



EUROPEAN CENTRAL BANK

EUROSYSTEM

“Challenges for macro data on non-bank financial intermediaries”

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The views expressed in this presentation are those of the authors and do not necessarily reflect those of the European Central Bank

Overview of presentation

- 1 Introduction**
- 2 Shadow banking: ESRB and FSB approaches**
- 3 Data availability: data used**
- 4 Data availability and EU regulatory framework**
- 5 Use of Macro data and current work**
- 6 Conclusions**

Introduction

- European Systemic Risk Board (ESRB) **broadly** endorsed the **Macro-mapping**” exercise recommended by the Financial Stability Board as *methodological framework and* use of aggregated data
- **Dual approach: activity and entities approach to overcome data gaps**
- New data and on-going initiatives by ECB:
 - e.g. new statistics published on *financial corporations involved in lending* (FCLs) and in the future, on *Securities and derivatives dealers* (SDDs)
- Still data gaps in so called **OFI residuals**.
- **New survey to collect information on the data sets** and regulatory frameworks in different jurisdiction for the **OFI residuals**

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Macro measurement: FSB and ESRB approach

Practical two-step approach by FSB for **monitoring Shadow Banking System (SBS)** - implementation (so far) mainly entities-based:

1. Broad measure:

- “System of credit intermediation that involves entities and activities outside the regular banking system”
- Approximated by financial assets of *Other Financial Intermediaries* (OFIs, S.125) sector *plus Money Market Funds* (MMFs, S.123)

2. Narrowing down the broad measure in the *Global Shadow Banking Monitoring Report 2015*:

Two-Step approach of ESRB

- ESRB framework distinguishes between *risks stemming from financial institutions* or “**entity-based approach**” or *their activities* or “**activity-based approach**”

FSB and ESRB approach: narrowing down

- FSB **narrowing down approach** excludes *equity investment funds* from the broad definition as they do not primarily engaged in credit intermediation
- **Retained securitisations** – i.e. securitisations where the asset-backed securities are held by the originating banks
 - are excluded as no transfer of credit risk from the banking system.
 - *Non-securitisation special purpose entities* might be excluded if they are not part of a credit intermediation chain
- The **FSB** excludes *entities prudentially-consolidated* within banking groups from the narrow perimeter of the shadow banking
- The main reason why **ESRB** measures do not exclude consolidated entities is the *lack of reliable data identifying consolidated entities at euro area and EU level*

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✓ Monetary statistics:

- collected under **ECB Regulations**:
 - *MMFs (S123)* (from BSI data)
 - *Non-MMF investment funds (S124)*
 - *Financial vehicle corporations –FVCs (part of S125)*
- collected under **ECB Guideline** (*incomplete coverage*)
 - *Securities and derivatives dealers -SDDs (part of S125)*
 - *Financial corporations engaged in lending- FCLs (part of S125)*

✓ Financial accounts: S124, S125+S126+S127 (OFIs) (see Annex)

➤ **Sizeable “OFI residual”**: difference between the financial accounts aggregate OFIs and the parts covered by monetary statistics

Data availability : Data used (2/2)

- **OFI residual is large**, includes sub-sectors not included within the Other Financial Intermediaries (**S.125**) Sector, e.g. Special Purpose Vehicles (**SPVs**), as part of Captive financial Institutions and money lenders (**S.127**)
 - › Despite some advances, **over 50%** of the broad non-bank financial sector measure still cannot be classified according to the type of entity,
- Risk assessment of financial intermediation (in particular of shadow banking) would also benefit from the availability of data on both a **consolidated and non-consolidated basis**.
 - › For some types of entities, statistical and supervisory information on the level of consolidation are not readily available, and for others it is not systematically collected

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Data availability and regulatory framework (1/ 3)

- **Changes in the regulatory framework** might affect the measure of shadow banking and also the related risk assessment.
- **SDDs** (securities dealers) , proposed new EU regulatory requirements SDDs might change the statistical classification and risks
- With the EU Commission proposal , the definition of "credit institution" for capital requirements (**CRR/CRDIV**) **could be amended to cover also systemic investment firms** based on nature/size of investment services.
- From statistical point of view, the definition of 'credit institution' in CRR might be extended with the inclusion of the systemic investment firms captured by this definition.
 - The effect **will be to reduce the number of entities in SDDs subsector of OFI, the residuals will also be reduced** and the risk of the SDDs will diminish due to the new regulatory regime

Data availability and regulatory framework (2/3)

- **European Banking Authority (EBA) Opinion on prudential treatment of OFIs** carrying out credit intermediation beyond perimeter of prudential regulation
- **EBA results can be mapped with the availability** of data at ECB.
 - Additional data and regulatory information are needed to be collected in order to assess the OFI sector.
- **Cluster 1** includes consumer and corporate lenders, **Mapped FCLs (FCLs)** resident in the euro area,
- **EBA cluster 2**, securitisation vehicles: mapped to Financial Vehicle Corporations (FVCs) ECB Regulation data .
- **Cluster 3 considered by EBA is crowdfunding**, no data.
- **Cluster 4 (credit unions)**, according to the ECB these entities are covered within monetary data of the ECB.

