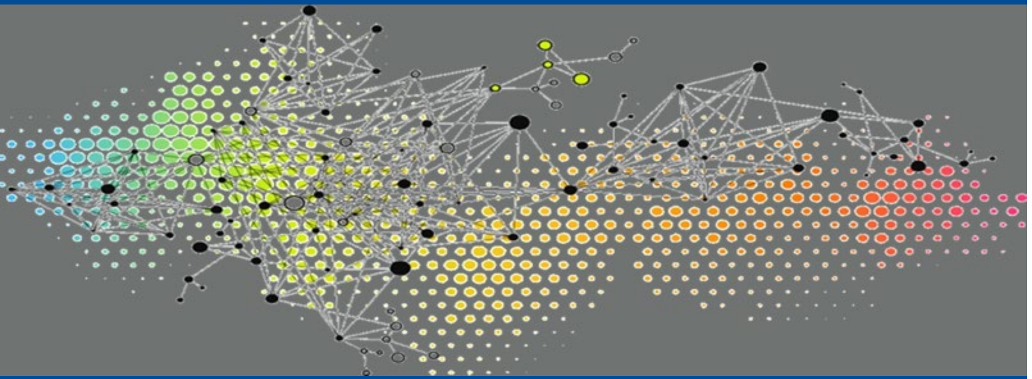

# F.6 Capturing Non-bank Financial Intermediation in the SNA and the ESS

Sixteenth meeting of the Advisory Expert Group on National Accounts

12-14 July 2021

# Outline

- Background
- Further Institutional Sector Breakdowns in SNA
- Further Institutional Sector Breakdowns in ESS
- Further Financial Instrument Breakdowns in SNA and ESS
- Results of Public Consultation
- Outcomes of BOPCOM
- Questions for the AEG
- Annex: Proposed Sub-sectors of OFCs in ESS

# Background

- The 2008 financial crisis led to an increased interest in non-bank financial intermediation and its impact on financial risks and financial stability.
- Recommendation II.5 of the G20 Data Gaps Initiative (DGI-II) has already explored how to better capture non-bank financial intermediation in macroeconomic statistics.

# Further Breakdowns of Financial Corporations as Agreed in the DGI-II (Additions to the SNA Sectoral Breakdown in Italics)

- Money Market Funds (MMFs) (S123), into:
  - *Constant Net Asset Value MMFs*
  - *Variable Net Asset Value MMFs*
- Non-Money Market Funds (non-MMFs) (S124), into:
  - *Open end funds*
    - *Real estate funds*
    - *Equity funds*
    - *Bond funds*
    - *Mixed or balanced funds*
    - *Hedge funds*
    - *Other open-end funds*
  - *Closed end funds*
    - *Real estate funds*
    - *Equity funds*
    - *Bond funds*
    - *Mixed or balanced funds*
    - *Hedge funds*
    - *Other closed end funds*
- Other Financial Intermediaries (OFIs) (S125), into:
  - *Financial vehicle corporations engaged in securitization transactions*
  - *Financial corporations engaged in lending (FCLs)*
  - *Security and derivative dealers*
  - *Specialized financial corporations*
  - *Other OFIs*
    - *of which central clearing counterparties*
- Captive financial institutions and money lenders (S127), into:
  - *Trusts, estate and agency accounts*
  - *Corporate groups' captive financial entities*
    - *Of which: Foreign owned SPE-type captives*
  - *Other captive finance companies and money lenders*
- Insurance corporations (S128), into:
  - *Non-life insurance corporations*
  - *Life insurance corporations*
- Pension funds (S129), into:
  - *Defined benefit pension funds*
  - *Defined contribution pension funds*

# Further Institutional Sector Breakdowns in the SNA

- This GN proposes to include further breakdowns of the financial corporations' sector in the SNA, as agreed in the DGI work.

- More granular breakdowns would be needed within the financial corporations' sector to properly distinguish the various groups of institutional units involved in non-bank financial intermediation.

- The further breakdowns of the financial corporations' sector can be included in specific collection templates, after a cost-benefit analysis.

- Where deemed relevant, the breakdowns can be used by countries to compile more granular breakdowns, consistent with other countries.

