



The financial corporations sector and its subsectors

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Sectoral Financial Accounts

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United Nations Statistics Division



Outline of presentation

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- Overview of financial corporations sector
- Subsectors of financial corporations sector
- Grouping of subsectors of financial corporations sector
- Reference



Overview of financial corporations sector

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Financial corporations

- Consist of all resident corporations that are principally engaged in providing financial services, including insurance and pension funding services, to other institutional units
- The provision of financial services is typically subject to strict regulation
- Usually, units providing financial services do not produce other goods and services and financial services are not provided as secondary products



Overview of financial corporations sector

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Composition of financial corporations sector

- All resident financial corporations (as understood in the SNA and not just restricted to legally constituted corporations), regardless of the residence of their shareholders
- The branches of non-resident enterprises that are engaged in financial activity on the economic territory on a long-term basis
- All resident non-profit institutions that are market producers of financial services



Subsectors of financial corporations sector

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- Divided into nine subsectors according to their activity in the market and the liquidity of their liabilities
 - Central bank (S121)
 - Deposit-taking corporations except the Central Bank (S122)
 - Money market funds (MMF) (S123)
 - Non-money market investment funds (Non-MMF) (S124)
 - Other financial intermediaries except insurance corporations and pension funds (ICPF) (S125)
 - Financial auxiliaries (S126)
 - Captive financial institutions and money lenders (S127)
 - Insurance corporations (IC) (S128)
 - Pension funds (PF) (S129)



Subsectors of financial corporations sector

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Central bank

- Is the national financial institution that exercises control over key aspects of the financial system
- Is always allocated to the financial corporations sector, even if it is primarily a non-market producer as long as it is a separate institutional unit
- Supervisory authorities that are separate institutional units are not included with the central bank, but are included with financial auxiliaries



Subsectors of financial corporations sector

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Central bank

- Examples:
 - The national central bank, including where it is part of a system of central banks
 - Currency boards or independent currency authorities that issue national currency that is fully backed by foreign exchange reserves
 - Central monetary agencies of essentially public origin (for example, agencies managing foreign exchange or issuing bank notes and coins) that keep a complete set of accounts, but are not classified as part of central government.



Subsectors of financial corporations sector

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Deposit-taking corporations except the central bank

- Have financial intermediation as their principal activity
- Thus, they have liabilities in the form of deposits or financial instruments (such as short-term certificates of deposits) that are close substitutes for deposits
- Their liabilities are typically included in measures of money broadly defined



Deposit-taking corporations except the central bank

- Examples:
 - Commercial banks, universal banks and all-purpose banks
 - Savings banks (including trustee savings banks, and savings and loan associations)
 - Post office giro institutions, post banks and giro banks
 - Rural credit banks and agricultural credit banks
 - Cooperative credit banks and credit unions
 - Specialized banks or other financial corporations if they take deposits or issue close substitutes for deposits (for example, corporations engaged in granting mortgages, including building societies and mortgage banks, merchant banks, and municipal credit institutions, including regional or provincial credit institutions which accept deposits)



Money market funds (MMF)

- Are collective investment schemes that raise funds by issuing shares or units to the public
- Proceeds are invested primarily in money market instruments, MMF shares or units, transferable debt instruments with a residual maturity of not more than one year, bank deposits and instruments that provide a rate of return that approaches the interest rates of money market instruments
- Shares or units
 - Can be transferred by cheque or other means of direct third-party payment
 - May be regarded as close substitutes for deposits



Non-money market investment funds (Non-MMF)

- Are collective investment schemes that raise funds by issuing shares or units to the public
- Proceeds are invested primarily in financial assets, other than short-term assets, and in non-financial assets (usually real estate)
- Shares or units
 - Are generally not close substitutes for deposits
 - Are not transferable by means of cheque or direct third-party payments



Non-money market investment funds (Non-MMF)

- Examples:
 - Equity based investment funds
 - Security based investment funds
 - Real estate investment trusts, which invest in debt and equity securities of companies that purchase real estate
 - Mortgage real estate investment trusts (REITs), which provide money to real estate owners and operators either directly in the form of mortgages or other types of real estate loans, or indirectly through the acquisition of mortgage backed securities
 - Investment funds investing in other funds (“funds of funds”)



Non-money market investment funds (Non-MMF)

- Examples:
 - Hedge funds covering a heterogeneous range of collective investment schemes, typically involving high minimum investments, light regulation and a wide range of investment strategies
 - Private equity funds, which are collective investment schemes used for making investments in companies, many of which are not listed on a stock exchange
 - Exchange-traded funds (ETFs)



