; more specific remarks relating to financial derivatives and finally some comments on apportionment procedures as they affect the financial instrument categories.

2. ANALYSIS BY FINANCIAL INSTRUMENT

Monetary Gold and special drawing rights (SDRs) (F.1)

The financial assets classified in the category monetary gold and SDRs (AF.1) are the only financial assets for which there are no counterpart liabilities in the system. Therefore, transactions in monetary gold and SDRs (F.1) always involve changes in ownership of financial assets.

Monetary gold (F.11)

Definition:
The sub-category monetary gold (F.11) consists of all transactions in monetary gold (AF.11) that is gold held as a component of foreign reserves by monetary authorities or by others who are subject to the effective control of the authorities.

Special drawing rights (SDRs) (F.12)

Definition:
The sub-category special drawing rights (SDRs) (F.12) consists of all transactions in SDRs (AF.12) that is international reserve assets created by the International Monetary Fund (IMF) and allocated to its members to supplement existing reserve assets.

Deviation from the ESA95 classification:

France
Monetary gold and SDRs are treated somewhat differently from the method recommended in the ESA. Although it is specified that they should have no counterpart liabilities, French financial accounts record a liability, in outstanding amounts and in flow, in the Rest of the World account. The difference is strictly formal, and has been maintained for computer reasons.

The Netherlands
According to a traditional national practice all assets and liabilities of the central bank against the IMF are grouped together and reported under AF1, which therefore also includes the ‘net position’ of the central bank in the IMF. It may be a better solution to record this item under AF29 (according to ESA par. 5.48c)

Norway
The reserve position in IMF is classified under *Monetary gold and SDRs* in the Norwegian financial accounts.

Italy
Transactions in gold and SDRs are also recorded on the liability side of the Rest of the world sector.

United kingdom
For ESA95, the UK has a derogation under which gold held by monetary financial institutions (MFIs) as a financial asset will continue to be recorded as such (rather than with valuables in the non-financial accounts). However, such gold is regarded in the same way as currencies held for banking purposes and is recorded with Currency and deposits (F2) as foreign currency.

Currency and deposits (F.2)

Definition:
The category currency and deposits (F.2) consists of all transactions in currency and deposits (AF.2) that is currency in circulation and all types of deposits in national and in foreign currency

Currency (F.21)

Definition:
The sub-category currency (F.21) consists of all transactions in currency (AF.21) that is notes and coins in circulation that are commonly used to make payments.

Deviation from the ESA95 classification:

Italy
Notes and coins issued by non-resident monetary authorities and held by residents are non included.

Transferable deposits (F.22)

Definition:
The sub-category transferable deposits (F.22) consists of all transactions in transferable deposits (AF.22) that is deposits (in national or in foreign currency) which are immediately convertible into currency or which are transferable by cheque, banker's order, debit entry or the like, both without any kind of significant restriction or penalty.

Deviation from the ESA95 classification:

Italy
Compulsory reserves should be classified as other deposits, but input data do not allow to disentangle free deposits of credit institutions with Bank of Italy from their compulsory reserves. Short term loans granted to monetary financial institutions are not recorded here, but are classified as short term loans; in the same way, short term deposits accepted by institutional units other than monetary financial institutions are recorded here, and not in the sub-category short term loans.

Other deposits (F.29)

Definition:
The sub-category other deposits (F.29) consists of all transactions in other deposits (AF.29) that is deposits (in national or in foreign currency) other than transferable deposits. Other deposits cannot be used to make payments at any time and they are not convertible into currency or transferable deposits without any kind of significant restriction or penalty.

Deviation from the ESA95 classification:

Belgium
Transferable deposits held abroad are not isolated so that they are classified under item AF29.

Czech Republic
Deviation from ESA95 concerned savings certificate and certificate of deposits. All these certificate were first (from 1992) recorded in banking bookkeeping and in statistics as deposits, than (from 1995) as debentures (securities other than shares). Starting 2000 year, the certificates are recorded according as they negotiable or not, i.e. in compliance with ESA95.
Information on short-term repurchase agreement (repos), which is liabilities of monetary financial institutions, is not available.

Slovak Republic
Data from accounting statements are estimated from stocks and it is necessary to split them into AF.22 and AF.29 using transactions of bank statistics.

Securities other than shares (F.3)

Definition:
The category securities other than shares (F.3) consists of all transactions in securities other than shares (AF.3) that is financial assets which are bearer instruments, are usually negotiable and traded on secondary markets or can be offset on the market, and do not grant the holder any ownership rights in the institutional unit issuing them.

Securities other than shares, excluding financial derivatives (F.33)

Definition:
The sub-category securities other than shares excluding financial derivatives (F.33) consists of all transactions in securities other than shares excluding financial derivatives (AF.33), that is securities other than shares which give the holder the unconditional right to a fixed or contractually determined variable money income in the form of coupon payments (interest) and/or a stated fixed sum on a specified date or dates or starting from a date fixed at the time of issue.