Data availability and regulatory framework (3/3)

Some other OFIs entities are not covered by the EBA survey.

These entities might **be part of the remaining S.125** (as i.e. Venture and development capital companies)

S.126 financial auxiliaries (i.e corporations which arrange derivative and hedging instruments) for which data are anyway not available from harmonised and regulated European collection frameworks.

S.127 Captive financial institutions, are out of the scope of the EBA analysis; data are not available at euro area level and an effort to bridge this gap would be desirable.

Additional analysis is then required on the consolidation, regulatory treatment and perimeter and data availability of these

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- ✓ **Recommendation # 8 includes specific templates for shadow banking and beyond ... but not as part of core templates required by 2021**

- ✓ **Additional detail on instruments (compared with core templates) in the specific templates for shadow banking:**
 - Remaining maturity split for debt securities and loans
 - Non-performing loans
 - Nominal value for debt securities, liabilities
 - Domestic-currency denominated instruments, first-digit sector level
 - Exposures for:
 - Derivatives, with split by options, forwards
 - Contingent liabilities: guarantees, credit insurance

G 20 Data Gap Initiatives- DGI-2 and the financial sector

Additional detail for sectors in the specific shadow banking templates (in blue, yellow cells) compared with core templates(grey)

S12 - Financial corporations
S121+S122+S123 - Monetary financial institutions
S121 - Central bank
S122 - Other deposit-taking corporations
S123 - Money-market funds
S123A - Stable NAV MMFs
S123B - Floating NAV MMFs
S124+S125+S126+S127 - Other financial corporations
S124 - Non-MMF investment funds
S124A - Open end funds
S124A1 - Bond funds
S124A2 - Equity funds
S124A3 - Mixed or balanced funds
S124A4 - Real estate funds
S124A5 - Hedge funds
S124A6 - Other funds
S124B - Closed end funds
S124B1 - Bond funds
S124B2 - Equity funds
S124B3 - Mixed or balanced funds
S124B4 - Real estate funds
S124B5 - Hedge funds
S124B6 - Other funds

S125 - Other financial Intermediaries, except Ins.corp. and pen. funds
S125A - Financial vehicle corporations engaged in securitisation
S125B - Financial corporations engaged in lending
S125C - Security and derivative dealers
S125D - Specialised financial corporations
S125D1 - Of which: Clearing houses
S125E - Other OFIs
S126 - Financial Auxiliaries
S127 - Captive financial institutions and money lenders
S127A - Trusts, estate and agency accounts
S127B - Brass place companies
S127C - Special Purpose Entities or conduits
S127D - Other captive finance companies and money lenders
S128+S129 - Insurance corp. and pension funds
S128 - Insurance corporations
S1281 - Non-life insurance corporations
S1282 - Life insurance corporations
S129 - Pension funds
S129A - Defined benefit funds
S129B - Defined contribution funds

