Broadening the institutional coverage of financial statistics in the euro area[1]

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Introduction

The European System of Central Banks (ESCB) requires statistics on various types of financial institutions to carry out its tasks. These statistics need to be harmonised and available for the euro area as a whole, and in many cases also for each of the currently 16 countries which constitute the euro area. There are two alternative approaches to achieve this. First, the European Central Bank (ECB) has primary responsibility at the European level for collecting statistical information from monetary and financial institutions (MFIs) and other financial intermediaries, except insurance corporations and pension funds (OFIs), and the ECB has been empowered to issue regulations which set out statistical reporting requirements directly addressed to the reporting agents in the euro area belonging to these two sectors.[7] Second, data may already be available at the national central banks (NCBs), and the ECB may request that these data be transmitted to it. This procedure is commonly referred to as a "short-term approach", and it involves only a limited degree of harmonisation, given that the underlying data may be collected according to different standards in the different euro area member States. It may be applied to any statistics, eg on the insurance corporations and pension funds (ICPF) subsector.

The monetary policy strategy of the ECB assigns a prominent role to monetary analysis. For this reason, high-quality, harmonised and timely balance sheet statistics on MFIs were essential to the ECB from the inception of the euro area. As a result, the first ECB statistical regulation was issued in 1998,[8] which allowed for a compilation of harmonised MFI balance sheet statistics across the euro area.

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[7] As laid out in Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the ECB (cf whereas 7 and Art 2.2.(a)).

[8] Regulation ECB/1998/16 of the European Central Bank concerning the consolidated balance sheet of the monetary financial institutions sector; it was later amended and recast as ECB/2001/13, and then again as ECB/2008/32.

Statistics on financial intermediaries other than MFIs are important for monetary as well as economic and financial analysis. This sector, especially investment funds (IFs) and ICPFs, has grown substantially over the past two decades in terms of financial assets.[9] Furthermore, these institutions manage their asset portfolios increasingly more actively. As a consequence, frequent and timely statistics on their balance sheets and changes therein have become more relevant for monetary analysis and other tasks of the ESCB, also in view of increasingly complex financial markets, with steadily growing interlinkages between the various financial intermediaries. In addition, the growing awareness of the financial implications of longevity as well as the general move towards funded pension schemes are likely to substantially increase the importance of the ICPF subsector for ECB analysis.

In this context, the ECB has been working on three sets of statistics: IFs, ICPFs and financial vehicle corporations (FVCs), plus related MFI loan securitisations. This paper describes the work carried out to develop these statistics. The focus on these intermediaries represents their importance at the euro area level; Chart 1 presents the sizes of different subsectors of financial intermediaries in the euro area.

Chart 1

Total assets of euro area financial intermediaries as at Q1 2009

	Total	Monetary financial institutions	Insurance corporations and pension funds[1]	Other financial intermediaries[2]	
				Total[1]	Of which: Investment funds
Total assets (EUR bn)	47,279	31,821	5,947	9,511	4,097
As a percentage of total	100	67	13	20	9

[1] Total financial assets.   [2] This category includes, for example, securitisation vehicles, financial corporations engaged in lending, and securities and derivatives dealers.

Source: ECB.

1. Investment fund statistics

1.1 Short-term approach until 2009

The ECB has published quarterly euro area aggregated IF statistics since January 2003. These statistics exclude money market funds, which are included in the MFI sector. Data transmission by the NCBs to the ECB has been done on the basis of available data at the national level[10] – the statistics are thus not harmonised across the euro area and, while NCBs aim to provide comparable breakdowns, the data may still deviate from the required definitions. This section briefly describes the main features of these statistics.

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[9] See also E Gonnard et al (2008).

[10] In accordance with the requirements established in Annex XVIII of Guideline ECB/2003/2, as amended.

The ECB has compiled euro area aggregates for the main items of the balance sheet of (a) total IFs, (b) IFs broken down by investment policy and (c) IFs broken down by type of investor. Chart 2 below presents the total assets of euro area IFs broken down by investment policy.