Other financial intermediaries, except insurance corporations and pension funds

- Consist of financial corporations that are engaged in providing financial services by incurring liabilities in forms other than currency, deposits or close substitutes for deposits on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market
- Include financial intermediaries predominantly engaged in long-term financing



Other financial intermediaries, except insurance corporations and pension funds

- Examples:
 - Financial corporations engaged in the securitization of assets
 - Security and derivative dealers (operating on own account)
 - Financial corporations engaged in lending, including financial leasing, hire purchase and the provision of personal or commercial finance
 - Central clearing counterparties
 - Investment banks that assist other corporations in raising funds in equity and debt markets and provide strategic advisory services for mergers, acquisitions and other types of financial transactions, invest their own funds, including in private equity, in hedge funds dedicated to venture capital, and in collateralized lending



Other financial intermediaries, except insurance corporations and pension funds

- Examples:
 - Specialized financial corporations that provide the following:
 - Short-term financing for corporate mergers and takeovers
 - Export/import finance
 - Factoring services
 - Venture capital and development capital firms
 - Loans against mortgage on real estate by issuing mortgage bonds



Financial auxiliaries

- Consist of financial corporations that are principally engaged in activities associated with transactions in financial assets and liabilities or with providing the regulatory context for these transactions, but in circumstances that do not involve the auxiliary taking ownership of the financial assets and liabilities being transacted



Financial auxiliaries

- Examples:
 - Insurance brokers, salvage and claims adjusters (whether employed by the insurance corporation, an independent adjuster or a public adjuster employed by the policyholder), and insurance and pension consultants
 - Loan brokers, securities brokers who arrange trades between security buyers and sellers but do not purchase and hold securities on their own account, investment advisers, etc.
 - Flotation corporations that manage the issue of securities
 - Corporations whose principal function is to guarantee, by endorsement, bills and similar instruments



Financial auxiliaries

- Examples:
 - Corporations that arrange derivative and hedging instruments, such as swaps, options and futures (without issuing them)
 - Corporations providing infrastructure for financial markets, including those providing transaction processing and settlement activities, such as for credit card transactions, as well as securities depository companies, custodians, clearing offices and nominee companies
 - Managers of pension funds, mutual funds, etc. (but not the funds they manage)
 - Corporations providing stock exchange, insurance exchange, and commodity and derivative exchange



Financial auxiliaries

- Examples:
 - Foreign exchange bureaux
 - Non-profit institutions recognized as independent legal entities serving financial corporations, but that do not themselves provide financial services
 - Head offices of financial corporations that are principally engaged in controlling financial corporations or groups of financial corporations, but that do not themselves conduct the business of financial corporations
 - Central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units



Captive financial institutions and moneylenders

- Consist of institutional units providing financial services, where most of either their assets or liabilities are not transacted on open financial markets
- Includes entities transacting within only a limited group of units (such as with subsidiaries) or subsidiaries of the same holding corporation or entities that provide loans from own funds provided by only one sponsor



Captive financial institutions and moneylenders

- Examples:
 - Units which are legal entities, such as trusts, estates, agencies' accounts or brass plate companies
 - Holding corporations that hold only the assets (owning 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 enterprises in which the equity is held, that is, they do not administer or manage other units
 - Special purpose entities or conduits that qualify as institutional units and raise funds in open markets to be used by their parent corporation



Captive financial institutions and moneylenders

- Examples:
 - Special purpose government funds, usually called sovereign wealth funds, if they are institutional units and provide financial services on a market basis to the government
 - 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, including:
 - Moneylenders
 - Corporations engaged in lending (for example providing student loans or import/export loans) from funds received from a sponsor, such as a government unit or non-profit institution
 - Pawnshops that predominantly engage in lending



Subsectors of financial corporations sector

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Insurance corporations

- Consist of incorporated, mutual and other entities whose principal function is to provide life, accident, sickness, fire or other forms of insurance to individual institutional units or groups of units, or reinsurance services to other insurance corporations
- Include deposit insurers, issuers of deposit guarantees and other issuers of standardized guarantees that are separate entities and act like insurers by charging premiums and have reserves



Pension funds

- Consists of only those social insurance funds that are institutional units separate from the units that create them
- Excluded from this subsector are non-autonomous pension schemes managed by employers, government-sponsored pension schemes funded through wage taxes (pay-as-you-go schemes), social security funds and arrangements organized by non-government employers, when the reserves of the fund are simply included among the employer's own reserves or invested in securities issued by that employer



