EUROPEAN CENTRAL BANK

EUROSYSTEM

HANDBOOK ON QUARTERLY FINANCIAL ACCOUNTS FOR THE EURO AREA SOURCES AND METHODS

CONTENTS

QUARTERLY FINANCIAL ACCOUNTS FOR THE EURO AREA

FOREWORD

This handbook has been prepared in response to recital 8 of Guideline ECB/2005/13 concerning quarterly financial accounts for the euro area, which reads as follows:

'In order to improve the quality of the data transmitted to the ECB, to share best practice, and to enhance understanding of the relationship between the data transmitted to the ECB pursuant to various legal acts, the ECB will in cooperation with the NCBs produce an inventory of the methods and sources used to compile such data, in particular the data for financial balance sheets and financial transactions required under Tables 1 and 2 of Annex I to Guideline ECB/2002/7. This inventory will document, for each euro area Member State: the methods used for adjusting available source data, so that those data adhere to the rules laid down in the ESA95; and the 'horizontal reconciliation' of financial assets and liabilities across euro area institutional sectors.'[1]

An introductory chapter explains how financial accounts and financial balance sheets fit into the sequence of integrated economic and financial accounts developed and now published jointly by Eurostat and the ECB. The non-financial accounts, and source data for the financial accounts of the general government sector, are provided under Community legislation. National compilers provide the financial accounts data required by Guideline ECB/2002/7 (as amended by Guideline ECB/2005/13). Much of the source material (other than for general government data) originates from the requirements of other ECB legislation, notably the regulations and guidelines concerning banking (monetary financial institution, MFI) balance sheets, post office giro institutions, credit unions, investment funds, financial vehicle corporations, other financial intermediaries covered by the ECB's so-called short-term approach, insurance corporations and pension funds, and securities issues, and from the Guideline on balance of payments and international investment position statistics. (The relevant regulations and guidelines, together with relevant Community legislation, are listed in Appendix I, with links to the full texts.) The ECB uses national financial accounts data received from national compilers in accordance with the financial accounts guidelines, along with other material, to prepare financial accounts for the euro area as a whole. In some Member States the national statistical institute rather than the central bank compiles financial accounts; nevertheless it is on the national central bank that the ECB Guidelines formally impose the obligation to ensure that the ECB receives the data it needs. But euro area financial accounts are not a simple sum of national data, and the ECB must observe certain constraints (in particular, relevant parts of euro area financial accounts must be consistent with key euro area monetary aggregates and government finance data, published separately). Moreover, the ECB aims at fully-balanced (financial and non-financial) accounts for financial corporations and general government, though not at present at balanced accounts for other

[1] Recital 8 refers to Tables 1 and 2 which generally require financial positions and transactions without counterpart sector details. The Guideline contains in addition Tables 3, 4, and 5 which require counterpart sector detail (also referred to as from whom-to-whom information).

sectors, and at horizontally balanced accounts (meaning that transactions and positions in financial assets equal transactions and positions in liabilities).

Chapter 2 sets out the general principles of valuation and other accounting practices in the ESA95, and, since ECB monetary, other financial and balance of payments data are important as sources for national and euro area financial accounts, explains the application of these principles and practices in ECB statistics. ECB requirements in these areas are largely consistent with the ESA95, but there are important departures, notably in the treatment of accrued interest on deposits and loans, and in the valuation of securities, where the ESA95 seeks market valuation while the ECB, in for example the MFI balance sheet statistics, accepts prevailing national accounting practice or even, as the case of the securities issues statistics, requires nominal valuation. There are also a few classification differences between the ESA95 and ECB requirements. Compilers must try to fit these source data, which in general are timely, comprehensive and of good quality, adjusting them where necessary, into the financial accounts for which they were not, however, specifically designed. How the ECB incorporates national contributions in the euro area financial accounts is described in a box in Chapter 2. The ESA95 is currently being revised in line with the new version of the world System of National Accounts (the SNA 2008). This handbook describes ESA95 requirements as they are currently, while mentioning some important likely changes.

Chapter 3 provides an overview of national data sources and reconciliation practices as collected by the Working Group on Euro Area Accounts (WG EAA). There then follows a series of chapters each devoted to an instrument class in the ESA95. Each chapter describes the relevant financial instrument(s), and ESA95 and all ECB requirements relating to them, including definitions and valuation and other accounting principles. For certain ‘difficult’ financial instruments additional information on national sources and methods as collected by WG EAA is provided. These instruments are financial derivatives (Chapter 7), inter-company loans (Chapter 8), unquoted shares (Chapter 9) as well as cross-border aspects of insurance technical reserves (Chapter 11) and other accounts receivable/payable (Chapter 12). The national details in these chapters were provided by the WG EAA members from the respective national central banks and/or national statistical institutes.[2]

The handbook concludes with appendices on relevant legal acts, reporting conventions agreed by the WG EAA and a glossary.

[2] Banque Nationale de Belgique, Bulgarian National Bank, Ceská národní banka, Danmarks Statistik, Deutsche Bundesbank, Eesti Pank, Central Bank of Ireland, Central Statistics Office Ireland, Bank of Greece, Banco de España, Banque de France, Banca d’Italia, Central Bank of Cyprus, Latvijas Banka, Lietuvos Bankas, Banque Centrale du Luxembourg, STATEC, Magyar Nemzeti Bank, Central Bank of Malta, De Nederlandsche Bank, Centraal Bureau voor de Statistiek, Oesterreichische Nationalbank, Narodowy Bank Polski, Banco de Portugal, National Bank of Romania, Banka Slovenije, Národná Banka Slovenska, Suomen Pankki, Statistics Finland, Sveriges Riksbank, Statistics Sweden, Bank of England, UK Office for National Statistics.

CHAPTER 1 – Introduction and overview

1.1 The purpose of this handbook is to record current definitions, accounting principles and compilation practices in the area of financial statistics, in the hope of encouraging best practice to spread. It is not intended to compel adoption of specified methods. It should be read in conjunction with Guidelines ECB/2002/7 (the first Guideline concerning euro area financial accounts) and amending Guideline ECB/2005/13.

1.2 Each instrument category has its own chapter. The chapters are intended to be self-contained. Some material is accordingly repeated in several chapters to avoid the need to refer back.

1.3 The Guidelines are consistent with the ESA95 (Council Regulation (EC) No 2223/96) which requires Member States to compile annual financial accounts, and defines institutional sectors, instruments, and valuation and other recording practices. Nevertheless ESA95 does not always specify requirements in full detail, and some of its prescriptions may not be capable of being followed to the letter. Moreover, the purpose of ESA95 is to aid the compilation of comparable national data, not of area aggregates. Chapter 2 sets out the principles in the ESA95 and their application in various areas of ECB statistics. As noted in the foreword, the ESA is being revised, and some important expected changes are mentioned.

1.4 National financial accounts data submitted by national central banks and in some countries national statistical institutes contribute much to the euro area accounts (EAA). But euro area financial accounts do not draw on national financial accounts alone. Substantial contributions are also made by the euro area monetary financial institutions' (MFI) balance sheet data (the main source for monetary statistics), euro area series on the assets and liabilities of investment funds, financial vehicle corporations, especially in connection with securitisations, and insurance corporations and pension funds, securities issues statistics (issues, redemptions and outstandings), and the euro area balance of payments and international investment position statistics. For the institutional sector general government and its sub-sectors, the data compiled in accordance with a sector-specific legal framework are integrated into the financial accounts.[3] These are important sources. For the two sectors in which ECB users of the accounts take the closest interest – households and non-financial corporations – MFIs, the dominant financial intermediaries in the euro area, and the other sources mentioned above provide much or most of the financing needs and outlets for financial asset accumulation. This handbook accordingly pays close attention to ECB requirements in the various regulations and guidelines concerning these areas of statistics, comparing them with ESA95 definitions and recommended accounting practices for the relevant instruments.

1.5 A key feature of Guideline ECB/2005/13 is the requirement on national central banks in the Eurosystem[4] to provide quarterly financial accounts data, for the purpose, not of national

[3] EU Parliament and Council Regulation No 501/2004 on quarterly financial accounts of general government.
[4] The Eurosystem comprises the European Central Bank and the central banks of the currently 17 EU Member States which have adopted the euro. Guideline ECB/2005/13, like all ECB legislation, is binding only within

comparisons, but of compiling aggregates for the euro area as a whole.[5] The requirement is quarterly because annual data, although useful for structural analysis, are of little value for monetary policy or financial stability purposes. Euro area aggregates are needed because the ECB's monetary policy must be determined by the needs of the area as a whole. The aggregates are also relevant to financial stability analysis. Before addressing these features, however, it is useful to review the general characteristics of the accounts and the chapter plan of this handbook. The overview section accordingly starts by placing financial accounts and balance sheets in the sequence of integrated accounts by institutional sector for which the ECB and the European Commission (Eurostat) first published annual results in May 2006, followed by quarterly data in June 2007. Then, to guide the reader through the handbook, the overview summarises the contents of each chapter.

The sequence of accounts

1.6 This handbook, like the Guideline, is confined to the financial account (which records transactions in financial assets and liabilities), the balance sheet (financial assets and liabilities outstanding, with some information recently introduced on non-financial assets), and the reconciliation account explaining differences between changes in the financial assets and liabilities in the balance sheet between two dates and financial transactions in the intervening period. The financial account, the balance sheet, and the reconciliation account are collectively referred to as 'financial accounts' in this document, as they are in the Guideline.

1.7 The financial account is the last in the sequence of integrated economic and financial accounts. Accounts earlier in the sequence record all economic activity, from production and the generation of income, through the allocation, redistribution and use of income, to the capital account. The capital account records principally the use of saving, which is the difference between disposable income and consumption expenditure recorded in the use of income account, to make capital investments, that is to acquire non-financial assets in various forms. This is all information required under Community legislation (European Parliament and Council Regulation No 1161/2005). The balancing item, or bottom line, of the capital account, net lending/net borrowing, is the first entry in the financial account, which shows how net lending is deployed or net borrowing financed. Cumulative financial transactions contribute to the change in the financial balance sheet between the start and end of the period, although they will not account for all the change.

1.8 The integrated system of accounts is in principle complete and exhaustive. In practice, however, there is usually a difference between net lending/net borrowing recorded in the capital account, and the net total of transactions obtained from different sources recorded in the financial account. National compilers are working to reduce the discrepancy.

Institutional units and sectors

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the euro area. Nevertheless EU Member States outside the euro area provide comparable data to the ECB, which will receive growing attention in the context of the EU-wide responsibilities of the European Systemic Risk Board.

[5] Quarterly non-financial accounts by institutional sector are required from all EU Member States (with certain derogations for small countries) under European Parliament and Council Regulation No 1161/2005.

1.9 The ESA defines institutional units as '*economic entities that are capable of owning goods and assets, of incurring liabilities, and of engaging in economic activities and transactions with other units in their own right*'. All institutional units are allocated to an institutional sector; no unit is in more than one sector. The resident institutional sectors comprise units whose economic behaviour is likely to be similar. The accounts are compiled for each institutional sector in the economy. Non-residents form a single grouping, the Rest of the World, which is not strictly a sector because their transactions and positions are recorded only to the extent that residents are party to them; they correspond, with some modifications, to the balance of payments and international investment position. The resident institutional sectors with their ESA95 codes are non-financial corporations (S.11), financial corporations (S.12), general government (S.13), households (S.14), and non-profit institutions serving households (S.15). The Rest of the World is designated S.2. S.12 and S.13 are further subdivided in the Guideline, but S.14 and S.15 are merged, as they are in quarterly non-financial accounts by institutional sector. Merging the sectors does not mean that transactions and positions between them are consolidated, only that they cannot be separately identified. Indeed, the accounts are generally not consolidated.[6] Thus, for example, inter-company borrowing and lending within the non-financial corporation sector is shown on both sides of the financial account and balance sheet.[7]

1.10 The financial accounts described in this handbook adhere strictly to the ESA95 sector definitions. It is not clear, however, that the delineation between non-financial corporations and households is in practice the same in all Member States. Despite the name, S.11 is not confined to corporations; in all Member States it includes some (perhaps many) business enterprises not in corporate form (partnerships, cooperatives, sole proprietorships, etc.). The requirement for inclusion in S.11 is mainly that the enterprise keeps a set of accounts separate from those of its owner(s). Since practice is not uniform in the European Union, or in the euro area, some enterprises which would be classified as non-financial corporations in one Member State may be classified as households in another. In other respects, sector delineation is quite uniform across the European Union and euro area. The distinction between the corporate sectors (which include publicly-owned corporations) and general government has been clearly established for Excessive Deficit Procedure and Stability and Growth Pact as well as for general statistical purposes; and the ECB makes a clear distinction between MFIs (S.121-122 in the ESA95) and other financial intermediaries (S.123) within the financial corporations sector.[8]

Residence, and sectorisation across Member States

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[6] National data transmitted to the ECB for the purposes of compiling the euro area accounts and the EAA published by the ECB are not consolidated. National compilers can publish consolidated and/or non-consolidated data.

[7] Financial transactions and positions of the sub-sectors of general government (S.1311, central government, S.1312, state and regional government, S.1313, local government, and S.1314, social security funds), are however consolidated. The Rest of the World account (S.2) is consolidated by definition.

[8] It may be worth noting here, however, that the MFI sector includes money market funds (MMFs), and that financial innovation may be making it a little harder to decide which institutions should be classified as if MMFs (in S.122) and which as other investment funds in S.123. Indeed, the ECB has recently elaborated the definition of MMF, in Regulation ECB/2011/12 amending the MFI balance sheet Regulation. The ECB keeps and regularly updated lists of institutions classified as MFIs and as investment funds respectively.

1.11 The distinction between resident and non-resident entities is not always clear, or easy to apply. Particular difficulties centre on the classification of migrant workers, and of certain businesses with only tenuous links with the country concerned. On the latter point, the usual interpretation of the ESA95 and the IMF's Balance of Payments Manual (5th edition) (BPM5) is that entities with no or a negligible physical presence in a country are to be treated as non-resident in national statistics,[9] though recent ECB statistical legislation has required such entities to be treated as resident in the Member State in which they are registered, even in the absence of a physical presence there. This treatment is adopted in the new System of National Accounts, the new Balance of Payments Manual (BPM6), and in due course in a new ESA. Present practice is not entirely uniform even in the euro area. This point apart, in national statistics, 'resident' means resident in the country concerned, and in euro area statistics, 'resident' means resident anywhere in the euro area. Sectorisation extends across the euro area. The questions of correct sectorisation across the euro area and the distinction between domestic and euro area residency and residency outside the euro area have been tackled in key areas of euro area statistics.

1.12 A complication here is that the treatment in the accounts of some transactions and positions depends on whether they are internal or cross-border: the concepts of direct investment and associated income, and within the latter the treatment of undistributed profits in the income account, are confined to cross-border business. Thus what is classified in French and German national statistics as a direct investment by a French enterprise in a German subsidiary must be reclassified in euro area accounts. A further issue concerns the residence status of EU institutions and other bodies. With the exception of the ECB, which is treated statistically as an MFI resident in the euro area, though not resident in any individual Member State, they are treated statistically as non-resident in both national and euro area statistics, regardless of their physical location. Financial transactions or positions between them and entities in the euro area are thus treated in euro area aggregates as transactions or positions between the euro area and the Rest of the World. (For some operational purposes the European Investment Bank is treated as resident in the euro area, but this does not affect its statistical classification as non-resident despite its location in Luxembourg.)

Transactions, balance sheets and the reconciliation account

1.13 The ESA defines a transaction as '*an economic flow that is an interaction between institutional units by mutual agreement*' (or an action within an institutional unit which it is useful to treat as a transaction, often because the unit is operating in two capacities). Transactions are valued in ESA95 at the prices at which they are carried out, normally the prevailing market price. Most transactions give rise to four entries in the accounts. Thus the purchase of a car may be recorded as final consumption expenditure by households (use of income account), and a reduction in inventories held by non-financial corporations (capital account); the associated payment will be recorded in the financial account, perhaps as a reduction in bank deposits held by households and an increase in deposits held by non-financial corporations. In principle the entries are recorded simultaneously and for the same

[9] Thus the ESA95 reads: '…units which have a centre of economic interest on the economic territory of a country…are resident units...(*2.04*). The term centre of economic interest indicates the fact that there exists some location within the economic territory on, or from, which a unit engages…in economic activities and transactions on a significant scale…(*2.07*)'.

amount. The accounts as compiled do not however show individual transactions, but rather cumulative transactions over a period – in this case, a quarter – and in practice the entries recorded in the accounts often come from different sources, introducing discrepancies in the timing, valuation, and sometimes classification of items.

1.14 Balance sheets record financial assets and liabilities outstanding at some date – in this case, the end of each quarter. Assets and liabilities are valued at their market price, or a close approximation to it, on the balance sheet date. Since October 2010 balance sheets have also included non-financial assets broken down by sector, and for households non-financial assets broken down by asset type (dwellings, other produced fixed assets (this included non-residential buildings as well as machinery owned by sole proprietors and partnerships classified in the household sector), and land underlying dwellings).

1.15 While cumulative financial transactions contribute to the change in the financial balance sheet between the start and end of the period, the balance sheet is also affected by valuation changes, reclassifications of various kinds, and certain other factors, none of which are regarded as transactions in the accounts. The 'other changes in financial assets' account records these non-transactional influences on balance sheet outstandings, and reconciles the financial account with financial balance sheet changes.

Instruments

1.16 The Guideline and this handbook use the same instrument categories as the ESA95, except that, anticipating the implementation of the revised international statistical standards, financial derivatives are separated from the category 'securities other than shares' (AF.3 in the ESA95), 'securities other than shares' are called here 'debt securities', and what the ESA95 calls 'mutual funds shares' are called here 'investment fund shares' except in direct quotations from the ESA95 (as immediately below). They are also separated from 'shares and other equity'.

1.17 The instrument categories are as follows:

Monetary gold and Special Drawing Rights (AF.1)

Currency and deposits (AF.2)

Securities other than shares, excluding financial derivatives ('debt securities') (AF.33)

Financial derivatives (AF.34)

Loans (AF.4)

Shares and other equity excluding mutual [or investment] funds shares (AF.51)

Investment fund shares (AF.52)

Insurance technical reserves (AF.6)

Other accounts receivable/payable (AF.7).

1.18 To indicate the importance of the instrument(s) covered, each chapter starts with information on the amount outstanding in the euro area at end-2011. In terms of outstanding amounts, deposits, debt securities, loans and shares and other equity are very important in euro area financial accounts, in each case at end-2011 showing assets/liabilities of €14-23 trillion. Investment fund shares (If shares), insurance technical reserves and other accounts receivable/payable are of medium importance (some €5-7 trillion). Monetary gold and Special Drawing Rights (SDRs), currency and financial derivatives range up to €0.4 trillion.

Consistency within the accounts

1.19 It is clear from the earlier remarks that the accounts should add to zero across instruments (an addition to one unit's financial assets means a reduction in another's or an increase in someone's liabilities)[10] and vertically for each sector (the sector's financial account transactions should add up to the sector's net lending/net borrowing taken from the current and capital accounts). The 'other changes in assets' account should fully explain for each sector the difference between cumulative financial transactions and the change in financial balance sheets in the intervening period. Finally, quarterly transactions in the year should sum to the annual total – it is not self-evident that they will, because annual sources may be different and fuller than quarterly information, particularly for some types of financial instrument (e.g. other accounts receivable/payable) - and for financial and non-financial corporations. Users of the accounts expect consistency in these respects.

1.20 Achieving full consistency in national accounts is very difficult, given that data come from many different sources which – regardless of the principles underlying the accounts – are in practice unlikely to record transactions and balance sheet positions consistently. Even if consistency is achieved in the national data, it is unlikely to be preserved in the euro area aggregates without further massaging the results. The reason is that balance of payments transactions and the international investment position within the euro area are known to contain large discrepancies. So, while within national financial accounts the financial transactions of domestic sectors may be constrained to equal the financial transactions of the Rest of the World (S.2), with the result that the sum of the net financial transactions of the Rest of the World columns in the accounts of the euro area Member States equals the sum of their domestic sectors' financial transactions, domestic sectors' financial transactions in the euro area will not sum to the financial account in the euro area balance of payments. A similar point applies to domestic sectors' financial assets and liabilities outstanding and the euro area international investment position. The reason is that the euro area balance of payments and international investment position are compiled from extra-euro area transactions and positions, and do not use the data on transactions and positions within the area which are known to be inconsistent between Member States.[11]

Sources and compilation procedures for quarterly financial accounts

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[10] Except for stocks of monetary gold and SDRs, which have no liability counterpart (the treatment of SDRs, and to a lesser extent monetary gold, will change in this respect in the new international standards).

[11] Portfolio investment liabilities and associated income are a partial exception to this.

1.21 The Guideline requires Eurosystem central banks to submit national data for the ECB's use in compiling euro area financial accounts. Most other EU central banks send similar data, though these are not of course used in compiling the euro area aggregates.

1.22 The ECB and national central banks have devoted much effort to achieving good quality in specific areas of euro area financial statistics which are compiled in the first place for individual analysis, mostly at monthly frequency, and only later incorporated in the euro area financial accounts. Though highly suitable for the initial purpose for which they were designed, and generally stable and reliable, they do not in all respects conform to ESA95 definitions and recommended accounting practices, and are not always entirely consistent even across the euro area (especially in the treatment of provisions against doubtful loans and in valuation of securities). Moreover, a feature of balance of payments and international investment statistics is their arrangement in functional categories, cutting across the instrument categories in which financial accounts are grouped. Thus the key balance of payments and international investment categories of direct, portfolio, and 'other' investment and reserve assets refer to the purpose or nature of the financial relationship with non-resident counterparts (and, for reserve assets, to the identity of the resident institutional unit involved): each functional category contains a mixture of instruments. Balance of payments and international investment statistics accordingly have to be unscrambled if they are to be used as an ingredient in financial accounts; other adjustments to them may also be necessary. (Current statistical practice in the balance of payments/international investment area is described in the ECB's publication '*European Union balance of payments/international investment position statistical methods*' (May 2007 edition), referred to in this handbook as 'The BoP Book'.) Thus, while in the following four important areas the data are in general solidly based, these reservations should be kept in mind.

- Data based on MFI balance sheets, in particular the data showing MFIs' business with each other institutional sector in the euro area. Although misclassifications can never be ruled out, MFI balance sheets provide reliable counterpart information on a substantial part of financial assets held by, and loan finance extended to, other sectors in the euro area;
- Securities issued by borrowers resident in the euro area. Detailed information on such (and many other) securities, including equity, is held in the centralised securities database in the ECB, and in national securities databases. It includes information on the sector of the issuer, the nature of the instrument, and its price. The centralised securities database includes information to estimate the prices of unquoted shares. The main information still lacking concerns the holders of securities;[12]
- The financial accounts of general government. Here Community legislation (European Parliament and Council Regulation No 501/2004) requires timely quarterly financial account and balance sheet information;
- The euro area balance of payments and international investment position. As noted above, some modifications are necessary to complete the Rest of the World (S.2)

[12] Developing information on holders of securities is a high priority project for the ECB. Some Member States are already well advanced in collecting holder information security-by-security from custodians and other sources – see further Chapters 6 and 9 on debt securities and shares and other equity.

column. Nevertheless these are well-established sources designed with euro area aggregates in mind.

1.23 In two further areas, investment fund statistics and statistics on insurance corporations and pension funds, the ECB has long collected and published information following a short-term approach, meaning that the central banks provide the best possible information from existing national sources. While these data are not as well suited to providing information on the financial assets and financing of counterpart sectors as (notably) the MFI balance sheet data, they provide useful data on important areas of financial intermediation outside the banking system. Since 2009 investment funds have been reporting under an ECB Regulation, as MFIs do, providing fuller and more reliable counterpart data. Another group of non-monetary financial institutions, financial vehicle corporations engaged in securitisations, are covered by a recent ECB Regulation under which data have been reported from end-December 2009, and the ECB began to publish improved statistics on insurance corporations and pension funds in 2011 (with the intention of introducing in the fairly near future a regulation addressed to insurance corporations).

1.24 In other areas listed below source information is lacking or weak, and estimation is necessarily used to compile data.

- The financing of households except via MFIs;
- The financial assets of households except in the form of claims on MFIs, investment funds and insurance corporations and pension funds;
- The financing of non-financial corporations except via MFIs and the issue of securities, including inter-company financing;
- The financial assets of non-financial corporations except in the form of claims on MFIs, including assets arising from inter-company financing;
- Financing and financial investment of financial corporations other than MFIs, investment funds, financial vehicle corporations and insurance corporations and pension funds, except so far as the information is available as counterpart information from reporting financial corporations or from securities databases.

1.25 The box in Chapter 2 explains why national compilers need to modify data prepared for other purposes in their contributions to euro area financial accounts, and how the ECB uses these financial accounts data submitted by national compilers, and the euro area aggregates, in preparing financial accounts for the euro area.

1.26 A recurrent theme of this handbook is the statistical difficulty presented by the recording of transactions and positions in securities of all kinds. Depending on the purpose of the reporting, reporting agents must classify their holdings by residence status and sector of the issuer, and the nature of the instrument. They must value their holdings at market price (or a close approximation to it), or in accordance with national accounting standards if different. They must accrue interest and treat any premium or discount in an appropriate way. National compilers must reconcile changes in amounts of securities outstanding as recorded in balance sheets with recorded transactions in the intervening period in terms of valuation changes and other changes with an impact on balance sheet totals. All this is a tall order, and there can be no doubt that reporting and compilation problems in this area account for many errors and discrepancies in the financial accounts.

1.27 It seems that the only way to overcome these difficulties is to compile a securities database containing all relevant information on all securities issued by residents of the euro area (or more widely, of the European Union) or likely to be held or traded in by them, with a unique identifier for each security, and then to move to security-by-security reporting in which reporting agents provide a list of securities issued and held, or transacted in during the period, and minimal other information about them. Reporting agents do not then need to classify or value securities, provide information on the issuer, or calculate accrued interest; all this can be done by the compiler using the database as the source. Information on holders (from their own reporting, or from third parties such as custodians) may be added to the database or stored separately. Where information is lacking (e.g. on prices of unquoted or infrequently traded securities) facilities in the database may impute prices from information on securities which are in some way comparable. For these reasons the ECB has developed, is continuing to enhance, and now uses in statistical work, its centralised securities database containing (end-2011) information on some seven million securities. The ECB's financial terminology database helps compilers to classify financial instruments, many of which display features of more than one instrument class.

From-whom-to-whom information in the financial accounts

The euro area financial accounts at present show, for each sector, (net) acquisitions of financial assets instrument by instrument, and similarly borrowings. Financial balance sheets show, for each sector, the total of assets held, and outstanding debt, again instrument by instrument. But – with so far limited exceptions - they do not show on which other sectors the assets represent claims, or from which other sectors the sector concerned has obtained financing. (The limited exceptions are for the instrument categories deposits and loans, where the accounts now distinguish between claims on/liabilities to MFIs and other sectors.)

'From-whom-to-whom' accounts show counterpart sectors for each instrument. If, for example, the household sector acquired (net) 100 of debt securities in the quarter, from-whom-to-whom accounts would show that households had added 40 to their claims on general government, 30 to their claims on financial corporations, 20 to claims on non-financial corporations, and 10 to claims on the Rest of the World (entities resident outside the euro area). If general government had issued 100 (net) of debt securities in the quarter, from-whom-to-whom accounts would show that financial corporations, households, non-financial corporations and non-residents had added (respectively) 50, 20, 20 and 10 to their holdings of debt securities issued by government. Similarly, from-whom-to-whom balance sheets would show on which other sectors a particular sector held claims in the form of debt securities, and which other sectors held as assets debt securities which it had issued. In addition to its relevance for monetary policy analysis, this information is essential to any analysis of links between sectors, exposures, etc., and providing it has become a high priority in the wake of the financial crisis. It was requested by ECB users in a survey conducted as part of an exercise to plan enhancements to financial accounts in 2006-07, and is a recommendation in the IMF and Financial Stability Board report adopted by G-20 finance ministers and central bank governors in November 2009. It depends heavily on the successful conclusion of a project to compile data on holdings of securities.