Short-term securities other than shares, excluding financial derivatives (F.331)

Definition:
The sub-position short-term securities other than shares excluding financial derivatives (F.331) consists of all transactions in short-term securities other than shares excluding financial derivatives (AF.331) that is securities other than shares with a short-term original maturity except financial derivatives.

Long-term securities other than shares, excluding financial derivatives (F.332)

Definition:
The sub-position long-term securities other than shares excluding financial derivatives (F.332) consists of all transactions in long-term securities other than shares excluding financial derivatives (AF.332) that is securities other than shares with a long-term original maturity except financial derivatives

Financial derivatives (F.34)

Definition:
The sub-category financial derivatives (F.34) consists of all transactions in financial derivatives (AF.34) that is financial assets based on or derived from a different underlying instrument. The underlying instrument is usually another financial asset, but may also be a commodity or an index.

Deviation from the ESA95 classification:

Belgium
Regarding undertakings for collective investment, the data are available only on a net basis.

Denmark
It is difficult to assess whether financial derivatives in the financial sector accounting records reflect net or gross calculations. In general, financial derivatives not involving S.122 are not covered.

Germany
At present, only the balance of payments statistics provide data on cross-border net payments in connection with options and other financial derivatives, although these data provide no details on the domestic counterparties involved. No data are available on such transactions between domestic counterparties.

Spain
This category comprises options and similar instruments (warrants, etc.) and futures and similar instruments, but not swaps and forward transactions (as mentioned in the above scheme, at present only transactions accounts are included, not financial balance sheets).

France
For financial derivatives, both outstanding amount and flow are recorded. For reasons of the availability of sources, only transactions involving non-residents (under balance of payments) or financial intermediaries (under the accounts for them) are recorded. This measure does not cause any problems as it covers over 90% of transactions.
We have anticipated the decisions to revise the ESA with regard to the classification of interest rate swaps and forward rate agreements, and have placed them under financial derivatives instead of interest.
Currently, therefore, this category covers swaps – interest rate or foreign currency (foreign exchange dealers or financial) –, futures and conditional instruments (options and warrants). Forward operations on foreign currencies should be recorded here, but are not, as the data is not available.

Compiling flows is difficult, as they are largely based a small number of accounting headings from the banks' balance sheets where various kinds of transactions are recorded: charges and various yields on transactions in shares, interest rate transactions, foreign exchange results, carry overs and forward discounts, losses and yields on foreign exchange and covered interest rate arbitrage, charges and yields on other futures, charges and yields on miscellaneous interest.
In addition to making it difficult to distinguish between the various products, this aggregation leads to confusion between effective flows and valuation.
On the other hand, amounts outstanding are quite low for these products in comparison to flow and are better determined in the accounts of the banks (see the specific note for further information).
Because of these problems, we cannot confirm whether credit derivatives are recorded under item F34.

F3801 and F3802: interest accrued but not due on negotiable debt securities. Such interest on bonds is included under the corresponding heading.
Certificates are a recent innovation in France: they are similar to portfolios of stocks or index funds and are issued for periods of three to eight years by a financial institution which sells shares in them. Discussions on whether these products should be classified as bonds or financial derivatives are underway. They are not currently recorded independently in the accounts of the banks, and are therefore classified as negotiable debt securities.

The Netherlands
Until so far financial derivatives have not been reported yet as a separate item. Although nowadays a major part of the transactors involved are able to report their transactions and positions in financial derivatives on a regular basis, there is still no calculation method, which can offer a full description for the whole economy. That method is foreseen at the next revision of the National accounts figures (expected in 2003). However, it may be assumed that financial derivatives are covered as an implicit element of their underlying values. In the basic statistical data of most financial intermediaries and non-financial enterprises financial derivatives are recorded 'off-balance', which implies that financial assets and liabilities are to be valued taking into account the effect of any outstanding financial derivatives.

Portugal
The operations in Financial derivatives are not well covered in the Portuguese Financial Accounts, in particular for transactions/positions between resident entities.
In what concerns the financial derivatives' operations there is not much information available and so, for the moment, this item includes basically the values of the operations with non-residents and data reported by the OMFI to Money and Banking Statistics.

Finland
In the 1999 statistics, the item financial derivatives has been extended in financial accounts to also cover the derivatives in banking statistics, in addition to those in the balance of payments and central government. For the time being, data on relationships in respect of assets / liabilities and financial transactions between other domestic units are not included in these statistics. On the basis of data collected with a separate inquiry for financial accounts, the net values of domestic financial derivatives, totalled up by sector, are often close to nil.

Sweden
The stocks of financial derivatives are so far incorporated in the financial accounts. Transactions in financial derivatives are incorporated in the sectors where we have the information, which is in most sectors.

Norway
Tradable derivatives are not recorded in *Securities other than shares* but are mainly included in *Other accounts receivable/payable.*

Czech Republic
Financial derivatives are not included in AF.34 (F.34). They are included in AF.79 (F.79)

Estonia
There is a deviation concerning short-term securities. According to Estonian accounting law corporations (except credit institutions and leasing companies) must show long-term securities (with original maturity more than one year) with remaining maturity less than one year under short-term securities.
There are no tradable financial derivatives in Estonia.

