Summary Minutes of the ISWGNA FISIM Task Force meeting:
July 5-6, 2011, New York

The second meeting of the ISWGNA Task Force took place in New York on 5-6 July 2011, with the following attendees: Derick Cullen (ABS); James Tebrake (StatsCan); Vaclav Rybaeck (Czech NSO); Chihiro Sakuraba (BoJ); Young-Hwan Kim (BoK); Maarten Molders (CBS); Silvia Santos (BdP); Hugh Skipper (ONS); Marshall Reinsdorf (BEA); Reimund Mink and Antonio Colangelo (ECB); Christian Ravets (Eurostat); Kim Zieschang (IMF); Nadim Ahmad (OECD); and Herman Smith, Benson Sim, Feng Lu, Leonardo Souza, and Nathan Menton (UNSD).

This note provides a summary record of the main conclusions of the Task Force and the action plan going forward.

Progress Report:

Eurostat provided a summary of the report of the European Task Force on FISIM to the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) that was adopted by the CMFB at its meeting of 30 June. The following four recommendations from the report were highlighted.

- At least two groups of currencies should be used to calculate the imports and exports of FISIM
- FISIM by maturity should be tested by member states in the course of 2012 using: a) two reference rates (one each for short-term and long-term deposits and loans using EURIBOR and ISDAFIX, respectively); and b) single weighted average rate of EURIBOR and ISDAFIX.
- FISIM calculated excluding expected default risk should be tested during the course of 2012, as questionnaires confirmed that necessary data are mostly available.
- The method to calculate FISIM in real terms (price and volume measures) using deflated stocks on loans and deposits should be used. Research on the issue of output indicators for FISIM should also be pursued.

The OECD provided an overview of the 1st FISIM meeting and TF members agreed that the European and ISWGNA task forces are generally proceeding with the same ideas.

Calculation of FISIM for money lenders was also discussed briefly. Although there was general support for calculating FISIM for these entities, no specific decision was made. However, the possibility of different reference rates based on the notion of different levels of the cost of providing services for different subsectors was noted.

FISIM in International Trade:

The OECD presented the results of a survey regarding exports and imports of FISIM. Netherlands, Czech Republic, Singapore, Canada, Korea, and Japan participated in the survey. The results showed that, in general, data availability to calculate the imports and exports of

FISIM was low. It was noted that the US Bureau of Economic Analysis (BEA) recently completed its response to the survey as well and would likely show similar results regarding a lack of data. The Czech Republic had the most complete data set for estimating the imports and exports of FISIM. The inventory of available information confirmed the lack of underlying data to calculate FISIM in international trade, including data for the allocation of FISISM, particularly to industries.

Concluded:

- Single reference rate should be used for domestic currency FISIM
- Appropriate reference rates for should be used for each underlying currency
- When stocks of deposits and loans are not available to allocate FISIM to industries, shares of value added could be used.
- International cooperation is needed to coordinate information on FISIM imports using mirror statistics on the exports of FISIM

Liquidity Transformation

Eurostat presented the various methods currently being considered in Europe to determine reference rates for FISIM calculation. Of particular note was a method put forward by the Bank of Portugal to calculate FISIM. In this method, EURIBOR and ISDAFIX are used as the reference rates for short-term and long-term assets and liabilities, respectively. The single reference rate for FISIM is then derived as the average of these two reference rates (weighted by the stocks of short-term and long-term loans and deposits) using a one quarter lag.

The IMF also presented a cost of funds approach to determine the reference rate for FISIM. This approach takes into account the cost (including the value of in-kind services provided in lieu of interest, e.g., to depositors) of all liabilities on balance sheets (including equity) in determining a single reference rate for all financial assets.

Australia, Canada, and the UK also reported that they are looking at various options, taking into account data sources, for deriving FISIM.

Concluded:

The TF agreed to test various proposals for calculating reference rates. The tests should be performed with data spanning at least a ten year time period to allow a view into the robustness of each method during both volatile and calm economic periods. It was also agreed that the formulas for the calculations will be shared to allow more countries to test the various options. The following methods of calculating the reference rate(s) will be tested[1]:

- Single reference rate using inter-bank lending rates

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[1] The ABS and BEA agreed to test the IMF cost of funds approach as a longer-term project.