Subsectors of financial corporations sector

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- Nature of the financial corporations sector may vary from country to country and financial corporations may have various names, depending on their principal activities and the national naming conventions
- Thus, the list of examples is neither exhaustive or prescriptive
- The compiling agency may need to investigate the characteristics of a financial corporation which is not listed to determine to which subsector to allocate it



Grouping of subsectors of financial corporations sector

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- Grouping for monetary policy purposes
- Grouping based on Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)
- Financial intermediaries, financial auxiliaries and other financial corporations
- Grouping based on control
- Grouping based on Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)



Grouping for monetary policy purposes

- Subsectors are grouped into
 - Monetary financial institutions
 - Central bank
 - Deposit-taking corporations except the central bank
 - MMFs if liabilities they issue are part of broad money
 - Insurance corporations and pension funds
 - Insurance corporations
 - Pension funds
 - Other financial corporations
 - Remaining four subsectors



Grouping of subsectors of financial corporations sector

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Grouping for monetary policy purposes

Financial corporations (S12)									
Monetary financial institutions (MFI)			Insurance corporations and pension funds (ICPF)		Other financial corporations				Of which: Public financial corporations (S12001)
Central bank (S121)	Deposit-taking corporations except the central bank (S122)	Money-market funds (S123)	Insurance corporations (S128)	Pension funds (S129)	Non-MMF investment funds (S124)	Other financial intermediaries except insurance corporations and pension funds (S125)	Financial auxiliaries (S126)	Captive financial institutions and moneylenders (S127)	
	= Minimum								
	= Encouraged								



Grouping for monetary policy purposes

- Grouping corresponds to grouping in internationally agreed templates on sectoral accounts and balance sheets
- Templates were developed to fulfil recommendation 15 of G20 recommendations to address data gaps which were identified after 2008 global financial crisis
- Main effects of monetary policy of the central bank are transmitted through deposit-taking corporations except the central bank and MMF to other entities
- Grouping clearly specifies the two main groups of financial intermediaries covered by MFI and ICPF



Grouping based on MFSMCG

- Subsectors are grouped into
 - Depository corporations
 - Central bank
 - Deposit-taking corporations except the central bank
 - MMFs if liabilities they issue are part of broad money
- } Other depository corporations
- Other financial corporations comprising remaining subsectors
- Grouping distinguishes between financial corporations that issue liabilities included in broad money (depository corporations) and financial corporations that intermediate in financial assets, or engage in activities closely related to financial intermediation, but do not issue liabilities included in broad money



Grouping of subsectors of financial corporations sector

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Financial intermediaries, financial auxiliaries and other financial corporations

- Subsectors are grouped into
 - Financial intermediaries
 - Central bank (S121)
 - Deposit-taking corporations except the Central Bank (S122)
 - Money market funds (MMF) (S123)
 - Non-money market investment funds (Non-MMF) (S124)
 - Other financial intermediaries except insurance corporations and pension funds (ICPF) (S125)
 - Insurance corporations (IC) (S128)
 - Pension funds (PF) (S129)
 - Financial auxiliaries (S126)
 - Other financial corporations
 - Captive financial institutions and money lenders (S127)
- All financial intermediaries are shown separately



Grouping based on control

- Financial corporations are split, on basis of control, into
 - Public financial corporations
 - National private financial corporations
 - Foreign-controlled financial corporations
- Control can be exercised through
 - Ownership of more than 50 per cent of equity
 - Other powers such as
 - Control of board or other governing body
 - Control of appointment and removal of key personnel
 - Control of key committees
 - Control through a dominant customer
 - Ownership of golden shares and options
 - Regulations and conditions attached to lending to corporations