Poland
Financial derivatives market came into existence relatively not so long ago. The first insignificant transactions on financial derivatives were reported in 1996-97'. In FA they were included into F.3. Only since 1998' these transactions have become more significant, but their share in stock exchange market have not exceeded 0,9%. The transactions on financial derivatives were also separated in FA for 1998'. They contained, in particular: futures, warrants and right of collections and right to shares.

Slovak Republic
Occurrence of financial derivatives in the SR is not widespread and they are not included in the financial accounts yet because of lack of information.

Loans (F.4)

Definition:
The category loans (F.4) consists of all transactions in loans (AF.4) that is financial assets created when creditors lend funds to debtors, either directly or through brokers, which are either evidenced by non-negotiable documents or not evidenced by documents.

Short-term loans (F.41)

Definition:
The sub-category short-term loans (F.41) consists of all transactions in short-term loans (AF.41) that is loans with a short-term original maturity and loans repayable on demand.

Deviations from the ESA95 classification:

Estonia
There is one deviation concerning short-term loans. According to Estonian accounting law corporations corporations (except credit institutions and leasing companies) must show long-term loans (with original maturity more than one year) with remaining maturity less than one year under short-term loans.

Long-term loans (F.42)

Definition:
The sub-category long-term loans (F.42) consists of all transactions in long-term loans (AF.42) that is loans with a long-term original maturity.

Deviation from the ESA95 classification:

Norway
In the Norwegian financial accounts no distinction is made between short-term and long-term loans, although such a distinction is recommended in ESA95.

Italy
Nor the criterion of the part that takes the initiative of the transaction, nor the convention earlier discussed with reference to deposits with monetary financial institutions, are applied here.

Shares and other equity (F.5)

Definition:
The category shares and other equity (F.5) consists of all transactions in shares and other equity (AF.5) that is financial assets which represent property rights on corporations or quasi-corporations. These financial assets generally entitle the holders to a share in the profits of the corporations or quasi-corporations and to a share in their net assets in the event of liquidation.
Shares offered for sale but not taken up on issue are not recorded in the system. Shares and other equity are redeemed when purchased by the issuing corporation or when exchanged for the net assets of a corporation in the event of its liquidation.

Shares and other equity, excluding mutual funds shares (F.51)

Definition:
The sub-category shares and other equity excluding mutual funds shares (F.51) consists of all transactions in shares and other equity excluding mutual funds shares (AF.51) that is financial assets except mutual fund shares which represent property rights on corporations or quasi-corporations. These financial assets generally entitle the holders to a share in the profits of the corporations or quasi-corporations and to a share in their net as sets in the event of liquidation.

Deviation from the ESA95 classification:

Austria

Equity securities such as shares, preferred shares, mutual funds shares as well as equity in incorporated partnerships subscribed by unlimited partners in the case of foreign direct investments and government investments in the capital of international and supranational organizations comprise the category of shares and other equities.
The split between quoted shares and unquoted shares is available partly in the balance sheets of banks and within the framework of the balance of payments statistics. Due to lack of information on unquoted shares issued by non-financial corporations (S.11) and held by non-financial resident sectors (S.11, S.13, S.14) all shares and other equities other than mutual funds shares are classified as quoted shares at present.

Quoted shares, excluding mutual funds shares (F.511), and unquoted shares, excluding mutual funds shares (F.512)

Definition:

The sub-position quoted shares excluding mutual funds shares (F.511) consists of all transactions in quoted shares excluding mutual funds shares (AF.511) and the sub-position unquoted shares excluding mutual funds shares (F.512) consists of all transactions in unquoted shares excluding mutual funds shares (AF.512). Shares cover beneficial interest in the capital of corporations in the form of securities which in principle are negotiable. Sub-position AF.511 covers those shares with prices quoted on a recognised stock exchange or other form of secondary market, and sub-position AF.512 covers those shares that are not quoted.

Deviation from the ESA95 classification:

Belgium

Although a distinction should be made between limited liability companies whose owners are shareholders (recorded as shares) and limited liability companies whose owners are partners (recorded as other equity), it is in practice not possible to make such a distinction on the basis of the present available information. So that both instruments are classified under unquoted shares.

France

According to ESA95, the equity in incorporated partnerships should be distributed as follows: the equity of partners with unlimited liability should be classified as shares, while the equity of limited partners should be classified as other equity. Insofar as it is impossible, in practice, to make this distinction, everything is classified under shares (quoted or unquoted according to the status of the company).
It is possible that a number of specific categories set out in ESA95 are not counted due to a lack of sources: these are the founders' shares, redeemed shares and dividend shares.

Norway

Quoted shares includes only Norwegian shares quoted on Oslo Stock Exchange.
Unquoted shares comprise Norwegian shares not quoted on the Oslo Stock Exchange and all foreign shares.

Czech Republic
Although ESA95 recommends the split between quoted and unquoted shares; presently it is not possible to have this distinction due to sufficient information.

Slovak Republic
Insufficient information needed for split into AF.511 and AF.512

Other equity (F.513)

Definition:
The sub-position other equity (F.513) consists of all transactions in other equity (AF.513) that is all forms of equity other than those classified in sub-positions AF.511 and AF.512, and in sub-category AF.52.