CHAPTER 2 - General principles in the ESA95 and their application in ECB statistics

Valuation in the ESA95

2.1 The ESA95 requires financial assets and liabilities to be valued in balance sheets as follows. The AF codes are the ESA95 instrument classification codes; the numbers in italics refer to paragraphs in the ESA95:

- **monetary gold (AF.11)**, at the price established in organised gold markets (*7.45*);
- **SDRs (AF.12)**, at the value determined daily by the IMF (*7.45*);
- **currency** (banknotes and coins) **(AF.21)**, at nominal or face value (*7.46*);
- **deposits (AF.22, 29)**, at the amount of principal that the debtor is contractually obliged to repay the creditor (*7.46*). Interest should be recorded as it accrues, not when it is paid. While the preference is for imputing accrued interest to the relevant asset category (*5.130*), the ESA95 accepts that national accounting practices may be otherwise, in which case the counter-entry should be in 'other accounts receivable/payable' (AF.79);
- **debt securities (AF.33)**, at market prices on the balance sheet date (*7.25*). Regarding accrued interest, see the remarks on deposits. Where debt securities are issued at a premium or discount, the difference between the issue price and the redemption price is to be treated as (negative or positive) interest accruing over the life of the instrument (*5.138*);
- **financial derivatives (AF.34)**, at market prices on the balance sheet date; where no market price is quoted, the instrument should be valued at either the amount required to buy out the contract or (for an option) the premium paid (*7.50*);
- **loans (AF.4)**, at the amount of principal that the debtor is contractually obliged to repay the creditor, even where the loan has been traded at a discount or premium (*7.51*). Regarding accrued interest, see the remarks on deposits;
- **quoted shares (AF.511)**, at a representative mid-market price on the stock exchange or other organised financial market on the balance sheet date (*7.53*);
- **unquoted shares** (**AF.512) -** shares not regularly traded on an organised market, to be estimated by reference to quoted shares but with allowance for inferior liquidity; the nature of the business and accumulated reserves should also be considered (*7.54*);
- **other equity (AF.513)**, to be estimated by reference to own funds or nominal value (*7.56*);
- **investment fund shares (AF.52)**, at their current stock market price, if they are quoted, or at their current redemption value, if they are redeemable by the fund itself (*7.57*);
- **insurance technical reserves (AF.6)**, at (broadly) the present value of the actuarially determined or promised benefits, or (for money purchase pension schemes) the market value of the fund's assets (*7.58-59*);
- **other accounts receivable/payable (AF.7)**, at the amount the debtor is contractually obliged to repay the creditor (*7.61*).

Foreign currency amounts should be converted into national currency at the mid-market exchange rate on the balance sheet date (*7.31*).

Transactions in ESA95

2.2 As noted in Chapter 1, the ESA95 defines a transaction as '*an economic flow that is an interaction between institutional units by mutual agreement or an action within an institutional unit that it is useful to treat as a transaction, often because the unit is operating in two capacities*' (*1.32*). The ESA95 goes on to define financial transactions as '*transactions in financial assets and liabilities between institutional units, and between them and the rest of the world*' (*5.1*). Financial transactions are recorded at transaction values (*5.134*) which may not be quite the same as prices quoted in the market at the time of the transaction (*5.136*). The transaction value excludes charges, fees, commissions, etc., which are treated as separate transactions in services (*5.137*). Transactions should be recorded when claims and obligations arise, are transformed, or cancelled, or when ownership of them changes, which may not coincide with payment. Transactions within the financial account should however be recorded on a settlement rather than a contract basis (*5.144*). As noted above, interest on financial instruments should be recorded as it accrues, and preferably as if reinvested in the instrument (*5.130*), in effect as a transaction in the financial asset or liability concerned.

Application of these principles in ECB statistical regulations and guidelines

2.3 As noted in Chapter 1, the magnitudes reported under various ECB regulations and guidelines are large in relation to total financial balance sheets and transactions in the euro area financial accounts. The euro area data compiled by the ECB are essential building blocks in euro area financial accounts, and also – especially the monetary financial institution (MFI) balance sheet statistics – provide much counterpart information on the financial transactions and positions of in particular non-financial corporations and households. Accordingly, the accounting principles underlying the ECB's MFI, other financial intermediary,[13] securities market and balance of payments/international investment position statistics, and their implementation in practice – since ECB legal instruments acknowledge that national accounting principles may have to be respected in statistical reporting – are set out here.

Balance sheet valuation in ECB statistical regulations and guidelines

2.4 The ECB states what valuation principles are to be applied in reporting outstanding amounts under MFI balance sheet, post office giro institutions, investment fund and financial vehicle corporation regulations, and, for deposits taken by central government agencies and balance sheet data relating to other financial intermediaries, under Guideline ECB/2007/9. These are nominal value for currency, deposits and loans (including finance leases), and market value for securities. Loans are to be reported at less than nominal value only if they have been written off or written down as wholly or partially irrecoverable. Instruments denominated in foreign currency are to be reported as euro amounts converted at the ECB reference exchange rate on the reporting date.

2.5 Currency, deposits and loans (including finance leases[14]) are indeed generally or always valued at nominal by reporting MFIs, central government entities, post office giro

[13] As noted in Chapter 1, two groups – investment funds and financial vehicle corporations – report under ECB regulations. National central banks collect data on other non-monetary financial intermediaries in S.123 from available sources. At present national central banks provide data on insurance corporations and pension funds (S.125) on the same basis.

[14] To be valued as if they are loans repayable by instalment, such as mortgages.

institutions, financial vehicle corporations and investment funds, and also in balance of payments and international investment position statistics. Departures from the recommended practice of reporting loans gross of provisions (up to the point of writing them off or down) are nevertheless accepted if national accounting practice requires loans to be reported net of provisions. (Chapter 8 on loans contains more information on national practices concerning the reporting of provisions.)

2.6 In the valuation of securities, however, Regulation ECB/2008/32 on MFI balance sheets accepts various practices, if national accounting procedures require them and they do not introduce undue distortion to the data. The ECB's *Manual on MFI balance sheet statistics* expands on this important point. Thus *'The valuation and treatment of other balance sheet items* [i.e. other than deposits and loans] *are covered by the general requirement in Article 7* [of Regulation ECB/2008/32] *to follow the national transposition of Council Directive 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions, as well as any other international standards applicable. While Guideline ECB/2007/9 (Annex V, Part 2, Section 2), as amended, expresses a preference for market valuation, it recognises that in practice valuation practices for securities and other assets and liabilities vary. In addition to market price, which is the general requirement of the ESA95 and other international statistical and accounting practices, acquisition value and the lower of market price and acquisition value are also used. The Guideline accepts this as long as the book value does not diverge significantly from the market value. In this respect, the revaluation adjustments reported by euro area Member States should also reflect the impact of the different national accounting practices, to avoid distortions when transactions data are compiled.'* To avoid noticeable distortions to policy-sensitive items, national central banks are invited to consider applying indices or accounting data as a proxy for market valuations. Because they may be monetary instruments, and holdings by the money-holding sector are obtained by residual, consistent valuation of issues and holdings of securities issued by MFIs is particularly important. Nevertheless, valuation of securities at market price in MFI balance sheet statistics is the exception rather than the rule: acquisition price, the lower of acquisition and current market price, redemption value, and some other measure of book value, are all used. In some Member States market value is used for the trading portfolio, with some other basis of valuation for securities which the reporting institution holds in a longer-term portfolio. These different methods inevitably affect reported balance sheet totals. Regulation ECB/2007/8 (on investment fund assets and liabilities) and Regulation ECB/2008/30 (on financial vehicle corporations) by contrast require securities on both sides of the balance sheet to be reported at market prices.

Other accounting principles in ECB statistical regulations and guidelines

2.7 With limited exceptions (including holdings of own securities), MFI balance sheet statistics are reported on a gross basis, with no netting of assets against liabilities. In no circumstances should there be netting of business across national borders. Investment fund and financial vehicle corporation statistics are also reported gross under Regulations ECB/2007/8 and ECB/2008/30.

2.8 On the **time of recording** transactions, the ECB's *Manual on MFI balance sheet statistics* recommends as follows: MFIs should record financial transactions on the date when delivery is made (i.e. the settlement date in IFRS terminology). In cases where, in accordance with the accounting provisions, MFIs do not record transactions when the delivery is made (e.g. they record transactions on the trade date), they may do the same for MFI balance sheet statistics reporting, provided this does not create significant distortions in the reported figures. If significant distortions arise as a result of not using the settlement date, national central banks should develop suitable techniques to make the necessary adjustments to remove such distortions. Recording transactions on the settlement date may give rise to amounts receivable or payable. MFIs should record such amounts on a net basis under 'remaining assets' or 'remaining liabilities', according to their sign. (This may also apply if transactions are recorded on the trade date.) This approach is broadly in line with the ESA 95 (as the settlement may well coincide with the payment) and International Financial Reporting Standards (IFRS), as the settlement date is one of the options available under IFRS.

2.9 See the paragraphs below for interest accruals and provisions/write-offs/write-downs.

Transaction flows and revaluation and other adjustments in ECB statistical regulations and guidelines

2.10 Transaction flows are usually derived in ECB statistics from balance sheet data, but not as a simple change in amounts outstanding. Rather, valuation, reclassification and certain other influences which are not transactions in the ESA95 but which nevertheless affect balance sheets are identified and excluded from the calculation of transaction flows. Valuation effects arise from write-offs and write-downs of loans, and from changes in the market prices of securities and certain other instruments. The euro value of any instruments denominated in foreign currency may also be affected by exchange rate changes; the ECB adjusts for exchange rate effects without the need for special reporting. Reclassifications and certain other effects can usually be identified and allowed for by the national central bank concerned.

2.11 Transactions may be isolated by measuring valuation, reclassification, and other effects, and obtaining transactions as a residual (since transactions *plus* valuation changes *plus* classification and other changes *equal* the change in outstanding stocks); or transactions may be measured directly. Thus under Regulations ECB/2008/32 and ECB/2007/8 reporting institutions provide information on changes in the value of certain items to enable valuation effects to be calculated.[15] Since the aim is to enable transactions flows to be calculated 'clean' of valuation (and classification and certain other) changes, the reporting of valuation changes must be consistent with the valuation of balance sheet stocks, and so (for MFIs) varies with national valuation practices. Alternatively, Guideline ECB/2007/9 on monetary and financial markets statistics (Annex III) offers the options of reporting transaction flows directly, or – for relevant instruments – of reporting assets and liabilities item by item (security-by-security reporting), enabling the statistical compiler to measure valuation effects and exclude them from transactions. All this is covered in detail in the ECB's *Manual on MFI balance sheet statistics.*

[15] The Regulations stipulate minimum reporting requirements, though national central banks may request more from reporting agents and must anyway – from reported information, other sources, or estimates – provide the ECB with comprehensive flow adjustments.

2.12 The framework for flow statistics for MFI and investment fund balance sheet items is based on the ESA95. However, Regulations ECB/2008/32 and ECB/2007/8 and Guideline ECB/2007/9 depart in some respects from the ESA95. For example, the ESA95 (*5.16*) treats write-offs/write-downs of bad debts by creditors as 'other changes in the volume of assets', whereas Regulation ECB/2008/32 treats them as a valuation change (see further below) (but in neither case are they a transaction). On interest accruals, the ESA95 states that '*preferably the counterpart financial transaction of interest accruing on financial assets…should be recorded as being reinvested in that financial asset*' (*5.130*), while allowing national practices to be followed, with the effect that accruing interest contributes to transactions in the instrument concerned. In ECB statistics on deposits and loans, by contrast, accrued interest is recorded in the balance sheet categories 'remaining liabilities/assets', and does not contribute to transactions in the instrument. This is also commonly the treatment of interest on debt securities.[16] These features of ECB statistics must be reflected in the flow adjustments applied. Moreover, departures in practice from the ESA, especially in valuation of securities in reported data, need to be reflected in the application of flow adjustments by national central banks, the main aim of which in ECB statistics is consistent data on transactions in the euro area aggregates.

2.13 It might be noted that flow adjustments are subject to the same double-entry accounting as stocks. In all cases, adjustments have a counterpart which will usually be 'capital and reserves' or 'remaining assets/liabilities', depending on the nature of the change and the national accounting rules.

2.14 In this presentation, write-offs, price and exchange rate revaluation effects are discussed first; then reclassification and other adjustments; and finally direct measurement of transactions.

Revaluation adjustments in ECB statistical regulations and guidelines

Write-offs/write-downs of loans and valuation adjustments

2.15 Writing off or writing down a loan considered wholly or partially irrecoverable will reduce the recorded balance sheet total of loans. This fall is not a transaction, but a valuation change decided on unilaterally by the reporting MFI, and must be reported by the MFI as a revaluation adjustment. Where they can be identified, write-offs or (more likely) write-downs recognised at the time loans are sold or transferred to a third party are usually treated in the same way.

2.16 Where national accounting practice requires loans to be recorded in the balance sheet net of provisions, MFIs must record changes in provisions, which may be in either direction, as revaluations, to prevent them from being mistakenly treated as transactions. Where loans

[16] Regulation ECB/2008/32 contains no rule on the classification of accrued interest on securities. Guideline ECB/2007/9 says that MFIs should exclude accrued interest from the securities to which it relates and record it on a gross basis in remaining liabilities/remaining assets. The exception is accrued interest that is intrinsic to the market price (e.g. on deep-discounted and zero-coupon bonds), which MFIs may include in the value of the securities recorded in the balance sheet. By contrast, Regulation ECB/2007/8 requires investment funds to include accrued interest on securities held and issued in the balance sheet value, where it is reflected in transactions.

against which a provision has been made are subsequently written off, only the part which was not provisioned must be recorded as a write-off.

Revaluation adjustments reflecting price changes

2.17 Price changes occur continuously, and may, depending on valuation practice, have a major effect on balance sheets.

2.18 Changes in the prices of assets and liabilities may give rise to realised holding gains/losses (where assets are sold, or liabilities liquidated, during the reporting period) or to unrealised holding gains/losses (where the instruments in question are retained throughout the reporting period or, having been transacted in during the period, are on the end-period balance sheet). The ESA95 does not distinguish between realised and unrealised holding gains/losses. The calculation of price valuation effects must reflect the fact that outstanding amounts on MFI balance sheets are often not recorded at current market value and indeed are based on different accounting practices; otherwise allowance for price valuation effects will not promote reconciliation between the change in balance sheets and transactions, revaluation effects and other changes in the reporting period.

2.19 Since price developments are irrelevant, or likely to be minor, for many items in the MFI and to a lesser extent the investment fund balance sheet, Regulations ECB/2008/32 and ECB/2007/8 limit the obligation to report them to certain balance sheet items (categories marked 'minimum'). National central banks may however ask for price valuation data for other items too, and must in any case provide the ECB with estimates of valuation effects for all relevant items. The information is not required from investment funds to the extent that they report security-by-security. (The reporting system for financial vehicle corporations covers outstanding stocks and transactions.)

2.24 Revaluation adjustments necessitated by changing prices of debt securities and equities present the greatest challenges to statisticians' attempts to measure transactions and valuation effects accurately. It is also clear that the variety of valuation practices based on national accounting rules means that aggregate outstanding stocks of securities issued and held in the euro area cannot at present be compiled in a fully consistent way, even if the calculation of revaluation adjustments is sufficiently flexible to enable flows to be insulated from any distortion. Probably only the general use of security-by-security reporting for all important statistical purposes supported by the comprehensive securities database developed in the ECB, with full information on prices, will provide a satisfactory solution to this problem.[17]

Revaluation adjustments due to exchange rate changes

2.20 Movements in exchange rates against the euro between end-period reporting dates give rise to changes in the value of foreign currency assets and liabilities when expressed in euro. As these changes represent holding gains/losses and not financial transactions, the valuation effects need to be identified so that they can be excluded from flows. Like holding

[17] The database is currently used for balance of payments/international investment position, investment fund and financial vehicle corporation statistics. Increasingly MFIs report holdings of individual securities. Some Member States already collect information on anonymised (but sectorised) custodial holdings of individual securities from resident banks and other custodians.

gains/losses arising from price changes, those arising from exchange rate changes may either be realised through transactions in the period or not realised.

2.21 Unlike in the case of price changes, reporting MFIs do not provide exchange rate adjustments – their price adjustments in respect of foreign currency items in the balance sheet exclude exchange rate effects. Instead, they convert assets and liabilities denominated in foreign currencies into euro using market exchange rates (ECB reference exchange rates) on the reporting date. The ECB calculates the exchange rate adjustment at euro area aggregate level using information on the currency composition of main categories of MFI assets and liabilities.

2.22 The arrangement for investment fund reporting under Regulation ECB/2007/8 is somewhat different. Investment funds may themselves calculate the exchange rate adjustment, and submit it as part of the price revaluation adjustment; or they may submit a price adjustment only, and national central banks (not the ECB) calculate an exchange rate adjustment based on a limited currency breakdown of their portfolios provided by the funds. Financial vehicle corporations report transactions as well as balance sheet outstandings under Regulation ECB/2008/30, and transactions should exclude valuation effects arising from exchange rate changes.

Treatment of shares/units issued by money market funds

2.23 It might be noted here that the liabilities of MMFs, though they may experience moderate price changes, have not until recently been subject to valuation adjustment in ECB MFI statistics. Rather, MMF shares/units received the same treatment as deposits. Financial transactions in deposits comprise flows into/out of deposits due to customer credits/debits, and the actual receipt (as opposed to the accrual) of interest when it is credited to the account. As deposits have a fixed nominal value, there are no holding gains and losses on deposits denominated in euro, and all changes in stocks between two periods represent financial transactions, with the exception of any reclassifications, etc.[18] For MMF shares/units, the purchase/sale of shares/units was considered equivalent to credits to/debits from deposits; and changes in the value of shares/units were considered equivalent to the payment (as opposed to the accrual) of interest on deposits. So all changes in the stock of MMF shares/units (with the exception of reclassifications, etc.) were treated as financial transactions. The approach has changed following the financial crisis, when the shares/units of some MMFs experienced falls which could not reasonably be treated as transactions. Now price revaluations may be entered in respect of MMFs, in which case the corresponding change in amount outstanding will not be included in transactions. (The effect of exchange rate changes on the value of shares/units via foreign currency assets is handled rather differently – see Chapter 5.

Reclassification and other effects in ECB statistical regulations and guidelines

2.25 In addition to the adjustments described above to remove from estimated transaction flows the effect of write-offs/write-downs and price and exchange rate changes on balance sheet outstandings, adjustments are made to exclude from flows any changes to the statistical classification of an instrument or counterpart. They are also used to remove from flows any

[18] Transactions in deposits (and loans) exclude fees, etc., and - as a departure from the ESA95 noted earlier - accrued interest not yet received or paid. These rules apply both to MFIs and to investment funds.

breaks in statistical series arising from partial revisions of data. Such changes are not regarded as transactions in the ESA95. Rather they are 'other [non-transactional and non-valuation] changes in financial assets'. National central banks usually become aware of the need for such adjustments in the course of compiling data: they use supervisory information, plausibility checks, ad hoc enquiries, information on joiners and leavers of the reporting population, information on changes in the classification of counterparties, and any other sources available to them. As a minimum, the national central banks send to the ECB all 'reclassifications and other adjustments' above €50 million relating to MFI balance sheet statistics.

Changes in the composition of the reporting sector

2.26 Changes in the composition of the reporting sector may give rise to the transfer of business across economic sector boundaries which do not represent transactions. Thus an institution that joins the reporting sector may transfer business into the sector, whereas a reporting institution leaving the sector may transfer business out of the sector. Where institutions join or leave as reporters in the reporting 'tail', the impact on the asset and liability items depends on the grossing-up procedure used.[19]

2.27 The net effect of the joiners or leavers on the aggregated assets and liabilities of the reporting sector is calculated by aggregating the first set of assets and liabilities reported by new entrants and the last assets and liabilities reported by the leavers and, for each item, taking the difference between the two. This net figure is entered under 'reclassifications and other adjustments'. In certain circumstances there can be an effect on the counterpart reporting, so this effect must also be included in the adjustments, in this case as a change in sector. For instance, if an MFI surrenders its authorisation but continues to operate as an OFI funded through the money market, the recorded rise in MFI lending to OFIs is not a transaction, and requires a reclassification adjustment.

2.28 Since any change in the investment policy of an investment fund, including a money market fund, must be communicated to and agreed by the investors in advance, the fact that investors stay with a fund after a policy change is evidence of a conscious decision on their part to switch their portfolio from one sector (MFIs) to another (investment funds) or from one fund type to another.. In statistical terms, it is as if investors withdrew money from one fund and invested in another, and is accordingly treated as a financial transaction with no reclassification adjustment.

Changes in structure of reporting institutions

2.29 The concern here is business restructurings which involve mergers, acquisitions or divisions (of existing entities). When reporting institutions disappear because they are merged with or absorbed by one or more other reporting institutions, all financial assets and liabilities that existed between them disappear. Similarly, when an institution is split up, new positions

[19] Many small MFIs are excused full statistical reporting, provided 95% coverage of the national MFI sector is achieved in monthly balance sheet statistics. (The rules for 'cutting off the tail' are further elaborated in Regulation ECB/2008/32.) National central banks gross up for the missing institutions (the 'tail') appropriately.

appear between the constituent parts. These changes are not transactions, and must therefore be reflected in reclassification and other adjustments.

Reclassification of assets and liabilities

2.30 A change in sector or instrument classification leads reporting agents to reclassify positions vis-à-vis counterparties, and should be treated as a reclassification, not as a transaction. A change in the sectoral classification of counterparties may occur because a public sector body is transferred to the private sector (or the reverse), or because business restructurings alter the principal activity of corporations.

2.31 Debt assumption (in which, usually, general government takes on the debt of a public corporation in connection with a privatization) and securitisations and transfers of loans may take various forms. All however are treated statistically as transactions, involving repayment of a loan and the extension of a loan to another entity, or replacement of a loan by a security or some other asset; they are not treated as reclassifications. The issue by an MFI of asset-backed securities (in which loans on its balance sheet are collateral backing the security), often called a 'securitisation', is treated statistically as an issue of bonds *tout court*. The fact that the issue is collateralised is ignored for statistical purposes, though it may be relevant for financial supervision or financial stability analysis. Other forms of securitisation, notably 'true sale' securitisations in which loans are transferred from the balance sheet of the lending institution, need to be treated carefully. The box in Chapter 8 on loans explains the treatment for purposes of ECB money and banking and related statistics.

Correction of reporting errors and other revisions

2.32 Corrections should be carried as far back as is relevant. In practice, however, revisions may often be made for only a limited period, in which case a break occurs between the first corrected observation and the last figure now known to be incorrect (but not by how much). National central banks identify the size of the break and enter an adjustment under reclassifications and other adjustments.

Direct reporting of transactions

2.33 Guideline ECB/2007/9 permits reporting agents and national central banks to follow two approaches when reporting transactions: the transaction method (so-called) and the balance sheet method. Both measure the flow, while providing different estimates of it.

2.34 The *transaction method* provides a direct measure of transactions at market prices, in accordance with the ESA95. The approach covers purchases and re-sales occurring within the reference period as well as sales of assets held on the previous reporting date and therefore recorded on the starting balance sheet and purchases of assets retained for the rest of the reporting period and consequently held on the final balance sheet.

2.35 Under the transaction method, transactions are measured at the value at which assets are acquired or disposed of and liabilities are created, liquidated or exchanged. Thus the transaction method requires the flow to be valued at the transaction value, which is normally the market value of the securities at the time of the transaction. Accordingly, the revaluation adjustment (the difference between the change in stocks and the cumulative transactions, after allowance for reclassifications and any other non-transactional changes in balance sheet outstandings) would include all (price) revaluations during the reference period, both realised and not realised. The adjustment will include the difference between the value at which the securities are recorded in the closing balance sheet and the purchase price of the securities that were bought during the reference period.

2.36 The *balance sheet method* defines the flow as the sum of transactions during the current reference period in assets recorded on the previous and/or the current balance sheet. Assets bought and re-sold during the current reference period, possibly at different prices, are ignored. This is a deficiency of the balance sheet method: the net financial worth of the reporting agent will have been affected by purchases and re-sales of securities within the period, yet nothing in the change between starting and final stocks, nor in the revaluation adjustment, reveals this. The effect is likely to be (incorrectly) attributed to ‘other changes in the volume of assets’. Nevertheless, for practical reasons, and because it relates better to balance sheet outstandings, the balance sheet method is commonly used in MFI balance sheet statistics as the means of calculating transactions.

2.37 Under the balance sheet method, the flow during the reference period is recorded under the same valuation rule as that used to value the amounts outstanding of the securities at the end of the previous reference period (securities sold) or of the current reference period (securities purchased), whatever the actual (market) value at which the transactions took place. Hence the valuation method for the flow is consistent with that for balance sheet stocks. Thus if MFIs record stocks at cost price (i.e. the price at the time the securities were purchased), they also record transactions (both purchases and sales) at cost price, although the cost price of purchases (normally the current market price) and the cost price of sales will usually be different. If MFIs record stocks at market price, yet use the balance sheet method, they record sales of securities at the market price at which they were valued in the starting balance sheet, and purchases at the market price at which they are valued in the closing balance sheet. These prices at which transactions are recorded may therefore not be the prices at which they were carried out, and – to repeat – any purchases reversed during the period will be omitted.

2.38 Both the transaction and the balance sheet approach provide a direct measure of transaction flows. Leaving aside the exchange rate adjustment calculated by the ECB (see below), the difference between transaction flows and the change in stocks is attributed to ‘revaluation and other adjustments’. But they do not provide the *same* estimate of transaction flows, and therefore (by difference) of revaluation and other effects; and except when outstanding amounts are valued at market prices and the transactions approach is applied, the financial accounts as a whole will not be fully compliant with the ESA95.

2.39 Regulation ECB/2007/8 similarly allows investment funds to report transactions or revaluation adjustments, and, if they report transactions, leaves them with some discretion as to how it is done. In practice investment funds report on a security-by-security basis, so the choice between the transactions and balance sheet approaches is of less significance to their statistics. Financial vehicle corporations report both outstandings and transactions under ECB/2008/30.

Stocks and transaction flows in securities issues statistics

2.40 Securities issues statistics are not reported directly by issuers, holders, or intermediaries. Rather, Guideline ECB/2007/9, Annex III, Part 12 requires national central banks to provide the ECB with data from a variety of sources.

2.41 The Guideline requires both outstanding amounts and transactions data (gross issues (for cash), redemptions and net issues). Valuation practice in this area differs from that in MFI, investment fund and financial vehicle corporation regulations: debt securities are valued at nominal (or face) value; equities are valued at market price. By exception, deep-discounted and zero coupon bonds are recorded at the actual amount paid (on issue) plus accrued interest. The treatment of instruments denominated in foreign currency follows ESA95 practice.

2.42 The conversion of convertible bonds into shares is treated as a repayment of the bond and the issue of new shares.

BOX

Compilation of financial accounts within the quarterly euro area integrated institutional sector accounts

1. Community legislation (Regulation 1161/2005) requires Member States to provide Eurostat with quarterly **non**-financial accounts for resident institutional sectors, and for the rest of the world (viewed from the national perspective). Separate Community legislation (Regulations 1221/2002 and 501/2004) governs the provision of data on the non-financial and financial transactions of the general government sector (S.13). ECB Guidelines (ECB/2002/7 as amended by ECB/2005/13) require participating Member States to provide the ECB with quarterly financial accounts and financial balance sheets for main resident institutional sectors and sub-sectors, and the rest of the world (viewed from the national perspective).[20] This box explains how this information (in particular the financial accounts information), together with euro area series compiled by the ECB for other purposes, is used to compile euro area accounts.

2. The sources for much of the financial accounts and balance sheet information which national compilers submit are the MFI balance sheet items data (BSI for short), investment fund and financial vehicle corporation data, data relating to other (non-monetary) financial intermediaries (OFIs), securities issues, redemptions and outstandings statistics (SEC), and balance of payments/international investment position statistics, all of which national central banks or in some cases national statistical institutes already provide to the ECB as contributions to euro area monetary, financial institutions and financial markets and balance of payments/international investment position statistics, at monthly or quarterly frequency.

3. These data, though timely, frequent, generally of high quality, and designed for the production of euro area aggregates, often cannot be used as they stand for euro area institutional sector accounts. The main reason for this is that the BSI and SEC data depart in

[20] Most non-participating Member States submit similar information.

limited but important ways from the ESA95 definitions and accounting principles which underlie the institutional sector accounts, as explained in the main part of this chapter. There may also be discrepancies when data from different sources assembled at different frequencies are put together, and these need to be resolved. Moreover, although the individual euro area data sets are comprehensive within their own terms, they do not provide enough information to complete the financial accounts matrix; gaps need to be filled.