The data have been published with a time lag of approximately three and a half months, and refer primarily to end-quarter stocks. As from July 2008, the ECB has published transactions of total IF shares/units issued by all IFs. No further disaggregated euro area transactions statistics have been published owing to limited and heterogeneous data. Given the importance of transaction data for economic analysis, this was seen as a major drawback of these statistics. In addition, only a few breakdowns have been published: an instrument breakdown, including holdings of debt securities split between maturities of up to one year and over one year. Euro area aggregates have also been published for the geographical breakdown of the holdings of IFs, but substantial estimations were required. Assets and liabilities broken down by counterpart sectors have not been available.

The figures compiled for euro area IFs may underestimate the actual total assets of IFs, as the data coverage may not be complete in all countries. Also, the instrument/maturity coverage and valuation methods in the national input data may differ from the ECB's reporting instructions.

Chart 2

**Total assets of euro area investment funds
broken down by investment policy**
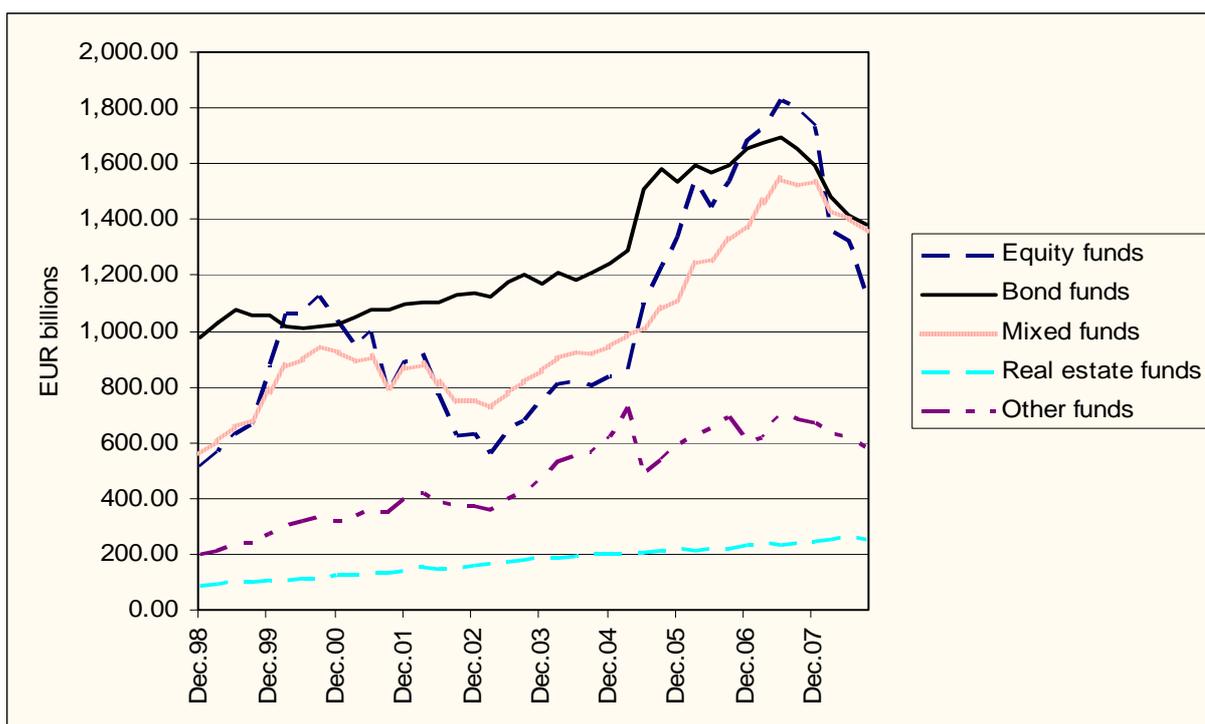
Source: ECB.

1.2   Harmonised IF statistics from 2009

In order to overcome the shortcomings of the short-term approach described in the previous section, the ESCB started to design a steady-state approach for IF statistics. The preparatory

work began in 2004, when a so-called merits and costs exercise[11] was launched. After completing this exercise, the statistical framework was formalised by way of two legal acts: an ECB regulation[12] addressed directly to the reporting agents, and amendments to an ECB guideline,[13] which is addressed to the NCBs. Both of these legal acts were published in August 2007.

