30 November 2022

Guidance Note 1 - The statistical treatment of captive financial institutions and money lenders (S127)

This guidance note is based on the reported experience of central banks and deals with the treatment of captive financial institutions (CFI) and money lenders (ML), which are categorised jointly as CFIMLs in the subsector S127 of the financial corporations sector in the System of National Accounts (SNA). It covers:

- *The relevant standards and guidance that are available;*
- *The relevant data sources;*
- *Examples of approaches followed by central banks for identifying CFIMLs;*
- *The reporting of CFIMLs' data for the compilation of national accounts; and*
- *Some background on the economic importance of CFIMLs institutions.*

1. Standards and guidelines

Various **international statistical standards and guidance documents** can be used to identify captive financial institutions (CFI) and money lenders (ML) and distinguish them from other institutions. The obvious starting point is the United Nations' *SNA 2008*,[1] together with the IMF's *Balance of Payments and International Investment Position Manual* (BPM6)[2] and the *Monetary and Financial Statistics Manual and Compilation Guide* (MFSMCG),[3] which are consistent with the *SNA 2008*. These standards comprise a subsector (S127) created in the financial corporations sector to cover "captive financial institutions and money lenders" (CFIMLs). The CFIMLs "*consist of institutional units providing financial services, where most of either their assets or liabilities are not transacted on open financial markets*" (SNA 2008 4.113). This sector represents one of the nine subsectors of the financial corporations sector in the SNA.

It is also an important part of what is typically referred to as "Other Financial Corporations" or "Other Financial Intermediaries" (see footnote 10).

In general, **financial corporations classified as CFIMLs are** (*SNA 2008* 4.114):

a. Units which are legal entities such as trusts, estates, agencies accounts or brass plate companies.

1 See European Commission, IMF, OECD, UN and World Bank (2009): "System of National Accounts 2008"; the most relevant parts are in Chapter 4 – eg 4.54, 59, 113, 114 and Annex 3 – B.6.

2 See IMF (2009): "Balance of Payments and International Investment Position Manual - Sixth Edition (BPM6)".

3 See IMF (2017): "Monetary and financial statistics manual and compilation guide 2016".

b. Holding corporations that hold only the assets of a group of subsidiary corporations and whose principal activity is owning the group without providing any other service.

c. Special purpose entities (SPEs; one also refers to special purpose vehicles or SPVs), or conduits that qualify as institutional units and raise funds in open markets to be used by their parent corporation.

d. Units which provide financial services exclusively with own funds, or funds provided by a sponsor to a range of clients (including: moneylenders / corporations engaged in lending from funds received from a sponsor / pawnshops that predominantly engage in lending).

Turning to the task of categorising economic activities in general and identifying specific firms as CFIMLs in particular, many central banks use the *International Standard Industrial Classification of All Economic Activities **(ISIC)*** **classification** published by the United Nations,[4] or a similar classification based on consistent documents.

There are other, often SNA-consistent standards utilised by central banks in some **regions**, especially in Europe with the *European System of National and Regional Accounts (ESA 2010)*[5] and the *Statistical Classification of Economic Activities in the European Community (NACE Rev. 2)*.[6] In addition, specific standards have also been established at **national levels**, such as the *Philippines Standard Industrial Classification* (PSIC) 2009,[7] with the aim of better reflecting national characteristics and requirements.

Other useful international references are the OECD guide for compilers and users for the *Collection of data on non-bank financial intermediation and other relevant trends in the financial world in the National Accounts*;[8] and the annual Financial Stability Board *Global Monitoring Report on Non-Bank Financial Intermediation* (NBFI) that provides estimates on the economic and financial importance of CFIMLs among other entities involved in financial activities.[9] This information is of key importance for central banks to analyse non-bank financing and the **role of OFIs** (including the S127 subsector). [10]

---

4 See UN (2008): "International Standard Industrial Classification of All Economic Activities (ISIC), Rev. 4", *Statistical Papers Series M*, no 4, Rev. 4, 2008. This represents the last of the various revised versions (ie no 1, 2 , 3, 3.1, 4) of the ISIC standard.

5 See Eurostat (European Commission) (2013): "European system of accounts ESA 2010"; relevant information on CFI and ML can be found in section 2.98.

6 See Eurostat (European Commission) (2008): "NACE Rev. 2, Statistical classification of economic activities in the European Community", *Methodologies and Working Papers*; relevant information on CFI and ML can be found in Division 64, Class 64.20/30.

7 See Philippine Statistics Authority (2021): "2019 Updates to the 2009 Philippine Standard Industrial Classification".

8 See OECD (2020): "Collection of data on non-bank financial intermediation and other relevant trends in the financial world in the National Accounts".

9 See the latest FSB Global monitoring report on Non-Bank Financial Intermediation (2021). There are other initiatives to monitor non-banks' financial intermediation, for instance in Europe the annual *EU Non-bank Financial Intermediation Risk Monitor* (2022) published by the European Systemic Risk Board (ESRB).

