New financial sector delineation in ESA 2010: First assessment for the financial accounts in Austria

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1. Executive Summary

The new sector delineation for the financial sector in line with the requested breakdowns in SNA 2008 and ESA 2010[2] will have various consequences. As Austria used to compile the financial accounts according to ESA 1995 based on a more detailed sub-sector breakdown required for internal purposes, Austria is in the position to fulfil all requirements for the new sector delineation of the financial sector but one. The exception – and the major challenge from the viewpoint of compilation – is the request to split the so-called sector "other financial intermediaries, except insurance corporations and pension funds" into three sub-sectors, which has created the need to properly allocate holding companies as well as financial leasing corporations and to incorporate the head offices of financial companies listed in the subsector "financial auxiliaries".

The central bank of Austria has been closely looking into the matter of identifying both head offices and holding companies since January 2011, taking into account information derived from the NACE classification and the structure of individual company balance sheets for the years 2006 to 2008[3] and additional information available in company registers.

This initial analysis has yielded 2,024 holding companies according to the NACE classification 64.20 and 4,800 head offices according to the NACE classification 70.10 for Austria. For 80% of these companies, data on balance sheets and for one third data on turnover and number of employees are available. Due to the new decision tree on the classification of holding companies and head offices laid down in ESA 2010 the total financial position (both assets and liabilities) of the financial sector will increase approximately by 70% of GDP (13% of the previous volume). Inter-sectoral liabilities will rise by 20%, whereas the total financial liabilities of nonfinancial corporations will decline approximately by 50% of GDP (25% of the previous volume) in 2008.

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[1] The views expressed in this paper are those of the author and do not necessarily represent the position of the Oesterreichische Nationalbank. I thank Stefan Wiesinger for his excellent statistical research assistance.
[2] ESA 2010 refers to the "Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the European system of national and regional accounts in the European Union", dated 20 December 2010.
[3] Data referring to 2009 will be available in late June 2011.

The envisaged paper is structured as follows: Section 2 elaborates the main changes in the sector delineation of the financial sector from SNA93/ESA95 to SNA2008/ESA2010 from a theoretical viewpoint, highlighting the challenges for Austria that result especially from the change in the decision tree for classifying holdings and head offices as well as from the fact that the responsibility for sector classification is shared between Statistics Austria (NSI) and the Oesterreichische Nationalbank (Central bank). Section 3 describes the existing data sources used in Austria and the improvements that need to be made in order to fulfil the new sector breakdowns. Section 4 presents first – very preliminary – results on the volume and composition of the financial sector in line with the ESA 1995 and 2010 frameworks, explaining the major changes in the overall results.

2. Delineation in SNA 2008 / ESA 2010

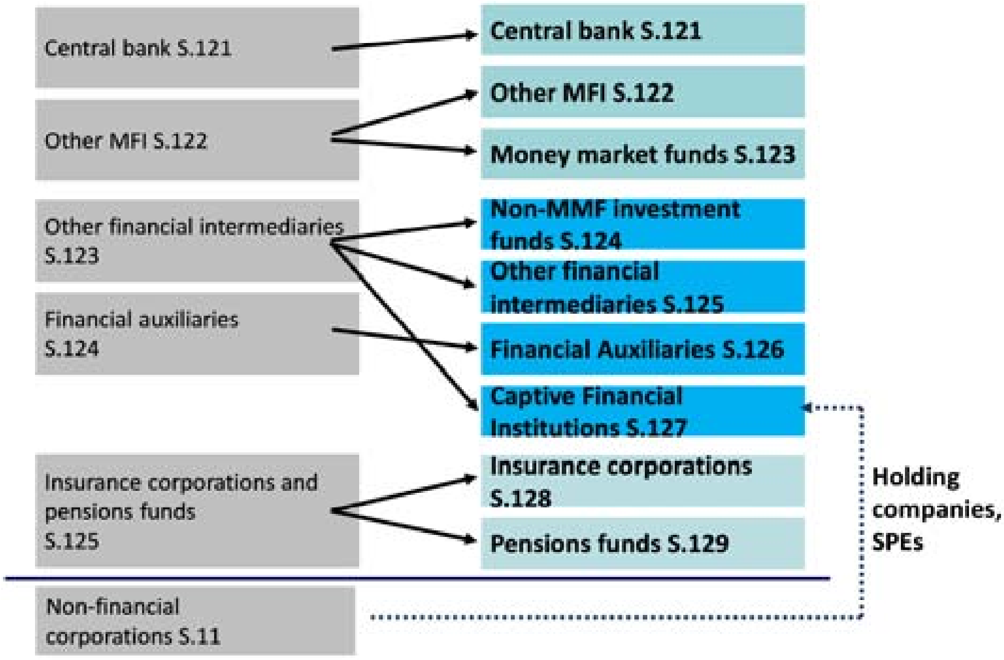
According to ESA 1995[4] (and similar in SNA 93[5]) the sector financial corporations consists of all corporations and quasi-corporations which are principally engaged in financial intermediation and/or in auxiliary financial activities (which are closely related to the financial intermediation). The sector is subdivided into five subsectors.