# Further Institutional Sector Breakdowns in the ESS

- **This GN proposes to introduce the following subsector breakdowns for OFCs to better capture non-bank financial intermediation in the external sector statistics (Annex explains characteristics of each sub-sector) .**

| Proposed Further Breakdowns for Other Financial Corporations |
|---|
| Money market funds (MMFs) (S123) |
| Non-MMF investment funds (S124) |
| Insurance corporations (S128) |
| Pension funds (S129) |
| Other financial intermediaries (S125) – Of which: Central clearing counterparties |
| Captive financial institutions and money lenders, and financial auxiliaries (S127+ S126) |

# Further Institutional Sector Breakdowns in the ESS

- **Breakdowns should be introduced as supplementary items in the ESS.**
- **FITT members showed strong support for introducing these further subsector breakdowns.**
- **FITT members highlighted challenges in compiling these breakdowns.**

# Further Financial Instrument Breakdowns in SNA and ESS

- **The DGI work suggested “of which” items under loans to provide more insight into the degree of risk generated by non-bank financial intermediation.**

- **This GN proposes to introduce two “of which” items under loans (AF.4) for consideration by the GN F.1 *More Disaggregated Institutional Sectors and Financial Instruments***
  - ***Of which: Repurchase agreements, securities lending with cash collateral, and margin lending***
  - ***Of which: Non-performing loans (NPLs)***

# Further Financial Instrument Breakdowns in SNA and ESS

- The updated BPM should consider including these two “of which” items in the main presentation—*the list of standard components and selected supplementary items* presented in Appendix 9 of the *BPM6*.

- FITT members also broadly supported the usefulness of additional breakdowns.

- Members’ concerns: consistent identification of NPLs, reporting and compilation burdens.

# Outcomes of Public Consultation

- Public consultation supported the proposals in this GN.
- The majority supported the introduction of further sector breakdowns for the financial corporations' sector in the SNA (13 out of 17 respondents) and other financial corporations in the ESS (13 out of 18 respondents).
- The majority also supported the introduction of two “of which” items under loans for consideration of the GN F.1 (13 out of 17 respondents).

# Outcomes of BOPCOM

- The Committee supported introducing (i) further breakdowns of other financial corporations as supplementary items in the updated BPM; and (ii) further subsector breakdowns of the financial corporations' sector in the updated SNA.
- It was also agreed to consider two "of which" items under loans in the forthcoming GN F.1 *More Disaggregated Institutional Sector and Financial Instrument breakdowns in the updated SNA and BPM*.

***Action:***

- FITT to await feedback from the AEG and, also subject to its approval, prepare a final version of the GN stating the final recommendations and removing the questions to the Committee for posting on the *BPM6* Update website.

# Questions for the AEG

***Do the AEG members agree with the proposals to:***

- *Include further subsector breakdowns of the financial corporations' sector proposed in this GN in the updated SNA?*
- *Introduce further breakdowns of other financial corporations as proposed in this GN as supplementary items in the updated BPM?*
- *The proposal that "of which" items under loans in this GN be considered in the forthcoming GN F.1* More Disaggregated Institutional Sectors and Financial Instruments *for inclusion in the updated SNA and BPM?*

# Annex: Proposed Sub-sectors of OFCs in the ESS

**Money Market Funds (MMFs)**

- These funds are highly liquid and invest in short-term assets. They may be liable to a run and to leverage problems giving rise to systemic risk.

**Non-MMF Investment Funds**

- They are involved in credit intermediation with possible maturity and/or liquidity transformation and/or leverage.

**Insurance Corporations**

- Insurance companies are involved in non-bank financial intermediation to the extent that they are involved in the facilitation of credit creation.

**Pension Funds**

- They usually combine long-term liabilities with long-term investments, but dependent on their investment strategy (also dependent on the regulatory restrictions), some of them may be involved in maturity transformation. Furthermore, through their activities, they may be strongly interconnected with banks and other financial intermediaries, making them vulnerable to systemic risk.

# Annex: Proposed Sub-sectors of OFCs in the ESS

**Other Financial Intermediaries**

- This subsector consists of a broad range of financial corporations involved in various kinds of credit intermediation (among them securities and derivatives dealers, financial corporations engaged in lending and financial vehicle corporations). Entities within this subsector may be involved in loan provision that is dependent on short-term funding, in intermediation that is dependent on short-term funding or on secured funding of client assets, and in securitization-based credit intermediation and funding of financial entities.

**Captive financial institutions and money lenders**

- Include trusts, estates, agencies accounts, holding corporations, or conduits that qualify as institutional units and raise funds to be used by their parent corporation, and units which provide financial services exclusively with own funds or funds provided by a sponsor to a range of clients.

**Financial auxiliaries**

- Principally engaged in serving financial markets, but they are usually not involved in financial intermediation as they do not take ownership of financial assets and liabilities they handle. This for example covers insurance and pension consultants, loan and security brokers, corporations providing infrastructure for financial markets, and foreign exchange bureaus.