10 Financial corporations are usually divided into three broad classes in the SNA (in parallel to the subdivision into 9 subsectors): (i) **financial intermediaries** (ie corporations that are primarily involved in financial intermediation); (ii) **financial auxiliaries** (engaged in serving financial markets, they do not take ownership of the financial assets and liabilities); and (iii) **other financial corporations** (which provide financial services, but most of their assets or liabilities are not available on open financial markets) (SNA 2008 4.101).

A regards the FSB NBFI report, it provides a regular monitoring of other financial intermediaries (OFIs) for major financial systems. OFIs include mainly investment funds, captive financial institutions and money lenders, central counterparties, One important difficulty relates to the **identification among specific CFIMLs entities of SPEs/SPVs**, which represent a notable part of the S127 subsector. It is acknowledged that "*There is no common definition of an SPE*" in the SNA, which nevertheless provides a description of their characteristics (see SNA 2008 4.55-58 & A3.10). Moreover, a number of international Task Forces, especially under the framework of the IMF Committee on Balance of Payments Statistics (BOPCOM) and in the European context,[11] have produced guidelines for the proper classification of SPEs (noting that most of them can be expected to be classified in the CFI sector). These guidelines are reported to be used extensively in practice by central banks.

Another caveat is the **different treatment applied for SPEs depending on the residency of their parents** in the SNA. As a rule, resident SPEs are combined with their owners into single legal entities and are therefore not distinguished separately in the SNA. However, this is not the case if the SPE is resident in the economy while the legal parent is resident in another. As a result, SPEs "*owned by non-residents are considered to be resident of their territory of incorporation, even though most or all of their owners and most or all of their assets are in another economy*" (SNA 2008 26.28).

2. Data sources

Different statistical sources can be used to identify firms as CFI / ML. A popular avenue among central banks is to use a **Statistical Business Register** (SBR), in which all companies are listed and classified in relevant sectors (with different degrees of sector granularity depending on the jurisdictions considered).

The **classification followed** is typically relying on the ISIC classification of enterprises and is based on their main activities. In practice, central bank statisticians make significant efforts to verify this information before storing it in the SBR, through the conduct of ad hoc validation checks. Moreover, specific additional features may be used for supporting classification exercises. This can lead to substantial differences across countries – reflecting the fact that the structure of national financial systems can differ markedly especially as regards the role and importance of CFIMLs. For instance, some jurisdictions may focus on the separate identification of licensing companies and intellectual property boxes. Others may be more interested in covering holding companies and financial conduits.[12] But the identification of such specific entities is reported to be difficult, especially when there is little proper legal basis to collect and maintain this information. These difficulties can hinder the completeness and quality of the CFIMLs data available in SBRs, and can also lead to insufficient granular classification in the registers at hand. Several central banks are therefore currently trying to build up more detailed SBRs.

Another issue relates to **access rights**. While in several countries the national SBR is set up by the central bank (especially when this central bank oversees the compilation of financial accounts), the

---

broker-dealers, finance companies, trust companies and structured finance vehicles (and exclude central banks, banks, public financial institutions, insurance corporations, pension funds, or financial auxiliaries).

11 For instance see IMF (2018): " Final Report of the Task Force on Special Purpose Entities"; and ECB, Eurostat and OECD (2013): "Final Report by the Task Force on Head Offices, Holding Companies and Special Purpose Entities (SPEs)".

12 As an example, the Central Bank of Romania publishes a public list of holding companies as well as several registers and lists of different types of financial institutions.

identification of institutions and the maintenance of a SBR can be the responsibility of the national statistical office (NSO) or of another authority, such as the financial market supervisor or the chamber of commerce. As a result, the data of the register may not be shared externally, for instance due to legal restrictions, sometimes leaving central banks with the only option of relying on a combination of different (and often incomplete) alternative sources to identify CFIMLs.

Apart from statistical business registers (when they exist, at least in an imperfect fashion), **other administrative statistical sources** can be used to identify CFIMLs, such as tax registers, central credit registers (ie compiled from bank reports on loans and deposits), central balance sheet databases (which typically covers information derived from financial statements for non-financial corporations)[13], statistics from the balance of payments and international investment positions (esp. to cover deposits and loans vis-à-vis non-residents), databases on insurance corporations and pension funds, securities issuance and holdings statistics, monetary balance sheets data, or supervisory information on financial markets. One important factor supporting the usefulness of these sources is the fact that they can provide **indirect counterparty information** on the various providers of financial services including CFIMLs.

In addition, one can also **directly collect entity-level data** based on the financial statements published by firms or, when they are not required to disclose these statements, already published information from, say, public registers, companies' webpages (eg with the use of web scraping techniques), etc. Important information for the identification exercises are the names of the entities, its business purpose and legal form.

Lastly, another possibility is for the central bank **to conduct a dedicated survey** to identify CFI and ML, at least to cover those institutions that are above a certain threshold in terms of balance sheet. One example of surveys used by central banks are those on Foreign Direct Investment (FDI) that serve for the production of external sector statistics and that can shed light, in particular, on foreign-owned SPEs' activities.