The statistics reported in accordance with the legal framework allow the compilation of harmonised euro area statistics on all kinds of IFs resident in the euro area that comply with the statistical definition provided in the regulation. The ECB will publish a list of all resident IFs subject to the reporting requirements. The IF sector is also further broken down into several subsectors, one of which is hedge funds. For this purpose a statistical definition for hedge funds is included in the guideline. These new statistics will thus provide reliable regular output that allows for monitoring the developments in the euro area IF industry, including the hedge funds incorporated in the euro area.

The main shortcomings of the statistics compiled under the short-term approach have been overcome. The regulation requires the harmonised collection of breakdowns of assets and liabilities of IFs by geographical counterpart, sector, maturity and currency, similar to the current MFI balance sheet statistics. Both stock and transaction data are required on a quarterly basis, with key statistics also becoming available on a monthly basis. The time lag for the availability of the statistics has been significantly reduced, to 28 working days after the reference period.

An important feature of the statistics under the regulation, which has significantly helped to reduce the costs for reporting agents, is the option provided to the IFs, subject to the prior approval of the relevant NCB, to report their securities portfolios on a security-by-security basis instead of on an aggregated basis. NCBs then compile the necessary aggregates with the help of the common ESCB securities reference database (Centralised Securities Database) or compatible local securities databases. Other elements of flexibility are also laid down in the regulation so as to further reduce the set-up and regular costs without compromising quality (eg a reduced reporting frequency for IFs that value their assets less than once per quarter, and the collection of securities positions either with or without accrued interest).

The first reporting of data took place in February 2009, with December 2008 as the first reference period. As for all ESCB statistics, the collection of the data from the reporting agents is carried out by the NCBs, which in turn provide the aggregated statistical information to the ECB, which derives the euro area aggregates. The inaugural publication of the new IF statistics is expected to take place in late 2009, following a thorough quality control and analysis of this new dataset.

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[11] In this exercise, ESCB users of statistics were asked to indicate the features they would require for the new IF statistics, while statisticians at the NCBs, in close cooperation with the reporting agents, assessed the costs of reporting various features. In a final step, the merits and costs were matched; this led to a set of reporting requirements for which the merits outweigh the associated costs.

[12] Regulation (EC) No 958/2007 of the European Central Bank of 27 July 2007 concerning statistics on the assets and liabilities of investment funds (ECB/2007/8).

[13] Guideline of the European Central Bank of 1 August 2007 on monetary, financial institutions and markets statistics (recast) (ECB/2007/9).

2. Insurance corporations and pension funds statistics

The ICPF sector has grown substantially grown over the last decade and represents the second largest financial corporations subsector in the euro area in terms of financial assets. ECB users expressed a high-priority need for the compilation of timely and detailed quarterly ICPF balance sheet statistics with a view to enhancing the monetary and economic analyses that serve as an input to monetary policy decisions. For example, statistics for the ICPF sector would allow the analysis of household portfolio shifts between ICPFs, OFIs and MFIs, including the impact that such shifts may have on developments in money and credit aggregates and including the impact on economic activity through wealth effects.

The ESCB started work towards new ICPF statistics under a "short-term approach", ie enhancing the compilation of these statistics without setting a new data collection from reporting agents. The work by the ESCB focuses on exploring, improving and using existing statistical sources without increasing the reporting burden for the ICPF sector. As a follow-up, a dedicated ESCB task force was established in November 2007. Its main focus was to produce best national estimates to contribute to euro area flash estimates on ICPF with a timeliness of T+85 calendar days after the end of the reference quarter.

Accordingly, the ESCB designed a reporting scheme for the transmission of data and metadata. This scheme has been used in the regular quarterly transmissions by NCBs to the ECB. The data transmitted to the ECB ensured a reasonable euro area coverage for at least a subset of series on outstanding amounts, while only a few data on transactions are available. For monetary analysis, breakdowns were included by sector and residency of the counterparts of ICPF assets and liabilities. These breakdowns support the analysis, as, for instance, changes in household portfolio allocations towards a greater investment in ICPFs instead of short-term bank deposits can have an important impact on monetary developments. The importance of ICPFs to households has grown in recent years, with the share of insurance technical reserves in total household sector financial assets increasing from 21 per cent in 1995 to 30 per cent in 2008.