4. The important definitional and conceptual departures from the ESA95 in the BSI statistics are the treatment of interest accruing on deposits and loans, which the MFI balance sheet Regulation (ECB/2008/32) requires to be recorded in 'remaining assets' or 'remaining liabilities', not in the relevant instrument category as the ESA95 prefers,[21] and the discretion permitted in the valuation of securities, where the ESA95 requires market prices (for both transactions and positions) whereas various valuation practices are accepted in BSI statistics.[22] A further consideration is that the BSI items 'remaining assets' and 'remaining liabilities' do not coincide with the ESA95 instrument category 'other accounts receivable/payable' (apart from the inclusion of accrued interest, they include business in financial derivatives, in some cases current profit and loss, which properly belongs in capital and reserves, and perhaps other items which the ESA95 would record elsewhere – there is however some variation in national recording practice). Investment funds and financial vehicle corporations also record accrued interest in the residual balance sheet categories, although for these institutions debt securities and equities are likely to be recorded at market price or a near approximation. The important definitional and conceptual departures from the ESA95 in the SEC statistics concern the valuation of debt securities (nominal in SEC, market valuation in the ESA95). The coverage of SEC statistics is narrower than that required for financial accounts: thus SEC series omit unquoted shares (and of course also other equity), though national central banks may submit available data on these as a memo item, and SEC gross issues cover only issues for cash, with the consequence that issues of shares to be exchanged for existing equity in a takeover or merger are not recorded (the ESA95 in such cases records a new issue and a redemption of the shares for which the new equity is exchanged). The other OFI statistics (i.e. excluding investment funds and financial vehicle corporations) collected by the ECB are at present incomplete – indeed, although fuller information is available in some Member States, the ECB does not publish them. National compilers must therefore provide for financial accounts purposes the best information they can on OFIs (S.123), using all available sources; they do the same for financial auxiliaries (S.124). National compilers also provide financial accounts data for insurance corporations and pension funds (S.125), which the ECB has published separately since early 2003. Finally, national compilers submit the best available data for non-financial corporations and households, to the extent that it is not available as counterpart information from (in particular) MFI balance sheets; balance of payments/international investment position sources often provide data on cross-border financial transactions and positions of non-financial corporations and households, while other sources – corporate financial accounting

[21] A similar point relates to accruing interest on debt securities, where the MFI balance sheet Regulation leaves reporting agents some discretion to follow national accounting principles.

[22] As noted in Chapter 2, valuation adjustment procedures required in Regulation ECB/2001/13 and Guideline ECB/2007/9 should yield transactions data which broadly conform to ESA95 principles, but balance sheet outstandings will not do so without adjustment.

and balance sheet data, household surveys, possibly tax departments – may also contribute information on these sectors.

5. Bringing together information from these various sources may present national compilers with the need to make choices: for example, MFI balance sheets may show different amounts for deposits from and loans to OFIs from supposedly mirror data from the OFI side; similarly, the government financial accounts data provided under Community legislation may be inconsistent with the MFI data on business with government entities. National compilers will choose what they consider to be the more reliable source, making compensatory adjustments to the data as necessary; they may be constrained in doing so (for example, by a requirement to give priority to the government accounts source). Chapter 3 explains the need for financial accounts compilers to reconcile conflicting data sources and describes the process in more detail.

6. The ECB receives the financial accounts data prepared by national compilers as described above. While much of it will be based on data submitted to the ECB for other statistical purposes, it will differ for the reasons explained; and there will be new or further information to fill the gaps. The ECB must observe certain constraints in the euro area financial accounts aggregates; balance vertically the whole non-financial and financial accounts of the financial corporation, general government and rest of the world sectors; and balance horizontally the instrument categories (the implication is that the vertical discrepancies in the non-financial corporation and household sectors are equal and opposite). Doing all this requires some of the data supplied by national compilers to be modified. The work is done in close cooperation with them, with Eurostat (as the source of the non-financial accounts), and with other ECB statisticians and users of the data. The ECB tries to resolve large discrepancies and deal with substantial changes to individual items through careful examination of the data, and to confine mechanical adjustments to any residual amounts (less than €10 billion).

7. The procedure is described sequentially for the sake of clarity; in practice, much of it proceeds simultaneously, in an iterative process involving much interaction.

- Any discrepancy (usually small) between general government non-financial and financial accounts is eliminated (in effect, using the general government integrated accounts as published for the euro area).
- Consistency with key monetary statistics is achieved by substituting the euro area aggregated MFI deposits and loans data on which the latest relevant published monetary statistics were based for total MFI deposits and loans submitted by national compilers (this requirement for consistency with published monetary statistics implies some departure from the ESA95, because of the treatment of accruing interest on deposits and loans); an equivalent adjustment is made in deposits and loans of the counterpart (money-holding) sectors.
- The Rest of the World accounts submitted by the national compilers are replaced by euro area balance of payments/international investment position data (the Rest of the World column is a requirement in Guideline ECB/2005/13 for completeness only; as it contains no split between cross-border transactions and positions within the euro area and outside, it cannot be used directly in compiling euro area accounts). In the process, acknowledged discrepancies in cross-border transactions and positions within the euro area result in horizontal discrepancies that need to be resolved.

- The financial accounts are then balanced horizontally, and the financial corporation and rest of the world sectors are simultaneously balanced vertically (this step may require significant changes to the Rest of the World account, where there have been large errors and omissions in the euro area accounts, now much diminished, and to the financial accounts of some resident sectors – adjustments pay due regard to the reliability of the items concerned).

8. It might be noted that balance sheet data are not compiled independently for each end-quarter. Rather they are compiled by adding to outstandings at a recent base date (currently end-2006) cumulative transactions in the financial instrument concerned, balanced as explained above, with allowance for 'other' (non-transactional) effects on balance sheet levels. These 'other' changes in balance sheets are subject to data constraints of the same kind as explained above for transactions (notably, the need to use the 'other' changes in balance sheets implicit in the euro area balance of payments/international investment position for the Rest of the World column), and therefore also contain horizontal discrepancies that are resolved in a similar manner as for transactions.

Uses of the accounts

2.43 The financial accounts (and the integrated economic and financial accounts as a whole) were developed mainly for monetary policy analysis. Since monetary policy affects economic conditions and achieves its ultimate goal of maintaining price stability principally through the reaction of the household and non-financial corporation sectors to monetary policy initiatives, it is particularly important to monitor developments in these sectors. Thus, following each quarterly publication of the integrated euro area accounts, the ECB's Monthly Bulletin contains an extended box analysing developments in each of the economic sectors with particular emphasis on households and non-financial corporations. The analysis varies with circumstances and the characteristics of each sector, but typically discusses income, saving and investment in non-financial assets, leading to net lending or borrowing. Noteworthy financial transactions are analysed by instrument. The analysis usually concludes with a section on balance sheet dynamics.

2.44 Euro area accounts also contribute to financial stability analysis, since the health of financial institutions is much affected by developments in other resident sectors. The ECB's twice yearly Financial Stability Review relies mainly on aggregated supervisory and macro-prudential information for its analysis of developments in banking and other financial institutions, but euro area accounts are the source for much information on economic and financial developments in the household, non-financial corporation and general government sectors.

2.45 The 2009 report of the IMF and Financial Stability Board to G-20 finance ministers and central bank governors ("*The financial crisis and information gaps*") has much to say on integrated institutional sector accounts. The report comments: "*The importance of sectoral information, including from-whom-to-whom information, has been highlighted by the crisis. Indeed, the ongoing crisis provides the context for new thinking about how to measure vulnerabilities in the non-financial sectors that might feedback on to the financial system, and vice versa. Questions include how household and non-financial firms' financial positions affect borrower delinquencies and defaults data needs include disposable income and savings, and the indebtedness of the household sector. The increased availability of sectoral financial accounts and balance sheets would advance the analysis of the systemic risks and* *vulnerabilities, and the interrelationship between the real sector accounts and the financial accounts. The balance sheet approach provides additional focus on vulnerabilities arising from the maturity (liquidity), currency (domestic/foreign) and capital (leverage) structure of key financial sectors. Linking data on financial flows within the economy…with data on expenditures on goods and services and factors of production…is important for studying financial and real sector linkages. Being able to link expenditure and production …with financial flows …would facilitate understanding of whether and how expenditure and production decisions are restrained by disruptions in credit markets.*"

2.46 One early consequence of the G-20 report was the enhancement of a Principal Global Indicators (PGI) website developed earlier in 2009 by the Inter-Agency Group on Economic and Financial Statistics (of which the ECB is a member). The PGI website contains timely and comparable data at the highest frequency available covering G-20 countries and a few others, though not sectoral accounts data. In some respects it resembles the Principal European Economic Indicators (PEEI) website maintained for some years by Eurostat. A further consequence of the financial crisis has been the perceived need for early warning of the build-up of imbalances in the EU economies. The ECOFIN Council agreed in March 2011 on a general approach for a Regulation on the prevention and correction of macroeconomic imbalances, with a "scoreboard" showing the relevant indicators. The Council agreed as follows: "*The scoreboard shall be made up of a small number of relevant, practical, simple, measurable and available macroeconomic and macro-financial indicators for Member States…[with] indicative thresholds…to serve as alert levels….The scoreboard of indicators, and in particular alert thresholds, shall be differentiated for euro and non-euro area Member States if justified by specific features of the monetary union and relevant economic circumstances*". Six related legal instruments were adopted in November 2011. The scoreboard was first published in February 2012.

2.47 Among the indicators for inclusion in the scoreboard are the net international investment position as a percentage of GDP, with a threshold of -35% of GDP; private sector debt as a percentage of GDP with a threshold of 160%; private sector credit flow as a percentage of GDP with a threshold of 15%; and general government sector debt as a percentage of GDP with a threshold of 60%. The international investment position data would come from the external accounts, and would include supplementary information on external indebtedness and the direct investment component; for reasons explained earlier in this chapter, it might differ from the stock of net claims of the Rest of the World as shown in the integrated economic and financial accounts. General government sector debt would follow the definition used for Excessive Deficit Procedure purposes. Private sector debt is included because excessively high levels of debt imply significant risks for growth and financial stability. Private indebtedness would be measured as the sum of outstanding loans and securities other than shares (implicitly including position in financial derivatives). For this purpose the private sector would comprise non-financial corporations, households and non-profit institutions serving households (and therefore include public non-financial corporations classified outside the general government sector). The data would come from the institutional sector accounts and, as in these accounts, would be non-consolidated. Eurostat and the ECB intend however to investigate how far inter-enterprise loans in the non-financial corporation sector represent intra-group liabilities, since (group) consolidated may be more appropriate than non-consolidated data for this purpose. It may also be helpful to disentangle price and volume effects on the stock of outstanding private debt.

2.48 There is also agreement on the need to capture credit flows to the private sector, since large credit fluctuations can be very often associated with boom and bust cycles in asset markets, potential banking system vulnerabilities, house price bubbles and also current account imbalances as import are sucked in. Annual private sector credit flows will use transaction data from the institutional sector accounts and quarterly data financial accounts will also be used.

CHAPTER 3 – National data sources and reconciliation practices

3.1 This chapter provides an overview of the data sources used by national compilers. As financial assets of one institutional unit are by definition liabilities of another institutional unit, there are typically two data sources for any financial position. An example is a loan granted by an MFI to government, which is an asset recorded in the monetary financial institutions' (MFIs') balance sheet statistics (BSI) and a liability in the quarterly financial accounts of the general government sector. The values for this financial position are not however necessarily equal in the two datasets due to methodological differences (e.g. recording of accrued interest) and possible errors in reporting. Errors in reporting in this example might arise from a misclassification of the counterpart sector. Thus the reporting MFI may classify a local utility as part of local government, whereas in government finance statistics this utility is not recorded as part of government as it considered a market producer classified as a non-financial corporation. For some financial positions or transactions there may be another, possibly instrument specific type of data source. This is the case for securities, for which all euro area countries have developed statistics on issues as well as holdings by resident sectors. Again, these instrument-specific data sources may not be fully consistent with the other data sources.

Data source selection

3.2 When there are several potential data sources, the financial accounts compiler has to decide which one to use. For this compilers typically asses the relative quality of the data sources (including their methodological characteristics) and determine a hierarchy of sources. In case of loans to government, the government finance data are always taken, since the close scrutiny to which government liabilities are exposed makes the government finance source the best. Such choices explain why some financial accounts data (e.g. on debt securities issued by general government) differ from some other datasets transmitted to the ECB (e.g. security issues statistics (SEC))

Reconciliation

3.3 The combination of various data sources almost always entails the need to make adjustments in order to achieve consistency. In the case of MFI loans to government – given that reporting MFIs may have difficulty in distinguishing between local government and non-financial corporations - it may be decided that any difference between government finance statistics and MFI balance sheet statistics leads to an offsetting change of MFI loans to non-financial corporations, thus keeping the total loans granted by MFIs constant. This chapter provides an overview of data sources and reconciliation practices as reported by national compilers.

Typical sources in the national financial accounts

3.4 The main data sources for all national compilers are statistics for which there are euro area wide standard data requirements, such as the MFI balance sheet data and balance of payments statistics. In addition there are data sources that are more country specific. However even if these data sources were initially developed independently by countries, they generally bear many similarities and they can be classified across countries. In general national compilers identify the following main data sources:

QFAGG	quarterly financial accounts for general government
BSI	MFI balance sheet statistics
BOP	balance of payments and international investment position statistics
SEC and CSDB	statistics of securities issues, redemptions and outstanding amounts
ICPF	insurance corporation and pension fund statistics
SHS	securities holding statistics
IF	investment fund statistics
NFC	non-financial corporation balance sheet
SPV/FVC	special purpose vehicle statistics, e.g. the data collected based on the Regulation concerning financial vehicle corporations engaged in securitisation
SUR	survey data
OFIFA	other ‘other financial intermediary’ and financial auxiliary statistics
SUP	supervisory data
NFC	non-financial corporation balance sheets
CCR	Central Credit Register database
R	residual (or similar) calculation (explanation requested)
Other	sources other than those listed above (explanation requested)
na	no data source available

Table 3.4 below shows a typical use of these data sources for the main financial instruments and sectors. It also shows some typical reconciliation adjustments, in particular for loans and deposits. This matrix is however meant only as an example. The availability and use of data sources is not the same in any two countries. The country detail as supplied by the national providers is shown in Annex 1 The following sub-sections are organised by sectors and explain how the various data sources are used and reconciled.

Table 3.4 Typical sources for assets and liabilities, by main financial instruments and sectors

Assets							Financial account		Liabilities						
Households including NPISH (S.14+S.15)	Non-financial corporations (S.11)	General government (S.13)	Insurance corporations and pension funds (ICPFs) (S.125)	OFIs and financial auxiliaries (S.123+S.124)	Monetary financial institutions (MFIs) (S.121+S.122)	Rest of the world (S.2)			Rest of the world (S.2)	Monetary financial institutions (MFIs) (S.121+S.122)	OFIs and financial auxiliaries (S.123+S.124)	Insurance corporations and pension funds (ICPFs) (S.125)	General government (S.13)	Non-financial corporations (S.11)	Households including NPISH (S.14+S.15)
					BSI		F.1	Monetary gold and special drawing rights							
R*	R*	QFAGG	ICPF	OFIFA	BSI	=0	F.21	Currency	BOP, BSI	BSI			QFAGG		
Counterpart information: BOP, BSI, QFAGG	Counterpart information: BOP, BSI, QFAGG	BSI, BOP, QFAGG	BSI, BOP	BSI, QFAGG, BOP	BOP, BSI	BOP, BSI	F.2M	Transferable Deposits and Other Deposits	BOP, BSI	BOP, BSI	—	—	QFAGG (<=BOP)	**=0**	
R*, SHS	R*, SHS	SHS, QFAGG, BOP	SHS, ICPF, BOP	SHS, OFIFA, BOP	BSI, SHS	BOP	F.331	Short-term securities other than shares, except financial derivatives	BOP	SEC	SEC	SEC	QFAGG (<=SEC)	SEC	
R*, SHS	R*, SHS	SHS, QFAGG, BOP	SHS, ICPF, BOP	SHS, OFIFA, BOP	BSI, SHS	BOP	F.332	Long-term securities other than shares, except financial derivatives	BOP	SEC	SEC	SEC	QFAGG (<=SEC)	SEC	
		BOP, BSI, QFAGG					F.34	Financial Derivatives	BOP	BOP, BSI	OFIFA, BSI, BOP, ICPF	ICPF, BSI, OFIFA, BOP	QFAGG (<= BOP+BSI)	R*	R*
Other1)	NFC	QFAGG	ICPF	OFI	BSI	BOP-(BOP-BSI)2)	F.41	Short-term Loans	BOP-(BOP-BSI)2)		BSI	BSI	QFAGG	BSI-(QFAGG-BSI)3)	BSI
Other1)	NFC	QFAGG	ICPF	OFI	BSI	BOP-(BOP-BSI)2)	F.42	Long-term Loans	BOP-(BOP-BSI)2)	BSI	BSI	BSI	QFAGG	BSI-(QFAGG-BSI)3)	BSI
R*, SHS	R*, SHS	QFAGG, SHS (total); NFC, BSI, OFI, BOP (counterparts)	SHS, ICPF, BOP	SHS, OFIFA, BOP	BSI, SHS	BOP	F.511	Quoted shares	BOP	SEC	SEC	SEC		SEC	
R*, NFC	R*, NFC	QFAGG, SHS (total); NFC, BSI, OFI, BOP (counterparts)	SHS, ICPF, BOP	SHS, OFIFA, BOP	BSI, SHS	BOP	F.512 F.513	Unquoted shares and other equity	BOP	BSI	OFIFA	ICPF		NFC	
R*	R*	OFI, BOP, QFAGG, SHS	SHS, ICPF, BOP	SHS, OFIFA, BOP	BSI, SHS	BOP	F.52	Mutual funds shares	BOP	SEC	SEC	—			
R*						**=0**	F.61	Net equity of households in life insurance reserves and in pension funds reserves	**=0**	BSI	OFIFA	ICPF		NFC	**=0**
R*	ICPF	ICPF	ICPF	ICPF	BSI, ICPF	ICPF	F.62	Prepayments of insurance premiums and reserves for outstanding claims	ICPF		OFIFA	ICPF			
R*, NFC, CCR	R*, NFC, CCR	QFAGG	ICPF, BSI, BOP	OFIFA, BOP, BSI	BOP, BSI	BOP	F.71	Trade credits and advances	BOP	BOP, BSI	OFIFA, BSI, ICPF, BOP	ICPF, BSI, OIFAF, BOP	QFAGG	R*, NFC, CCR	R*, NFC, CCR

Examples for Other sources and reconciliation adjustments:

R* Residual calculation

1) Household loan assets are taken from NFC loan liabilities vis-à-vis households.

2) Possible differences for S.121/122 from BSI and BOP are reconciled in S.2.

3) Possible differences for S.13 from QFAGG and BSI are offset in S.11.

Government sector – source: QFAGG Regulation

3.5 The euro area accounts data for the government sector must be fully consistent with the data transmitted to the ECB according to the EU Parliament and Council Regulation on quarterly financial accounts for general government No. 501/2004 (QFAGG). The data source for all instruments is therefore QFAGG. For some instruments a few countries have also indicated the primary sources used in the compilation of QFAGG, in particular for government assets (see Table 1 in the annex). For example, Portugal indicated that, in addition to government accounts and other administrative data, counterpart sector information from MFI balance sheet and balance of payments sources is used for the compilation of the QFAGG data. Such information facilitates the understanding of how consistency is achieved between the data sources (see Table 3.5).

MFIs – differences with balance sheet data – reconciliation with QFAGG

3.6 National financial accounts compilers rely for the MFI sector mainly on MFI balance sheet statistics (see Table 2 in the annex). However, even for financial instruments such as deposits and loans, for which this source provides very detailed data, some countries indicate that they use additional data sources. In particular, Austria adjusts MFI balance sheet data for household deposits with MFIs using banking supervisory data, as the MFI balance sheet data (due to cutting off the tail[23]) do not reflect the correct level of holdings. MFI deposit liabilities also reflect this adjustment as they are recalculated as the sum of counterpart sectors' deposits with MFIs. Other countries also indicate that – due to the priority given to QFAGG data - they may adjust MFI data. However, it is not always clear whether countries adjust only the counterpart sector breakdown within MFI deposits, i.e. whether they make offsetting adjustments to other sectors' deposits, or whether they change also total MFI deposits (see Table 3.6)

Other financial intermediaries – data sources

3.7 Due to the heterogeneity of the OFI sub-sector, countries use different data sources (see Table 3 in the annex). Several countries have developed in addition to the data on investment funds (IFs) and financial vehicle corporations (FVCs) additional data sources covering other OFIs directly, whereas others rely mostly on counterpart sector information (the MFI balance sheet source), securities issues and holdings statistics and balance of payments data (BoP) (see Table 3.7).

Insurance corporations and pension funds – data sources

3.8 The liability items specific to ICPFs must be derived either from them directly or from supervisory data on them (see Table 4 in the annex). While some countries that have developed specific ICPF statistics (e.g. Belgium, the Netherlands, Greece and Czech Republic) use this direct data source for all financial instruments, other rely for loan liabilities on counterpart sector information and for securities on the securities issues source (see Table 3.8).

Non-financial corporations – data sources and offsetting adjustments

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[23] Concerning the practice of exempting small MFIs from full reporting, it should be noted, however, that in principle central banks gross up the data for "tail" institutions.

3.9 Most countries use direct NFC balance sheet data sources only for a few items, like unquoted shares and other equity and trade credit, for which there are no other data sources available. The exceptions are Belgium, Netherlands and Slovakia which use direct NFC data for most asset and liability items. Almost all countries use, in particular for liabilities, securities issues data and counterpart sector information on loans. Some countries explain how they make "offsetting adjustments" to counterpart sector information in order to reconcile conflicting information. For example, Germany adjusts NFC loan liabilities to offset differences for government loan liabilities between the MFI balance sheet and QFAGG sources (see Table 5 in the annex), on the grounds that a discrepancy between these sources is likely to arise from misclassification in the MFI balance sheet data. In Germany the NFC sector is thus the residual sector for loans granted by MFIs (see Table 3.9).

Households – data sources and residual calculations

3.10 Direct sector information for households, e.g. from household surveys, is not used in the compilation of quarterly financial accounts. For household liabilities (loans and other accounts payable), counterpart sector information provides all the relevant information. For household assets, counterpart sector information, securities holding statistics and residual calculations are used (see Table 6 in the annex). Counterpart sector information used for household assets also includes information from QFAGG and non-financial corporation balance sheets for loans granted by households (and unquoted shares and other equity held by households). Securities holdings statistics are the main data source for households on securities holdings, but some countries also use the household sector as the residual sector to achieve horizontal consistency for securities (see Table 3.10).

National data sources

Table 3.5a – Government assets, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI**	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.2M	Deposits	QFAGG	QFAGG	QFAGG	QFAGG	BSI	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	BSI = QFAGG	BSI, BOP, QFAGG	SFR BSI	QFAGG, BSI, BOP	QFAGG, BSI, SUP, R1)	QFAGG	BSI	BSI, QFAGG	QFAGG	QFAGG	QFAGG2)	BSI	QFAGG, BSI, BOP	QFAGG BSI BOP	QFAGG/BSI	
F.33	Debt securities	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	SHS = QFAGG	SHS, QFAGG, BOP	SFR, KDD, BSI	QFAGG	QFAGG, CSDB, Other1), BOP, R1), R2)	QFAGG	QFAGG	CSD, BOP	QFAGG	QFAGG	0	SHS	SHS, QFAGG	n.a.	QFAGG	
F.41	Loans	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	SFR, , BSI	QFAGG, BSI, BOP	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	GG	QFAGG, , BOP, BSI	QFAGG OFI	QFAGG	
F.511	Quoted shares	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	n.a.	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	SHS	QFAGG, SHS (total); NFC, BSI, OFI, BOP (counterparts)	KDD, SFR	QFAGG3)	QFAGG, SHS, R2)	QFAGG	SHS*, BOP	QFAGG	QFAGG	QFAGG	QFAGG	SHS	SHS, BOP	QFAGG	SHS	
F.512 F.513	Unquoted equity	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	n.a.	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG, SHS (total); NFC, BSI, OFI, BOP (counterparts)	KDD, SFR	QFAGG3)	QFAGG, Other1), R2), SUP	QFAGG	SHS*, BOP	QFAGG C520	QFAGG	QFAGG BOP	QFAGG	NFC	QFAGG	QFAGG BSI BOP	QFAGG	
F.52	Mutual funds shares	QFAGG	QFAGG	QFAGG	QFAGG	0	n.a.	QFAGG	QFAGG	QFAGG	QFAGG	not applicable	SHS = QFAGG	OFI, BOP, QFAGG, SHS	KDD, SFR,	IF, OFI	SUP, QFAGG, IF, R1), R3)	n.app.	BSI, OFI, BOP	QFAGG	QFAGG	QFAGG	0	SHS	QFAGG	n.a.	IF	
F.62	Prepayments…	QFAGG	QFAGG	QFAGG	QFAGG	0	ICPF	QFAGG	QFAGG	QFAGG	QFAGG	not applicable	-	ICPF	SFR	QFAGG, Other FA1)	Other1)	QFAGG	QFAGG	0	QFAGG	n.a.	QFAGG	na	SUP(S.125)	n.a.	na	
F.71	Trade credits	QFAGG	-	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	QFAGG	SFR, BSI	QFAGG	QFAGG, Other1), R2)	QFAGG	QFAGG	R, ICPF	QFAGG	QFAGG	QFAGG	Other	QFAGG	QFAGG BOP	QFAGG	

Table 3.5b – Government liabilities, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.2 M	Deposits	QFAG G	QFAG G	QFAG G	QFAG G	QFAG G	QFAG G	QFAG G	-	QFAG G	QFA GG	not applicabl e	-	QFAGG, BOP	SFR	BSI, QFAGG	QFAGG ,BSI, IF,Other 1),Other 2), R2),CS DB,SUP	n.app.	QFAG G	QFAG G	-	BSI/QF AGG	QFAGG	Othe r	QFAGG	QFAG G	na	
F.33	Debt securities	QFAG G	QFAG G	QFAG G	QFAG G	SEC	QFAG G	QFAG G	QFAG G	QFAG G	QFA GG	QFAGG	QFAG G	SEC	KDD , SFR	QFAGG8)	QFAGG , BSI, R1)	QFAG G	QFAG G	CSD	QFAG G	SHC/B SI/SUP/ BOP	QFAGG	SHS	SHS, BOP	QFAG G BSI OFI BOP	QFAGG	
F.41	Loans	QFAG G	QFAG G	QFAG G	QFAG G	QFAG G	QFAG G/R BSI	QFAG G	QFAG G	QFAG G	QFA GG	QFAGG	QFAG G	QFAGG and counterpart information BOP, BSI, OFIFA	SFR, , BSI	QFAGG	Other1), QFAGG , R2)	QFAG G	QFAG G	QFAG G	QFAG G	QFAG G	QFAGG	BSI	BSI, QFAGG, BOP	QFAG G BSI BOP OFI	QFAGG	
F.71	Trade credits	QFAG G	-	QFAG G	QFAG G	0	QFAG G	QFAG G	QFAG G	QFAG G	QFA GG	QFAGG	QFAG G	QFAGG	SFR, BSI	QFAGG	QFAGG ,BSI, IF,Other 1),Other 2), R2),CS DB,SUP	QFAG G	QFAG G	0	QFAG G	QFAG G	QFAGG	Othe r	QFAGG	QFAG G	QFAGG	

UK has not filled out the questionnaire.