Deviation from the ESA95 classification:

Finland
The equity of the central bank is not recorded in the assets of any sector at the moment (it should be the asset of the central government).

Norway
The coverage of *Other equity* (F513) is not complete due to lack of information. Shares in general partnerships are included in *Other accounts receivable/payable*

Mutual funds shares (F.52)

Definition:
The sub-category mutual funds shares (F.52) consists of all transactions in mutual funds shares (AF.52) that is shares issued by a specific type of financial corporation, whose exclusive purpose is to invest the funds collected on the money market, the capital market and/or in real estate.

Deviation from the ESA95 classification:

Italy
For shares issued by the Rest of the world, no detail between quoted and unquoted shares is available. It is not possible to separate unquoted shares from other equity.

The Netherlands
It is not feasible to distinguish the holdings of mutual funds shares issued by non-residents from other non-residential share issues. Therefore the reported figures on mutual funds shares (AF52) only include the residential issues.

Portugal
Although ESA95 recommends the split between quoted and unquoted shares, presently it is not possible to have this distinction due to restrictions in the information available.

Finland
The separate data of foreign mutual funds shares owned by Finnish investors is not available in Finnish balance of payments, and it is included in the item ‘shares and other equity’ both in b.o.p and in financial accounts.

Estonia
The main problems are the insufficient coverage and lack of basis for valuation of AF.512 and AF.52.

Hungary
Mutual fund shares are included in securities other than shares. Mutual fund shares show the characteristics of debt-securities and shares alike. Since the mutual funds' portfolios mainly consist of bills and bonds issued by general government, compilers consider the overwhelming part of the income accumulated on investment fund notes as interest. This is why mutual fund shares are treated as securities other than shares.

Insurance technical reserves (F.6)

Definition:
The category insurance technical reserves (F.6) consists of all transactions in insurance technical reserves (AF.6) that is the technical provisions of insurance corporations and (autonomous and non-autonomous) pension funds against policy holders or beneficiaries as laid down in Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings.

Deviation from the ESA95 classification:

France
As there are currently no true pension funds in France, and the bodies which might be comparable do not provide specific accounts, lign F612 is not filled out in French financial accounts.

The Netherlands
Even on a non-consolidated basis any positions in Insurance technical reserves (AF 6) between units of S125 are cancelled out. On the one hand this may be against the general consolidation procedures. On the other hand the heading AF61 (i.e. Net equity of households….’) suggests that only (resident and non-resident) households can be ‘holders’ of the positions involved. From that point of view is seems legitimate to balance intrasubsectoral assets with liabilities. For reasons of consistency the same method has been applied to AF62.
Prepayments of premiums (as a part of AF62) are exclusively recognised as a liability of non-life insurance companies. This is induced by the opinion that prepayments of premiums which are shown as a liability of pension funds and life insurance companies only reflect relatively small ‘pure’ time differences between the accrual and actual payment of premiums and therefore preferably are to be recorded as other accounts payable (AF79).

Net equity of households in life insurance reserves and in pension funds reserves (F.61)

Definition:
The sub-category net equity of households in life insurance reserves and in pension funds reserves (F.61) consists of all transactions in net equity of households in life insurance reserves and in pension funds reserves (AF.61) that is technical provisions set aside in the corporations and quasi-corporations concerned for the purpose of satisfying, once the established conditions are met, the claims and benefits foreseen.

Net equity of households in life insurance reserves (F.611)

Definition:
The sub-position net equity of households in life insurance reserves (F.611) consists of all transactions in net equity of households in life insurance reserves (AF.611) that is technical provisions against outstanding risks and technical provisions for with-profit insurance that add to the value on maturity of with-profit endowments or similar policies.

Net equity of households in pension funds reserves (F.612)

Definition:
The sub-position net equity of households in pension funds reserves (F.612) consists of all transactions in net equity of households in pension funds reserves (AF.612) that is technical provisions held by autonomous and non-autonomous pension funds established by employers and/or employees or groups of self-employed to provide pensions for employees or self-employed.

Deviation from the ESA95 classification:

Norway
Data transmitted to Eurostat on this instrument (*F611. Net equity of households in life insurance reserves and F612. Net equity of households in pension fund reserves*) are split institutionally and not separated by type of reserves.

Prepayments of insurance premiums and reserves for outstanding claims (F.62)

Definition:
The sub-category prepayments of insurance premiums and reserves for outstanding claims (F.62) consists of all transactions in prepayments of insurance premiums and reserves for outstanding claims (AF.62) that is technical provisions established by insurance corporations and (autonomous and non-autonomous) pension funds for:
a) the amount representing that part of gross premiums written which is to be allocated to the following accounting period (prepayments of insurance premiums);
b) the total estimated ultimate cost of settling all claims arising from events which have occurred up to the end of the accounting period, whether reported or not, less amounts already paid in respect of such claims (provisions for outstanding claims).