In almost all euro area countries, sector information for ICPF counterparties can be provided (although in most countries this information is available only for domestic counterparties). A split by residency between domestic and foreign counterparties is feasible at the national level. However, in general it is not possible to distinguish between other euro area residents and residents of countries outside the euro area, although a few countries can provide such a split. Moreover, in order to enhance the monetary analysis, the ICPF reporting scheme provides maturity breakdowns for deposits, securities and loans that correspond to those in the MFI balance sheet statistics. Indeed, it is expected that a higher volume of retirement savings, due to ageing populations and increased private funding of national pension systems, will raise the demand for financial assets and especially those with longer duration relative to short-term savings instruments and residential real estate. The reporting scheme is available also by type of entities (ie insurance corporations and pension funds). As these may have different investment policies and money-holding behaviours, this split allows for a more comprehensive analysis of the effects of portfolio allocation. Finally, for economic analysis, the breakdown of ICPF technical reserves by type of plan (eg defined-benefit and defined-contribution plans in the case of pension funds) enables a better estimate of the propensity to consume out of different categories of financial wealth.

The ESCB also discussed the data sources and estimation techniques used by countries for national ICPF data. Supervisory sources are widely used, and usually provide solo accounts (ie not only consolidated accounts), but other sources, such as direct reporting and counterpart information (MFI balance sheet data, balance of payments/international investment position statistics, custodian data or direct reporting of securities holdings), are also relevant. However, given the lack of detail and/or timeliness of these sources, or their annual frequency, most NCBs have to use statistical techniques and estimates to achieve the frequency, timeliness and breakdown required for the new ICPF reporting scheme. While

room for further substantial statistical improvements is limited by data availability (which is peculiar to the approach chosen), several NCBs have initiated some changes that will improve the basis for ICPF statistics, eg by better linking to available supervisory sources or using data available from industry associations. Owing to the importance of supervisory sources for the compilation of ICPF statistics, the ECB is in close contact with the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS), which is currently developing harmonised supervisory reporting and disclosure schemes. Although quarterly reporting/disclosure is not mandatory, many national supervisory authorities will request or are already requesting, at least in part, quarterly information covering major balance sheet items and insurance technical reserves.

The first regular transmission of ICPF data took place in June 2008. A workshop is planned in the last quarter of 2009 to assess the implementation at that stage and the progress in terms of timeliness, availability and quality of the national data and the derived euro area aggregates.

3. Securitisation statistics

Statistical work has been undertaken to develop statistics on securitisation and, more generally, to measure credit risk transfer (CRT) within and outside the euro area. Initially, the main reason driving the development of this statistical work was the need to improve monetary policy analysis. Loan securitisation usually takes place by means of a sale or similar operation which implies de-recognition in many accounting frameworks. Given that these transactions do not result from the supply and demand of loans, they create a distortion in the loan series. Chart 3 shows how the available securitisation data should be factored into the analysis of credit developments, in particular in certain periods (eg 2003 and 2007–2008).