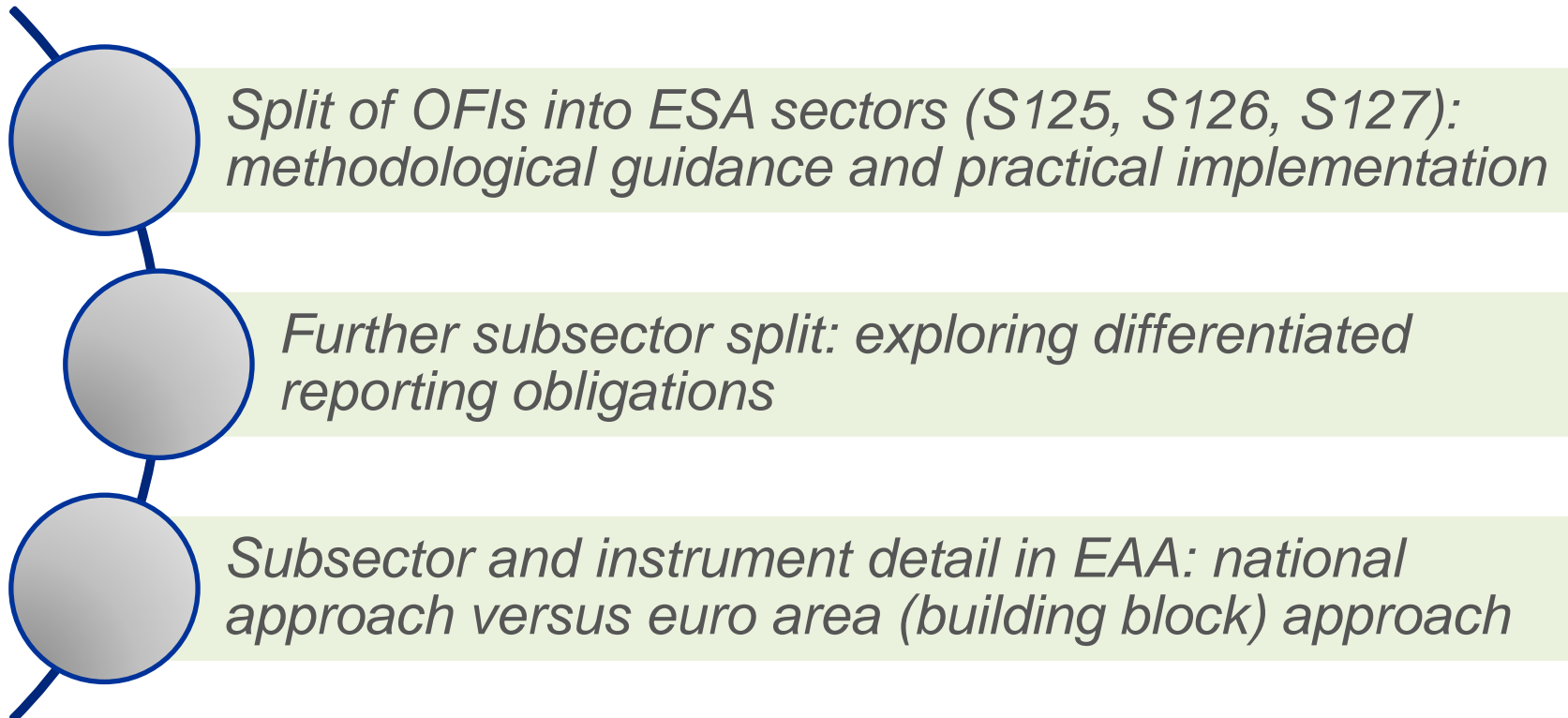
	= Tier 1
	= Tier 2

Already part of current data collection (Tier 1)

The financial sector in the financial accounts medium-term strategy

- ✓ **Medium-term strategy for financial accounts to address compilation challenges and new user demands**
- ✓ **Mainly leveraging on development of new primary statistical sources**
- ✓ **Plan to be presented at the STC in March 2019**

➤ **Main areas of work identified for theme 3 (financial sector):**



Current initiatives: Follow up of Previous work

- In 2015 , the ECB WGMFS and ESRB JEGS undertook a questionnaire on entities consolidated in the banking sector, focusing on the on sectors **S.123, S.124 and part of S.215**.
- In 2016, the **WG FA** ran a **questionnaire** on availability of subsector data for the **OFIs** aggregate:
 - ✓ outcome suggested that at least a three sector split into S125, S126 and S127 might be feasible in the medium term (corroborated by the joint ECB/ EUROSTAT questionnaire on voluntary data transmissions in 2017)

*To complete this assessment **ECB is currently undertaking a survey** with objective to clarify which entities and activities are classified to new breakdowns of the financial sector introduced with ESA 2010. In particular a new sub-sector is created for Captive Financial Institutions (S.127).*

The main focus of survey questionnaire:

- **Make a more comprehensive assessment of the data availability** and quality (for potential development and future dissemination/ publication, at least in the form of experimental statistics).
- It is targeted subdivisions of **S.125** not covered by 2014 WG MFS/ JEGS survey, and the other subsectors **financial auxiliaries (S.126)** and **captive financial institutions and money lenders (S.127)**.
- Supplementary information requested on the definitions and consolidation of the different entities
- Try to determine **how the prudential consolidation of non-bank financial entities** within regulatory banks' balance sheets should be handled so as to better define and measure shadow banking

Conclusions and way forward

- To better follow developments in EU shadow banking sector it is recognized the increasing need for more statistical data: **OFI residuals**.
- New initiatives at Eurosystem are ongoing with aim to close existing **data gaps in primary statistics and better understand the regulatory framework: new WG MFS/ WG FA questionnaire**
- **Entities consolidated in the banking groups** is also addressed by the new survey
- **Financial accounts** to be enhanced and better serve analysis of shadow banking and other financial sector phenomena in an integrated framework: STC medium term-strategy, also designed taking into account DGI-2 requirements