Deviation from the ESA95 classification:

Austria
The whole amount for both sub-categories is attributed to private households because at present no information on the sectoral breakdown on the asset side of these holdings of prepayments of insurance premiums and on reserves for outstanding claims is available.
At present all categories of insurance reserves are included and allocated to the counterpart sector "households including non-profit organisation serving households" due the lack of the detail information for a further breakdown.

Italy
No input data is available for insurance technical reserves that are liabilities of non-resident Insurance corporations and Pension funds. It is not possible to disentangle between net equity of households and prepayments of insurance premiums in life insurance reserves.

Slovak Republic
Data on pension fund reserves are not directly shown from account statement of supplementary pension funding corporations, but from payable accounts only

Other accounts receivable/payable (F.7)

Definition:
The category other accounts receivable/payable (F.7) consists of all transactions in other accounts receivable/payable (AF.7) that is financial claims which are created as a counterpart of a financial or a non-financial transaction in cases where there is a timing difference between this transaction and the corresponding payment.

Deviation from the ESA95 classification:

Norway
Some tradable derivatives are included in *Other accounts receivable/payable*.
See also F3. Securities other than shares, F4. Loans and F513 Other equity

Trade credits and advances (F.71)

Definition:
The sub-category trade credits and advances (F.71) consists of all transactions in trade credits and advances (AF.71) that is financial claims arising from the direct extension of credit by suppliers and buyers for goods and services transactions and advance payments for work that is in progress or to be undertaken and associated with such transactions.

Deviation from the ESA95 classification:

Italy
trade credits of non-financial quasi-corporations are not included.

Norway
Trade credits, other accrued, not overdue items or advance payments are not distinguished as a separate sub-category.

Other accounts receivable/payable, excluding trade credits and advances (F.79)

Definition:
The sub-category other accounts receivable/payable excluding trade credits and advances (F.79) consists of all transactions in other accounts receivable/payable excluding trade credits and advances (AF.79) that is financial claims which arise from timing differences between distributive transactions or financial transactions on the secondary market and the corresponding payment. It includes also financial claims due to income accruing over time.

Deviation from the ESA95 classification:

The Netherlands
Trade credits (AF71) is not reported as a separate item. Only for Non-financial corporations a reasonable estimate can be produced, which however cannot be further specified than the residency of the counterpart (domestic/abroad). Therefore it is not possible to compile comprehensive figures for the whole economy.

Portugal
For the moment, this item includes the Errors and omissions of the Balance of Payments and adjustments resulting from the ranking of data sources available for the same instruments and from the consolidation procedures.

Estonia
There may be deviations concerning the distinction of AF.71 and AF.79. Due to differences between Estonian accounting law and ESA95 these two sub-categories may be mixed in certain extent.

Slovak Republic
Data from accounting statements are highly aggregated

Memorandum item: direct foreign investment (F.m)

Definition:
Direct foreign investment (F.m) consists of all transactions in direct foreign investment (AF.m) that is investment involving a long-term relationship reflecting a lasting interest of a resident institutional unit in one economy ('direct investor') in an institutional unit resident in an economy other than that of the investor ('direct investment enterprise'). The direct investor's purpose is to exert a significant degree of influence on the management of the enterprise resident in the other economy. Direct investment involves both the initial transaction between the direct investor and the direct investment enterprise and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated

3. BORDERLINE CASES

3.1. General Remarks

Belgium
For some financial instruments, the distinction between securities (marketable) and loans (non-marketable) is not always clear. This is the case for securities issued by the general government sector that are placed entirely by a particular credit institution. Another case pertains to the notes issued by banks that are held by the household sector. Although these notes are represented by documents intended to circulate and nominal value of which is determined on issue, the possibility to negotiate them is rather limited.

Spain
At present, certain investments in short-term securities by non-financial corporations with the rest of the world may be classified as deposits. In this respect, only once the work to construct a centralised securities data base for the euro area (currently under way in the European Central Bank) has been completed it will be possible to improve substantially the identification of these securities.

The Netherlands
From a theoretical point of view, the only major borderline case in the classification of financial assets may arise from the development of new ‘products’ by mutual funds. The features of issued shares tend rapidly to a situation that any capital losses can be precluded and/or a fixed minimum income can be guaranteed. In other words, mutual funds shares assemble more and more like deposits, rather than shares.
In other cases, the accuracy of the borderline between assets/liabilities could be unreliable as a practical result of missing or unreliable information. Those cases will be dealt with below (apportionment rules).

Portugal
There are two borderline cases between “Deposits” / “Loans” and “Securities other than shares” related with two instruments issued by the Treasury: the Saving certificates and the *Tesouro Familiar* bonds. None of these instruments are classified under securities because they are not tradable on the market. Additionally, the saving certificates are classified under Other deposits because the initiative to perform the operation is taken by the holder, and the *Tesouro Familiar* bonds are included under loans because the initiative is of the issuer.

Denmark
Real estate mortgage is classified under AF.4 and valued at market prices of the mortgage bonds issued.

Finland
Private placement bonds are recorded differently in balance of payments (as loans) and in financial accounts (as bonds). In financial accounts they are treated as bonds, because they are considered to be potentially transferable.