**Additional sources in SI: SFR - direct reports for financial accounts purposes, KDD – Central securities clearing corporation data, VRP - report on operations in securities

Table 3.6a – MFI assets, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.2M	Deposits	BSI+NBB	BSI, IF, BOP	BSI	BSI	BSI/OFI	BSI	BSI	BSI	BSI	BSI, BOP	BSI	BSI / BOP	BOP, BSI	BSI	BSI, BOP	BSI,R1), IF	BSI	BSI	BSI	BSI,BOP	BSI	BSI	BSI	BSI	BSI	BSI	
F.33	Debt securities	BSI	BSI, IF	BSI	BSI	BSI	BSI	BSI	BSI	BSI	BSI, BOP, QFAGG	BSI	SHS / QFAGG	BSI, SHS	KDD, VRP, BSI	BSI	BSI,IF, QFAGG,CSDB, R1),Other2)	BSI	BSI	BSI	BSI,QFAGG,BOP	BSI SHS	BSI	SHS	SHS, BSI	BSI	BSI	
F.42	Loans	BSI	BSI	BSI	BSI	BSI	BSI	BSI	BSI	BSI	BSI, BOP, QFAGG	BSI	BSI / BOP	BOP, BSI	BSI	BSI	BSI,R1), QFAGG,IF,Other1)	BSI	BSI	BSI	BSI, QFAGG	BSI/SUP/QFAGG	BSI	BSI	BSI	BSI	BSI	
F.511	Quoted shares	BSI	BSI, SHS, BOP	BSI	BSI	BSI	SUP	BSI	BSI	BSI	SHS, BOP, QFAGG	BSI	SHS	BSI, SHS	KDD, VRP, SFR	BSI	SHS,R1),BOP,BSI	Other - CD	BSI	CSD, BOP	BSI	BSI	Other3)	SHS	SHS, BOP	BSI	SHS	
F.512 F.513	Unquoted equity	BSI	BSI	BSI	BSI	BSI	SUP	BSI	BSI	BSI	BSI, BOP	BSI	SHS / BSI / BOP	BSI, SHS	KDD, VRP, SFR	BSI	BSI,Other1), BOP,R1)	BSI	BSI	BSI, BOP, R	BSI,BR, BOP	BSI	BSI	BSI	BSI	BSI	BSI	
F.52	MFSs	BSI	IF	BSI	BSI	BSI	SUP	BSI	BSI	BSI	BOP, BSI	not available	SHS	BSI, SHS	KDD, BSI VRP	IF, OFI	BSI,IF,R1),Other1)	BSI	BSI	BSI	BSI,IF	BSI	BSI	SHS	BSI	BSI IF	IF	
F.71	Trade credits	BSI	-	BSI	BSI	0	BSI	0	BSI	BSI	BSI, BOP, QFAGG	BSI, not available	BSI / BOP	BOP, BSI	SFR, BSI	BSI	SUP,R1),Other1	BSI	BSI	R, ICPF	BSI,SUR,BOP, ICPF,QFAGG	BSI	BSI	Other	BSI	BSI	na	

Table 3.6b – MFI liabilities, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.2M	Deposits	BSI+NBB	BSI, BOP	BSI	BSI	BSI/OFI	BSI	BSI	BSI	BSI	BSI, BOP	BSI	∑ Assets	BOP, BSI	BSI	BSI	BSI,R1) QFAGG,IF,SUP, Other1)	BSI	BSI	BSI, CSD	BSI,SUR,QFAGG,ICPF,BOP	BSI/SUP/QFAGG	BSI	BSI	BSI,	BSI	BSI	
F.33	Debt securities	BSI	BSI, SEC	BSI	BSI	BSI	BSI	BSI	BSI, O	BSI	BSI, BOP	BSI	SHS	SEC	BSI, VRP	BSI	BOP,BSI,CSDB, QFAGG,IF,SUP, R1),Other1),Other2)	BSI	BSI	BSI	ECRS, BSI	BSI/SUP/BOP/QFAGG/ SHS	BSI	SHS	Other, BSI	BSI	BSI	
F.42	Loans	BSI	BSI	BSI	BSI	BSI	0	BSI	BSI	BSI	BSI, BOP	BSI	-	BOP, BSI	BSI	BSI	BSI,QFAGG,SUP,Other2),IF	BSI	BSI	BOP, BSI, OFI, R	BSI	BSI/SUP/QFAGG	0	BSI	BSI	BSI	BSI	
F.511	Quoted shares	BSI	SEC, BSI, BOP	SEC	BSI	BSI	SEC	BSI	BSI, O	BSI	SHS, BOP, BSI	SEC	SHS	SEC	KDD	BSI, SUP	SHS,QFAGG,IF, R1)	Other - CD	SHS*	0	-	BSI	BSI	SHS	national depository	BSI	SHS	
F.512 F.513	Unquoted equity	BSI+NBB	BSI, SEC, BOP	BSI	BSI	BSI	SUP	BSI	BSI	BSI	BSI, BOP	Other	SHS / BSI	BSI	KDD ,	BSI, SUP	BOP,Other1),QFAGG,R1),BSI,SUP	BSI; CD	SHS*	BSI	ECRS,BSI,BOP, QFAGG	BSI	BSI	BSI	BSI	BSI	BSI	
F.52	MFSs	BSI	IF	BSI	BSI	BSI	BSI	BSI	BSI	n.a.	BSI	not available	SHS	SEC	BSI	BSI	IF,QFAGG,R1), Other1	BSI	BSI	0	IF, BSI	BSI/SUP/QFAGG/NFC	IF	SHS	BSI	BSI	IF/BSI	
F.71	Trade credits	na	-	BSI	BSI	0	BSI	BSI	BSI	BSI	BSI, BOP, QFAGG	not available	∑ Assets	BOP, BSI	BSI	BSI	BSI,R1) QFAGG,IF,SUP, Other1)	BSI	BSI	0	BSI,QFAGG,ICPF	BSI	BSI	Other	BSI	BSI	na	

Table 3.7a – OFI assets, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.2 M	Deposits	OFI+IF +Other6	BSI, OFI, BOP, IF	BSI,, OFI	OFI	OFI/IF	OFI/FA FC	BSI,BO P	BSI, BOP, IF, SUP, O	other 1) - BOP	BSI, BOP,	BOP, OFI, SPV**, IF	IF / BSI / BOP	BSI, QFAGG, BOP	BSI, IF, BOP	BSI, IF, BOP	BSI,IF, BOP	BSI	BSI	BSI, R	IF,LS,S UR,SU P,BSI,B OP	BSI/SU P	BSI	BSI	BSI, BOP	BSI OFI IF Other-S123 and S124 b.s.	BSI	
F.33	Debt securities	OFI+IF +Other6	SHS, OFI	OFI, BOP	OFI	OFI/IF	OFI/FA FC	OFI	IF, SHS,SU P, O	other 1) - BOP	BSI, BOP, QFA GG, OFI	BOP, OFI, SPV**, IF	SHS	SHS, OFIFA, BOP	SFR, BSI, KDD , IF, VRP	IF, OFI, SUP	IF,QFA GG,CSD B,BOP, Other1), Other2), R1)	OFI; IF	BSI, OFI	IF, BOP	IF,LS,S UR,SU P,BOP, QFAG G	SUP	SUR	SHS	SHS	OFI IF Other-S123 and S124 b.s.	OFI	
F.41	Loans	OFI+IF +Other6	OFI, BOP, IF	BOP, OFI	OFI	OFI/IF	OFI/FA FC	OFI	IF, SUP, O	other 1) - BOP	OFI, BOP	BOP, OFI, SPV**, IF	IF / BOP	OFIFA, BOP, BSI	SFR, BSI	IF, OFI, SUP, BSI	Other1)	OFI; IF; NFC	BSI, OFI	OFI	IF,LS,S UR,SU P,BOP, QFAG G	SUP	SUR	OFI	NFC, SUP, SUR, BOP	OFI IF Other-S123 and S124 b.s.	OFI	
F.51 1	Quoted shares	OFI+IF +Other6	SHS	BOP, OFI	OFI	OFI/IF	OFI/SU P/FAFC	OFI	IF, SHS, SUP, O	other 1) - BOP	BOP , BSI, OFI	BOP, OFI, SPV**, IF	SHS	SHS, OFIFA, BOP	KDD , VRP, SFR, IF	IF, OFI, SUP	IF,SHS, NFC,BO P	OFI; IF	SHS*, BOP	CSD, BOP	IF,LS,S UR,SU P	SUP	Other3)	SHS	SHS, BOP	OFI IF Other -S123 and S124 b.s.	SHS	
F.51 2 F.51 3	Unquoted equity	OFI+IF +Other6	SHS	BOP, OFI	OFI	OFI/IF	OFI/SU P/FAFC	OFI	IF, SHS, SUP, O	other 1) - BOP	BO P, BSI, OFI	BOP, OFI, SPV**, IF	SHS / IF /R / BOP	SHS, OFIFA, BOP	KDD , VRP, SFR, IF	IF, OFI, SUP	Other1), BOP,SU P,IF, QFAGG	OFI; IF	SHS*, BOP	OFI, BOP, R	IF,LS,S UR,SU P,BOP	SUP	SUR/BOP	OFI	SUP, SUR	OFI IF Other-S123 and S124 b.s. Other-ICPF b.s.	OFI	
F.52	MFSs	OFI+IF +Other6	IF, OFI, BOP	BOP, OFI	OFI	OFI/IF	OFI/SU P/FAFC	IF	IF, SHS, SUP, O	other 1) - BOP	BOP, BSI, OFI	BOP, OFI, SPV**, IF	SHS	SHS, OFIFA, BOP	KDD , SFR, IF	IF, OFI	IF,BOP, Other1), R1)	Other - Diff.	OFI	OFI	IF,LS,S UR,SU P	SUP	IF/BOP	SHS	SUP), SUR	IF	IF	

Table 3.7b – OFI liabilities, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK *
F.2 M	Deposits	OFI+IF +Other6	BSI	OFI, BOP	0OFI	OFI/IF	OFI/FA FC	OFI	-	BSI	OFI	not applicabl e	∑ Assets	—	-	na	QFAGG	n.app.	0	OFI	-	SUP	0	na	—	-	na	
F.33	Debt securities	OFI+IF +Other6	OFI	OFI, BOP	OFI	OFI/IF	OFI/FA FC	OFI	IF, SEC, O	other 1) - BOP	OFI	BOP, OFI, SPV**, IF, SEC	SHS	SEC	KDD	IF, OFI, SUP	Other1), BSI,BO P,IF,QF AGG,S UP,CSD B,Other 2),R1)	OFI	BSI, OFI	IF	ECRS,I F,LS,S UR,SU P,BOP	SUP	CSDB	SHS	SHS	OFI IF Other-S123 and S124 b.s.	QFAGG	
F.41	Loans	OFI+IF +Other6	BSI, OFI	OFI, BOP	OFI	OFI/IF	OFI/FA FC	OFI	BSI, BOP, IF, OFI	BSI-BOP	BOP , BSI, OFI	BOP, OFI, SPV**, IF	∑ Assets	OFIFA, BSI, BOP, ICPF	SFR, IF, BSI	IF, OFI, SUP	BSI,BO P,R1)	OFI; BSI	BSI, OFI	BSI	BSI,IF, LS,SUR ,SUP,B OP	SUP BSI	BSI/BOP/ SUR	BSI	BSI, SUP, BOP	BSI OFI BOP Other-S123 and S124 b.s.	BSI	
F.51 1	Quoted shares	OFI+IF +Other6	SEC	SEC	OFI	OFI/IF	SEC	SEC	O	other 1) -CSDB	BOP , SHS,	BOP, OFI, SPV**, IF, SEC	SHS	SEC	KDD	IF, OFI, SUP	SHS,QF AGG,IF, R1)	OFI; IF	0	CSD, R	-	SUP	CSDB	SHS	national depository	OFI IF Other-S123 and S124 b.s.	SHS	
F.51 2/3	Unquoted equity	OFI+IF +Other6	SEC	OFI, BOP	OFI	OFI/IF	SUP, NFC	OFI	IF, SEC, O	other 1) - BOP	BOP , BSI, OFI	BOP, OFI, SPV**, IF	SHS / ∑ assets	OFIFA	KDD , SFR	IF, OFI, SUP	BOP,BS I,QFAG G,Other 1)	OFI; IF	SHS*	BOP, OFI, ICPF, R	ECRS,I F,LS,S UR,SU P,BOP, QFAG G	SUP/BS I/BOP	SUR	OFI	SUP,SUR	OFI IF Other-S123 and S124 b.s.	OFI	
F.52	MFSs	OFI+IF +Other6	IF	OFI, BOP	OFI	OFI/IF	OFI	IF	IF, O	other 1) - BOP	BOP , BSI, OFI	IF	SHS	SEC, IF	IF, KDD	IF, OFI	IF,SUP, Other1), R1), QFAGG	Other - Diff.	OFI	ICPF	IF	BSI/SU P/QFA GG/NF C	IF	SHS	SUP	IF	IF	

* UK has not filled out the questionnaire. ** In the case of the NL SPV** (Special Purpose Vehicles) stands for FVCs (Financial Vehicle Corporations).

Table 3.8a – ICPF assets, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.2M	Deposits	ICPF	BSI	BOP,BSI	ICPF	BSI	R/(BSI/BOP/OFI/QFAGG)	BSI, BOP	BSI, BOP, SUP, SUR, O	BSI	BSI, BOP	ICPF	ICPF / BOP	BSI, BOP	SFR, BSI	BSI, Other FA1), BOP	BSI,Other1),SUP	BSI	BSI	ICPF	ICPF	SUP	BSI	BSI	BSI, SUP	BSI other-ICPF b.s. BOP	BSI	
F.33	Debt securities	ICPF	SUP	BOP,BSI, QFAGG	ICPF	ICPF	SUP	SHS	SUP, SHS, SUR, O	ICPF	BSI, BOP, QFAGG, ICPF	ICPF	SHS	SHS, ICPF, BOP	SFR, KDD, VRP, BSI	Other FA1)	SUP,QFAGG,Other1),Other2),R1)	ICPF	ICPF	BOP	ICPF,BOP,BSI	SUP	SUP	SHS	SHS	other-ICPF b.s. BOP	ICPF	
F.41	Loans	ICPF	SUP	BOP, BSI	ICPF	ICPF	R (NFC/BOP/BSI/QFAGG)	ICPF	SUP, SUR, O	ICPF	BOP, ICPF	ICPF	ICPF / BOP	ICPF, BSI, BOP	SFR, IF, BSI	Other FA1), BSI	QFAGG,Other1)	ICPF	ICPF	ICPF	ICPF,BOP	SUP	SUP	ICPF	SUP)	n.a.	na	
F.511	Quoted shares	ICPF	SHS, BOP	BOP, BSI	ICPF	ICPF	SUP	ICPF,SHS	SUP, SHS, SUR, O	SEC-ICPF	BOP, ICPF	ICPF	SHS	SHS, ICPF, BOP	KDD, VRP, SFR	Other FA1)	SUP,SHS,NFC	Other - CD	ICPF	ICPF	ICPF	SUP	Other3)	SHS	SHS, BOP	other-ICPF b.s. BOP	SHS	
F.512 F.513	Unquoted equity	ICPF	SUP, BOP	BOP, BSI	ICPF	ICPF	SUP	ICPF	SUP, SHS, SUR, O	ICPF	BOP, ICPF	ICPF	SHS / ICPF / BOP	SHS, ICPF, BOP	KDD, VRP, SFR	Other FA1)	SUP,Other1),BOP,QFAGG	ICPF / CD	ICPF	ICPF C520	ICPF,BOP	SUP	SUP	ICPF	SUP	other-ICPF b.s. OFI other-s124	ICPF	
F.62	Prepayments of insurance premiums	ICPF	SUP	BOP	ICPF	ICPF	ICPF	ICPF	SUP, SUR, O	ICPF	BSI, BOP, ICPF	ICPF	ICPF	ICPF	SFR	Other FA1)	Other1)	ICPF	ICPF	0	-	SUP	SUP	na	SUP	other-ICPF b.s.	ICPF	

Table 3.8b – ICPF liabilities, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.2M	Deposits	ICPF	-	-	0ICPF	ICPF	R/(BSI/BOP/OFI/QFAGG)	0	-	BSI	BOP, ICPF	not applicable	-	—	-	na	-	n.app.	0	0	-	SUP	0	na	—	not applicable.	na	
F.33	Debt securities	ICPF	-	BOP,BSI, QFAGG	ICPF	ICPF	SEC	SEC	SEC, O	ICPF	SHS, BOP, ICPF	ICPF	SHS	SEC	SFR, KDD	Other FA1)	IF,BOP, SUP,BSI,CSDB, QFAGG,Other1), Other2), R1)	n.a.	ICPF	0	-	SUP	0	SHS	SUP	n.a.	na	
F.41	Loans	ICPF	SUP, BSI, BOP	BOP, BSI	ICPF	BSI	R (NFC/BOP/BSI/QFAGG)	BSI,OFI	BSI, BOP, SUR, O	BSI-BOP	BSI, BOP, ICPF	ICPF	∑ Assets	ICPF, BSI, OFIFA, BOP	SFR, BSI	Other FA1)	BSI	BSI	ICPF	ICPF	ICPF,BSI,BOP	SUP	BSI/SUP	BSI	BSI	BSI other-ICPF b.s. BOP	BSI	
F.511	Quoted shares	ICPF	SEC	SEC	ICPF	ICPF	SEC	SEC	SEC, O	CSDB	SHS, ICPF	ICPF, SEC	SHS	SEC	KDD	Other FA1)	IF, QFAGG	Other - CD	0	0	-	SUP	0	SHS	national depository	other-ICPF b.s. OFI	na	
F.512/3	Unquoted equity	ICPF	SEC	BOP, BSI	ICPF	ICPF	SUP	ICPF	SEC, O	ICPF	ICPF	ICPF	SHS / ICPF	ICPF	KDD, SFR	Other FA1)	Other1), BSI,BOP,QFAGG	Other - CD	SHS*	ICPF C340	ECRS,ICPF,BOP,QFAGG	SUP	SUP	ICPF	SUP	other-ICPF b.s.	ICPF	
F.61	life & pension funds reserves	ICPF	SUP, BOP	BOP, BSI	ICPF	ICPF	ICPF	ICPF	O, SUR	ICPF	ICPF	ICPF	ICPF	ICPF	SFR	Other FA1)	Other1)	ICPF	ICPF	0	ICPF	SUP	SUP	ICPF/SUP	SUP	other-ICPF b.s.	ICPF	
F.62	Prepayments of insurance premiums	ICPF	SUP	BOP, BSI	ICPF	ICPF	ICPF	ICPF	O, SUR	ICPF	ICPF	ICPF	ICPF	ICPF	SFR	Other FA1)	Other1)	ICPF	ICPF	ICPF	ICPF,BOP	SUP	SUP	ICPF	SUP	other-ICPF b.s.	ICPF	

Table 3.9a – NFC assets, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.33	Debt securities	SHS	SHS	BOP, NFC, BSI, QFAGG	BSI/BOP	SEC/R	R/SHS	SHS	SHS, O, R	other 2)	QFAGG, BOP, SHS,	NFC	SHS	R, SHS	SFR, KDD, VRP, BSI	NFC5)	CSDB,BOP,QFAGG,Other1),R1), R2)	NFC	BSI, QFAGG, BOP, O	R	ECRS,BSI,BOP, SUR	BSI/BOP/QFAGG/NFC	Other3)	SHS	SHS	QFAGG BOP NFC	R	
F.41	Loans	NFC	NFC, BOP	BOP, NFC, BSI	NFC	NFC	NFC/R (BOP/QFAGG)	NFC,BOP	R	other 2)	Other 1	NFC	NFC /BOP	BoP	SFR, BOP, BSI	NFC5)	BOP	NFC	QFAGG,SUR, OFI	BOP, R	NFC,SUR,BOP,QFAGG	BSI/SUP/BOP/QFAGG/NFC	SUR	BOP /NFC	NFC, BOP, SUP	BOP NFC OFI NFC b.s.	QFAGG	
F.51 1	Quoted shares	NFC	SHS	BOP, NFC, BSI	SEC/NFC/BOP	SEC/R	R/SHS	NFC,SHS	SHS, O, R	other 2)-SEC	SHS	NFC	SHS	R, SHS	KDD, VRP, SFR	NFC5)	SHS,R2),BOP,R1)	Other - CD; OFI	SHS*, BOP	CSD, BOP, R	ECRS	NFC	Other3)	SHS	SHS, BOP	BSI OFI	SHS	
F.51 2/3	Unquoted equity	NFC	SHS	BOP,NFC	NFC/BOP	SEC/R	n.a.	NFC,SHS	R	other 2)	BOP,Other 1	NFC	NFC / O / BOP	R, NFC, SHS	KDD, VRP, SFR	NFC5)	BOP, Other1)	NFC; BOP; OFI	SHS*, BOP	BOP, NFC	ECRS,BR,BOP, SUR	NFC	SUR/BOP	NFC	NFC	BSI NFC OFI other s124 b.s other ICPF b.s. BOP	SUR	
F.71	Trade credits	na	BOP, NFC	BOP, NFC, BSI, QFAGG	NFC/BOP	NFC	NFC/R (BOP/QFAGG)	NFC	R	other 2)	QFAGG, BOP, BSI, Other 1	NFC	BSI / BOP / QFAGG NFC	QFAGG, OFIFA, ICPF, BOP, NFC, CCR	SFR, BOP, BSI, IF	NFC5)	Other1), BOP,QFAGG,R1),R2)	NFC	O**	R, ICPF	NFC,SUR,BSI,ICPF,QFAGG, BOP	NFC	SUR	Other	R	QFAGG BOP OFI other s124 b.s other-ICPF b.s. NFC NPISH b.s.	SUR/QFAGG	

Table 3.9b – NFC liabilities, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.33	Debt securities	CSDB	SEC	BOP, NFC, BSI, QFAGG	BSI/OFI/ICPF NFC/QFAGG	SEC	SEC	0	SEC, O	other2)	SHS	NFC	SHS	SEC	SFR, BOP, KDD, VRP	NFC5)	IF,BOP, QFAGG,BSI,SUP,CSDB,Other1), Other2, R1),R2)	NFC	BSI, QFAGG, BOP,O*	CSD,BSI	ECRS,BSI,BOP, LS, SUR	BSI/SUP/BOP/QFAGG/NFC	CSDB	SHS	SHS, NFC	BOP BSI OFI IF other-ICPF b.s. Other-S124 b.s. NFC	SUR	
F.41	Loans	NFC	BSI	BOP, NFC, BSI, QFAGG	BSI/OFI/NFC	BSI	NFC/R(BSI/OFI/BOP/QFAGG)	BSI,OFI	BSI, BOP, R	BSI-BOP-other2)	QFAGG, BOP, BSI, Other 1	NFC	∑ Assets	QFAGG, BSI, OFIFA, BOP,	SFR, BOP, BSI, IF	NFC5)	BSI,R1), BOP,Other1)	NFC; BSI	BSI, QFAGG, BOP,SUR, OFI, ICPF,	BSI, BOP, R	SUR,BSI,LS,ICPF,BOP,NFC	BSI/SUP/BOP/QFAGG/NFC	BSI/BOP/SUR	BSI/BOP	BSI, NFC, BOP, QFAGG	BSI BOP OFI NFC b.s.	OFI	
F.51 1	Quoted shares	Euronext	SEC	SEC	BSI/OFI/ICPF NFC/QFAGG/BOP	SEC	SEC	SEC	O	CSDB	SHS	NFC, SEC	SHS	SEC	KDD,	NFC5)	SHS,QFAGG,IF, SUP,R2)	Other - CD	SHS*	CSD, R	ECRS	NFC	CSDB	SHS	national depository	QFAGG OFI IF other s124b.s. other ICPF b.s. NFC	SHS	

F.51 2/3	Unquoted equity	NFC	SEC, BOP	BOP, NFC, BSI, QFAGG	BSI/OFI/ICPF NFC/QFAGG/BOP	SEC	NFC	0	SEC, R	other2)	QFAGG, BOP, Other 1	NFC	∑ Assets	NFC, BOP	KDD, SFR	NFC5)	BOP,Other1),QFAGG,SUP,R2), BSI,R1)IF	NFC; CD	SHS*	NFC, R	BR,ECRS,BOP	NFC	SUR	NFC	NFC	QFAGG BOP BSI OFI other-ICPF b.s. Other-S124 b.s. NFC	SUR/BOP/QFAGG/BSI/OFI	
F.71	Trade credits	na	BSI, BOP	BOP, NFC, BSI, QFAGG	BSI/ICPF QFAGG	NFC	NFC/R (BOP/QFAGG)	0	R	other2)	QFAGG, BOP, BSI, Other 1	NFC	∑ Assets	QFAGG, OFIFA, BOP, NFC, CCR	SFR, BOP, BSI, IF	NFC5)	Other1), BOP,R1),QFAGG,R2)	NFC	O**	0	NCF,SUR,BSI,ICPF,QFAGG, BOP	NFC	SUR	Other	NFC	QFAGG BOP OFI other s124 b.s. other-ICPF b.s. NPISH b.s NFC	SUR/QFAGG	

* UK has not filled out the questionnaire.

Table 3.10a – Household assets, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.2M	Deposits	BSI+Other1	BSI, BOP	BSI, QFAGG, OFI	BSI/BOP	BSI	R/(BSI/BOP/OFI/QFAGG)	BSI, BOP	BSI, BOP	BSI - BOP	BSI, BOP	Other	BSIadj / BOP	BOP, BSI, QFAGG	SFR, BOP, BSI	BSI, BOP	BSI,Other1)	BSI	BSI	BSI	BSI,BOP	BSI	BSI	BSI	BSI, BOP	Counterpart information: QFAGG +BSI+BOP	BSI	
F.33	Debt securities	SHS	SHS	BSI, QFAGG	R	SEC/R	R/SHS	SHS	SHS, O, R	SEC	SHS	SHS +CSDB	SHS	R, SHS	SFR, KDD, VRP, BSI	Other6)	CSDB,Other1),QFAGG,BOP	CG, OFI, BSI	BSI, QFAGG	CSD, BOP	ECRS,BOP,BSI	**BSI, QFAGG**	Other3)	SHS	SHS	BOP	na	
F.41	Loans	na	-	zero	BSI/BOP/OFI	0	R/(NFC/QFAGG)	0	R	n.a.	Other 1	Other	BOP	OFIFA	SFR, BSI, IF	Other6)	QFAGG,Other1)	Other - Diff. 2)	BSI	OFI	BOP	OFIG	BOP	NFC	SUP	OFI+BOP	na	
F.511	Quoted shares	R	SHS	SEC	SEC	SEC/R	R/SHS	SHS	SHS, O, R	SEC	SHS	SHS +CSDB	SHS	R, SHS	KDD, VRP, SFR	Other6)	SHS,BOP,NFC	Other - CD	SHS*, BOP	CSD, BOP, R	ECRS	NFC	Other3)	SHS	SHS, BOP	BSI+OFI +NFC(data from other source)	SHS	
F.51 2/3	Unquoted equity	R	R	BOP, NFC	R	SEC/R	n.a.	SHS	R	n.a.	BOP, Other 1	SHS +CSDB	NFC / O / BOP	R, NFC, SHS	KDD, VRP, SFR	Other6)	Other1), BOP,R1)	Other - CD	SHS*, BOP	BOP, NFC	ECRS,SUR,BR, BOP	BSI, SUP, OFI, NFC	R	NFC	R	NFC+OFI+other s124 b.s.+other-ICPF b.s.+OFI+other-s124 b.s.	na/Other	
F.52	MFSs	IF	SHS	OFI	IF	SEC/R	SHS	IF	IF, R	SEC	BSI	SHS +CSDB	SHS	BOP, IF	KDD, SFR, VRP, IF	IF, OFI	IF, BOP,Other1)	BSI; OFI	BSI, OFI, BOP	ICPF	IF,BOP	IF	IF/BOP	SHS	R	BSI+IF	IF	
F.61	life & pension funds reserves	ICPF	ICPF, BOP	BOP	ICPF	ICPF/SUP	ICPF	0	ICPF	ICPF-BSI	ICPF	Other	ICPF / BOP	BSI, OFIFA, ICPF, NFC	SFR, EST	Other FA1)	Other1)	ICPF	ICPF	CSD, BOP	ICPF	SUP	SUP	ICPF/SUP	R	other-ICPF b.s	ICPF	

Table 3.10b – Household liabilities, selected items

		BE	DE	IE	GR	ES	FR	IT	CY	LU	MT	NL	AT	PT	SI	SK	FI	BG	CZ	DK	EE	LV	LT	HU	PL	RO	SE	UK*
F.41	Loans	BSI	BSI, BOP, OFI	BSI, QFAGG, OFI, est of HH holdings abroad	BSI/BOP/OFI	BSI	NFC/ R(BSI/ OFI/QFAGG)	BSI,OFI	BSI, BOP, R	BSI-BOP	BSI, BOP, Other 1	Other	∑ Assets	QFAGG, BSI, OFIFA, BOP,	SFR, BOP, BSI, IF	Other6)	BSI	BSI	BSI, OFI, QFAGG, SUR	BSI, OFI, R	BSI,SUR,LS,NFC,BOP,QFAGG	BSI, QFAG, SUP,	BSI/BOP/SUR	BSI	BSI, QFAGG, SUR, NFC, SUP	BSI+BOP+OFI	OFI	
F.42	Long-term Loans	BSI+OFI	BSI, BOP, OFI	BSI, QFAGG, OFI, est of HH holdings abroad	BSI/BOP/OFI	BSI	NFC/ R(BSI/ OFI/QFAGG)	BSI,OFI	BSI, BOP, R	BSI-BOP	BSI, BOP, Other 1	Other	∑ Assets	QFAGG, BSI, OFIFA, ICPF, BOP,, NFC	SFR, BOP, BSI, IF	Other6)	BSI,Other2), QFAGG,R1),SUP,Other1)	BSI; OFI	BSI, OFI, QFAGG, SUR, ICPF	BSI, R	BSI,SUR,LS,QFAGG, BOP,NFC	BSI, QFAG, SUP,	BSI/BOP/SUR	BSI	BSI, NFC, SUR, QFAGG	BSI+BOP+OFI	BSI	
F.71	Trade credits	na	-	INS, BOP	R	NFC	R/(NFC/QFAGG)	0	R	n.a 3)	QFAGG, BOP, BSI, Other 1	not available	∑ Assets	R, NFC, CCR, OFIFA	SFR, BOP, BSI, IF	Other6)	Other1)	NFC; BSI; OFI	O**	0	SUR,BSI,ICPF, QFAGG,BOP	QFAG, SUP,OFI, NFC	SUR/R	Other	Other	OFI+other s124 b.s.+other-ICPF b.s+NPISH b.s. .	SUR	

* UK has not filled out the questionnaire.