Financial corporations, defined in the ESA 2010[6], are included in one sector consisting of institutional units which are independent legal entities, market producers, and whose principal activity is the production of financial services. These institutional units are comprised of all corporations and quasi-corporations which are principally engaged in a) financial intermediation and/or b) auxiliary financial activities. Also included are institutional units providing financial services, where most of either their assets or their liabilities are not transacted on open market. Holding companies are institutional units and are allocated to the sector financial corporations by definition. The sector financial corporations is subdivided into nine subsectors:

1. Central bank
2. Deposit-taking corporations, except the central bank
3. Money market funds (MMF)
4. Non-MMF investment funds
5. Other financial intermediaries, except insurance corporations and pension funds
6. Financial auxiliaries
7. Captive financial institutions and money lenders
8. Insurance corporations
9. Pension funds

Chart 1: Comparison ESA 1995 and ESA 2010:

[4] ESA 1995: 2.32.
[5] SNA 1993: 4.77
[6] ESA 2010, par. 2.55.



Combining subsectors of financial corporations:

- Monetary financial institutions (MFIs) as defined by the ECB consist of all institutional units included in the subsectors central bank (S.121), deposit-taking corporations except the central bank (S.122) and MMF (S.123).
- Financial corporations except MFIs and insurance corporations and pensions funds (ICPFs) consist of the subsectors non-MMF investment funds (S.124), other financial intermediaries, except insurance corporations and pension funds (S.125), financial auxiliaries (S.126) and captive financial institutions and moneylenders (S.127).
- Financial intermediaries dealing with the pooling of risks are ICPFs. They consist of the subsectors insurance corporations (S.128) and pension funds (S.129).

Monetary financial institutions (S.121 – S.123):

As laid down both in the existing framework of ESA 1995 and in the scheduled framework of ESA 2010 there is a clear link to the regulations of the European Central Bank, which highlights the importance of the so-called MFI list for all deposit-taking corporations except the central bank.
Classifying the units included in this combined subsector on the basis of which the national and financial accounts are compiled is the responsibility of the central bank in Austria.

Financial corporations except MFI and ICPF (S.124 – S.127):

The subsector ***Non-MMF*** consists of all investment funds except those classified in the MMF sector according to the ECB regulation on MMF. In Austria the classification is based on national legislation as laid down in "investment fund law" and "real estate law". Classification is the responsibility of the central bank in Austria.

The subsector ***other financial intermediaries, except insurance corporations and pension funds*** (S.125) consists of all financial corporations and quasi-corporations which are principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits, investment fund shares, or in relation to insurance, pension and standardised guarantee schemes from institutional units. The subsector is subdivided into a) financial vehicle corporations engaged in securitisation transactions[7], b) security and derivative dealers, c) financial corporations engaged in lending (like financial leasing companies, factoring companies), and d) specialised financial corporations (like venture and development capital companies, export/import financing companies). For the first three groups the classification is mainly based on ECB legislation/national legislation according to banking law. Difficulties in the proper classification of leasing companies (according to banking law) depending on the status of the user as economic owner of the nonfinancial asset either as financial leasing corporations (and therefore part of this subsector S.125) or other leasing corporations (and therefore part of the sector nonfinancial corporation) are under consideration in Austria. First results derived from balance sheet data of individual companies indicate that the majority of XX companies are part of the nonfinancial sector. The responsibility for classification is shared by the central bank and the central statistics office in Austria.