Italy
Such cases arise only with regard to the distinction between deposits and loans: as already stated, the criteria of who takes the initiative for the transaction and of the institutional unit that grants the loan (§ 5.74 and § 5.75) are not applied in the Italian financial accounts.

Norway
The division between bonds and loans are unclear in BOP-statistics. Bonds and loans are in many cases reported together. Neither is foreign shares divided between quoted and unquoted shares. As a consequence all foreign shares are classified as unquoted shares in the quarterly financial accounts.

Czech Republic
Borderline cases and deviation from the ESA95 classification can arise from different enterprises, banking etc. accounting system and from using of acts on debentures and on securities (debentures, shares etc.). For instance: according the Act on securities (No.591/92), saving certificates and certificate of deposits are treated as debentures; the Act on debentures
(No 530/90) does not include types of debentures, only specific debentures such as government or employee debentures (bonds).
Financial leasing in enterprises, banking etc. accounting system is treated as payment for services, not as loans and we must make adjustment.
Requirements included in statistical survey (statistical questionnaire) on information (stock and transaction), are consisted with ESA95.
We have no information about other borderline cases

Estonia
For the time being we have not identyfied borderline cases which have impact on net lending/net borrowing. There may exist minor deviations concerning the delimitation of most financial assets and liabilities and their sub-categories.

Poland
The borderline case is inclusion of equity certificates of National Investment Fund (NIF). They could be included into one of the forms of privatisation or enfranchisement. They were sold for the agreement price of 20 PLN zlotys to all adult Polish citizens. Every adult person was entitled by law to purchase one equity certificate at imputed price 20 PLN zlotys within the period from 22.11.1995' to 22.11.1996'. The equity certificates have been issued in the form of bearer certificates. They could be purchased and sold on the secondary market without any limits. In July 1996' the Warsaw Stock Exchange began quotation of these equity certificates, which were continued till 28 December 1998'. On this day they should be exchange for National Investment Fund shares. In FA these certificates were treated as securities other than shares and the exchanging brought about large transactions: the liquidation of equity certificates and purchase of NIF companies' shares. In fact the majority of people sold the equity certificates on the secondary market, because the exchange for the shares was connected with opening the accounts in brokerages. The charges for such transaction exceeded the value of one certificate. Equity certificates were mostly purchased by banks, brokerages and other financial institutions.

Slovak Republic
Not negotiable securities are classified according to type in F.331, F.332. It is not in compliance with ESA95 paragraph 5.59. It is uncertain how to fix the priority for distinction between deposits and securities, if we prefer the fact - it is security or prefer negotiability of security.

Hungary
The classification of some financial assets between the monetary institutions is ambiguous (loan or deposit). Apart from nostro and loro accounts (which are transferable deposits) all assets that can not be classified as AF.3, 5., 6. or 7. are included among loans (AF.4).
Mutual fund shares are classified among securities other than shares (see AF.5).

Latvia
Investment in state privatisation vouchers (certificates) are a borderline case because this does not correspond to the European System of Accounts 1995 definition of the category AF.5. Privatisation vouchers (certificates) do not give the owner direct property rights on a corporation; they can be used to purchase shares of corporations or immovable property.

3.2. Apportionment rules (other remarks)

Denmark
For some mixed instruments, (e.g. in S.2) data are distribute relative to existing distributions

Germany
Shares and other equity: No official statistics show quoted versus unquoted shares. May be that in future time we will fill these cells as we try to estimate these positions based on technical assumptions for the ECB. Other equity is based on a few primary statistics but far away from a complete listing. The results merely provide a somewhat more comprehensive picture of all the overall level of equity financing in Germany.

Insurance technical reserves: Net equity of households ... also includes company-based direct pension commitments that are very important in Germany. Due to their importance in the German financial accounts publications we usually show this position separately from insurance technical reserves.

Spain
Only in the case of certain other financial intermediaries and insurance companies does this issue arise. In this case, "working assumptions" based on expert experience have to be applied along with information from other financial institutions. For example, the concept “other monetary investments”, which residually appear in the accounting statements, normally corresponds to repurchase agreements.

The Netherlands
Within the basis data sources on Non-financial corporations a distinction must be made between large and small corporations. The data on the large corporations (representing 70% of the sector) are captured by a rather extensive yearly survey (about 60 financial balance sheet items), which is quite sufficient to fill the minimum compilation level. The data on small corporations (representing 22% of the sector) however, originate from fiscal

data, which offer only 7 balance sheet items (four types of assets en three types liabilities. Those items are to be divided according to the breakdown of the large corporations. In fact, each of the 7 items is subdivided into the required items using the structure of a selection of the smallest large corporations (of which the 60 items are available).

The remaining 8% of the balance sheet total of Non-financial corporations are for the greater part composed of units operating in the social housing sector en the health care sector. The social housing sector reports all currency, deposits and tradable securities in one item called 'liquidities'. This item is subdivided using the structure of the large non-financial corporations operating in the commercial service sector. The information on health care units is very poor. Information only exists on total loans incurred and financial net worth. The missing balance items are estimated according to the structure of large independent non-profit units operating within general government.