CHAPTER 4 – Monetary gold and SDRs (AF.1)

Importance of instrument categories in euro area balance sheets
€ trillions, end-2011

Financial instruments	Assets: Euro area residents	Assets: Rest of the world		Liabilities: Euro area residents	Liabilities: Rest of the world
Monetary gold and SDRs	**0.4**				
Currency and deposits	21.6	3.8		22.8	2.6
Debt securities	14.3	4.3		15.5	3.1
Financial derivatives	0.0	0.0		0.0	0.0
Loans	20.9	1.8		19.7	3.1
Shares	24.2	6.0		24.6	5.5
Shares, excl. IF shares*	19.3			18.0	
Investment fund shares*	4.8			6.7	
Insurance technical reserves	6.2	0.2		6.4	0.0
Other accounts receivable/payable	5.8	0.5		5.9	0.4

* Instrument breakdown is not available for Rest of the world.

Assets – euro area residents comprise claims held by residents of the euro area in the form of the respective instruments, including claims on the Rest of the World (shown in the column liabilities – RoW).

Liabilities – euro area residents comprise liabilities of residents of the euro area in the form of the respective instruments, including liabilities to the Rest of the World (shown in the column assets – RoW).

Since the euro area financial accounts are horizontally balanced, as explained in the box in Chapter 2, apart from a rounding difference in other accounts receivable/payable total assets equal total liabilities in each category except monetary gold and SDRs (stocks), which are financial assets with no corresponding liability.

ESA95 definition (Annex 7.1 – Definition of each asset category)

4.1 Monetary gold - gold held as a component of foreign reserves by monetary authorities or by others who are subject to the effective control of the authorities.
SDRs – international reserve assets created by the IMF and allocated to its members to supplement existing reserve assets.

Further definitional remarks in the ESA95

4.2 Chapter 5 (5.27) states that monetary gold can normally be an asset only for the central bank or central government, and transactions in it consist predominantly of transactions between monetary authorities (5.29). Gold in the hands of other holders (e.g. MFIs, gold dealers) is not monetary gold, and is not a financial asset, but is treated statistically as a 'valuable' or as a commodity; gold acquired by a monetary authority from an entity which is not a monetary authority, or gold disposed of in like manner by a monetary authority, is said to be monetised (or demonetised), and is not treated statistically as a transaction in financial assets but as a reclassification (5.31). Deposits, securities and loans denominated in gold (i.e.

instruments the value of which is fixed in terms of gold) are recorded as instruments denominated in foreign currency, and not as monetary gold (5.32). Monetary gold normally consists of bars with a purity of at least 995/1000 (5.28).

4.3 Chapter 5 (5.34) states that SDRs are held and transacted in exclusively by official holders (usually central banks), and represent a right to obtain other reserve assets (usually foreign exchange).

4.4 Monetary gold and (at present) SDRs are unique among financial assets in having no corresponding liability for stocks (5.07).24

Balance sheet valuation in the ESA95

4.5 Monetary gold is valued at the price established in organised gold markets. The value of the SDR is that determined daily by the IMF (*7.45*).

Definition and treatment in ECB statistics

4.6 In the euro area only the Eurosystem holds and transacts in monetary gold and SDRs. Holdings of monetary gold are revalued to market price at end-quarters. SDRs are converted into euro at the rate published by the IMF. Any transactions in monetary gold and SDRs are valued at the transactions rate. Following the ESA95, any transactions in gold between the Eurosystem and counterparts which are not monetary authorities are not recorded as transactions in monetary gold; rather, the increase or decrease in the Eurosystem's holdings is recorded in 'other changes in financial assets and liabilities'.

4.7 In the context of the balance of payments/international investment position, the Bop Book notes that recorded holdings of monetary gold remain unaffected by reversible transactions in gold (swaps, repos, loans and deposits). The corresponding receipt or delivery of foreign exchange is recorded as a change in deposits with a corresponding entry in loans. The Bop Book further notes that an allocation/cancellation of SDRs is not a transaction: the consequent change in the stock of SDRs recorded in the international investment position is instead matched by an entry in 'other' (non-transactional) changes in financial assets.

[24] In the revised SNA, SDRs will be treated as a liability of the IMF member receiving them.

CHAPTER 5 – Currency and deposits (AF.2)

Importance of instrument categories in euro area balance sheets
€ trillions, end-2011

Financial instruments	Assets: Euro area residents	Assets: Rest of the world	Liabilities: Euro area residents	Liabilities: Rest of the world
Monetary gold and SDRs	0.4			
Currency and deposits	**21.6**	**3.8**	**22.8**	**2.6**
Debt securities	14.3	4.3	15.5	3.1
Financial derivatives	0.0	0.0	0.0	0.0
Loans	20.9	1.8	19.7	3.1
Shares	24.2	6.0	24.6	5.5
Shares, excl. IF shares*	19.3		18.0	
Investment fund shares*	4.8		6.7	
Insurance technical reserves	6.2	0.2	6.4	0.0
Other accounts receivable/payable	5.8	0.5	5.9	0.4

* Instrument breakdown is not available for Rest of the world.

Assets – euro area residents *comprise claims held by residents of the euro area in the form of the respective instruments, including claims on the Rest of the World (shown in the column* ***liabilities – RoW****).*

Liabilities – euro area residents *comprise liabilities of residents of the euro area in the form of the respective instruments, including liabilities to the Rest of the World (shown in the column* ***assets – RoW****).*

Since the euro area financial accounts are horizontally balanced, as explained in the box in Chapter 2, apart from a rounding difference in other accounts receivable/payable total assets equal total liabilities in each category except monetary gold and SDRs.

**Of which, currency €0.8 trillion (euro currency in circulation mid-2010).*

I Currency (AF.21)

ESA95 definition (Annex 7.1 – Definition of each asset category)

5.1 Notes and coins in circulation that are commonly used to make payments.

Further definitional remarks in the ESA95

5.2 Chapter 5 (*5.40*) states that commemorative coins not commonly used to make payments should be excluded. The category AF.21 includes both national currency (notes and coins issued by the resident monetary authorities) and notes and coins issued by non-resident monetary authorities and held by residents (*5.39*); a distinction between national and foreign currency amounts is likely to be useful (*5.23*). All sectors (including the Rest of the World) may hold currency as assets, but only financial corporations (usually central banks, but exceptionally other MFIs) and government, including in the Rest of the World may issue currency (*5.41*).

Balance sheet valuation in the ESA95

5.3 For currency, Chapter 7 requires nominal or face value (*7.46*). Foreign currency notes and coins should be converted into national currency at the mid-market exchange rate on the balance sheet date (*7.31*).

5.4 Since currency is at nominal or face value, a transaction in currency will always be recorded at nominal or face value, converted at the market exchange rate at the time of the transaction if foreign currency is involved. For national currency, the change in holdings between two balance sheet dates must equal net transactions in the intervening period. Transactions involving foreign currency banknotes and coins cannot be derived directly from the change in balance sheet levels, since exchange rate changes between balance sheet dates must be taken into account.

Definition in ECB statistics

In MFI balance sheet statistics

5.5 On the assets side, currency comprises euro[25] and foreign banknotes and coins in circulation that are commonly used to make payments. Currency may include certain commemorative coins which are legal tender and issued at face value. Only the Eurosystem (all members of which are classified as MFIs) has currency as a liability; the entry is confined to euro banknotes and coins (Regulation ECB/2008/32, Annex I, Part 3). The Eurosystem is the only issuer of euro banknotes. Coins are issued by central government, not by the central bank; the convention however is to record the whole of currency in circulation as a liability of the Eurosystem, with a notional asset (claim on the central government) equivalent to the amount of coins in issue.

5.6 Each Eurosystem central bank, including the ECB, records in its balance sheet the share in the total Eurosystem issue of banknotes allocated to it by the banknote allocation key,[26] and in addition the actual amount of coins issued in the Member State concerned. Any difference between the amount allocated by the banknote allocation key and the actual issue of banknotes is recorded elsewhere in the balance sheet as intra-Eurosystem claims/liabilities (a liability if the actual issue exceeds the amount allocated, a claim if it falls short of the allocated amount). Unissued banknotes and coins held in the tills and vaults of central banks are excluded from currency in circulation. The MFI balance sheet statistics make no attempt to break down euro currency in circulation by residence and sector of the holder.

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[25] Euro banknotes and coins were introduced in January 2002. Until then, national notes and coins constituted currency in circulation, and continued to be included in the aggregate throughout 2002. Similarly, residual amounts of national banknotes and coins issued in Member States acceding to the euro area continue to be included for 12 months following entry. They are then transferred to the category ‘remaining liabilities’ in the central bank balance sheet, with a reclassification adjustment to prevent the step reduction in currency in circulation from affecting the growth rate of euro area monetary aggregates. This does not coincide with treatment in the financial accounts.

[26] In Eurosystem balance sheets, 8% of the euro banknote issue is attributed to the ECB, and the remaining 92% to the Eurosystem national central banks in accordance with the banknote allocation key based on their shares in the capital of the ECB. The reason is that euro banknotes are a liability of the Eurosystem as a whole (and of individual members in proportion to their share in the ECB’s capital), and not of the national central bank which happens to issue them. The banknote allocation key does not cover coin issuance.

Investment fund statistics
5.7 Regulation ECB/2007/8 requires investment funds to record any holdings of euro and foreign banknotes and coins in the asset category 'deposit and loan claims'. Any foreign banknotes and coins are to be recorded as claims on the Rest of the World.

In financial vehicle corporation statistics
5.7a Not relevant for currency.

In OFI statistics
5.8 Guideline ECB/2007/9 requires any holdings of 'currency' to be recorded with deposits held. The Guideline does not require claims on the Rest of the World in this category to be shown separately.

In securities issues statistics
5.9 Not relevant for currency.

In balance of payments/international investment position statistics
5.10 The Bop Book notes that both the balance of payments and the international investment position of the euro area allow for holdings of euro banknotes by non-residents of the euro area. Initially, the adjustment was mostly intended to take into account the effect of the euro cash changeover on balance of payments transactions in 2002, and was based on euro banknote shipments from/to euro area MFIs. Since 2003, holdings of euro banknotes by non-residents of the euro area have been estimated using a variety of methods. There is no corresponding adjustment to the euro area monetary statistics, which to that extent are inconsistent with the balance of payments /international investment position, nor for euro area residents' holdings of foreign currency banknotes. Guideline ECB/2011/23 (recast) formalises the reporting of banknote shipments from March 2013.

Valuation of currency in ECB statistics
5.11 For all purposes, notes and coins in euro are reported, as assets and liabilities (in ECB/2008/32), at face value. No valuation difficulties arise.

5.12 Holdings of notes and coins in foreign currency are converted into euro at mid-market closing exchange rates on the balance sheet date (as are other items denominated in foreign currency). Since the quarterly requirement that MFIs should report a currency breakdown of their foreign currency (non-euro) assets and liabilities does not cover banknotes and coins, the ECB assumes, for the purpose of compiling transactions, that the currency composition of their holdings is the same as that of their deposit liabilities.

Requirements for euro area financial accounts (Guidelines ECB/2002/7, ECB/2005/13)
5.13 Recital 4 in ECB/2002/7 states the general principle that quarterly euro area financial accounts should be based as much as possible on the ESA95.

5.14 For currency, ECB/2005/13 requires a sectoral breakdown of holdings (assets) for S.1, S.11, S.121-122, S.123, S.124, S.125, S.13, S.14-15, and S.2 (Rest of the World).

ECB/2005/13 requires a sectoral breakdown of liabilities for S.1, S.121-122, S.13 (of which, S.1311), and S.2 (Rest of the World).

Currency circulation in the euro area

5.15 Currency in circulation is the amount of euro currency issued (i.e. not held by the ECB and euro area national central banks themselves), and is the sum of amounts recorded by Eurosystem central banks and the ECB. In principle at least it includes in addition estimates of foreign currency banknotes and coins held by euro area residents.

5.16 Some information is available on holdings of currency. MFIs (other than central banks) and post office giro institutions report their own holdings of euro and non-euro currency monthly: MFIs distinguish between euro and other currency amounts; post office giro institutions report the two indistinguishably (presumably holdings of foreign currency are very small). Central governments report holdings of euro currency (but not holdings of other currencies) monthly. The investment fund and financial vehicle corporation statistics do not show the reporting institutions' holdings of currency; presumably they are very small. More significantly, banknote shipments by euro area commercial banks to banks located outside the euro area provide some information on holdings outside the euro area. It is assumed that such shipments account for most transactions in currency with non-residents of the euro area. Currency carried outside the euro area by travellers or movements linked to tax evasion are thought to be less important. The ECB has developed a means for estimating holdings of euro currency outside the euro area for balance of payments/international investment position and euro area accounts purposes,[27] using a weighted average of two different approaches. Estimated holdings outside the euro area are subtracted from the euro currency issuance to derive the euro currency holdings by euro area residents. As noted above, Guideline ECB/2011/23 (recast) formalises the reporting of banknote shipments from March 2013.

5.17 Holdings of euro currency by entities resident in the euro area other than MFIs, post office giro institutions and central government may therefore be estimated by residual. The inevitable difficulty of estimating holdings outside the euro area, and the possibility that post office giro institutions hold some foreign currency amounts, introduce considerable uncertainty into estimates of the total holdings of the residual sectors (households, non-financial corporations, financial corporations other than MFIs, and governmental agencies outside central government); dividing holdings among the residual sectors is even more uncertain. Further uncertainty attaches to their holdings of foreign currency notes and coins.

Currency circulation in the individual euro area Member States

5.18 Euro area financial accounts draw on national financial accounts submitted under Guidelines ECB/2002/7 and ECB/2005/13. Individual Member States in the euro area cannot however measure directly euro currency in circulation nationally, which may bear little relation to the amount actually issued by the national central bank or to the amount notionally attributed to it through the banknote allocation mechanism. Hitherto the legal allocation according to the banknote allocation key has been disregarded in compiling financial accounts,

[27] Euro area monetary statistics however include total euro currency in circulation, other than holdings of MFIs in the euro area.

and the actual issue of currency by the national central bank has been recorded on the liabilities side of the account; intra-Eurosystem positions arising from the legal allocation of banknotes have accordingly not been a feature of national financial accounts. From 2009, however, banknotes in circulation in national financial accounts of euro area Member States have been recorded as a liability according to the share of the country concerned in the capital of the ECB, which does indeed represent the liability of the central bank of that country in respect of euro banknotes in issue, and also reflects its share in the seigniorage ('monetary income').[28] The difference between the Member State's liability in respect of currency (calculated from the Capital Share Mechanism) and estimated holdings of euro currency by its residents (see below) will be recorded as a deposit liability to or a claim on the Rest of the World.

5.19 No detailed surveys on currency holdings by residents of participating Member States are available. Some euro area Member States estimate residents' holdings using explanatory variables related to the demand for currency. The variables 'overnight deposits and deposits redeemable at notice' and household consumption expenditure do best in tests using regression techniques to 'explain' domestic holdings of currency in the form of euro banknotes and coins. The procedure of allocating the euro currency issue among Member States also uses national information available in some countries, which may reflect experience with national currency circulation before the cash changeover in 2002 (or before their later entry into the euro area) and considered still to be relevant in the new circumstances. But, however national statisticians estimate currency in circulation for national financial accounts, the total must add up to the amount issued by the Eurosystem as a whole less the ECB's estimate for non-resident holdings (and of course the amounts held by MFIs). Euro area Member States which do not make their own national estimates share out the residual in proportion to the Capital Share Mechanism. To ensure consistency, the allocation of currency in circulation among the Member States is agreed between ECB and national statisticians.

5.20 Amounts outstanding of national currency put into circulation before the cash changeover should be recorded in other accounts payable (AF.7) (this departs from the treatment in euro area monetary statistics, where they remain in currency in circulation and therefore in the monetary aggregates for a year after the cash changeover). Holdings by euro area residents of foreign currency banknotes and coins draw on national estimates.

Currency circulation in Member States outside the euro area

5.21 In allocating currency in circulation to residual domestic sectors, Member States outside the euro area deduct from total domestic currency in circulation recorded holdings by MFIs and any other identified holders. No Member State makes an allowance for holdings of its

[28] The Capital Share Mechanism does not cover coins, which continue to be recorded in national financial accounts as the amount issued by the national central bank. As noted earlier, coins are in fact a liability of central government, but by convention the coin issue is recorded as a liability of the central bank to which is imputed a corresponding claim on the government. In euro area aggregates, coin is similarly deemed to be a liability of the Eurosystem matched by an imputed claim on government.

currency abroad. The amount is allocated to the residual holding sectors following established procedures or rules of thumb.

II Deposits (AF.22 and AF.29)

IIa Transferable deposits (AF.22)

ESA95 definition (Annex 7.1 – Definition of each asset category)
5.22 Deposits (in national or foreign currency) which are immediately convertible into currency or which are transferable by cheque, banker's order, debit entry or the like, without any significant restriction or penalty.

Further definitional remarks in the ESA95
5.23 Transferable deposits may be held with resident and non-resident MFIs and, in some cases, government units. They may include deposits held by MFIs with each other, including with a central bank.[29] Transferable deposits may be held by any sector (including the Rest of the World). They are predominantly liabilities of MFIs (including banking institutions in the Rest of the World) and are sometimes liabilities of general government (*5.43-5.44*). In some EU countries they may also be liabilities of post office giro institutions which may be classified as non-financial corporations.

IIb Other deposits (AF.29)

ESA95 definition (Annex 7.1 – Definition of each asset category)
5.30 Deposits (in national or foreign currency) other than transferable deposits. Other deposits cannot be used to make payments without notice and are convertible into currency or transferable deposits only with some significant restriction or penalty.

Further definitional remarks in the ESA95
5.31 Other deposits include all claims, other than transferable deposits, on the central bank, MFIs, government units, and, in some cases, other institutional units, that are represented by evidence of deposit. Typical forms of deposit that should be included under this classification are non-transferable savings deposits, term deposits, and non-transferable deposits denominated in foreign currencies. The category also covers shares or similar evidence of deposit issued by savings and loan associations, building societies, credit unions, and the like; these shares or deposits are legally, or in practice, redeemable on demand or at relatively short notice. Claims on the IMF that are components of international reserves and are not evidenced by loans should be recorded in other deposits. (Claims on the IMF evidenced by loans should be included in loans, AF.5.) Margin payments related to options or futures contracts are

[29] As noted in footnote 31 later in this chapter, MFI reporting follows the convention that deposits are liabilities only, and loans are assets only, of MFIs.

included in other deposits, as are repurchase agreements giving rise to an MFI liability (*5.46-5.49*).[30]

5.32 In the ESA95, transferable and other deposits may be held by all sectors. Deposits are predominantly liabilities of financial corporations and sometimes of general government (*5.49*).

5.33 A distinction between national and foreign currency amounts is likely to be useful (*5.23*).

5.34 Paragraph *5.44* notes that the distinction between transferable and other deposits may not always be analytically useful.

Balance sheet valuation in the ESA95

5.26 Chapter 7 requires (all) deposits to be valued at the amount of principal that the debtor is contractually obliged to repay the creditor (*7.46*). The value may include accrued interest. In general, the ESA95 requires interest to be recorded as it accrues, not when it is paid, with a matching entry in the financial account (*5.50*, *5.17*). But the ESA95 does not prescribe exactly how this imputed transaction should be recorded. It could be allocated to the relevant instrument category, deposits here, in which case the accrual of interest is treated as a transaction in deposits, as if the holder of the financial asset had promptly reinvested the accrued interest by adding to his holding of deposits (and the debtor had promptly taken more deposits); or it could be allocated to some catch-all category in the financial account. While *5.130* expresses a preference for imputing accrued interest to the relevant asset category, the ESA95 accepts that national accounting practices may be otherwise, in which case the counter-entry should be in 'other accounts receivable/payable' (AF.79). Foreign currency deposits should be converted into national currency at the mid-market exchange rate on the balance sheet date (*7.31*).

Transactions in the ESA95

5.27 The ESA95 defines a transaction as '*an economic flow that is an interaction between institutional units by mutual agreement or an action within an institutional unit that it is useful to treat as a transaction, often because the unit is operating in two capacities*' (*1.32*). The ESA95 goes on to define financial transactions as '*transactions in financial assets and liabilities between institutional units, and between them and the rest of the world*' (*5.1*). Financial transactions are recorded at transaction values (*5.134*) which may not be quite the same as values based on prices quoted in the market at the time of the transaction (*5.136*). The transaction value excludes charges, fees, commissions, etc., which are treated as separate transactions in services (*5.137*).

5.28 Accrual of interest is a transaction. If the accrual is recorded in the relevant instrument category (here transferable deposits), it is a transaction in transferable deposits. Usually there will be many transactions in transferable deposits between balance sheet dates. Since deposits

[30] Following the SNA93, the ESA95 says that overnight and very short-term repurchase agreements should be included in 'other deposits' if they are considered part of national broad money definitions (*5.46*), and further that other repurchase agreements should be classified under loans (*5.81(d)*).

are valued at the amount of principal that the debtor is contractually obliged to repay the creditor (normally the nominal or face value), in the absence of reclassifications or revisions the change in deposits denominated in national currency between two balance sheet dates must equal net transactions in the intervening period. Transactions in foreign currency deposits cannot be derived directly from the change in balance sheet levels, since exchange rate changes in the intervening period must be taken into account.

Definition of deposits in ECB statistics

General remarks

5.29 Because of their importance in MFI balance sheet statistics, and the importance of MFIs in the market for deposits, Regulation ECB/2008/32 is the prime source for the treatment of deposits in ECB statistics. The breakdowns are more detailed and in some respects different from those in the ESA95.

5.30 In Regulation ECB/2008/32, deposits are amounts owed to creditors by MFIs, other than those arising from the issue of negotiable securities.[31] Regulation ECB/2008/32 distinguishes between overnight deposits (of which transferable deposits form a part) and deposits with various periods to maturity, or which are withdrawable after various amounts of advance notice, and repurchase agreements, and further by sector of the holder and currency of denomination. (In what follows, all references to maturity mean initial or original maturity.) These categories are used in euro area monetary statistics and in some cases coincide with breakdowns used in balance of payments/international investment position statistics.

5.31 An important point is that Regulation ECB/2008/32 instructs MFIs to report interest as it accrues, but (in the case of deposits) in ‘remaining liabilities’ and not in the relevant deposit category.

Definition and treatment of various categories of deposit in ECB statistics

Allocation by residence and sector of the holder

5.32 MFI balance sheet statistics distinguish between deposits held by domestic residents (residents of the same country as the reporting MFI), by residents of other euro area countries, and by non-residents of the euro area.

5.33 MFI balance sheet statistics contain detailed sectoral information on holders of deposits where they are domestic residents or residents of other euro area countries. The sectors/sub-sectors are: MFIs (S.121-122), general government (S.13, with a quarterly breakdown showing

[31] ‘Loans’ are also amounts owed to creditors which do not arise from the issue of negotiable securities. The ESA95 distinguishes between ‘loans’ and ‘deposits’ on the basis of the party taking the initiative (if the borrower, the instrument is a loan; if the lender, it is a deposit – *5.74*). MFI reporting, however, follows the convention that loans never appear on the liabilities side of the MFI balance sheet, and deposits never appear among their assets. Thus a non-negotiable liability of an MFI (other than capital and reserves and items categorised as ‘remaining liabilities’) is always a deposit, and a similar asset is always a loan. It follows that funds placed in the interbank market appear as deposits in the balance sheet of one party and as loans in the balance sheet of the other. Restrictions on the transfer of legal ownership of an instrument that prevent it from being marketed, or the absence of an organised market, are sufficient for it to be regarded as non-negotiable. Instruments issued in non-negotiable form that subsequently become negotiable and tradable on secondary markets should be reclassified in MFI balance sheets as ‘debt securities’.

sub-sectors S.1311, 1312, 1313, and 1314); other (non-monetary) financial intermediaries and financial auxiliaries (S.123 and S.124 combined); insurance corporations and pension funds (S.125); non-financial corporations (S.11); households and non-profit institutions serving households (S.14 and S.15 combined). Deposits held by non-residents of the euro area show a quarterly breakdown into deposits held by 'banks' (MFIs elsewhere in the European Union), government, and other sectors combined.

5.34 Deposits are hardly taken by investment funds and financial vehicle corporations. Their holdings of deposits distinguish between those with resident MFIs, with other euro area MFIs, and with entities outside the euro area.

Instruments

Transferable deposits (AF.22)

5.35 Transferable deposits are overnight deposits which are directly transferable on demand to make payments to other economic agents by commonly used means of payment, such as credit transfer, direct debit, credit or debit card, e-money transactions, cheques, or similar means, without significant delay, restriction or penalty.

Other overnight deposits (part of AF.29)

5.36 In addition to transferable deposits (AF.22), overnight deposits include balances (interest-bearing or not) which are convertible on demand or by close of business on the following day without significant penalty or restriction, but which are not transferable. Non-transferable deposits which are technically withdrawable on demand but with a significant penalty are excluded.

Deposits with agreed maturity (part of AF.29)

5.37 Deposits with agreed maturity are non-transferable deposits which cannot be withdrawn before an agreed fixed term, or that can be withdrawn only at some penalty. This item includes, in the maturity band 'over two years', administratively regulated savings deposits where the maturity-related criterion is not relevant, and deposits held for specific purposes even if technically they are redeemable on demand (e.g. as qualification for a housing loan in due course) for which the interest rates and/or terms and conditions are specified in national legislation. Deposits with roll-over provisions are classified according to the earliest maturity. Deposits with agreed maturity which permit earlier redemption after prior notification, or may be redeemable on demand at a penalty, are nevertheless classified as deposits with agreed maturity. In these cases, after notification has been given, balances are then reclassified as deposits redeemable at up to three months' notice or over three months' notice, as applicable.

5.38 The maturity periods to be reported are up to and including one year, over one year and up to and including two years, and over two years – in each case referring to original maturity.

5.39 Margin payments made under derivative contracts to be closed out after some period (e.g. one year, two years) are classified as deposits with the relevant agreed term, provided the depositor retains ownership of the funds and the MFI has free use of them. The category 'deposits with agreed maturity' also includes funds taken by the MFI evidenced by a single document with the relevant maturity, and subordinated debt issued by the MFI in the form of deposits or non-negotiable instruments with the relevant maturity.

Earmarked balances related to e.g. leasing contracts are classified as deposits with agreed maturity or as deposits redeemable at notice, depending on the maturity/provisions of the underlying contract (see also below).