3. Identification of CFI / ML entities

There are several **methodological papers available to facilitate the proper identification** of CFI and ML and support the compilation of aggregate statistics in the financial and non-financial accounts.[14] This reflects the ongoing efforts by the international network of statistical experts to

---

[13] See the information provided by the European Committee of Central Balance Sheet Data Offices (ECCBSO).

[14] See, besides the above mentioned international and national guidance:

- Agresti, A and C Giron (2019): "Challenges for macro data on non-bank financial intermediaries", *IFC Bulletin*, no 49, January.
- Central Bank of Chile (2017): "Adopción del SCN 2008 en las Cuentas Nacionales por Sector Institucional" (available in Spanish). Central Bank of Spain (Statistics Department) (2018): "Holding Companies and Head Offices within the framework of the SNA 2008 / ESA 2010", *Notas Estadísticas*, no 7.
- Deutsche Bundesbank (2022): "Banking Statistics Customer Classification - Special Statistical Publication", July.
- ——— (2018): "Quality report concerning statistics underlying the Macroeconomic Imbalance Procedure (MIP) indicators – level 3 National self-assessment report on the quality of financial accounts for Germany", December.
- Di Filippo, G and F Pierret (2020): "A Typology of Captive Financial Institutions and Money Lenders (sector S127) in Luxembourg", *Banque Centrale du Luxembourg Working Paper*, no 146, July.
- Olmo, B and L Maza (2017): "Holding companies and Head offices within the framework of the SNA 2008 / ESA 2010: collaboration between the INE and the Banco de España for their sectoral classification and for obtaining data from annual business accounts", paper presented at the 61st Congress of the International Statistical Institute, July.

produce more precise and operational guidelines for measuring the subsector 127 in the SNA 2008 and for supporting the associated data collection and compilation exercises, esp. to accurately distinguish SPEs from other similar legal constructs.

Central banks applying these guidelines have in practice focussed on distinguishing the **main types of CFI** between "holding companies", "SPEs/financial conduits", and "other CFIs":

i. Regarding **holding companies** specifically, which play a significant role in all economies, several types have been identified depending on the jurisdictions considered, and some countries publish their detailed compilation methodology. In most cases, the criteria for being classified as a holding company are a low number of employees, a high share (>50%) of financial assets (mainly in the form of shares and other equity), limited turnover and an income which is mostly derived from dividends.[15]

ii. Turning to **conduits (included the relevant SPEs)** that essentially raise funds by issuing debt securities in open markets, important information can be obtained from statistical datasets on securities issuance (which are very granular and are often compiled by central banks or can be purchased from commercial data vendors).

iii. As for **other CFIs**, one frequent strategy is to make use of all the indirect information available already from administrative registers; in Europe, an important source relates to the loan-by-loan detailed information reported by banks.[16]

4. Reporting and compilation of national accounts

The **reporting of the CFI / ML also varies** across countries in practice. Central banks experience confirms the complexity (and impossibility in fact in several jurisdictions) of measuring this sector separately.

Yet a number of jurisdictions already report the financial corporation subsector S127 as a separate breakdown in the **financial accounts** - whose compilation is in many countries the responsibility of the central bank, while NSOs are typically in charge of the compilation of the real (”non-financial”) accounts. But other central banks simply report the CFIMLs as part of the wider OFIs sector. Another reported practice is to treat S127 as a separate subsector for internal computation but publish the aggregated data all together with other OFIs and financial auxiliaries (ie lumping together the S125, 126 and 127 sectors). Nevertheless, there are ongoing efforts among central banks to publish more granular data in the future.

As regards the **non-financial accounts**, CFI and ML are usually not compiled / published as a separate sector.

15 See ECB, Eurostat and OECD (2013) above.

16 Especially the AnaCredit dataset in the euro area which comprises detailed information on individual bank loans and in particular on the lending counterparties.

5. Economic relevance of the CFI / ML sector

One important **caveat** when analysing the actual importance of CFIMLs firms is measurement uncertainty. As a result, a significant number of jurisdictions are not able to provide detailed information on their contribution to the national economy in the absence of published disaggregated data. Ways to measure CFIMLs' output is through their lending margins, as the value of explicit fees or the sum of costs – ie intermediate consumption, compensation of employees (which can be very small since many have little staff), capital costs and other taxes (less subsidies) on production. Another, often simpler approach is to focus on the size of their assets relative to the countries' total financial assets.

Nevertheless, the **importance of the CFI / ML sector** appears to be quite small in general, often representing less than 1% of GDP in terms of value added and a few percentage points of the countries' total financial assets – but with notable exceptions; in particular these shares are reported to be much higher in specific jurisdictions with strong off-shore financial centres. Moreover, the size of CFIMLs appears to have been relatively stable over the recent years. Yet, in terms of financial stability risks the sheer importance of CFIMLs can be much higher than the one suggested by these figures, as underlined for instance by the FSB NBFI monitoring exercises (cf above).

Within CFIMLs, holding companies represent typically the largest part of the S127 subsector, often above 50% and up to 80% in some jurisdictions. The proportion of SPEs appears much smaller, but is quite heterogeneous across countries, ranging from less than 1% to a double-digit percent of the total size of CFI in some international financial centres. Lastly, SPEs typically represent an important share of FDI assets in the country.