Grouping of subsectors of financial corporations sector

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Grouping based on BPM6

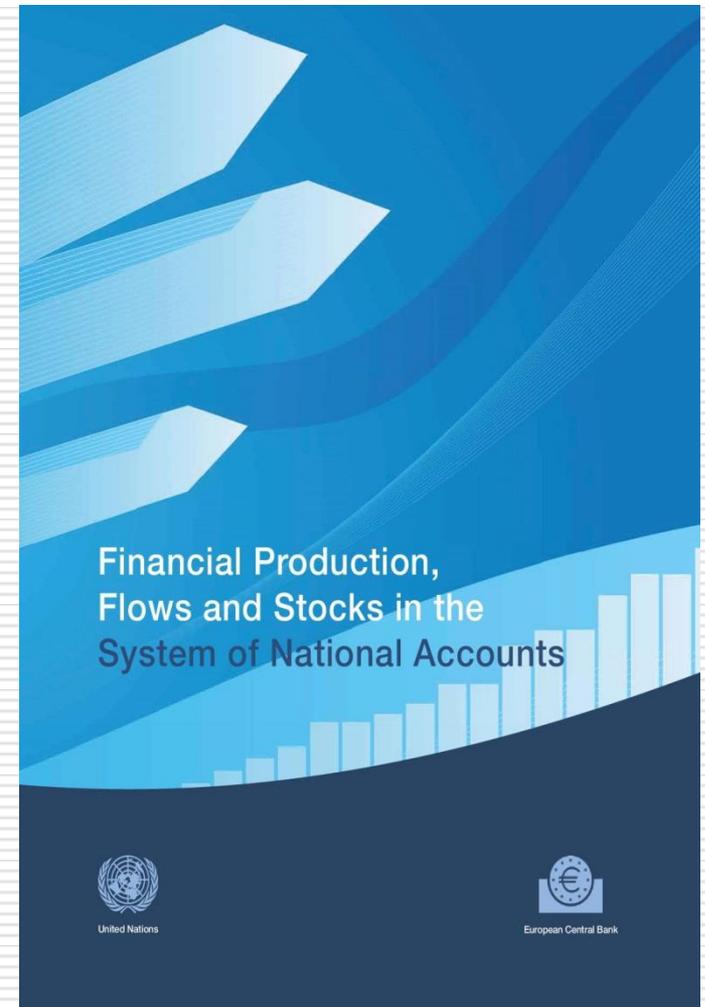
- Subsectors are grouped into
 - Central bank
 - Deposit-taking corporations except the central bank
 - Other financial corporations comprising remaining seven subsectors
- An additional subsector may be identified for monetary authorities in economies in which some central banking functions are performed wholly or partly outside the central bank, particularly holding reserve assets



Reference

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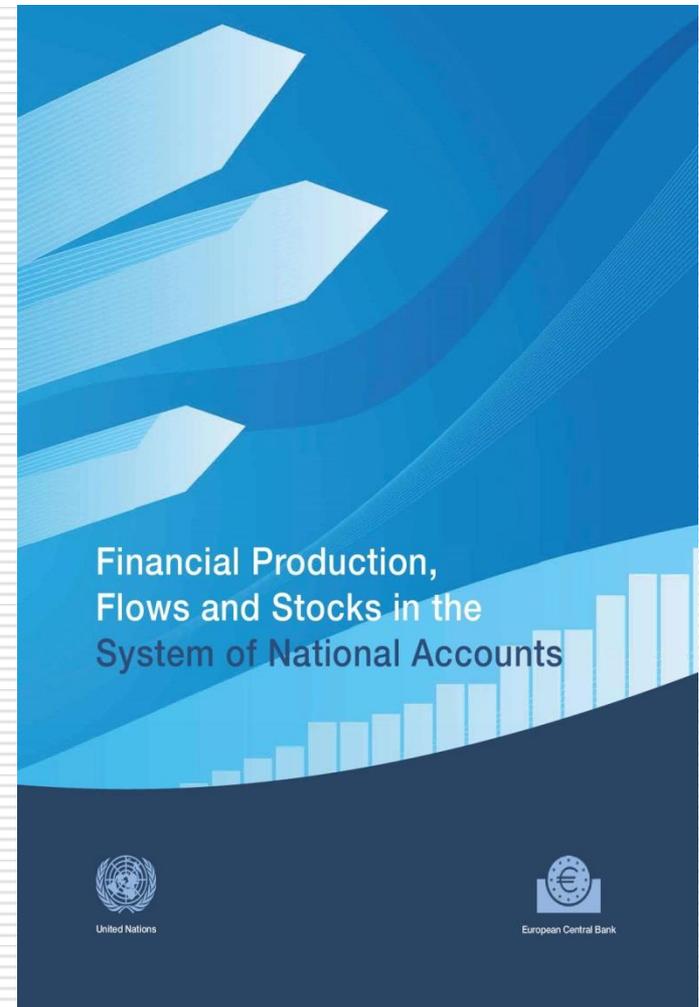
- UNSD and European Central Bank Directorate General Statistics have released the “Handbook on Financial Production Flows and Stocks in the System of National Accounts”
- Handbook provides practical guidance on
 - Calculation and allocation of output of financial services
 - Issues related to compilation of financial account and balance sheets in context of from-whom-to-whom relationships





Reference

- Chapter 2 defines and describes financial corporations sector and its subsectors
- Handbook is available on <http://unstats.un.org/unsd/nationalaccount/docs/FinancialHB.pdf>
- Translation to other non-English UN languages, including Arabic and French, is in progress
- Contact sna@un.org if you have questions





Thank you