Deposits redeemable at notice (part of AF.29)

5.40 Deposits redeemable at notice are non-transferable deposits with no agreed maturity but which may be withdrawn without penalty only after a period of notice. The notice periods to be reported are up to and including three months and over three months (of which, over two years). This item in MFI balance sheet reporting includes deposits which, although legally withdrawable on demand, would be subject to penalties and restrictions according to national practice (classified in the first maturity band), and investment accounts without a period of notice or agreed maturity, but which contain restrictive drawing provisions (classified in the second band, namely over three months' notice, of which over two years' notice). The item includes deposits placed with a fixed term to maturity, but which will be redeemed earlier subject to a period of notice which has been served.

5.41 As noted above, earmarked balances related to e.g. leasing contracts are classified as deposits with agreed maturity or as deposits redeemable at notice, depending on the maturity/provisions of the underlying contract (see further below).

Repos (repurchase agreements) (part of AF.29)

5.42 The amount recorded as a deposit liability in the form of a repo is the counterpart of cash received in exchange for securities sold by the reporting MFI with a commitment to repurchase them at a fixed price on a specified future date. An entry on the liability side is needed because repurchase agreements and similar contracts are not treated statistically as transactions in the underlying securities, which remain on the balance sheet of the original holder who retains all risks and rewards of ownership, but rather as borrowing and lending operations. In this case, an MFI will have sold securities for cash, with an obligation to return the cash when the securities are bought back. The liability corresponding to the receipt of cash is recorded as a deposit and not as a loan, in accordance with the convention that MFIs do not have loans on the liability side of the balance sheet.

This treatment is followed irrespective of the term of the repo (in contrast to the ESA95 treatment – see footnote 31 above – in practice the difference is unlikely to have any significant effect since almost all repos are short term.

MFI liabilities arising from the following repo-type operations, where there is a commitment to reverse the operation and not merely an option to do so, are recorded as repos:

- cash as collateral against a loan of securities or gold made by the MFI;

- cash deposited with an MFI in exchange for securities transferred under a sale/buy-back agreement.

A loan of securities or gold without cash collateral (whether against no collateral, or against some collateral other than cash) is not recorded on the balance sheet at all.

5.43 **Margins placed under derivative contracts (part of AF.29)**
Margins should be classified as deposits where they represent cash collateral placed with MFIs, remain in the ownership of the depositor, and are repayable to him when the contract is closed out. Margins received by the MFI should however be classified as deposits only to the extent that the MFI is provided with funds freely available for on-lending. Where a part of the margin received by the MFI must be passed on (e.g. to the clearing house), only that part which remains at the disposal of the MFI should be classified as deposits. Where different types of margin are placed indistinguishably within the same account, it may be difficult to identify amounts that are truly repayable, or amounts that provide the MFI with resources for on-lending. Regulation ECB/2008/32 then allows MFIs to classify margins either as deposits or as 'remaining liabilities' according to national practice.

Instruments called 'shares' with the features of deposits (part of AF.29)
5.44 Since some liabilities of certain MFIs may be called 'shares', though they have the features of deposits, Annex II, Part 2 of Regulation ECB/2008/32 clarifies the distinction between such instruments and equity shares issued by MFIs (which form part of their capital and reserves): *'Shares issued by MFIs are classified as deposits instead of as capital and reserves if: (a) there is a debtor\creditor economic relationship between the issuing MFI and the holder (regardless of any property rights in these shares); and (b) the shares can be converted into currency or redeemed without significant restrictions or penalties. A notice period is not considered to be a significant restriction. In addition, such shares must comply with the following conditions:*
— the relevant national regulatory provisions provide no unconditional right to the issuing MFI to refuse redemption of its shares;
— the shares are "value certain", i.e. under normal circumstances they will be paid out at their nominal value in the event of redemption; and
— in the event of the MFI's insolvency, the holders of its shares are legally subject neither to the obligation to cover outstanding liabilities in addition to the nominal value of the shares… nor to any other onerous supplementary obligations.'

Deposits received on a trust basis
Deposits received on a trust basis are not to be recorded on the MFI statistical balance sheet. This is because the trustee MFI is acting as an agent for the other parties to the trust arrangement.

Valuation of deposits in ECB statistics
In MFI balance sheet statistics
5.45 Article 7 of Regulation ECB/2008/32 states that '*Deposit liabilities [and loans] shall be reported at their principal amount outstanding at the end of the month*'. This is the amount of principal that the reporting MFI) is contractually obliged to repay to a creditor. Furthermore '*all financial assets and liabilities shall be reported on a gross basis for statistical purposes*'.

On a gross basis means that no claims against the deposit-holder are deducted from the deposit ('*deposit liabilities [and loans] shall not be netted against any other assets or liabilities*').

5.46 Annex II, Part 2 of Regulation ECB/2008/32 states that interest payable on deposits should be reported on the balance sheet as it accrues rather than when it is actually paid, but it should be recorded under the category 'remaining liabilities' and not be added to the deposit to which it relates. (As noted elsewhere, this is a departure from the ESA95 which prefers accruing interest to be recorded in the appropriate instrument category);

5.47 MFIs must distinguish between deposits denominated in euro and in foreign currency in monthly reporting. When submitting MFI balance sheet data to the ECB, national central banks ensure that liability (and asset) positions denominated in foreign currencies are converted into euro at the market exchange rate on the last day of the period, commonly at the ECB reference exchange rate (Guideline ECB/2007/9, Annex V). MFIs report quarterly the amounts of deposits denominated in each of the main foreign currencies; this information is used by the ECB to remove (as an approximation) the effect of exchange rate changes from the 'flows' data.

5.48 The transaction value of deposits excludes fees, etc. (Guideline ECB/2007/9, as amended, Annex V, Part 3).

5.49 For valuation purposes, shares issued by money market funds (MMFs) were treated in ECB statistics as quasi-deposits. As Guideline ECB/2007/9, Annex V, Part 3, Section 3 still says: '*MMFs are included in the list of MFIs because MMF shares/units are close substitutes for deposits. Therefore, MMF shares/units [as liabilities of institutions in the MFI sector] receive the same treatment as deposits. Financial transactions in deposits comprise flows into/out of deposit accounts due to customer credits/debits and the receipt of interest. As deposits have a fixed nominal value, there are no holding gains and losses. Hence, all changes in stocks between two periods represent, with the exception of 'reclassifications and other adjustments', financial transactions. As far as MMF shares/units are concerned, customer credits/debits to/from deposits have their equivalent in the purchase/sale of shares/units; the receipt of interest on deposits has its equivalent in changes in the value of shares/units. As changes in the value of MMF shares/units usually occur daily, this instrument is similar to deposits where interest is received daily….. As [for] deposits, all changes in the stock of MMF shares/units are to be treated as financial transactions (again, with the exception of 'reclassifications and other adjustments')*'. However, a decline in the price of MMF shares/units due to losses on the fund's asset side cannot be compared to interest payments. While in former times this may not have happened much, during the financial crisis a number of funds experienced substantial declines in the value of their assets and accordingly in their shares/units issued. With the introduction of the update regulation ECB/2008/32 a series key for revaluation adjustments to MMF shares/units was introduced, allowing countries to transmit revaluation adjustments no longer for 'remaining liabilities', but for the shares/units issued. Transactions in MMF shares/units have been calculated taking into account revaluation adjustments since June 2010.

5.50 The treatment of exchange rate changes in the context of MMF shares/units is somewhat different. MMFs may hold foreign currency denominated assets, the amount of which in euro may be affected by changes in exchange rates. A corresponding adjustment to shares/units on the liabilities side of their balance sheet, based on the proportion of non-euro denominated assets held by the MMFs in their total assets as reported in the quarterly detailed MMF balance sheet statistics, is attributed to non-resident holdings of these instruments. The effect of exchange rate changes on the outstanding value of MMF shares/units through its effect on assets held by MMFs therefore has no impact on monetary aggregates (stocks or flows), because holdings of monetary instruments by non-residents of the euro area are excluded from euro area M3.

Investment fund statistics

5.51 Regulation ECB/2007/8 (Article 8) states that '*The accounting rules followed by investment funds for the purposes of reporting under this Regulation shall be those laid down in the relevant national law implementing Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, or, if the former provision is inapplicable, in any other national or international standards that apply to investment funds. Without prejudice to accounting practices and netting arrangements prevailing in the participating Member States, all financial assets and liabilities shall be reported on a gross basis for statistical purposes*'. Regulation ECB/2007/8 contains no explicit guidance on the valuation of deposits. The implication of Annex II to ECB/2007/8 is however that investment funds will record interest accruing on deposits (liabilities – if they have any in this category – or assets) in remaining liabilities or remaining assets, and not in the deposit category in the balance sheet.

In financial vehicle corporation statistics

5.52 Regulation ECB/2008/30 contains no explicit guidance on the valuation of deposits. The implication of Annex II, Part 1 to ECB/2008/30 is however, that financial vehicle corporations will record interest accruing on deposits (liabilities – if they have any in this category – or assets) in remaining liabilities or remaining assets, and not in the deposit category in the balance sheet.

In other OFI statistics

5.53 While deposits are unlikely to be important in the balance sheets of other (non-monetary) financial intermediaries, similar treatments are specified in Guideline ECB/2007/9, Annex III, Part 11 under which national central banks currently provide data on some other groups of OFIs.

In balance of payments/international investment position statistics

5.54 As regards valuation of transactions and positions, timing of transactions, the treatment of repurchase agreements and other reversible transactions and the consequences for the recording of deposits, and the accrual of interest on deposits, requirements for the balance of payments/international investment position and the financial accounts (see paragraphs 5.26-5.28 and 5.31) coincide. The treatment of accrued interest in balance of payments/international investment position statistics consequently differs from the ECB's requirements for monetary and other financial institutions statistics.

5.55 It might be noted however that in balance of payments/international investment position statistics, deposits are recorded together with loans and currency in the functional category 'other investment'. Loans must be separated out when balance of payments/international investment position statistics are used to represent the transactions and positions of the Rest of the World in (currency and) deposits in euro area financial accounts.

Requirements for euro area financial accounts (Guidelines ECB/2002/7, ECB/2005/13)

5.56 Recital 4 in ECB/2002/7 states the general principle that quarterly euro area financial accounts should be based as much as possible on the ESA95. In the absence of sufficient source statistics for certain items, national central banks must nevertheless provide best estimates for the compilation of euro area aggregates (Article 2).

5.57 ECB/2005/13 requires no instrument breakdown of deposits (i.e. AF.22 and AF.29 are to be reported together). The Guideline requires a sectoral breakdown of holdings (assets) for S.1, S.11, S.121-122, S.123, S.124, S.125, S.13, S.14-15, and S.2 (Rest of the World), and, for each holding sector, information on which sector the deposit represents a claim (S.1, S.121-122, S.123, S.124, S.125, S.13, and S.2). This is from-whom-to-whom information. ECB/2005/13 requires a sectoral breakdown of liabilities in the form of deposits for S.1, S.121-122, S.123, S.124, S.125, S.13, and S.2 (Rest of the World). If a non-resident deposit-taker (S.2) is resident in another euro area country, the information on which sector the deposit represents a claim is repeated, so permitting the from-whom-to-whom analysis to be carried out for the euro area as a whole.

CHAPTER 6 – Securities other than shares, excluding financial derivatives ('debt securities') (AF.33)

Importance of instrument categories in euro area balance sheets
€ trillions, end-2011

	Assets			Liabilities	
Financial instruments	Euro area residents	Rest of the world		Euro area residents	Rest of the world
Monetary gold and SDRs	0.4				
Currency and deposits	21.6	3.8		22.8	2.6
Debt securities	**14.3**	**4.3**		**15.5**	**3.1**
Financial derivatives	0.0	0.0		0.0	0.0
Loans	20.9	1.8		19.7	3.1
Shares	24.2	6.0		24.6	5.5
Shares, excl. IF shares*	19.3			18.0	
Investment fund shares*	4.8			6.7	
Insurance technical reserves	6.2	0.2		6.4	0.0
Other accounts receivable/payable	5.8	0.5		5.9	0.4

* Instrument breakdown is not available for Rest of the world.

***Assets – euro area residents** comprise claims held by residents of the euro area in the form of the respective instruments, including claims on the Rest of the World (shown in the column **liabilities – RoW**).*

***Liabilities – euro area residents** comprise liabilities of residents of the euro area in the form of the respective instruments, including liabilities to the Rest of the World (shown in the column **assets – RoW**).*

Since the euro area financial accounts are horizontally balanced, as explained in the box in Chapter 2, apart from a rounding difference in other accounts receivable/payable total assets equal total liabilities in each category except monetary gold and SDRs.

ESA95 definition (Annex 7.1 – Definition of each asset category)

6.1 Securities other than shares (debt securities) (AF.3) are financial assets which are negotiable and bearer instruments,[32] are usually traded on secondary markets, and do not grant the holder any ownership rights in the institutional unit issuing them.

6.2 Debt securities, excluding financial derivatives (AF.33), the subject of this chapter, are securities which give the holder the unconditional right to a fixed or contractually determined variable money income in the form of coupon payments (interest) and/or a stated fixed sum on a specified date or dates or starting from a date fixed at the time of issue.

Further definitional remarks in the ESA95

[32] In some countries debt securities are not bearer instruments but are recorded on a register. Sales and purchases are notified to the registrar who amends the register accordingly; interest and redemption payments are made to the registered holders. Such securities are also included in AF.33.

6.3 Chapter 5 distinguishes between short-term debt securities (with an original maturity of one year or less) and long-term debt securities (with an original maturity exceeding one year) (*5.22*). The former includes treasury bills, commercial paper, certificates of deposit, bankers' acceptances, and short-term securities issued under note issuance facilities (*5.58*). Long-term debt securities include bonds, floating rate notes, loans which have become negotiable de facto and are traded on an organised secondary market, securities resulting from the conversion of loans, debentures and loan stock convertible into shares so long as they have not been converted, non-participating preference shares, and other instruments that offer a fixed income and no claim on the residual value of a corporation on dissolution (*5.62*). Exceptionally, securities issued for up to two years may be classified as short-term (*5.22*).

Balance sheet valuation in the ESA95

6.4 Chapter 7 requires debt securities to be valued at market prices on the balance sheet date (*7.25*).

6.5 In general, the ESA95 requires interest to be recorded as it accrues, not when it is paid, with a matching entry in the financial account as if the holder of the financial asset had promptly reinvested the accrued interest (*5.50*, *5.17*). Furthermore, where securities are issued at a premium or discount, the difference between the issue price and the redemption price is to be treated as (negative or positive) interest accruing over the life of the instrument (*5.138*), with the imputed entry in the property income account matched by an offsetting entry in the financial account, again as if the holder, having received interest, promptly reinvested it in the instrument. But the ESA95 does not prescribe exactly how this imputed transaction should be recorded. *5.130* expresses a preference for imputing accrued interest to the relevant instrument category, here debt securities, in which case the accrual of interest is treated as a transaction in debt securities, as if the holder of the financial asset had promptly reinvested the accrued interest by adding to his holding of debt securities (and the debtor had promptly issued more debt securities). However, the ESA95 accepts that national accounting practices may be otherwise, in which case the counter-entry should be in 'other accounts receivable/payable' (AF.79). It does however insist (*7.47*) that the balance sheet valuation of debt securities should be consistent with the treatment of accrued interest and its allocation to specific asset headings. Thus, if in the financial account the counter-entry to accrued interest is in 'other accounts receivable/payable', the value of accrued interest should be recorded in AF.79 in the balance sheet, and the value of debt securities recorded in AF.33 should not reflect any accrued interest. Debt securities denominated in foreign currency should be converted into national currency at the mid-market exchange rate on the balance sheet date (*7.31*).

6.6 If current market prices are not available, short-term debt securities issued at par should be valued at face value plus accrued interest, while short-term securities issued at a discount should be valued at issue price plus accrued interest; these treatments should be confined to debt securities of three months' original maturity or less (*7.48*). Longer-term debt securities are always to be valued at current market price, whether they are coupon bonds or deep-discounted/zero coupon paper (*7.48*).

Transactions in the ESA95

6.7 The ESA95 defines a transaction as '*an economic flow that is an interaction between institutional units by mutual agreement or an action within an institutional unit that it is useful to treat as a transaction, often because the unit is operating in two capacities*' (*1.32*). The ESA95 goes on to define financial transactions as '*transactions in financial assets and liabilities between institutional units, and between them and the rest of the world*' (*5.1*). Financial transactions are recorded at transaction values (*5.134*) which may not be quite the same as values based on prices quoted in the market at the time of the transaction (*5.136*). The transaction value excludes charges, fees, commissions, etc., which are treated as separate transactions in services (*5.137*).

6.8 Accrual of interest is a transaction; if the accrual is recorded in the relevant instrument category (here debt securities), it is a transaction in debt securities. Usually there will be many transactions in debt securities between balance sheet dates, undertaken at different prices; and market prices will usually vary from one balance sheet date to the next. Accordingly transactions in debt securities in the intervening period cannot be derived from the change in balance sheet values. Transactions and positions in foreign currency denominated debt securities are a further reason why the change in balance sheet levels will not correspond to transactions, since exchange rate changes as well as changes in market prices must be taken into account.

6.9 Chapter 5 (*5.138*) gives further guidance. When securities are issued at a premium or discount, the actual issue value, namely the proceeds to the issuer at the time of sale, is recorded, not the face value, and the difference between the issue value and the redemption value is treated as (negative or positive) interest accrued over the life of the security. This general rule applies also to deep-discounted/zero coupon paper and to indexed securities (where the value of the principal is linked to a price index, the price of a commodity, or an exchange rate index). The conversion of bonds into shares is treated as a sale of bonds (valued at their current market price) and a purchase of shares.

Definition and treatment of debt securities in ECB statistics

Allocation by residence and sector of the issuer and holder

6.10 MFI balance sheet statistics break down reporting MFIs' holdings of debt securities by residence of the issuer (domestic, other euro area, and Rest of the World) and, for issuers in the first two categories, with full sector detail except that issues by OFIs (S.123) and financial auxiliaries (S.124) are combined. Issuers resident outside the euro area are broken down only between banks (MFIs elsewhere in the European Union), government and other sectors. There is a similar requirement for holdings of debt securities by investment funds reported under Regulation ECB/2007/8, but in practice investment funds report holdings security-by-security. Financial vehicle corporations provide only a limited breakdown under ECB/2008/30.

It is much harder for reporting institutions to know who holds the debt securities which they have issued. MFIs and financial vehicle corporations (investment funds have few liabilities in this form) are not asked to allocate their own issues by residence and sector of the creditor – the ECB and national central banks make the necessary estimates from other sources.

Instruments in MFI balance sheet statistics

6.10 Regulation ECB/2008/32 (Annex II, Part 2) states that the following instruments should be classified as debt securities:

Securities other than shares or other equity, which are negotiable and usually traded on secondary markets or can be offset on the market, and which do not grant the holder any ownership rights over the issuing institution. This item includes:

(a) securities which give the holder the unconditional right to a fixed or contractually determined income in the form of coupon payments and/or a stated fixed sum at a specific date (or dates) or starting from a date defined at the time of issue;

(b) negotiable loans that have been restructured into a large number of identical documents and that can be traded on secondary markets (see also 'traded loans'). Non-negotiable instruments held or issued by reporting agents that subsequently become negotiable should be reclassified as 'debt securities';

(c) subordinated debt in the form of debt securities (see also 'subordinated debt in the form of deposits or loans'). On the liabilities side of the balance sheet, subordinated debt issued in the form of securities is to be classified as 'debt securities issued', whereas subordinated debt issued by MFIs in the form of deposits or loans is to be classified as 'deposit liabilities'. Where all subordinated debt issued by an MFI is identified as a single amount for statistical purposes, this figure is to be classified under the item 'debt securities issued', on the grounds that subordinated debt is predominately constituted in the form of securities rather than as loans. Subordinated debt should not be classified under the liability item 'capital and reserves';

(d) Hybrid instruments. Negotiable instruments with a combination of debt and derivative components, including:
— negotiable debt instruments containing embedded derivatives
— negotiable instruments whose redemption value and/or coupon is linked to the development of an underlying reference asset, asset price or other reference indicator over the maturity of the instrument.

6.11 Securities lent out under securities lending operations or sold under a repurchase agreement remain on the original owner's balance sheet (and are not to be recorded on the balance sheet of the temporary acquirer), where there is a firm commitment to reverse the operation and not simply an option to do so. Where the temporary acquirer sells the securities received, this sale must be recorded as an outright transaction in securities and entered in the balance sheet of the temporary acquirer as a negative position in securities.

6.12 Regulation ECB/2008/32 distinguishes between securities of up to and including one year's original maturity; of over one year's and up to and including two years' original maturity; and of over two years' original maturity. The one-year original maturity point is also used in the ECB's securities issues statistics. The additional two-year maturity category is necessitated by the ECB's definition of broad money, M3, which has a two-year maturity cut-off for monetary instruments including bonds issued by MFIs.

6.13 MFIs must distinguish between debt securities issued in euro and in other currencies, with (quarterly) a breakdown between debt securities denominated in the USD, JPY, CHF, GBP, and other EU currencies combined. (This is important for revaluation adjustments and estimating transactions.) The required residence and sector breakdowns were discussed above.

In investment fund statistics

6.14 Regulation ECB/2007/8 defines debt securities in much the same way. Where investment funds (exceptionally) issue debt securities, however, an important difference from the treatment in the MFI balance sheet is that they record the amount in 'remaining liabilities'. Investment fund holdings of debt securities are reported security-by-security, where the reporting fund need record only the limited information about the holding required in Annex I, Part 3, and the compiler classifies by maturity, currency and issuer using a securities database. No breakdowns are reported for any issues of debt securities included indistinguishably in 'other liabilities'.

In financial vehicle corporation statistics

6.15 In the nature of their business, financial vehicle corporations are likely to hold mainly loans which have been the subject of a securitisation (see Chapter 8). Financial vehicle corporations' liabilities are likely to be mainly debt securities. Here, Regulation ECB/2008/30 makes clear that debt securities issued include asset-backed securities and credit-linked notes (given that such instruments meet the other requirements for classification as debt securities, AF.33). Regulation ECB/2008/30 requires the same maturity classification of holdings of debt securities as the MFI balance sheet and if Regulations.

In securities issues statistics

6.16 As might be expected, it is in the section of Guideline ECB/2007/9 dealing with securities issues statistics (Annex III, Part 12) that the most detailed information on debt securities is found.

6.17 Euro area securities issues cover gross issues, redemptions, net issues and outstanding amounts of all issues by euro area residents in any currency, and all issues denominated in euro (the Bank for International Settlements being the source for issues by non-residents of the euro area, including international organisations).

6.18 Debt securities include private placements where known.

6.19 Issues are classified according to the sector incurring the liability. Securities issued through a financial vehicle corporation where the liability for the issue is incurred by the parent entity and not the financial vehicle corporation must be attributed to the parent if both are resident in the same country. Where the parent company is not resident in the reporting country, the financial vehicle corporation making the issue must be treated as a resident financial corporation in S.123.

6.20 The sectoral classification follows the ESA95 and normal statistical practice except that, in the unlikely event that a household or non-profit institution serving households issues debt securities, the debtor is deemed to be a non-financial corporation (S.11).

6.21 Issues, etc. of debt securities are further classified by maturity. *Short-term debt securities* comprise securities that have an original maturity of one year or less, even if they are issued under longer-term facilities. Examples include certificates of deposit, commercial paper (euro commercial paper, commercial bills, promissory notes, bills of trade), bankers' acceptances, etc., and treasury bills and other short-dated government negotiable instruments. Some may be short-term securities issued under long-term underwritten note issuance facilities. *Long-term debt securities* comprise securities that have an original maturity of more than one year. Issues with optional maturity dates, the latest of which is more than one year away, and issues with indefinite maturity dates, are classified as long-term. As accepted in the ESA95 (*5.22*), securities with an original maturity of two years may exceptionally be classed as short-term. Examples include bearer bonds, subordinated bonds, undated or perpetual bonds, variable rate notes, convertible bonds, covered bonds (giving the holder a priority claim on specific assets on the debtor's balance sheet), index-linked securities, where the value of the principal is linked to a price index, the price of a commodity or to an exchange rate index, and deep-discounted and zero coupon bonds. Debt securities may include securities resulting from the conversion or securitisation of loans, loans that have become negotiable de facto, and debentures and loan stock convertible into shares, so long as they have not been converted. Where separable from the underlying bond, the conversion option, considered to be a financial derivative, is excluded. Also excluded from securities issues and outstandings are all other financial derivatives, and non-negotiable loans and securities.

6.22 Long-term debt securities issues are further divided by coupon or interest payment type into fixed-rate issues, i.e. bonds whose nominal coupon payment does not change during the life of the issue; variable rate issues, i.e. bonds where the coupon rate or underlying principal are linked to an interest rate or some other index resulting in nominal coupon payments which may vary over the life of the issue; and zero coupon issues, i.e. instruments that do not pay any periodic coupon payments.

6.23 Gross issues comprise all issues of debt securities where the issuer sells newly created securities for cash. Issues of securities which can later be converted into other instruments are recorded as issues in their original instrument category; on conversion they are redeemed from this instrument category and treated as gross issues in a new category. The recording of issues should coincide with payment for the underlying issue. Redemptions cover all repurchases of debt securities by the issuer, whether early or at maturity, where the investor receives cash for the securities. Net issues are gross issues minus redemptions.

6.24 In balance of payments/international investment position statistics, debt securities may be included in the functional categories direct investment, portfolio investment and reserve assets depending on the relationship between the holder and the issuer and (for reserve assets) on the identity of the (resident) holder. The Bop Book is more explicit than other sources on the treatment of instruments similar to genuine repos, but which contain an option to return the underlying securities rather than an obligation to do so should be recorded as transactions in the underlying securities, and not as repos. Examples of these instruments are "*Unechte Wertpapierpensionsgeschäfte*" or *spurious repurchase agreements* (Germany, Luxembourg, Austria and Italy), *réméré*s (France) and *outright sales with an option to buy back* (Denmark and Portugal). The Bop Book also offers guidance on the distinction between debt securities and loans according to tradability. Thus all instruments which are traded or tradable in organised and other financial markets are, in principle, considered as debt securities, even if they are not in practice traded, having being placed directly with investors through publicly announced private offerings and held to maturity. (While recognising the difficulty of making the distinction in practice, the Bop Book distinguishes between publicly announced private placements, tradable from the time of issue, and privately arranged private placements, which should be classified as loans unless or until they become tradable.) Depository receipts should be recorded according to the underlying instrument; they should be classified as domestic or foreign securities according to the country of residence of the issuer of the underlying security, and not that of the financial institution issuing the depository receipt, which merely acts as an intermediary and does not record the underlying security on its balance sheet.[33]

6.25 For further information on loan securitisation, see the box in Chapter 8.

Valuation in ECB statistics

In MFI balance sheet statistics

6.26 Regulation ECB/2008/32 makes the general point on valuation that '*Unless otherwise provided for in this Regulation, the accounting rules followed by MFIs for the purposes of reporting under this Regulation shall be those laid down in the national transposition of Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as well as in any other international standards applicable.*' (As noted elsewhere, however, deposits and loans must be valued at the principal amount outstanding.) Guideline ECB/2007/9, as amended, says in connection with valuation adjustments that '*Although it is recommended that both sides of the balance sheet are recorded at market value, in practice, a variety of different valuation methods may be employed on both the liabilities and the assets sides. This is acceptable as long as the book value does not diverge significantly from the market value…. On the assets side of the balance sheet, holdings of securities may be recorded using market price, purchase price, the lower of market or purchase price or redemption value in accordance with standard accounting practice. The content of the adjustment depends on the valuation method applied.*' (Annex V, Part 3). It is clear that MFIs in different Member States use different valuation practices for debt securities issued and held. Indeed, *Methodological notes for the compilation of the revaluation adjustment* (February 2006) noted that in several euro area Member States MFIs value debt securities held for trading purposes at market prices, and debt securities held in the investment portfolio at acquisition value, or the lower of market and acquisition price, or at some other book value. Varying valuation practices inevitably affect the data on outstanding issues and holdings of debt securities in MFI balance sheet statistics. The method of revaluation adjustment however accommodates these differences and should ensure that

[33] Depository receipts facilitate ownership of securities listed on the stock exchange of another country; a depository issues receipts listed on the local exchange which represent ownership of securities listed abroad.

transactions data based on MFI balance sheets but adjusted for non-transactional changes in balance sheet outstandings are not distorted by different valuation practices. Thus '*The content of the adjustment depends on the valuation method applied.*' Approximations may be necessary. Thus '*If no other information is available, it can be assumed that the revaluations corresponding to securities over two years is equal to the total amount of revaluation adjustment in respect of holdings of securities other than shares issued for each sector*' (Annex V, Part 3, Section 2, Guideline ECB/2007/9).