The subsector ***financial auxiliaries*** (S.126) consists of all financial corporations and quasi-corporations which are principally engaged in activities closely related to financial intermediation but which are not financial intermediaries themselves. This sector includes various types of brokers (like securities broker), financial service consultants, payments institutions[8], corporations providing stock exchange and insurance exchange as well as infrastructure for financial markets, managers of pension funds or mutual funds, central supervisory authorities (when they are separate institutional units) and head offices whose subsidiaries are all or mostly financial corporations. The responsibility for classification is shared by the central bank and the central statistics office in Austria.

The subsector ***captive financial institutions and money lenders*** (S.127) consists of all financial corporations and quasi-corporations which are neither engaged in financial intermediation nor in providing financial auxiliary services and where most of either their assets or their liabilities are not transacted on open markets. This sector includes trusts, estates, brass plate companies, SPE (unless treated as part of the government sector or treated as FVC), sovereign wealth funds (unless classified as part of the government sector), units providing financial services with own funds or funds provided by a sponsor and finally – by definition – all holding companies of financial and nonfinancial corporations. The responsibility for classification is shared by the central bank and the central statistics office in Austria.

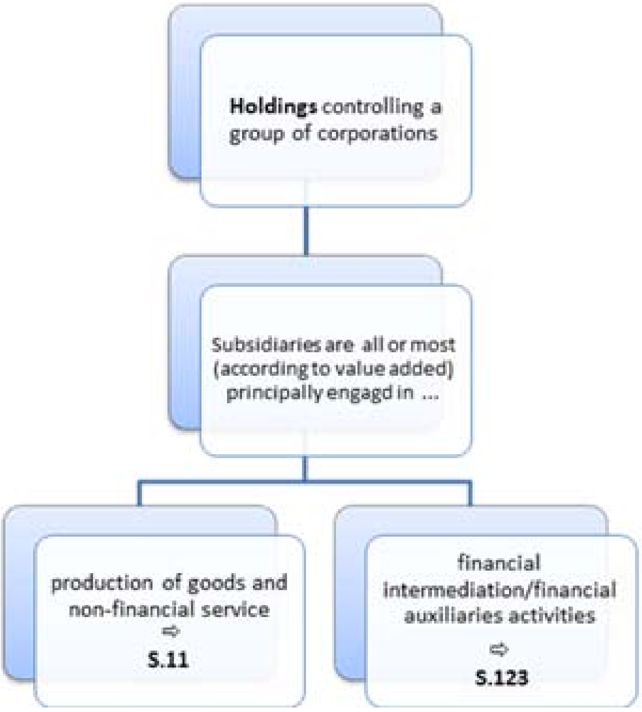
The major challenge in Austria is the correct identification of head offices and holding companies depending on the amended decision tree, which has been changed from the rules laid down in ESA 1995 to the rules laid down in ESA 2010 against the background of the change in the NACE classification. Additionally in the case of head offices and holding companies, ESA 2010 explicitly refers to the NACE 2008 classification.

At present, ESA 1995 refers to holding companies as follows:
2.23 e): holding corporations controlling (see paragraph 2.26) a group of corporations which are market producers, if the preponderant type of activity of the group of corporations as a whole — measured on the basis of value added[9] — is the production of goods and nonfinancial services, allocated in the sector nonfinancial corporations (S.11)
2.43): Holding corporations which only control and direct a group of subsidiaries principally engaged in financial intermediation and/or in auxiliary financial activities are classified in the subsector other financial intermediaries except insurance corporations and pension funds (S.123). However, holding corporations which are financial corporations themselves are to be allocated to the subsectors according to the main type of financial activity.
2.55 h) holding corporations which only control and direct a group of subsidiaries principally engaged in financial intermediation and/or in auxiliary financial activities, but which are not financial

[7] There is a close link to ECB regulation on FVC for the Euro Area.
[8] There is a close link to the EU regulation on payments institutions in the European Union.
[9] The distinction has been made based on weighted equity components derived from balance sheet data in Austria at present.