Information on financial auxiliaries can only be obtained using fiscal data. Just like with the smaller non-financial corporations only 7 balance sheet items are available. The required details are calculated according to the structure of a selection of 'smallest' large corporations operating in the commercial services sector.

A growing problem of mixed assets/ liabilities refers to the monetary institutions. Those units report the balance sheet items 'other financial assets and other financial liabilities. Especially for the liabilities the impression exists that it includes more than regular accounts payable. The size and yearly changes do not 'fit' anymore in what might be expected from accounts receivable/payable for the counterpart sectors as well as for the whole of the economy. It is therefore that a part of the item is reclassified as loans or deposits. This will not happen using a formal procedure, but merely on an incidental basis under the condition that residuals on short-term loans and deposits allow for such a solution.

Austria

In the case where no full sector information on the asset side is available for a certain instrument the value of the discrepany between the liability side less the asset side is attributed normally to the non-financial corporations (S.11) and to the households including non-profit organisations serving households (S.14+S.15) due to underlying informations or estimates.
The same residual calculation mechanism is applied to these sectors in the case where the information between the asset side and liability side differs (mainly based by using different primary statistics).
Mainly in the area of bank-deposits and securities as well as shares this residual calculation mechanism is in use.

Portugal

Examples of apportionment rules applied to the Portuguese Financial Accounts:

- The total amount of national currency held by the Non-financial private sector is splited between Non-financial corporations and Households according to their outstanding amounts of transferable deposits in domestic banks;
- Split of the residual amounts of Mutual Funds Shares between Non-financial corporations and Households according to information provided by a sample of Investment Funds Management Companies;

- Insurance technical reserves are broken down by institutional sector according to the premiums.

Finland

For example in case of the resident deposit banks' internal items, all other items have been classified as loans except those that are titled as deposits in the basic data. Loans are recorded also on liability side. The problem however is, although most items between banks are only short-term, the banks normally can not have short-term liabilities according the ESA95.

Other remarks on the classification of financial assets and liabilities:
In Finland, the ownership of dwellings is usually based on the ownership of housing corporation shares, which can be seen from the total of unquoted shares held by the households. The inclusion of housing and real estate corporation shares in financial assets and liabilities is not entirely without problems (valuation etc.), and all this must be taken into account in international comparisons.

Italy

When input data comprise different financial instruments and no precise breakdown can be estimated, the aggregate is recorded according to the category to which the larger part of the aggregate belongs.
Where not differently stated, all repurchase agreements are considered as short term and issued by Monetary financial institutions, and are therefore recorded as other deposits; for example, this is the case of repurchase agreements with the Rest of the World.

Norway

The total holdings of unquoted shares of private non-financial corporations and the household sector are split between the two sectors: 1/3 to non-financial corporations and 2/3 to households.

Poland

Some balance-sheet data include the mixture of different financial instruments. In such a case we apply various methods depending on type of instrument, degree of aggregating and possibility of obtaining additional data.

Example: - In some balance-sheet forms there is a line titled: bank credits. In FA short- and long-term credits are singled out. Data needed for separation of these credits are derived from banking reports. In banking balance-sheet reports there are data in asset on the volume of granted credits with the division in individual institutional sectors and even sub-sectors. Adding the values of short- and long-term credits we check, if there is a difference in reporting from various sources. If so (in fact, there are nearly always differences), we apply the hierarchy of importance of data sources. In this case we find banking data more credible. However, in order not to change the general values of asset and liability balance-sheet, we put the differences in transaction values between individual sources of data in sub-category F-79.
In some balance-sheets there are more aggregated items, e.g. in the liability balance- sheet of non-financial corporations sector there is an item: "Long-term loans, bonds and other securities". In such cases we use available reporting referring issue of securities by non-financial corporations sector and derived data is subtracted from balance-sheet item. Obtained residual value determines the volume of incurred loans.

Slovak Republic

In case when the data includes many types of financial instruments a % breakdown is used. These problems are being solved through the statistical survey. It is concerns aggregation (information is available for 1 account but is needed for Financial Accounts from analytical accounts), mix (on 1 row of enterprise balance sheets are included several items of more business accounts which belong to different categories of Financial Accounts)

Other remarks on the classification of financial assets and liabilities:
Because of high aggregation of basic data sources, which are under auspices of the other institution and because of business book-keeping accounts classifications for particular sectors are not in compliance with categories ESA95.

COMPILATION PROCEDURES

CHAPTER 4 SOURCES OF INFORMATION

General

The financial accounts system as an integrated part of the wider framework of national accounts system is an instrument of economic analysis, but is also an instrument for co-ordinating different economic statistics on financial activities of the economy i.e. it creates a framework for use when bringing otherwise disparate statistics together.

However, despite this role as a vehicle under which financial statistics can be integrated, there are hardly any separate collections of statistics for the specific purposes of financial accounts. Very often the statistics used to compile financial accounts also have other areas of application, and the purpose of their introduction may have been something quite different, e.g. administrative purposes. By way of illustration banking statistics are collected by supervisory authorities and by central banks, in their control and supervisory activities. The same applies to e.g. securities statistics for analysing the structure of financial markets, and Government Finance statistics. Thus a wide variety of basic statistics are used by the compiler, normally requiring transformations of some kind before introduction to the compilation system.