Table 6.1

National practice in the valuation of debt securities in MFI balance sheets in the euro area

	Trading portfolio	**Investment portfolio**	**Other holdings**
BE	usually market	constant yield method	
DE	lower of cost/market	lower of cost/market	lower of cost/market
GR	market prices used for	all purposes	
ES	market	purchase price	purchase price
FR	market	purchase price	purchase price
IE	usually market	usually market	
IT	market (if listed)	book value - not explicit what it is	
LU	market an option	usually lower of cost/market	
NL	market	redemption value	redemption value
AT	market	market	market
PT	liabilities: nominal assets: valuation follows	IAS (market/nominal/book value)	
FI	market	lower of cost/market	lower of cost/market
EE	sec: nominal	own funds at book value	value

Notes:
BE MFIs report fixed-interest debt securities held in the investment portfolio at actuarial value, variable-interest securities at the lower of cost/market.
LU MFIs have the option of reporting fixed-rate debt securities held for trading purposes at market valuation, but the practice is discouraged.
Source: *Methodological notes for the compilation of the revaluation adjustment* [for the MFI balance sheet Regulation, ECB/2001/13], February 2006.

6.27 Regulation ECB/2008/32 contains no rule concerning the treatment of accrued interest on securities. The definition of remaining assets and remaining liabilities in Annex II, Part 2 mentions only the inclusion of accrued interest on loans and deposits. Concerning the treatment of accrued interest on debt securities, Guideline ECB/2007/9, Annex 5, Part 3 requires national central banks to adopt the following practice with respect to interest accruing on debt securities in the MFI balance sheet:

- if accrued interest is intrinsic to the accounting price as reported in the statistical balance sheet, it is to be excluded from the transaction value and, instead, indistinguishably included within revaluation adjustments. (An instance would be where the increase in the balance sheet value arises from indexation);

- if accrued interest is excluded from the stock value of the securities to which it relates in the statistical balance sheet, it is to be classified under 'remaining assets' or 'remaining liabilities' as appropriate, and therefore not considered when calculating flows or revaluation adjustments.

6.28 In neither case, it might be noted, is accrued interest treated as a transaction in the debt securities to which it relates, which is the preferred treatment in the ESA95. The Guideline notes that this matter may be subject to further examination.

6.29 To enable transaction flows to be properly compiled from balance sheet entries at current market prices (or whatever valuation practice is followed in national MFI balance sheet statistics), Regulation ECB/2008/32 requires MFIs to provide valuation adjustments for items in the balance sheet likely to experience significant valuation changes (the 'minimum requirement'). The minimum requirement in Regulation ECB/2008/32 relates to the reporting of MFIs' assets, and within that to holdings of debt securities with original maturity exceeding two years (and of shares and other equity – see Chapter 9). This is because significant valuation effects are likely to be confined to these categories. National central banks may however seek from MFIs information on the effect of price changes affecting a wider range of instruments, including a limited number of liability items, and must in any case provide estimates of valuation effects for all relevant balance sheet items (Guideline ECB/2007/9, Annex V, Part 1). This may be done in three ways:

- MFIs report the adjustments applicable to each item, reflecting the valuation changes due to change in prices. The central bank aggregates the adjustments reported by MFIs for the submission of data to the ECB;
- MFIs accumulate flows during the month and transmit the value of purchases and sales of securities to the national central bank (the compilation and submission of net flows is also acceptable). The national central bank receiving transactions data calculates the 'revaluation adjustment' as a residual from the difference between the change in stocks, the transactions, and other adjustments, and submits the revaluation adjustment to the ECB. (How transactions are to be measured (the 'transaction' and 'balance sheet' approaches) was explained in Chapter 2, and is covered in more detail in the ECB's *Manual on MFI balance sheet statistics*);

- MFIs report information on holdings security-by-security, such as the nominal (face) value, accounting (or book) value, market value, sales and purchases. The national central bank can then calculate the 'revaluation adjustment' to be submitted to the ECB.

6.30 National central banks ensure that asset and liability positions denominated in foreign currencies are converted into euro at the market exchange rate on the last day of the period, commonly at the ECB reference exchange rate (Guideline ECB/2007/9, Annex V).

In investment fund statistics

6.31 Regulation ECB/2007/8 (Article 8) states that '*The accounting rules followed by investment funds for the purposes of reporting under this Regulation shall be those laid down in the relevant national law implementing Council Directive 86/635/EEC of 8 December 1986* *on the annual accounts and consolidated accounts of banks and other financial institutions, or, if the former provision is inapplicable, in any other national or international standards that apply to investment funds. Without prejudice to accounting practices and netting arrangements prevailing in the participating Member States, all financial assets and liabilities shall be reported on a gross basis for statistical purposes*'. Regulation ECB/2007/8 provides the possibility for investment funds to report on a security-by-security basis. Since most do so, and the approach to recording valuation adjustments for investment funds is anyway similar to that for MFIs, it is not necessary to repeat the detail. There is however an important difference concerning accrued interest: Article 18 (7) of Guideline ECB/2007/9 requires the inclusion of accrued interest in reported outstanding amounts of debt securities, and Annex V, Part 4 says '*Accrued interest on securities held and issued is included in the stock data on securities and in the transaction value'.*

6.32 Where investment funds report their assets on an aggregated basis (i.e. not security-by-security), Annex V, Part 4 says that national central banks may provide the ECB with the revaluation adjustment for securities, and also for other assets, in one of two ways:

- where investment funds report the adjustments applicable to each item, reflecting the valuation changes due to price and exchange rate changes, the national central bank aggregates the adjustments provided;
- where investment funds report aggregated transactions *(* the accumulated value of purchases and sales), the national central bank calculates the revaluation adjustment as the residual between the change in reported stocks and the reported transactions.

In financial vehicle corporation statistics

6.33 Financial vehicle corporation reporting comprises both outstanding amounts and transactions. Regulation ECB/2008/30, Annex II, Part 3 says that: '*Financial transactions, in accordance with ESA95, are defined as the net acquisition of financial assets or the net incurrence of liabilities for each type of financial instrument, i.e. the sum of all financial transactions that occur during the relevant reporting period. The method of valuation for each transaction is to take the value at which assets are acquired/disposed of and/or liabilities are created, liquidated or exchanged. Financial transactions must in principle comply with this methodology. Write-offs/write-downs and valuation changes do not represent financial transactions.*'

In other OFI statistics

6.34 Guideline ECB/2007/9 states '*Accounting rules followed by OFIs in drawing up their accounts shall comply with the national transposition of Directive 86/635/EEC and any other international standards applicable. Without prejudice to the prevailing accounting practices in Member States, all assets and all liabilities are to be reported on a gross basis for statistical purposes.'*

6.35 Annex III, Part 11 of the Guideline, concerning statistics on certain categories of non-monetary financial intermediary other than investment funds and financial vehicle corporations, requires national central banks to value securities at market prices (which will reflect accrued interest – only interest accrued on loans and deposits is to be recorded in 'other assets/other liabilities') in data submitted to the ECB.

In securities issues statistics

6.36 On data concerning securities issues, redemptions and outstandings, Guideline ECB/2007/9 requires national central banks to follow a different valuation rule for debt securities, namely (with exceptions) nominal or face value (Annex III, Part 12). Thus:

'*Stocks and flows of debt securities [must be reported] at nominal value. An exception to the recording of stocks and flows of debt securities at nominal value is made in respect of deep-discounted and zero coupon bonds, where the issues are recorded at the effective amount paid, i.e. the discounted price at the time of purchase, and the redemptions at maturity [are recorded] at nominal value. The outstanding amounts of deep-discounted and zero coupon bonds are the effective amount paid plus accrued interest [calculated according to a formula which takes account of the issue and redemption prices and the proportion of the period to redemption which has elapsed]. There may be certain differences in the price valuation procedure used across countries. The ESA95 price valuation approach, which requires flows for debt securities…. to be recorded at transaction value and stocks at market value, is not applied in this context. Current BIS valuation rules* [relevant here because the Bank for International Settlements is the source for some of the data] *are face value for debt securities….. For deep discounted and zero coupon bonds, the reporting national central bank must calculate accrued interest [for purposes of BIS statistics] where feasible*.'

6.37 All data are expressed in euro. Gross issues and redemptions of debt securities denominated in other currencies are converted into euro at the mid-market exchange rate at the time of payment, or at the closest approximation to it. Outstanding amounts of debt securities denominated in other currencies are converted at the mid-market exchange rate at the close of business on the reporting date.

In balance of payments/international investment position statistics

6.38 As regards valuation of transactions and positions, timing of transactions, the treatment of repurchase agreements and other reversible transactions and the accrual of interest on debt securities, requirements for the balance of payments/international investment position and the financial accounts (see immediately below) coincide. Valuation and the treatment of accrued interest thus differ, at least in part, from the ECB's requirements for monetary and financial markets, notably securities issues, statistics.

Requirements for euro area financial accounts (Guidelines ECB/2002/7, ECB/2005/13)

6.39 Recital 4 in ECB/2002/7 states the general principle that quarterly euro area financial accounts should be based as much as possible on the ESA95. In the absence of sufficient source statistics for certain items, national central banks must nevertheless provide best estimates for the compilation of euro area aggregates (Article 2).

6.40 ECB/2005/13 requires a breakdown of debt securities into short-term (AF.331) and long-term (AF.332), the breakdown being at one year. The Guideline requires a sectoral breakdown of holdings (assets) for all sectors and sub-sectors. Debt securities held by central government (S.1311) and by social security funds (S.1314) are to be broken down between issues by S.11, S.12, S.125, and S.2 (Rest of the World). ECB/2005/13 requires a sectoral breakdown of liabilities in the form of debt securities for all issuing sectors, and for S.2 (Rest of the World).

CHAPTER 7 - Financial derivatives (AF.34)

Importance of instrument categories in euro area balance sheets
€ trillions, end-2011

	Assets		Liabilities	
Financial instruments	Euro area residents	Rest of the world	Euro area residents	Rest of the world
Monetary gold and SDRs	0.4			
Currency and deposits	21.6	3.8	22.8	2.6
Debt securities	14.3	4.3	15.5	3.1
Financial derivatives	**0.0**	**0.0**	**0.0**	**0.0**
Loans	20.9	1.8	19.7	3.1
Shares	24.2	6.0	24.6	5.5
Shares, excl. IF shares*	19.3		18.0	
Investment fund shares*	4.8		6.7	
Insurance technical reserves	6.2	0.2	6.4	0.0
Other accounts receivable/payable	5.8	0.5	5.9	0.4

* Instrument breakdown is not available for Rest of the world.

Assets – euro area residents *comprise claims held by residents of the euro area in the form of the respective instruments, including claims on the Rest of the World (shown in the column* ***liabilities – RoW****).*

Liabilities – euro area residents *comprise liabilities of residents of the euro area in the form of the respective instruments, including liabilities to the Rest of the World (shown in the column* ***assets – RoW****).*

Since the euro area financial accounts are horizontally balanced, as explained in the box in Chapter 2, apart from a rounding difference in other accounts receivable/payable total assets equal total liabilities in each category except monetary gold and SDRs.

ESA95 definition (Annex 7.1 – Definition of each asset category)

7.1 Financial instruments based on or derived from a different underlying instrument. The underlying instrument is usually another financial asset, but may also be a commodity or an index.

Further definitional remarks in the ESA95

7.2 Only secondary instruments which have a market value because they are tradable or can be offset on the market are financial assets and included in AF.34 (*5.66*). 'Can be offset in the market' means that a party to the contract can reverse it by taking out another contract with opposite effect. This quality distinguishes financial derivatives from contingent assets (and liabilities), defined in the ESA95 as contractual arrangements which specify conditions which must be fulfilled before a transaction takes place and which cannot be traded or offset in the market. (*5.05*). Examples are certain guarantees or commitments to extend credit. Such contingent assets (and liabilities) are not recorded in the System (*5.05*). They may of course nevertheless be important for supervisory and financial stability purposes.[34]

7.3 The ESA95 (*5.67*) identifies various types of financial derivative, which fall into two main categories:

- **options** give the holder the right, but not the obligation, to buy from the issuer of the option (a call option) or sell to him (a put option) the underlying item at a predetermined price and on a given date or within an agreed period. Warrants are a form of option;
- **futures** oblige both parties to the contract to transact in the underlying item at a predetermined price and on a given date or within an agreed period, or to settle in cash the difference between the price in the contract and the current market price for the item. Swaps are a particular type of futures contract; they oblige the parties to exchange payments (for example, of fixed and variable interest flows on a nominal principal sum) for an agreed time and according to predetermined rules. Forward rate agreements are similar to swaps.

Balance sheet valuation in the ESA95

7.4 Chapter 7 requires financial derivatives to be valued at market prices on the balance sheet date; where no market price is quoted, the instrument should be valued at either the amount required to buy out the contract or (for an option) the premium paid (*7.50*).

Transactions in the ESA95

7.5 The ESA95 defines a transaction as '*an economic flow that is an interaction between institutional units by mutual agreement or an action within an institutional unit that it is useful to treat as a transaction, often because the unit is operating in two capacities*' (*1.32*). The ESA95 goes on to define financial transactions as '*transactions in financial assets and liabilities between institutional units, and between them and the rest of the world*' (*5.1*). Financial transactions are recorded at transaction values (*5.134*) excluding charges, fees, commissions, etc., which are treated as separate transactions in services (*5.137*).

7.6 Accrual of interest is not relevant for financial derivatives, since the contract involves no lending or borrowing of a principal amount.[35] Transactions in financial derivatives in any period will comprise premiums paid to take out option-type contracts, and settlements under contracts of all kinds (including changes in non-repayable margins). The change in the value of positions (asset and liability) in financial derivatives between balance sheet dates will reflect transactions in the intervening period (with a counter entry in the instrument category currency and deposits) but also changes in the market value of positions, in turn reflecting exchange rate changes and developments in the markets for the underlying instruments.

[34] Chapter VII.4 "Government Guarantees" of the ESA95 Manual on Government Deficit and Debt, 2010 edition, describes cases in which loans (or debt securities) guaranteed by government are not considered contingent assets but to be recorded as loan (or debt security) liabilities of government.

[35] Payments under an interest rate swap or forward rate agreement are not payments for the use of capital, which is what the ESA95 means by 'interest', and are accordingly recorded in the financial account and not in the income account (see European Parliament and Council Regulation (EC) No 2558/2001 amending Regulation No 2223/96 (the ESA95 Regulation)). This is despite the possibility that the contract refers to them as 'interest'. (Treatment under the Excessive Deficit Procedure is different but is not the concern here.)

Accordingly transactions in financial derivatives in the intervening period cannot be deduced from the change in balance sheet values.

Some further observations on financial derivatives

7.7 Financial derivatives may relate to market risk (arising from movements in prices, interest rates or exchange rates) or to credit risk (arising from changes in the credit standing of a borrower or category of borrowers, or even default). The key to the statistical treatment of derivatives is that the derivative should always be regarded as a separate financial instrument from the underlying instrument

7.8 The current market price of a derivative equals the value of the claim of one party to the contract on the other party. This price can be zero, as it is at the start of a swap or other type of futures contract, and where a variable margin is continuously adjusted. Measuring the current market value of claims/ liabilities implicit in derivatives contracts is what the ESA95 and other statistical standards are concerned with. Some other points may be made on the statistical treatment of derivatives:

- if derivatives contracts are terminated before maturity, or cash payments are made during the life of the contract (e.g. under interest rate swaps, or where a non-repayable margin is adjusted), the exchange of cash is treated in the accounts as a financial transaction reducing or extinguishing a liability;
- delivery of the underlying financial markets instrument or commodity on maturity of the contract is treated as a separate transaction.

7.9 Since this case illustrates the point that the derivative is treated separately from the underlying instrument, an example may be helpful.

X contracts to buy a barrel of oil from Y at €80. The spot price of oil when the contract matures and X takes delivery is €90. The purchase and sale of oil is recorded in the accounts at €90. Y is regarded as simultaneously paying X the amount of €10 per barrel to extinguish his liability (X's asset) recorded under financial derivatives (AF.34). On balance, X pays Y €80, as agreed in the derivatives contract. Instead of delivering the oil, Y could simply pay to X €10 on maturity of the contract. This transaction would be recorded in the financial account as settlement of an asset/liability position; there would be no transaction in oil in this case.

7.10 The premium paid at the start of an option contract is recorded as a financial transaction (purchase of a financial asset in the form of the option) in AF.34. The seller of the option records a financial liability of the same amount also in AF.34. The recording of a premium in the financial account is to be distinguished from the payment of a fee or commission to a broker, which is recorded in the current account as a payment for services.

7.11 Payment of a non-repayable margin is a settlement under a derivatives contract and is recorded in the financial account (AF.34). By contrast, a repayable margin is treated statistically as a placement of collateral which remains the property of the depositor, and, as described in Chapter 5, is recorded in 'deposits' (AF.2).

7.12 If a derivative is embedded in the underlying financial instrument and cannot be separately identified, it is in effect ignored for statistical purposes. The IMF's new *Balance of Payments and International Investment Position Manual, 6th edition* (BPM6) reads: '*Instruments with embedded derivatives are not financial derivatives. An embedded derivative arises when a derivative feature is inserted in a standard financial instrument and is inseparable from the instrument. If a primary instrument such as a security or loan contains an embedded derivative, the instrument is valued and classified according to its primary characteristics - even though the value of that security or loan may well differ from the values of comparable securities and loans because of the embedded derivative. Examples are bonds that are convertible into shares, and securities with options for repayment of principal in currencies that differ from those in which the securities were issued*' (*5.83*).

7.13 Option-type contracts are asymmetrical in the sense that the buyer has the right, but not the obligation, to deliver or receive cash or the underlying instrument, while the seller is obliged to buy or sell if the buyer chooses to exercise his right. The parties to futures-type derivatives contracts by contrast have an unconditional obligation to deliver or receive cash or the underlying instrument specified in the contract, while in the case of option-type instruments the buyer may choose to exercise the option or not. If derivatives contain both futures and option features, they should be classified as option-type instruments.

Financial derivatives in ECB statistics

In no case is the residence or sector of counterparties reported.

In MFI balance sheet statistics

7.14 The MFI balance sheet statistics provided under Regulation ECB/2008/32 do not identify MFIs' asset and liability positions in financial derivatives. Instead, positions with positive market value are recorded in 'remaining assets' and positions with negative market value are recorded in 'remaining liabilities'. Repayable margins are to be classified as deposits (see Chapter 5).

In investment fund statistics

7.15 For investment funds, however, Regulation ECB/2007/8 requires asset and liability positions in financial derivatives to be identified in the balance sheet. Annex II, Part 1 of the Regulation says that: '*In accordance with existing international statistical standards, financial derivative instruments that have a market value should in principle be subject to on-balance-sheet recording. Derivatives have a market value when they are traded on organised markets, i.e. exchanges, or in circumstances in which they can be regularly offset on over-the-counter (OTC) markets. Under this item, the following financial derivatives should be reported: options, whether tradable or OTC; warrants; futures and swaps* (but in each case only if they have a market value because they are tradable or can be offset).

'*Financial derivatives that are subject to on-balance-sheet recording should be entered at their market value, which is the prevailing market price or a close equivalent (fair value). Derivatives should be recorded on the balance sheet on a gross basis. Individual derivative contracts with gross positive market values should be recorded on the asset side of the balance sheet and contracts with gross negative market values on the liability side. Gross future* *commitments arising from derivative contracts should not be entered as on-balance sheet items. Financial derivatives may be recorded on a net basis according to different valuation methods. In the event that only net positions are available, or positions are recorded other than at market value, these positions should be reported instead.'*

In financial vehicle corporation statistics

7.16 Regulation ECB/2008/30 (Annex II, Part 1) says that: '*… all the following financial derivatives must be reported: options; warrants; futures; swaps, in particular credit default swaps.*
Gross future commitments arising from derivative contracts must not be entered as on-balance-sheet items.
This item does not include financial derivatives that are not subject to on-balance-sheet recording according to national rules.'

In other OFI statistics

7.17 National central banks currently provide data on some groups of OFIs not addressed by a regulation under Guideline ECB/2007/9, as amended (notably – so far as financial derivatives are concerned – security and derivative dealers). On financial derivatives, Annex III, Part 11 of the Guideline says: '*…the following financial derivatives must be reported: options, tradable and OTC; warrants; futures, but only if they have a market value because they are tradable or can be offset; swaps, but only if they have a market value because they are tradable or can be offset.……*
Derivatives must be recorded on the balance sheet on a gross basis. Individual derivative contracts with gross positive market values must be recorded on the asset side of the balance sheet and contracts with gross negative market values on the liability side. Gross future commitments arising from derivative contracts must not be entered as on-balance-sheet items. Financial derivatives may be recorded on a net basis according to different valuation methods. Where only net positions are available, or positions are recorded other than at market value, these positions must be reported as default.'

7.18 This requirement relates mainly to security and derivative dealers, for which there are separate balance sheet categories (asset and liability side) for financial derivatives. In the case of financial corporations engaged in lending, the Guideline says that this item should be allocated under 'other assets/other liabilities', presumably depending on whether the institution's position has a net positive or negative market value.

In securities issues statistics

7.19 The ECB's securities issues, etc. statistics do not include financial derivatives.

In balance of payments/international investment position statistics

7.20 The Bop Book notes that, for practical reasons, transactions in financial derivatives in the euro area balance of payments are recorded net; by contrast, asset and liability positions in financial derivatives in the international investment position should be recorded gross. The Bop Book clarifies the difference between the treatment of changes in (returnable) initial margins, classified as deposits, and in non-returnable variation margins which, as partial or full settlement of creditor/debtor positions arising from derivatives contracts, are recorded as transactions in financial derivatives. In the international investment position, the sum of contracts with a positive market value at the end of the period is recorded on the assets side of the financial derivatives account, while the sum of contracts with a negative market value is recorded on the liabilities side. The Bop Book elaborates on the recording of various types of option and futures contracts in the financial account of the balance of payments and international investment position, explaining that, although swap and forward contracts are usually negotiated such that the contract has zero market value at inception, a contract will gain value for one party and become a liability for the other as the market value of the underlying instrument or commodity changes. The value of swap and forward contracts is derived from the difference between the agreed contract price and the prevailing market price of the underlying item, or its expected market price, which is discounted accordingly: if the agreed contract price and the prevailing market price are the same, the contract has no value; if the contract price and the prevailing market price differ, the contract has a value, which (from the perspective of each party to it) can switch between positive and negative during the course of its life.

Additional definitional points from the ECB's financial terminology database

7.21 This database describes some 20 generic or specific instruments which are to be classified as financial derivatives, and – just as important - some others (e.g. property index certificates, currency or commodity linked bonds, collared floating rate notes) which, although they may have some features of financial derivatives, are nevertheless to be classified as debt securities in AF.331 or 332, depending on their initial maturity.

Valuation in ECB statistics

In MFI balance sheet statistics

7.22 Regulation ECB/2008/32 states that '*Accounting rules followed by MFIs in drawing up their accounts are laid down in the national transposition of Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions and any other international standards applicable. Without prejudice to accounting practices and netting arrangements prevailing in Member States, all financial assets and liabilities shall be reported on a gross basis*'. Guideline ECB/2007/9, Annex 5, Part 2, states '*…. Although it is recommended that both sides of the balance sheet are recorded at market value, in practice, a variety of different valuation methods may be employed on both the liabilities and the assets sides. This is acceptable as long as the book value does not diverge significantly from the market value.'* These documents do not give specific guidance on the valuation of financial derivatives.

7.21 Annex II, Part 2 to Regulation ECB/2008/32 states that financial derivative positions with gross positive market values should be recorded in 'remaining assets', and those with gross negative market values in 'remaining liabilities', indicating that valuation should be at market price, but this is not said explicitly.

In investment fund statistics

7.22 Regulation ECB/2007/8 (Article 8) states that '*The accounting rules followed by investment funds for the purposes of reporting under this Regulation shall be those laid down in the relevant national law implementing Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, or, if the former provision is inapplicable, in any other national or international standards that apply to investment funds. Without prejudice to accounting practices and netting arrangements prevailing in the participating Member States, all financial assets and liabilities shall be reported on a gross basis for statistical purposes*'. Guideline ECB/2007/9 (Annex V, Part 2, Section 2 on revaluation adjustments) recognises a variety of valuation practices: '… *Although it is recommended that both sides of the balance sheet are recorded at market value, in practice, a variety of different valuation methods may be employed on both the liabilities and the assets sides. This is acceptable as long as the book value does not diverge significantly from the market value.*' These documents do not give specific guidance on the valuation of financial derivatives.

In financial vehicle corporation statistics

Again, neither Regulation ECB/2008/30 nor Guideline ECB/2007/9 gives explicit guidance on the valuation of financial vehicle corporations' positions in financial derivatives – presumably market valuation or a close approximation.

In other OFI statistics

7.20 Guideline ECB/2007/9 states that '*in principle, assets and liabilities* [except deposits and loans] *must be valued using current market prices on the date to which the balance sheet relates*.'

In securities issues statistics

7.21 The ECB's statistics of securities issues, redemptions and outstandings do not cover financial derivatives.

In balance of payments/international investment position statistics

7.22 See the remarks above on the Bop Book section on financial derivatives.

Requirements for euro area financial accounts (Guidelines ECB/2002/7, ECB/2005/13)

7.23 Recital 4 in ECB/2002/7 states the general principle that quarterly euro area financial accounts should be based as much as possible on the ESA95. In the absence of sufficient source statistics for certain items, national central banks must nevertheless provide best estimates for the compilation of euro area aggregates (Article 2).

7.24 ECB/2005/13 requires no instrument breakdown of financial derivatives. The Guideline requires a sectoral breakdown of holdings (assets) for all sectors and sub-sectors, including S.2 (rest of the world). ECB/2005/13 requires the same complete sectoral breakdown of liabilities in the form of financial derivatives.

National practices in recording financial derivatives

7.24 The following sections set out current national practices in compiling this item. They are in the form of responses to a series of questions. The paragraphs in italics at the beginning of each section summarise the replies.

A. General questions

1) Delimitation[36]

The ESA95 defines financial derivatives (put briefly) as financial instruments linked to a specific financial instrument, indicator or commodity, and through which specific financial risks can be traded in financial markets. All related payments are recorded as financial transactions[37]; there is no impact on net lending/net borrowing; net worth is affected through revaluations. Data on financial derivatives positions should be compiled at market valuation/net present value.

Comments (in particular if other criteria are used for the delimitation)

Table 7.1:

Euro area Member States:

IE - The purpose for which derivatives are held (for trading, or for hedging) is considered to be a relevant factor in deciding whether they should be recorded gross or net.
DE - In principle recording of financial derivatives follows ESA95 methodology. However, the valuation of derivatives of security and derivative dealers (part of S.123) follows German Commercial Code, namely the lower of cost or market.
NL - In principle recording of financial derivatives follows ESA95 methodology. However, in some cases it is unclear if definitions used in the source information fully correspond with the ESA95.
PT - All the statistical data sources used for the compilation of derivatives recommend market valuation. Some differences occur regarding gross/net reporting. Nevertheless, some guidance is given to avoid different criterion across sectors. The criteria used vary with the statistical source, although the BoP and MBS mostly comply with the ESA95 recommendations. The standard accounting rules usually also recommend market valuation.

Member States outside the euro area:

HU - In principle recording of financial derivatives follows ESA95 methodology. In some cases no information is available on financial derivatives business between certain sectors; amounts (stocks) are thought not significant. In other cases only stock or transaction data on such business are available.
RO - Annual financial accounts for 1998 – 2003 (released in 2006) include no data for (A)F.34, mainly because financial derivatives were recorded off balance sheet (and were anyway thought insignificant). From 2004, data on the quarterly financial accounts of S.13 include transactions in financial derivatives, respectively compensation titles issued for compensating individuals for lost property confiscated by the State in the past. Some data for transactions in financial derivatives for S.123 are available for 2004. Transactions in financial derivatives between residents and non-residents are available from BOP statistics from 2005.

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[36] See also ESA95 *5.65-5.68*.

[37] This follows an amendment to the ESA95 changing the treatment of settlements under swap arrangements and FRAs, except for EDP purposes – see European Parliament and Council Regulation No 2558/2001.