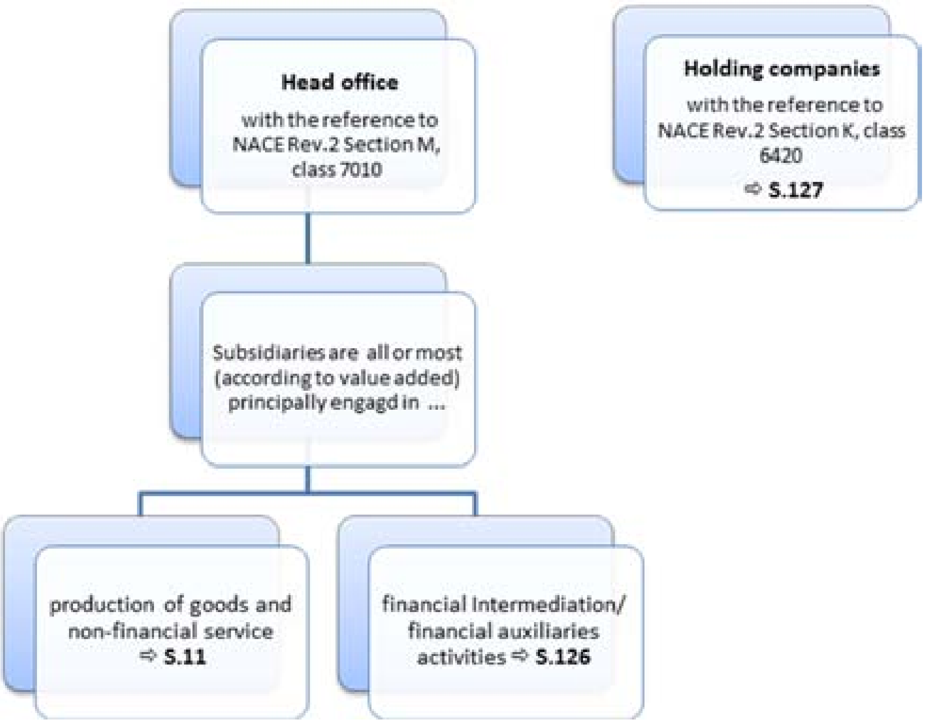
corporations themselves (see paragraph 2.43) are to be allocated to the subsector other financial intermediaries, except ICPF (S.123).

The following diagram illustrates the decision tree:



In ESA 2010, chapter 2 explicitly refers to both holding companies and head offices as follows:
2.14: Head offices and holding companies are institutional units. The two types are:
(1) A head office is a unit that exercises managerial control over its subsidiaries. Head offices are allocated to the dominant nonfinancial corporations sector of their subsidiaries, unless all or most of their subsidiaries are financial corporations, in which case they are treated as financial auxiliaries (S.126) in the financial corporations sector. Where there is a mixture of nonfinancial and financial subsidiaries, then the predominant share by value added determines the sector classification. Where the head office undertakes business production, and this business activity is predominant, then the head office is classified to the business sector.
Head offices are described under ISIC Rev. 4, Section M, class 7010 (NACE Rev. 2, M 70.10) as follows:
This class includes the overseeing and managing of other units of the company or enterprise; undertaking strategic or organisational planning and decision-making role of the company or enterprise; exercising operational control and managing the day-to-day operation of their related units.
(2) A holding company that holds the assets of subsidiary corporations but does not undertake any management activities is a captive financial institution (S.127) and classified as a financial corporation. Holding companies are described under ISIC Rev.4, section K, class 6420 (NACE Rev. 2, K 64.20), as follows:
This class includes the activities of holding companies, i.e. units that hold the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group. The holding companies in this class do not provide any other service to the businesses in which the equity is held, i.e. they do not administer or manage other units.

