B.5. Financial services

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Introduction

14.291.   Financial services may be charged for explicitly or implicitly, and some transactions in financial assets may involve both explicit and implicit charges. The most common implicit charges relate to (a) margins on buying and selling transactions; (b) asset management costs deducted from property income receivable, in the case of asset-holding entities; or (c) margins between the interest rate and the reference rate on loans and deposits (FISIM). EBOPS 2010 identifies FISIM separately from all other financial services.

14.292.   Among financial services provided without explicit fees, margins on buying and selling are regarded as services charged by securities dealers. In theory, margins are identifiable for each transaction by securities dealers. Thus, one way to collect the data is to process such microdata, if they can be collected. Another way, which appears more realistic, is to estimate margins on an aggregate basis, for example by multiplying their transaction volumes by spread ratio. Transaction volumes can be obtained from the financial accounts of balance of payments statistics and spread ratio can be obtained from financial market data providers. The *BPM6 Compilation Guide*, chapter 12, paragraphs 114 to 116, provides additional detail on data collection for such services.

Compiling financial intermediation services indirectly measured

14.293.   The 2008 SNA and BPM6 recognize financial intermediation services indirectly measured (FISIM) produced only by certain financial corporations and only on the loan and deposit instruments on their balance sheets. Thus, FISIM *exports* are calculated on the loan assets and deposit liabilities of resident financial corporations for which the counterparty is a non-resident unit as follows:

>   (a) For loans, it is the difference between the interest receivable by a financial corporation and the interest cost of funds calculated at a reference rate on the loan balance;

>   (b) For deposits, it is the difference between the interest payable at the reference rate on the deposit balance and actual interest payable to the depositor.

14.294.   FISIM *imports* are calculated on the resident institutional sector's (mostly nonfinancial) loan liabilities and deposit assets with non-resident financial corporations.

14.295.   The 2008 SNA refers to the cost of funds at the *reference rate* as "SNA interest". Determining the reference rate is a key element in compiling FISIM. The reference rate should contain no service element and should reflect the risk and maturity structure of deposits and loans. The rate prevailing for interbank borrowing and lending may be a suitable choice as a reference rate. However, different reference rates may be needed for loans and deposits in other currencies, in particular for transactions with non-resident financial institutions. The reference rate changes over time with market conditions.

14.296.   For FISIM *exports*, the reference rate is, in principle, the cost of funds from the liability side of balance sheets of resident financial corporations. However, exports of FISIM on loans to non-residents can be estimated, using the reference rate for domestically produced FISIM, as interest receivable less the product of the loan position and the (domestic) reference rate, if it can be assumed that transactions are mostly in national currency. Exports of FISIM for deposits of non-residents (excluding financial corporations) can be estimated as the product of the deposit position and the domestic reference rate, less interest payable (*BPM6 Compilation Guide*, appendix 3, para. A3.11).

14.297.   For FISIM *imports,* the reference rate is, in principle, the cost of funds from the liability sides of the balance sheets of non-resident financial corporations by economy of residency. Imports of FISIM for loans received from non-residents can thus be estimated as interest payable to non-resident financial corporations, less the product of the loan position and the reference rate for the applicable funds lent. Imports of FISIM for deposits with non-resident financial corporations can be estimated as the product of the deposit position multiplied by the reference rate for the funds deposited, less the deposit interest receivable from the non-resident FISIM provider (*BPM6 Compilation Guide,* appendix 3, para. A3.13).

14.298.   The most comprehensive source data for exports and imports of FISIM come from (a) resident financial corporations (surveys or administrative data collection or financial supervision authorities), which can identify deposits and loans with non-residents, as well as (b) surveys of selected non-financial corporations and households as well as non-profit institutions serving households, which could provide data on residents' accounts with financial corporations abroad to support the compilation of FISIM imports (see chapter 6). FISIM imports by general government are often derived from administrative data (see chapter 9) or government financial accounts. Information on interest flows and deposit and loan positions can alternatively be sourced from the compilation of balance of payments and the international investment position. Statistics on interest rates and/or data on interest flows are used to calculate the reference rate as well as deposit/lending rates.

14.299.   The data sources available for economies' own financial corporations sectors and for those of their FISIM trading partners will tend to control the specific approach to determining the relevant reference rates for international trade in FISIM.

14.300.   Additional difficulties in sourcing data may be encountered in compiling FISIM imports. Thus, partner country data, including data sourced from international organizations (most relevant here, the Bank of International Settlements) may provide useful information. In that context, the domestic reference rates of the economies supplying financial intermediation services may be used. To ensure data consistency, it would be helpful for economies to disseminate their domestic reference rates for possible use by non-resident compilers.

14.301.   For economies in which cross-border FISIM is small, it can be measured with relatively simplified methods based on aggregated data. For example, FISIM for deposits with financial corporations is calculated by deducting deposit interest flows from the value obtained by multiplying deposit stocks by the reference rates. FISIM for loans from financial corporations is calculated by deducting the value obtained by multiplying loan stocks by the reference rates from loan interest flows. More elaboration on calculating the imports and exports of FISIM is provided in the *BPM6 Compilation Guide,* appendix 3.

14.302.   In general, the FISIM of financial corporations (calculated on loan assets and deposit liabilities) is expected to be positive. However, the calculation of the FISIM of financial corporations can be negative if the reference rate temporarily becomes higher than the lending rate and/or lower the deposit rate temporarily. In that case, for practical reasons, the compiler may wish to assume that the value of the FISIM is zero. A negative FISIM may reflect erroneous calculations and inappropriate reference rates. If the negative values continue for a long time, compilers should review the calculation of the reference rates.

Reference rate in FISIM

14.303. Given the complexities involved in estimating imports and exports of FISIM the Advisory Expert Group on National Accounts (AEG), at its May 2013 meeting, provided a series of recommendations applicable to international transactions. Those recommendation are summarized below and trade in services compilers are encouraged to follow them.

14.304. For estimating imports and exports, FISIM should be calculated by at least two groups of currencies, both national and foreign. The reference rate for a specific currency need not be the same for FISIM providers, which are residents in different economies. However, they are normally expected to be relatively close. Use of partner country information or other relevant information is thus encouraged, when national estimates are not available.

14.305. The calculation (definition) of the reference rate should be determined according to national circumstances, using preferably one of the following approaches:

(a) A reference rate based on a single observable exogenous rate for a specific instrument, such as interbank lending rates;

(b) A reference rate based on a weighted average of observable exogenous rates of maturities with different terms (weighted by the stock of loans and deposits in each maturity);

(c) A weighted average of the endogenous interest rates on loans and deposits.

14.306. Estimation of FISIM over periods of volatile movement in reference rates should be carefully monitored, in particular if the results are negative, particularly for depositors, but also for borrowers. In such cases, countries are encouraged to review the applicability of the underlying reference rate for that period to calculate FISIM.

14.307. Research continues in the area of credit default risk related to FISIM and the merits of its exclusion from FISIM, including for practical reasons.

Include pages:

Country experience: Estonia: calculating FISIM (Chapter 14)

Country experience: Japan: margins on buying and selling transactions

Country experience: Luxembourg :e-commerce (merchandising) services