- Matching reference rates using different rates for short-term and long-term deposits and loans
- Reference rate calculated using the midpoint of interest rates on deposits and interest rates on loans
- Average reference rate (weighted by the stocks of short-term and long-term loans and deposits) calculated using different rates for the short-term and long-term reference rates.

Criteria for a reasonable reference rate and the resulting FISIM calculation were also discussed in order to obtain comparable results.

- Strong connection to underlying economic conditions as measured by volatility. It was noted that reductions in volatility in nominal prices do not necessarily ensure that volatility will be reduced in volume measures.
- No sustained periods of negative FISIM. However, the TF noted that negative FISIM is possible for short periods of time so a view should be taken to note the conditions under which this result occurred.
- Sensible changes in FISIM near economic turning points (to determine if there is an unacceptable lag in response rate).
- Data is observable

Default Risk

There was also a short discussion on the issue of credit default risk. The TF generally agreed that credit default risk should be excluded in the calculation of FISIM. However, the UNSD and CBS were not convinced that credit default risk should be excluded from FISIM as it was seen as a business expense in their view. Another issue was raised on whether the reference rate itself would also reflect the payment for default risk. There was no prevailing opinion amongst the TF on this issue. It was also noted that the European TF will be testing the exclusion of credit default risk using write-offs and other provisions needed. Data used in the testing will span at least 5 years and will be analysed in 2012. The ISWGNA TF agreed that the results of this testing will enable the TF to better understand the feasibility and utility of using write-offs and other provisions to take account of credit default risk.

Concluded

- The TF generally agreed that in principle default risk should be excluded from FISIM, but by convention may not be excluded due to lack of information.

Price and Volume Measures

The UNSD provided an overview of the two approaches currently under discussion to calculate volume measures – deflation and output indicators.

The CBS presented the output indicators approach for calculating volume measures. Advantages and disadvantages of this approach as discussed by the TF are as follows:

- Good indicator of the amount of service provided by banks as current accounts differ more within periods than between periods
- Offers insight into operations of bank
- Weighting the contribution of various output indicators is a difficult and complex task
- Data burden is high
- Approach may not work well in situations where corporations have major changes that might not be reflected in raw numbers of transactions.

The BEA presented a deflated stocks approach to calculate volume measures of FISIM. It was noted that as different kinds of loans or deposits have different margins between their interest rate and the reference rate, pooling different kinds of loans or different kinds of deposits amounts to the use of a unit value measure of price change in circumstances in which index number methods are needed.

To implement the more appropriate index number approach, the BEA suggested that each type of loan or deposit must be deflated separately, and the various types of loans and deposits must be aggregated using a price index formula (e.g. Paasche price index or Fisher price index). Advantage and disadvantages of the deflated stocks approach as discussed by the TF are as follows:

- Simple way of calculating volume measures
- Low data burden
- Available price indices for deflation may not be directly applicable to FISIM
- The volume of FISIM is not directly calculated

The question of what indices to use for imports and exports was also raised. The TF agreed that for individual countries, domestic price indices should be used for exports, while for imports the appropriate country price indices should be used.

Concluded

- The TF agreed that in principle output indicators could be used to calculate volume measures of FISIM, but preferred the deflated stocks approach using the index number method.
- Agreed on using general price indices (excluding FISIM)

Next steps and Recommendations

The TF concluded by reviewing the recommendations from the meeting. In particular it was agreed that:

- FISIM should be calculated by at least two groups of currencies (national and foreign currency). Also international coordination is needed to better estimate the imports of FISIM through counterparty data.
- Term premiums should be included in FISIM, so a single reference rate should be used. Testing will be conducted on the various methods for calculating the reference rate.
- A strong majority also concluded that credit default risk should be excluded from FISIM.
- The advantage of the quantity approach to calculating volume measures of FISIM is acknowledged, but it is concluded that it is data intensive and difficult to determine relevant weights for the indicators. The TF prefers the deflation method and in particular the price index approach rather than the unit value index approach.

The TF agreed that a preliminary report will be drafted by the OECD with input from the BEA (on volume measures) and other presenters at the meeting. At the same time detailed guidance on the testing, including formulas, will be provided to the TF. Based on comments received on each of these issues it will be decided whether an additional meeting will be needed. It was also agreed that a preliminary report would first be made available with the final report to come after the testing on reference rates and credit default risk was complete. A timeline for completion of these reports will be addressed once members participating in testing are able to properly evaluate the time needed for these tasks.