The following diagram illustrates the new decision tree:



Insurance corporations and pension funds (S.128 – S.129):

Both insurance corporations and pension funds are defined according to national law executed by the Financial Market Authority (FMA) in Austria.

3. Data sources

The European System of National Accounts (ESA 1995) is the main underlying concept both for the definitions and breakdowns of financial instruments and economic sectors.

On a regular basis we use the following data sources:

The ***BSI statistics*** (covering data of the central bank, S.121 and other monetary financial institutions S.122) are broken down on a fully aggregated level into the following counterpart sectors[10]:
- Central bank, other monetary institutes
- Other financial institutions excluding insurance corporations and pension funds
- Insurance corporations and pension funds
- Government (broken down in central government, local government and social security funds)
- Nonfinancial corporations
- Households including own account workers
- Non-profit institutions serving households
- Rest of the world broken down by country and by economic sector with the Euro Area

Proposed changes referring to the change of the sector delineation according to ESA 2010:
- Further decomposition of the sector “Other financial institutions excluding ICPF” depending on the final regulations for Annex B of ESA 2010 (the transmission programme of annual financial accounts).The request for decomposition should be accompanied by some guidance

[10] No breakdown is available for debt securities and equity components on the liability side. The breakdown is available for domestic counterparts and counterparts located in the Monetary Union.

on the sector classification by providing lists on individual entities belonging to the respect sectors.

More details are available in the ***balance of payments data*** (BOP) because the reporting forms include individual reporting entities and individual counterparts (if both entities belong to the same group of companies – marked as FDI). They are marked by the identifier number created by the central bank, allowing (partially) a breakdown of cross-border counterpart sectors.

Referring to the change of the sector delineation according to ESA 2010 the reporting population will be reallocated automatically by the central bank according to the new sector delineation.

The ***reporting on individual security holdings and issuances*** (SEC) is based on the so-called security-by-security system. Both custodian banks and end-investors for securities outside the custody with domestic banks are obliged to report the holdings of securities on an individual basis, allowing the allocation of securities to different categories by the central bank. Therefore the issuing sectors are defined by accumulation of the individual issuers (allowing the fulfilment both of the existing ESA requirements as well as those of ESA 2010 respectively.). Regarding the holder sector the custodian banks differentiate the following categories at present:

Categories for own holdings of custodian banks:

- Securities including equity participation, held for own account
- Holdings related to (own) genuine securities sale and repurchase transactions and securities lending transactions

Categories on behalf of customers:

- Money market funds
- Investment funds other than money market funds
- Severance funds
- Other financial corporations
- Financial auxiliaries
- Insurance corporations
- Pension funds
- Government broken down in four subsectors
- Own account workers
- Other households
- NPISH
- Private foundations
- Non-residents broken down in credit institutions, households, and other non-residents

Proposed changes referring to the change of the sector delineation according to ESA 2010:

- The reporting population and issuer of domestic securities will be reallocated automatically by the central bank according to the new sector delineation.
- The holder sector "Other financial corporations" in case of custodian reports by domestic banks will be split in sub-sectors depending on the final regulations for Annex B of the ESA 2010 (the transmission programme of annual financial accounts). The request for decomposition will be accompanied by some guidance on the sector classification by providing lists on individual entities belonging to the respect sectors.

Additionally the following sources are used:

- ***Government finance statistics*** are broken down for loans and equity (other than quoted shares derived from the SHS) according to the structure of administrative data. For the new sector delineation no solution has been found yet.
- ***ICPF balance sheet data*** are broken down by counterpart sector (except information of guarantee deposits and claims on reinsurer insurance corporations) and by financial instrument on the asset side. For the new sector delineation no solution has been found yet. Regarding the new sector delineation no changes are expected on the liability side.