Chart 3

Impact of true-sale securitisation on loans to the private sector
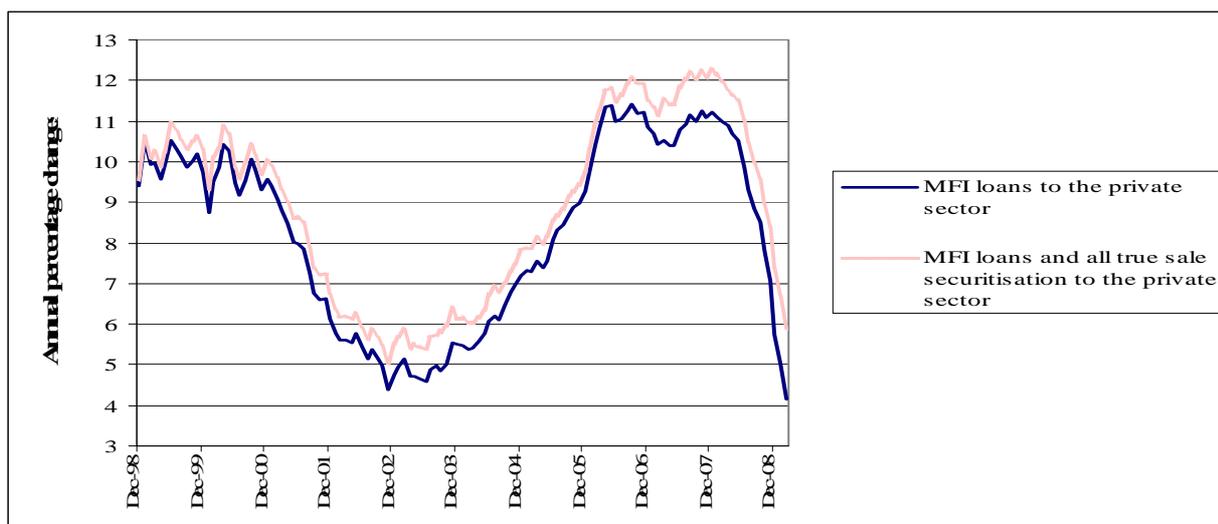
Source: ECB.

More recently, in particular in response to the current financial crisis, statistical data on securitisation were deemed even more relevant also in order to improve the financial stability analysis and, in particular, to measure cross-border and cross-sector transfers of credit risk.

Two rather distinct CRT developments and measurement issues can be identified. First, credit risk is transferred by making the underlying loan negotiable in the form of securities, often issued by securitisation vehicles. Second, credit risk itself may be transferred using credit derivatives. Mixed solutions have also been used, eg securitisation vehicles issuing securities collateralised by credit derivatives.

In order to measure CRT undertaken via the issuance of securities, the statistical development work has focused on harmonised statistics on banks' securitisation and loan sales, integrated with balance sheet statistics on securitisation vehicles (called FVCs in the ESCB statistics). The related statistical requirements have been laid down in two recent ECB regulations;[14] here the focus is on macroeconomic and monetary analysis and the residency criterion is based on the host country of the individual entities surveyed.

Banks, which form the main part of the MFI sector, will report monthly and quarterly information (net flows and, if acting as servicers, also stocks), on traditional loan securitisations through an FVC and on loan sales, with a breakdown by maturity, purpose, residency/sector of debtors, and residency of the FVCs. Moreover, MFIs will report data on holdings of securities issued by FVCs as well as further details to ensure consistency of the reporting of securitisation with different accounting standards. This information will provide users with a measure of the share of loans for which credit risk has been transferred, ie net of the FVC securities that have been purchased. However, the risk dimension of the purchased FVC securities will not be available in these statistics, and hence, they will not suffice for a broad picture of credit risk transfer.

In parallel, complete information on the balance sheets and transactions of FVCs will become available at a quarterly frequency, covering the portfolio of securitised loans broken down by residency/sector of the originator and residency/sector of debtors, as well as a breakdown of their holdings of securities by maturity and sector/residency of issuers. Within the instrument breakdown, gross positions and transactions in financial derivatives will be identified, as well as debt securities issued, broken down by maturity, and deposits. Moreover, FVCs involved in true sale and synthetic securitisations will be separately identified.

The two sets of statistics (MFI securitisation data and FVC balance sheet statistics) are integrated. A particular effort has been made to ensure that the same information is not reported twice, ie by the originating bank and by the FVC which securitises the loans. Moreover, a significant degree of flexibility has been given to national central banks (NCBs) regarding the data sources needed to compile FVC balance sheet statistics. In practice some NCBs will compile the statistics on the basis of existing (supervisory or public) data sources, whereby predefined data quality standards will be met.

Some limited information on securitisation originated within the euro area by entities other than banks will also be available. On the holding side, the collection of new harmonised statistics on assets and liabilities of IFs (including hedge funds)[15] will be based on security-by-security reporting, so that it will be possible to access their holdings of structured securities issued by banks and FVCs.