ANNEX: Subcategories of non-bank financial corporations

Category	Scope (entities)		
MM Funds (S.123)	Money market funds		
Funds (S.124)	Funds total		
	of which	Open-ended bond funds	
		Open-ended real estate funds	
		Private Equity Funds	
		Hedge funds	
	Synthetic ETFs		
OFls (other than IFs) S.125	Financial Vehicle Corporations		
	Securities and Derivatives Dealers		
	Financial Corporations involved in Lending Total	Financial Corporations involved in Lending Total	
(of which) financial companies			
(Of which) leasing and factoring			
Other OFIs (Specialised financial corporations are financial intermediaries, (remaining S125)	Other OFIs (Specialised financial corporations are financial intermediaries Total		
			Other OFIs (Specialised financial corporations are financial intermediaries Total
			Of which a) Venture and development capital companies
			Of which b) Export/import financing companies
Of which c) Financial intermediaries which acquire deposits and/or close substitutes for deposits, or incur loans vis-à-vis monetary financial institutions only; these financial intermediaries cover also central counterparty clearing houses (CCPs) carrying out inter-MFI repurchase agreement transactions.			

ANNEX: Subcategories of non-bank financial corporations

Category	Scope (entities)	
Financial auxiliaries (S.126)	Financial auxiliaries (S.126) Total	<p style="text-align: center;">Financial auxiliaries (S.126) Total</p> <p>(a) insurance brokers, salvage and average administrators, insurance and pension consultants, etc.;</p> <p>(b) loan brokers, securities brokers, investment advisers, etc.;</p> <p>(c) flotation corporations that manage the issue of securities;</p> <p>(d) corporations whose principal function is to guarantee, by endorsement, bills and similar instruments;</p> <p>(e) corporations which arrange derivative and hedging instruments, such as swaps, options and futures (without issuing them);</p> <p>(f) corporations providing infrastructure for financial markets;</p> <p>(g) central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units;</p> <p>(h) managers of pension funds, mutual funds, etc.;</p> <p>(i) corporations providing stock exchange and insurance exchange;</p> <p>(j) non-profit institutions recognised as independent legal entities serving financial corporations, but not engaged in financial intermediation (see point (d) of paragraph 2.46);</p> <p>(k) payment institutions (facilitating payments between buyer and seller).</p> <p>Subsector S.126 also includes head offices whose subsidiaries are all or mostly financial corporations.</p>
		<p style="text-align: center;">Captive financial institutions and money lenders (S.127) total</p> <p>(a) units as legal entities such as trusts, estates, agencies accounts or 'brass plate' companies;</p> <p>(b) holding companies that hold controlling-levels of equity of a group of subsidiary corporations and whose principal activity is owning the group without providing any other service to the businesses in which the equity is held, that is, they do not administer or manage other units;</p> <p>(c) SPEs that qualify as institutional units and raise funds in open markets to be used by their parent corporation;</p> <p>(d) units which provide financial services exclusively with own funds, or funds provided by a sponsor, to a range of clients and incur the financial risk of the debtor defaulting. Examples are money lenders, corporations engaged in lending to students or for foreign trade from funds received from a sponsor such as a government unit or a non-profit institution, and pawnshops that predominantly engage in lending;</p> <p>(e) special purpose government funds, usually called sovereign wealth funds, if classified as financial corporations.</p>
Captive financial institutions and money lenders (S.127)	Captive financial institutions and money lenders (S.127) Total	

Appendix; Proposal : Investment groups classification

- Summary of Proposal for EU regulation on the prudential requirements of investment firms

WHAT WILL CHANGE IN THE FUTURE?

		REGULATION	SUPERVISION
Class 1	TODAY	CRR/CRD	National arrangements
	NEW REGIME	CRR/CRD	Banking supervisor (SSM for Banking Union)
Class 2&3	TODAY	CRR/CRD	National arrangements
	NEW REGIME	New prudential regime for investment firms	National arrangements

ESRB approach: Macro measurement

- “**Broad measure**” includes **all entities in the financial sector** except *banks, insurance corporations* and *pension funds*
- The **entity-based approach** focuses on aggregated balance sheet data of financial institutions *based on ESA 2010 framework*
 - Limitations of ESA-based balance sheet statistics *for risk analysis*
 - Off-balance sheet exposures and data on trade in financial derivatives provide *additional information on sources of risks*
 - **Data used and available for this approach** come from SNA framework: *Monetary and financial accounts data*
- The **activity-based approach** aims to capture activities contributing to *interconnectedness* between shadow and regular banking system
 - e.g. through secured financing transactions (SFTs), derivatives and credit hedging or enhancements
 - Initial use of microdata