- Equity (other than shares) - primarily - of nonfinancial corporations derived from individual ***balance sheet data*** (a commercial data source) are split by holder sector based on the structure of nominal capital available in the ***Company Register*** (an administrative data source) in Austria for nearly all limited liability companies.

To identify the units according to the new sector delineation of financial corporations, the following data sources were used on an ad hoc basis:

- In-house master file based on the company register, register information derived from sources of the central statistics institute, information derived from reports of banks and insurance corporations, in-house balance sheet data and data on foreign direct investment on more than 150,000 domestic entities containing the following data: single company identifier, identifier in the company register, name, location, sector classification, NACE 2008 classification. Additionally the data on nominal capital and individual holders of the nominal capital of limited liability companies are available.[11]
- Individual balance sheet data (derived from a commercial database) for entities classified in the in-house master file as holdings or head offices according to the NACE 2008 classification. The initial analysis has yielded 2,024 holding companies according to the NACE classification 64.20 and 4,800 head offices according to the NACE classification 70.10 for Austria. For 80% of these companies data on balance sheets and are available. Financial assets as part of the fixed assets accounted for 83% of balance sheets total and equity on the liability side amounted to 80% of the balance sheet total in the case of holdings. The corresponding ratios were 75% and 65% respectively in the case of head offices.
- Individual balance sheet data (derived from the annual foreign direct investment survey) as well as the equity stake of holding companies and head offices abroad and held by non-residents derived from FDI survey data.
- Data on turnover and number of employees are additionally available for one third of the domestic holdings or head offices.

4. Preliminary results

The preliminary results show first the composition of the financial sector in Austria according to ESA 1995 and ESA 2010 and their consequences on the structure of the sector financial corporations and their financial inter-linkages on a subsector level.

The main results for the reporting year 2008 are as follows:

- In Austria there are data available for all subsectors of the combined sector monetary financial institutions as well as of the combined sector insurance corporations and pensions funds. Additionally the existing compilation framework for financial accounts is designed to present figures for investment funds other than money market funds.
- Monetary financial institutions (excluding the central bank) had financial assets of EUR 1,039 billion (366% of GDP) accounting for 45% of the total assets of the whole economy. Of this amount EUR 267 billion (26%) were attributable to interbank position. The assets of the other subsectors within the financial sector showed similar levels for the central bank, other financial institutes and insurance corporations close to EUR 90 billion, whereas the financial assets of Non-Money Market funds totalled EUR 106 (excluding funds in funds) reflecting a high degree of transformation of assets in the form of mutual fund shares held directly and indirectly[12] by households into assets issued by non-residents and domestic banks.

[11] Representing 90% of the equity of all domestic corporations.
[12] Mutual fund shares held by insurance corporations and pensions funds.

- The financial inter-linkages of the subsectors of the financial corporations are shown as follows:

Financial Inter-linkages of the Austrian Economy (2008)

EUR billion

Debtor sectors	Central bank S.121	Monetary financial institutes[1] S.122	Non-MMF investment funds[2] S.123 IF	Other financial institutes[3] S.123/4	Insurance corporations S.125 V	Pension funds S.125 P	Financial corporations S.12	Nonfinancial corporations S.11	Government S.13	Households[4] S.14/5	Nonfinancial sector N-S.12	Total economy S.1	Rest of the World S.2	Total
	Creditor sectors													
Central bank	0	20	0	0	1	0	22	2	6	18	25	47	39	86
Monetary financial institutes[1]	40	267	21	47	16	1	393	53	17	236	305	698	321	1.019
Non-MMF investment funds[2]	2	10	21	5	18	10	65	8	3	32	43	108	15	123
Other financial institutes[3]	0	49	0	2	1	0	53	1	4	3	9	61	31	92
Insurance corporations	0	2	0	4	5	0	11	8	0	72	80	91	6	97
Pension funds	0	0	0	0	0	0	0	0	0	12	12	12	0	12
Financial corporations	42	348	42	58	41	10	543	72	30	373	475	1.018	411	1.429
Nonfinancial corporations	2	168	2	4	4	0	179	51	39	46	136	316	244	559
Government	1	17	7	3	3	0	31	1	20	4	25	56	154	209
Households[4]	0	133	0	5	1	0	139	0	14	0	14	153	3	156
Nonfinancial sectors	3	319	9	12	7	0	350	52	73	50	175	525	400	924
Total economy	44	667	52	70	49	11	892	124	103	423	650	1.543	811	2.353
Rest of the World	39	372	76	16	40	1	543	206	12	25	243	785		
Total	83	1.039	127	86	88	12	1.435	330	115	448	893	2.328		