The harmonised statistics on securitisation will become available in 2010, and some interim statistics have been compiled using existing (commercial, supervisory) sources, thus making it possible to meet some users' immediate information needs, including the need for micro

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[14] Regulation (EC) No 24/2009 of the European Central Bank of 19 December 2008 concerning statistics on the assets and liabilities of financial vehicle corporations engaged in securitisation transactions (ECB/2008/30) and Regulation (EC) No 25/2009 of the European Central Bank of 19 December 2008 concerning the balance sheet of the monetary financial institutions sector (recast) (ECB/2008/32).

[15] See section 1 above.

data on securities issuance.[16] Work has also begun on identifying the sector and residency of holders of securities arising from securitisation deals as part of a broader endeavour to identify holders of securities, but this work is expected to take some time to complete.

References

Gonnard, E, E J Kim and I Ynesta (2008): "Recent trends in institutional investors statistics", *Financial Market Trends*, Organisation for Economic Co-operation and Development, vol 2008/2, no 95, December.

Poloni, P and J Reynaud (2009): "How to measure credit risk transfer in the EU", *IFC Bulletin,* no 31, Basel, July.

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[16]   See P Poloni and J Reynaud (2008).

Annex:
Examples of reporting tables (not complete requirements)

Investment funds

	Table 1																					
	Stocks																						
	Data required to be provided on a quarterly basis																						
	A. Domestic (total)	MFIs	Non-MFIs - Total	General Gov't	Other residents Total	Other financial intermediaries + financial auxiliaries (S.123+S.124)	Insurance corporations and pension funds (S.125)	Non-financial corporations (S.11)	Households + non-profit institutions serving households (S.14+S.15)	B. Other participating Member States (total)	MFIs	Non-MFIs - Total	General Gov't	Other residents Total	Other financial intermediaries + financial auxiliaries (S.123+S.124)	Insurance corporations and pension funds (S.125)	Non-financial corporations (S.11)	Households + non-profit institutions serving households (S.14+S.15)	C. RoW (total)	of which non-participating Member States	of which US	of which Japan	D. Not allocated
	[a]	[b]	[c]	[d]	[e]	[f]	[g]	[h]	[i]	[j]	[k]	[l]	[m]	[n]	[o]	[p]	[q]	[r]	[s]	[t]	[u]	[v]	[w]
ASSETS																							
1 Deposit and loan claims																							
2 Securities other than shares																							
2e. Euro																							
up to 1 year																							
over 1 year and up to 2 years																							
over 2 years																							
2x. Foreign currencies																							
up to 1 year																							
over 1 year and up to 2 years																							
over 2 years																							
2t. Total currencies																							
up to 1 year																							
over 1 year and up to 2 years																							
over 2 years																							
3 Shares and other equity																							
of which quoted shares, excluding IF and MMF shares/units																							
of which IF and MMF shares/units																							
4 Financial derivatives																							
5 Non-financial assets (including fixed assets)																							
6 Remaining assets																							
LIABILITIES																							
7 Loans and deposits received																							
8 IF shares / units [1]																							
9 Financial derivatives																							
10 Remaining liabilities																							

IFs following the aggregated approach report all cells, including black and grey.

IFs following the combined approach report: (i) the black cells; (ii) the information requested in Table 2 for those securities that are collected on an s-b-s basis; and (iii) the grey cells for those securities that are not collected on an s-b-s basis.

[1] If the reporting agent is not in a position to identify directly the residency and sector of the holder, it reports the relevant data on the basis of available information. In the case of 'bearer shares', the information may be collected from MFIs or OFIs, other than investment funds (as specified in Article 2(2) and paragraph 3 in Part 2 of Annex I to this Regulation).