Certain sources of information used in the financial accounts map a group of institutional units for different variables, so-called sector-orientated statistics. These statistics may be likened to monthly, quarterly or annual accounts for the respective sectors and both the profit and loss account and balance sheet are used in the non-financial and financial accounts.

Only a few financial market statistics have been built up with a view to providing a basis for the financial accounts, e.g. sectoral holdings of financial instruments, so called instrument-oriented statistics. Their development has often been enforced by the rapid development of various financial markets in the last decades (internationalisation, deregulation, technical progress, development of new financial instruments etc.).

However, with some adjustments the above-mentioned kinds of statistics can be used for the financial accounts. The financial accounts therefore take on the character of secondary statistics that uses various pieces of information from a variety of financial statistics.

Direct and indirect information

The information to be used to compile financial accounts can in principal be obtained in two ways: directly or indirectly. Firstly the information is derived directly from the units of the institutional sector for which they are needed. Secondly, the information is derived indirectly from counterpart information on other sectors, e.g. financial intermediaries or institutions.

This means that in order to measure financial transactions information can be obtained from the lender/creditor, borrower/debtor, or both. In most financial relationships financial institutions are either creditors or debtors[17]. Through counterpart sector information contained in the information on the assets and liabilities of these institutions, information can be obtained indirectly on the financial activities of other sectors.

Information on transactions that extend beyond the financial markets can only be obtained through direct information from the entities involved, e.g. accounts of non-financial corporations, etc. When it comes to households and non-profit institutions serving households there is often a lack of direct information to be used in the financial accounts. In these cases counterpart sector distribution is aimed at, but where there is none a residual sector can be used.

National sources used for compiling financial accounts

In general, the most import sources used to compile annual financial accounts nationally are statistics on financial intermediaries, particularly monthly money and banking statistics, and quarterly data of other financial institutions. The bulk of the data are derived from these sources, that often use counterpart sectors information. Furthermore, data are provided by capital market statistics, securities issues of government debt institutions, balance of payments and international investment position statistics, government finance statistics, direct information on non-financial corporations etc.

[17] In the financial accounts which are based on information from two sources - both the debtor and creditor sector - it is possible to select different combinations of values, then to study the effect of the selection before taking a decision.

Financial Statistics

The financial statistics consist of statements of assets and liabilities, and related transactions for different groups of financial institutions, namely:

- Government debt institutions and major government extra-budgetary funds
- Social security funds
- Central banks
- Other monetary financial intermediaries
- Broker (intermediary) institutions
- Insurance corporations and pension funds
- Mutual funds
- Investment companies

The financial market statistics produced and published by central banks and central statistical offices cover in general the following statistics:

1. Monthly and quarterly statistics on balance sheets and transactions of monetary financial institutions[18] and other financial institutions.

2. Monthly and quarterly statistics for central government debt and government extra-budgetary funds.

3. Monthly and quarterly statistics on sectoral holdings of the purchase and sale of securities (including shares) etc. by major investors, i.e. instrument-orientated statistics, mainly for the financial accounts.

4. Annual statistics on profit and loss accounts, balance sheets of most financial corporations (including insurance corporations and pension funds). All the statistics are used by the financial accounts.

[18] For the euro area MFI statistics cover monthly and quarterly stocks and monthly financial transactions as laid down in the Regulation (ECB/1998/16), regarding the compilation of the consolidated balance sheet of the MFI sector, which will be substituted by Regulation ECB/2001/13 from 1 January 2003.

Balance of payments and international investment position statistics

The balance of payments statistics are based on the IMF's recommendations in the Balance of Payments Manual for the arrangement and classification of external transactions which forms a coherent accounting system. The balance of payments accounts are closely linked to the ESA 95 with respect to issues such as the delineation of resident units, valuation of transactions and of the stock of external assets and liabilities, time of recording of transactions, coverage of income flows, current transfers, foreign assets and liabilities, and coverage of the international investment position.

The IMF's recommendations differ from the ESA 95 mainly concerning the level of detail of the financial account of the ESA 95 and Balance of Payments Manual respectively. In the ESA 95, financial assets are classified primarily by type of instrument. In the Manual, financial items are classified primarily by function (i.e., direct investment, portfolio investment, other investment and reserve assets).

Financial Statistics for Non-Financial Corporations

Annual statistics for non-financial corporations´ assets and liabilities are also used in the financial accounts. These are usually collected by sample surveys. Central company registers are used as sample frameworks for branch classifications. The samples are then studied and adjusted to cover the entire non-financial corporation sector.

In most cases data are taken directly from the company accounts (profit and loss accounts and balance sheets). However, before using these items in the national and financial accounts the primary data must often first be converted to comply with the macro-economic definitions and the national accounts valuation rules.

Detailed tables outlining the main sources and supplementary information by institutional sectors and sub-sectors used by each country are provided in the companion document (stocktaking).