Source: OeNB (Financial accounts).
[1] including money market funds, excluding central bank. [2] excluding money market funds, [3] including financial auxiliaries, [4] including NPISHs.

- The comparison between the financial sector delineation according to ESA 1995 terms and according to ESA 2010 can be summarized as follows:

Financial sector delineation

Main results for Austria

			according to ESA 1995			according to ESA 2010[1]		
	Available in the existing compilation framework	Responsibility for the classification of the units within the sub-sector[2]	Sector breakdown	Reporting population[3]	Financial assets (2008)	Sector breakdown	Reporting population[3]	Finacial assets (2010)
					% GDP			% GDP
Central bank	Y	OeNB	S.121	1	29,4	S.121	1	29,4
Deposit taking corporations	Y	OeNB	S.122	780	365,7	S.122	780	365,7
MMF	Y	OeNB		24	1,3	S.123	24	1,3
Non-MMF investment funds	Y	OeNB	S.123	2179	45,0	S.124	2179	45,0
Other financial intermediaries	partly Y	OeNB / ST.AT		> 150	29,8	S.125	> 150	93,5
Captive financial institutions	in total			-		S.127	> 1700	
Financial Auxiliaries	partly Y	OeNB / ST.AT	S.124	> 50	0,6	S.126	> 100	4,2
Insurance corporations	Y	FMA	S.125	59	31,2	S.128	59	31,2
Pension funds	Y	FMA		17	4,1	S.129	17	4,1
Financial corporations				**> 3260**	**507,0**		**> 5010**	**574,4**

Source: OeNB.
[1] partly estimated.
[2] OeNB = Oesterreichische Nationalbank (Central Bank), ST.AT = Statistics Austria (National Statistics Institute); FMA = Financial Market Authority.
[3] Reportung population for S.121, S.122, S.123, S.124, S.128, S.129 as of end 2010, all other partly as of 2008.

- The figures according to the ESA 1995 compilation indicate that the reporting population contained more than 3,260 entities. Mutual funds other than money market funds amounted to 67% of the reporting population, followed by monetary financial institutions including the central bank (25%) representing financial assets to the tune of 396% of GDP.

- First – very preliminary – assumptions on the reporting population and financial position of the sector financial corporations according to the ESA 2010 framework mark a surge both in the number of reporting entities (by 54%) and in the volume of the financial position (by 13%).
- This pattern reflects above all the reallocation of all holding companies to the new subsector captive financial institutions. Following their incorporation, the number of companies included in this position increased by approximately 1,700 companies, representing an increase of the corresponding financial positions (both assets and liabilities) by 64% of GDP. Additionally the reallocation of head offices listed in the extended subsector financial auxiliaries increased the number by approximately 50 and the volume by 4% of GDP. Even the importance of subsectors changed: Monetary financial institutes accounted for 64%, followed by the combined sector on other financial intermediaries and captive financial institutions (S.125+S.127) amounted to 16%.
- At the same time the liabilities by nonfinancial corporations would diminish by approximately 49% of GDP. After the revision the total gross liabilities of this sector would amount to 149% of GDP. The ratio of equity to total gross liabilities would decrease from 53% to 38% signalling heavy effects on overall results for the nonfinancial corporations.
- Therefore the set of indicators[13] currently compiled for financial corporations and nonfinancial corporations will need to be interpreted with caution following the switch from the framework according to ESA 1995 to the framework according to ESA 2010.

[13] Including the envisaged indicator on private liabilities as part of the scoreboard on the macro-economic imbalances.