Financial vehicle corporations

Table 1: Outstanding amounts and transactions

	A. Domestic										B. Other participating Member States										C. RoW	D. Total
	Total	MFIs	Non-MFIs - Total	General Gov't	Other residents Total	Other financial intermediaries + financial auxiliaries (S.123+S.124)	o/w FVCs	Insurance corporations and pension funds (S.125)	Non-financial corporations (S.11)	Households + non-profit institutions serving households (S.14+S.15)	Total	MFIs	Non-MFIs - Total	General Gov't	Other residents Total	Other financial intermediaries + financial auxiliaries (S.123+S.124)	o/w FVCs	Insurance corporations and pension funds (S.125)	Non-financial corporations (S.11)	Households + non-profit institutions serving households (S.14+S.15)		
	[a]	[b]	[c]	[d]	[e]	[f]	[g]	[h]	[i]	[j]	[k]	[l]	[m]	[n]	[o]	[p]	[q]	[r]	[s]	[t]	[u]	[v]
ASSETS																						
1 Deposits and loan claims		▓					▓					▓					▓					▓
2 Securitised loans																						▓
2a euro area MFI as originator			▓			▓		▓		▓			▓			▓		▓		▓		
up to 1 year									▓										▓			
over 1 year and up to 5 years									▓										▓			
over 5 years									▓										▓			
2b euro area General Government as originator																						▓
2c euro area OFI and ICPF as originator																						▓
2d euro area NFC as originator																						▓
2e non-euro area originator																						▓
3 Securities other than shares (1)																						
up to 1 year		▓	▓				▓					▓	▓				▓				▓	▓
over 1 year and up to 2 years		▓	▓				▓					▓	▓				▓				▓	▓
over 2 years		▓	▓				▓					▓	▓				▓				▓	▓
4 Other securitised assets																						▓
4a of which euro area General Government as originator																						
4b of which euro area NFC as originator																						
5 Shares and other equity							▓										▓					▓
6 Financial derivatives																						▓
7 Fixed assets																						▓
8 Remaining assets																						▓
LIABILITIES																						
9 Loans and deposits received							▓										▓					▓
10 Debt securities issued (1)																						
up to 1 year																						▓
over 1 year and up to 2 years																						▓
over 2 years																						▓
11 Capital and reserves																						▓
12 Financial derivatives																						▓
13 Remaining liabilities																						▓

(1) In accordance with Article 4(2), NCBs may choose to collect these items on a security-by-security basis.

Insurance corporations and pension funds

Assets - outstanding amounts at end of period and transactions during period

	Total	Domestic									Non-residents										Rest of the world	Not allocated
		Total domestic	MFIs	Total non-MFIs	General government	Total	Other fin. interm.	ICPF	Non-fin. corporations	Households	Total non-residents	Total other MUMS[1]	MFIs	Total non-MFIs	General government	Total	Other fin. interm.	ICPF	Non-fin. corporations	Households		
		S.1	S.121+S.122		S.13		S.123+S.124	S.125	S.11	S.14+S.15	S.2		S.121+S.122		S.13		S.123+S.124	S.125	S.11	S.14+S.15		
Total financial assets																						
Currency	#																					
Deposits			#																			
Up to 1 year			*																			
Over 1 year and up to 2 years			*																			
Over 2 years			*																			
Securities other than shares excl. financial derivatives																						
Up to 1 year			X		X		X	X	X				X		X		X	X	X			
Over 1 year and up to 2 years			X		X		X	X	X				X		X		X	X	X			
Over 2 years																						
Financial derivatives																						
Loans					X #		X #	X #	X #	X #					X #		X #	X #	X #	X #	#	
Up to 1 year					#		#	#	#	#					#		#	#	#	#	#	
Over 1 year and up to 5 years																						
Over 5 years																						
Shares and other equity																						
Quoted shares																						
Unquoted shares and other equity																						
Mutual funds shares/units																						
Of which: money market fund shares			X *										X									
Prepayments of insurance premiums																						
Other accounts receivable/payable	#																					
Total non-financial assets																						

Notes to Tables 2a and 2b:
– The cells marked with the asterisk * show data available from other datasets (BSI and SEC).
– The cells marked with the symbol # show the MUFA data requirements, also taking into account the counterpart sector requirements that are mandatory from April 2008.
– The cells marked with X show items which in the long-term should become available at T+50 calendar days.

[1] Monetary Union Member States.