2) Coverage

Summary of replies
Most of the instrument categories are covered in most Member States. 'Yes' in the table does not however necessarily mean that all business in that instrument category is covered – indeed, the replies suggest that coverage of AF.34 is partial in many Member States - and 'No' need not mean that the category is omitted from the statistics, only that it is not identifiable. Most Member States do not have further breakdowns by risk category.

(i) Are the following sub-categories of financial derivatives included - see the respective definitions in the ESA95 (5.67)?

Table 7.2a

Euro area:	Options	Warrants	Futures	Swaps	FRAs
BE	Y	Y	N	Y (IFs, S.1311 only)	Y (S.1311 only)
CY	Y	Y	Y	Y	Y
DE	Y (partial)	N	Y (partial)	N	N
EE	Y	Y	Y	Y	Y
GR	Y	Y	Y	Y	Y
ES	Y	Y	Y	Y	Y
FR	Y	Y	Y	Y	Y
IE	Y	Y	Y	Y	Y
IT	Y	N	Y	Y	Y
LU	*N*	*N*	*N*	*N*	*N*
MT	Y	Y	Y	Y	Y
NL	Y	Y	Y	Y	Y
AT	Y	Y	Y	Y	Y
PT	Y	Y	Y	Y	Y
SI	Y	Y	Y	Y	Y
SK	Y	Y	Y	Y	Y
FI	partial	Y	Y	Y	Y
Pre-ins:					
BG	Y	Y	Y	Y	Y
CZ	Y	Y	Y	Y	Y
DK	Y	Y	Y	Y	Y
LV	Y	Y	Y	Y	Y
LT[38]	N	N	N	N	N
HU	Y	Y	Y	Y	Y
PL	Y	Y	Y	Y	Y
RO	Y	Y	Y	Y	Y
SE	Y	Y	Y	Y	Y
UK					

[38] Lithuania has not yet developed compilation and estimation methods for recording financial derivatives. 'N' in the tables means 'not applicable'.

Comments:

BE - Coverage depends on the information received from direct sources. Only positions of some categories of S.12 and S.1311 are recorded.
DE – No information about the sub-categories.

FR - Categories of financial derivative are identified if an MFI, an investment company or a non-resident (S.2) is involved in the business.

LU: Only an aggregate for derivatives is available, no sub-categories.

NL – Data sources identify these categories only for S.125 and S.2. The sources for most other (sub)sectors report only an aggregate for financial derivatives, and it is not certain that all categories are included.

SK – These categories are identified only for S.122 (excluding MMFs).

EE –The categories are identifiable only for S.121 and S.122. For other sectors only a total stock position is available. Assumption is that all existing financial derivatives are covered under F.34.

Pre-ins:
BG - The information regarding general government entities involved in such operations would be included if available. Concerning non-government sectors these instruments are included.

HU – These sub-categories are not published.

PL - Separate information on instruments from CIs and ICs; for the latter – only for assets.

RO – No further information for breakdown by type of financial derivatives transactions.

(ii) Are additional supplementary breakdowns by market risk categories (foreign exchange, single currency interest rate, equity, commodity, credit and other) available?

Table 7.3:

Euro area:

Market risk categories not available:
DE, GR, ES, LU, MT, NL, AT, PT, SI, FI

Market risk categories available:

BE for IFs only

CY for MFIs only:
options - currency, interest rate, share, bond, index, 'other'
futures - currency, interest rate, index, bond, 'other'
swaps - currency, interest rate, 'other'

EE for credit institutions only

FR for credit and some other institutions: breakdown of holding gains and losses by underlying asset (foreign exchange, interest rate, other)

PT 1) For the financial sector: by using accounting data Banco de Portugal has the following breakdowns: forward rate agreements, swaps, futures and options. Swaps, futures and options are also split by currency, interest rate, equity, and other.
2) Transactions between resident sectors and non-resident entities reported by MFI: currency, interest, equity and index, loans, merchants and other.

SK for MFIs only (excl. MMFs)

Pre-ins:

Market risk categories not available:

BG, DK, LV, HU, RO.

Market risk categories available:

CZ some (unspecified)

PL for CIs only: foreign exchange, interest rate, equity, commodity and precious metals, credit;

BOP: foreign exchange, single currency interest rates and other derivatives;

IIP: foreign exchange derivatives only covered.

(iii) What is the coverage of financial derivatives by ESA95 analytical concept - by sector?

Summary of replies

Most sectors are covered, at least partially; often however amounts are known or believed to be very small.

Table 7.4

Euro area:	S.11	S.121	S.122	S.123	S.124	S.125	S.13	S.14/15	S.2
BE	N	N	CI only	IF only	N	IC only	CG only	N	Y
CY	Y	Y	Y	Y	Y	Y	Y	Y	Y
DE	Y	N	Y	Y	Y	N	S.1311-13	N	Y
EE	Y	Y	Y	Y	Y	Y	Y	Y	Y
GR	residual	Y	Y	Y		Y	Y	negligible	Y
ES	residual	N	Y	Y	Y	partial	negligible	N	Y
FR	Y		Y	Y	N	Y	Y	Y	Y
IE	partial	Y	Y	partial	negligible	partial	Y		Y
IT	Y	Y	Y	Y	Y	Y	Y	Y	
LU	Y	Y	Y	Y	N	N	Y	N	Y
MT	partial	Y	Y	Y	Y	Y	Y	partial	Y
NL	Y	Y	Y	IF, SPE	N	Y	Y	N	Y
AT	P*)	Y	P*)	IF only	N	P*)	Y	P	Y
PT	Y	Y	Y	Y	Y	Y	Y	Y	Y
SI	Y	Y	Y	Y	Y	Y	Y	Y	Y
SK		Y	Y	Y			Y		Y
FI	Y	Y	Y	Y	Y	Y	Y	partial	Y
Pre-ins:	S.11	S.121	S.122	S.123	S.124	S.125	S.13	S.14/15	S.2
BG	Y	N	Y	Y	N	Y	Y (see notes)	N	Y
CZ	Y	Y	Y	Y	Y	Y	Y	Y	Y
DK	Y	Y	Y	Y	Y	Y	Y	Y	Y
LV	Y	Y	Y	Y (S.123+S.124)	Y	Y	Y	Y	Y
LT	N	N	N	N	N	N	N	N	N
HU	Y	Y	Y	Y	Y	Y	Y	Y	Y
PL	Y	Y	Y	Y	Y	Y	Y	Y	
RO	N	N	Y	partial	N	N	Y	N	Y
SE	Y	Y	Y	partial	partial	partial	Y	N	Y
UK									

Notes:
‘Negligible' means that in practice zero is entered.

Direct information on AF.34 positions/transactions of some sectors in most countries is not available. 'Y' entered in the cell does not mean that all AF.34 business of the sector concerned is recorded; commonly the only information is counterpart data from BOP/IIP, MFI balance sheet, OFI, or government reporting. DE notes that the data available vary considerably among sectors. IE, NL and AT draw attention to estimates. NL assumes that S.1313-14 have no AF.34 business. FI records no AF.34 business between resident units.

Concerning AT: P*) in the case of S.11 / S.122 / S.125: partial in the sense that data on financial derivatives are available if they are treated as “securities” with official ISIN-codes and/or represent cross-border positions derived from BOP-statistics; in the case of S.122: data are included in MFI balance sheets, if they are recorded “on-balance”.

BG –The government issues instruments designed to compensate for seizure of property in earlier times. Recipients can be identified. (The compensation payments are classified in AF.34 on Eurostat’s recommendation.)

Direct information on AF.34 positions/transactions in most countries is not available. 'Y' entered in a cell does not mean that all AF.34 business of the sector is recorded; commonly the only information is counterpart data arising from BOP/IIP, OFI or government reporting. From b.o.p./i.i.p., MFI balance sheet, OFI, or government reporting.

(iv) What is the coverage of financial derivatives by ESA95 analytical concept - assets and liabilities, transactions and stocks?

Summary of replies

Gross recording is common though not universal, as is the availability of both stocks and transactions data; several Member States however derive transactions from changes in stocks, at least for some sectors.

Table 7.5 Gross (assets/liabilities)

Euro area:	Gross (assets/liabilities separately) or net reporting	Stocks/transactions
BE	mostly net	transactions derived from stocks (S.122, 123, 125); transactions only (S.1311)
CY	gross (S.124, 125, 11, 14)	transactions derived from stocks (S.124, 125, 11, 14)
DE	gross	transactions derived from stocks (except S.2)
EE	gross	transactions derived from change in stocks (except for S.121, S.122, S.13, S.2)
GR	gross (except S.11)	stocks and transactions

ES	gross (S.122,S.2)/net (S.11,S.123,S.124, S.125)	stocks and transactions
FR	gross	stocks and transactions (also holding gains/losses and 'other changes')
IE	gross for MFIs (incl. with S.2); net otherwise	stocks and (partially) transactions
IT	gross (but S.13 swaps/FRAs recorded net)	stocks and transactions
LU	gross for MFI and ROW, net otherwise	stocks, because in general no price indexes for derivatives exist, the whole change in stocks is recorded as an Other Change in Volume flow
MT	gross	stocks and transactions
NL	gross (S.11, 121, S.122, 123 (SPEs), 125, 1M, S.2)	stocks and transactions (S.11, 121, 122 123 (IFs, SPEs), 125, 1M S.2)
AT	gross	stocks and transactions (cross-border business) stocks and transactions within the security by security system transactions only in the case of S.13 with other resident sectors as direct data provided by NSI.
PT	mostly net	stocks and transactions (transactions mainly with non-resident sectors)
SI	net	stocks and transactions
SK	gross (S.121, 122, 123, 13, S.2)	stocks only
FI	gross (S.1311 net)	stocks and transactions (but no business between residents recorded)

Comments

ES - For S.122 and S.2 option-type derivatives are compiled on a gross basis, whereas futures-type derivatives (including swaps) are compiled on a net basis.

FR - Stocks of assets are underestimated because derivatives are recorded at amortised cost. Flows of assets and liabilities are over estimated because holding gains are attributed to the asset side (even if they relate to a decrease of a liability) and holding losses to the liability side (even if they relate to a diminishing asset)

Pre-ins:	Gross/ (assets/liabilities separately) or net reporting	Stocks/transactions
BG	gross (S.13)	stocks [and transactions derived from stocks]
CZ	Gross	stocks and transactions (in some sectors derived from stocks)
DK	gross (annual), net (quarterly)	stocks and transactions (but for S.125, transactions derived annually from change in stocks and P&L data on holding gains/losses)
LV	gross	stocks [and transactions derived from stocks] valuation changes available for S.2
LT	not applicable	

HU	gross (mostly)	stocks and transactions (mostly) transactions only for cross-border business of S.11 business of S.122 (other MFIs) with S.123, S.125 stocks only
PL	gross	stocks only; transactions derived from stocks
RO	gross (S.13, and S.14 as counterpart sector and partial S123 for information derived from IF and OFI data sources), and net (S.2)	stocks only (S.13, 123), transactions derived from stocks; transactions (S.2)
SE	gross	stocks and flows
UK		

Comments:

HU – In financial derivative business between S.122 and S.125, data are netted because of the specific characteristics of the data sources.

(v) With respect to the MUFA Guideline requirement, please indicate where amounts are low/insignificant.

Table 7.6:

Euro area Member States:

CY, DE, EE, MT, NL, PT, SI, SK, FI – Amounts (stocks and/or transactions) are low (for FI the point relates to transactions between residents).

BE – Amounts (2006) are small except for S.123 (assets c €2.5 billion, liabilities c €1.5 billion).

ES- Significance of information is low (around 0,34% of total financial assets)

FR – The most important sectors on the asset side are S.122 (credit institutions) (€250 billion in 2005), (S.123 (€100 billion), S.2 (€230 billion).

IE – Significant: €50 billion for positions on both sides of balance sheet, for S.122 and S.2, but with much smaller net difference (rarely greater than about €5 billion).

LU **–** For S.13 amounts are zero; for S.14 + S.15 amounts are insignificant.

NL: For S.122 and S.2 the amounts for transactions are significant on both sides of the balance sheet

AT – For S.122 and S.1311 the amounts are significant.

Member States outside the euro area:

BG, CZ, DK, LV, HU, PL – Amounts (stocks and/or transactions) are low.
RO – amounts (stocks and/or transactions) are low for S.12 and S.2

3) Sources

List the data sources used, distinguishing by ESA95 analytical concept for each sector and where possible each sub-sector.

Summary of replies

MFI balance sheet (MFI b/s) or other Credit Institution reporting (CI reporting);BOP/IIP data are used in all or nearly all Member States; respondents mention a variety of other sources too.

Table 7.7a

Euro area	MFI b/s, CI reporting, NCB sources	OFI/ICPF sources	Govern-ment accounts	B.o.p./i.i.p.	Super-visory sources	Stock Ex-change sources	Finan-cial statements	Other sources
BE	S.122 (CI)		S.1311					S.123, 125 (BFIC)
CY				S.11,123-5		S.11,123 -5	S.123-5	
DE	S.122	S.123	S.13	S.2				
GR	S.121, S.122	S.123, S.125	S.13	S.2		S.11, S.13	S.11	S.11
EE	S.121-2 (CI)	S.122 (MMF),S. 125, S.123	S.13	S.2, S.11, S.123-5	S.123-5		S.11, S123-4	
ES	S.122, S.2 (stocks)	S.123, S.125		S.2 (flows)				
FR	S.122 (CI)	S.123 (SDD)	S.13	S.2				S.2 (c'part data from fin b/s database)
IE	S.121-2 S.2		S.13	S.11,123-5 S.2	S.125			S.11 (tax source)
IT			S.13	S.2	S.122-3			
LU	S.121, S.122, Counterparts	S.123	S.13	S.2	S.123, S.124		S.11	
MT	S.121-2			S.2				
NL	S.121, S.122, S.125		S.1311	S.2	S.123		S.11	
AT	see below							
PT	S.121-2 S.11,13, S14/15 (c'part data)	S.123-4		S.2 (also X-border for other sectors	S.121-2, S.125 S.11,S.13 ,S14/15 c'part data)			
SI	see below							
SK	S.12		S.13	S.2				S.11,14/15(NSI)
FI	S.122 S.11,S.13,	S.123 (IF) S.11,13,1		S.2 S.11,13,14/1				S.123,125 fin

	S. 14/15 (c'part data)	4/15 (c'part data)		5(c'part data)				accts b/s data S.11, S13, S.14/15 (c'part data)

AT

Financial derivatives without ISINs

Residents must report to the central bank cross-border transactions/positions in financial derivatives. The reporting threshold for both flows (net payments/receipts in a month) and stocks (total of claim positions or liability positions at end-quarter) is €1 million.

Financial derivatives with ISINs

Financial derivatives are recorded in the same way as other types of securities. Custodian banks report on a security-by- security basis and the central bank classifies each individual entry according the data derived from the security master file (provided either by the national numbering agency of Austria (OeKB) or other sources)

SI

The source for each sector/sub-sector is shown in the matrix (for instance, AF.34 liabilities of S.11 to S.121 are measured by reported S.121 data).

		ASSETS									
		S.11	**S.121**	**S.122**	**S.123**	**S.124**	**S.125**	**S.13**	**S.14**	**S.15**	**S.2**
LIAB.	**S.11**	S.11	S.121	S.122	S.123	S.124	S.125	S.13	S.11	S.11	S.11
	S.121	S.121	S.121	S.121	S.121	S.121	S.121	S.121	S.121	S.121	S.121
	S.122	S.122	S.122	S.122	S.122	S.122	S.122	S.122	S.122	S.122	S.122
	S.123	S.123	S.121	S.122	S.123	S.123	S.123	S.123	S.123	S.123	S.123
	S.124	S.124	S.121	S.122	S.124	S.124	S.124	S.124	S.124	S.124	S.124
	S.125	S.125	S.121	S.122	S.125	S.125	S.125	S.125	S.125	S.125	S.125
	S.13	S.13	S.121	S.122	S.13	S.13	S.13	S.13	S.13	S.13	S.13
	S.2	vrp	S.121	S.122	vrp	vrp	vrp	S.13	vrp	vrp	

vrp - report on operations in securities (security by security reporting system)

Table 7.7b Member States outside the euro area

Euro area	MFI b/s, CI reporting, NCB sources	OFI/ICPF sources	Govern-ment accounts	B.o.p./i.i.p.	Super-visory sources	Stock Ex-change sources	Finan-cial statements	Other sources
BG	S122	S125		S.2, S11				S.13 (Central Depository)
CZ	S.121-2		S.1313	S.2				
DK	S.11,121-5, 14/15	S.123 (investment assoc) S.123-	S.1311	S.11,125, S.2	S.125			

		5						
LV	S.121-2 S.11,14 (c'part info)	S.123-5	S.13 S.11,14(c'part info)	S.2 S.11,14(c'part info)	S.123-5			S.123-5 S.11,14 (c'part info)
HU	S.121-2 S.1311 (c'pt info from S.121)	S.123, 125		S.2				
PL	S.121-2	S.123-5	S.13				S.11	
RO	S.122	S.123		S.2				S.13 (govt admin'd Property Fund)
SE	S.121-2		S.1311, 1313-4		S.123-5			S.11 (sample survey) S.125 (pension authority)

Comments:

SE (further comment) – In final compilation/balancing, MFI statistics are preferred to some other sources mentioned in the table, since MFI data provide counterpart information.

B. Compilation issues/ reporting conventions

1) Gross or net recording

Summary of replies
Euro area Member States are finely balanced between gross and net reporting; of the Member States outside the euro area who replied on this point, more record gross than net. Several Member States derive flows from stocks, and sector coverage is limited. Most feel constrained by data limitations generally.

a. Do you compile financial derivatives on a gross basis (on both sides of the balance-sheet) or on a net basis (netting on just one side of the balance sheet)? Is there any distinction in recording between flows and stocks? Is there any distinction in recording by sector? (please distinguish by type of derivative contract if needed).

See Table 7.5 (summarising replies to question 2(iv).

b. Is the statistical treatment driven by data source limitations? Please elaborate

Table 7.8:

Euro area Member States:

BE, ES, FR, IE, IT, LU, AT, PT – Yes.

MT – No.

NL - Source information is good for S.121, S.125, acceptable for S.123, S.1311 and S.2, but poor or lacking for S.11, S.122, S.124, and S.14/15.

AT – Data are available mainly by the security by security system, BOP data, limited data by financial sector balance sheet data and direct data on government operations.

SK - Partial data.

SI - Only one source is available, offering no opportunity for comparison and data checking.

EE – Poor information for S.123 (except leasing companies, IF statistics), S.124, S.11, S.14/15

Member States outside the euro area:

BG - (no flows), **DK** (net only), **HU** (net only), **PL** (missing sectors, no flows), **RO** (flows only for S2, for other sectors flows derived from stocks), **SE** (flow data and counterpart information inadequate).

LV - No.

2) Gross recording – further considerations

Summary of replies

Where data are recorded gross, in most Member States positions with a positive market value are recorded as assets, and those with a negative market value as liabilities, implying that some types of instrument may 'flip' between assets and liabilities during the life of the financial derivative contract. Negative assets or liabilities are possible in a few Member States.

c.1. When gross recording, what are the criteria for distinguishing between assets and liabilities (for flows, stocks and other economic flows)?

Table 7.9

Euro area Member States:

GR, MT, FI - Positions with a positive market value are recorded as assets, and those with a negative market value as liabilities.

CY, DE, PT – Allocation follows that in the data source.

ES - Balance sheets of MFIs and BoP transactions provide the information for distinguishing between assets and liabilities.

FR – As available data are aggregated for each sector, an approach contract by contract is impossible.

IE - MFI balance sheet values are used for S.122: where F.34 positions are held for trading purposes, the gross amounts are reported giving entries on the asset and liability sides of the accounts; positions held for other reasons are recorded net at market value.

IT – *Stocks as arising from original contracts. No negative stocks are allowed. Flows are regarded on the asset or liability side according to the treatment of the parent stock*.

LU – As we avoid negative stocks, the sign determines the side where the item is recorded.

AT - Options bought are always recorded as assets, and options written as liabilities. Futures are set to zero continuously by an increase or decrease of the margin account. Warrants and other financial derivatives, and financial derivatives without ISINs, are assets or liabilities depending on the fair value of the stocks.

SK - Positions with a positive market value are recorded as assets, and those with a negative market value as liabilities.

EE – For sectors where additional reporting is available, positions with a positive market value are recorded as assets and those with a negative market value as liabilities. For sectors where data are obtained from balance sheets, the recording follows the structure of the balance sheet.

Member States outside the euro area:

CZ, HU, SE - Positions with a positive market value are recorded as assets; and those with a negative market value as liabilities.

LV, PL – Allocation follows that in the data source.

BG - For non-government sectors positions with a positive market value are recorded as assets; and those with a negative market value as liabilities. For compensation instruments in quarterly financial accounts of S.13, the distinction between assets and liabilities is based on Central Depository information.

HU (further comment) - For transactions, treatment depends on the market value of the contract at the time of the transaction. Revaluations are calculated by residual (changes in stocks minus transactions). OCVs are recorded on the asset side if the market value of the contract is positive, and if the market value is negative, on the liability side.

RO - Holdings of financial derivatives recorded at positive market value – gains are recorded as stocks of assets and holdings of financial derivatives recorded at negative market value – losses are recorded as stocks of liabilities for S12 and S2 sectors. Issuance of compensation titles are recorded as stocks of liabilities for S13 and stocks of assets for counterpart sector S14.

c.2. When gross recording, do you allow for negative balance sheets?

Table 7.10:

Euro area Member States:

CY, IE, PT – Yes (a possible outcome).

EE, GR, ES, FR, IT, LU, MT, AT, SK, FI – No.

DE – Yes.

Member States outside the euro area:

LV – No.

BG, HU, PL, RO, SE – No.

c.3. When gross recording, if your criteria for distinguishing assets from liabilities lead to "flipping" instruments (moving from one side of the balance sheet to the other, from assets to liabilities or the other way around), how do you reconcile stocks and flows? Is the associated flow an asset or a liability? Do you make a distinction in treatment between the micro level (individual contracts) and macro level (aggregate figures) in this respect?

Table 7.11:

Euro area Member States:

MT, PT, SK, – No (or not applicable).

CY - Currently under investigation.

GR – Derivatives may flip from assets to liabilities, especially for NFCs.

FR – No information at a micro level. According to the kind of derivative, flows from inferred from estimated valuation changes, or valuation changes from estimated flows (see c1), using the equation: stocks n+1 = stocks n + valuation n + flow n.

IE - F.34 is the aggregate of many instruments. Flipping may occur in the underlying basket of instruments without being apparent in the aggregate.

IT - Ad hoc adjustments.

LU – A flip from one side to another will be recorded as an Other Change in Volume flow on the receiving side.

AT -(regulation for BOP purposes only): Stocks: assets and liabilities are reported. Flows: payments received and payments made are reported. If stocks move from assets to liabilities (or the reverse), the following algorithm is used:

Payments received minus payments made = X; if X > 0, than payments received and payments made are allocated to the liabilities side; if X <= 0, than payments received and payments made are allocated to the assets side.

EE - Currently most flows are derived from stocks. For S.121, S.122, S.13 and S.2 information on transactions is available.

Member States outside the euro area:

SE – No (or not applicable).

CZ - The sum of all positive positions in financial derivatives is recorded on the asset side. The sum of all negative outstanding values is recorded on the liability side. The debtor/creditor position may change in direction (recording side) during the life of a financial derivative.

HU - Reporting agents must treat the individual contracts separately and not report in aggregate. On other points, see reply to c45.

PL – Transactions are derived from stocks. Aggregated figures (for stocks) are available only.

c.4. What is the impact of gross recording in the weight of assets in the financial institutions' balance sheet?

Table 7.12:

Euro area Member States:

DE, FR, LU, MT, PT, SK – negligible impact.

ES- 0.5% of total financial assets.

CY - Currently under investigation.

IE - Gross recording is confined to a small part of F.34 ("trading") - about 4% of the balance sheet (€50 billion). Total gross values (trading and speculative/hedging portfolios of financial derivatives) amount to about €250 billion.

IT – Below 3% of total financial assets.

AT - 2 % of the total financial assets of MFIs (but these gross figures are neither included in national financial accounts nor in national IIP data).

FI - Very significant for stocks of the MFI sector.

EE – Negligible: 0.16% of the total assets of financial sectors

Member States outside the euro area:

BG, LV, PL - Negligible impact.

HU - Gross recording increases total assets and liabilities of financial institutions.

3) Net recording – further considerations

Summary of replies

In the case of net recording, there seems to be no clear picture: financial derivative positions sometimes appear on one side of the balance sheet, and sometimes on the other; negative entries may occur in some Member States; and there may be 'flipping', though it is likely to be hidden in the aggregate data.

d.1. When net recording, on which side of the balance sheet are financial derivatives shown?

Table 7.13:

Euro area Member States:

BE, GR, IE (S.12 only). - On either side.

ES- Futures-type derivatives (including swaps) positions of MFIs are recorded on a net basis and allocated to the assets/liabilities side of the balance sheet depending on the sign.

IT – Not applicable.

LU – As we avoid negative stocks, the sign determines the side where it is recorded.

NL - On the assets side.

PT - On the assets side for resident sectors and on the liabilities side for S.2.

SI - Financial derivatives are taken directly from reporting agents and their treatment (based on their accounting rules) as assets or as liabilities is adopted. Positions are recorded depending on the sign (when positive on asset side, when negative on liabilities side).

FI - On the assets side for S.2 and on the liabilities side for resident sectors. Transactions between resident sectors are not **recorded.**

Member States outside the euro area:

DK - On the assets side.

HU - If the sign of the market value of the netted contracts is positive, the derivatives are assets, if negative, liabilities.

PL - Not applicable.

RO - For S.123 and S.2, on asset side (holdings of financial derivatives recorded at positive market value - gains) or on the liabilities side (losses)

d.2. When net recording, do you allow for negative balance sheets?

Table 7.14:

Euro area Member States

IE, NL, PT – Yes.

ES – Only under investigation: net recording of negative financial assets are shown for S.11.

BE, GR, LU, SI – No.

FI - Yes, for S.1311, where the net of swap positions (stock) is recorded on the liability side.

Member States outside the euro area

BG, PL – Not applicable.

DK – Yes**.**

HU – No.

RO - Lack of information on stocks (calculated as cumulated flows) has generated negative outstanding amounts in IIP statistics. In financial accounts negative stocks are not accepted: S.2 opening and closing positions are set at zero; BOP flows are recorded as transactions, either on the assets or liabilities side; an equal amount with opposite sign is entered in the revaluation account.

d.3. *When net recording, if no negative balance sheet is allowed, how do you reconcile stocks and flows in cases of "flipping"? Is the associated flow an asset or a liability?*

Table 7.15:

Euro area Member States:

BE – Where (for instance) items flip from the asset to the liability side of the balance sheet, a decrease in assets and an increase in liabilities are recorded as transactions for the relevant period.

ES- When net recording (in the case of futures-type derivatives, including swaps), flipping positions (i.e, from the asset side to the liability side) imply the recording of a decrease in assets and an increase in liabilities in the transactions account.
LU – A flip from side A to side L will be recorded as an Other Change in Volume flow on side L.
NL– Not applicable (or no instances evident).
SI – Where items flip from the asset to the liability side of the balance sheet, a decrease in assets and an increase in liabilities is recorded.

Member States outside the euro area:

CZ, PL – Not applicable.
HU - The value of the netted contracts is very low in Hungarian financial accounts (see 2.3.2). The changes in stocks are treated as revaluations.

CHAPTER 8 - Loans (AF.4)

Importance of instrument categories in euro area balance sheets
€ trillions, end-2011

	Assets		Liabilities	
Financial instruments	Euro area residents	Rest of the world	Euro area residents	Rest of the world
Monetary gold and SDRs	0.4			
Currency and deposits	21.6	3.8	22.8	2.6
Debt securities	14.3	4.3	15.5	3.1
Financial derivatives	0.0	0.0	0.0	0.0
Loans	**20.9**	**1.8**	**19.7**	**3.1**
Shares	24.2	6.0	24.6	5.5
Shares, excl. IF shares*	19.3		18.0	
Investment fund shares*	4.8		6.7	
Insurance technical reserves	6.2	0.2	6.4	0.0
Other accounts receivable/payable	5.8	0.5	5.9	0.4

* Instrument breakdown is not available for Rest of the world.

Notes:
Assets – euro area residents *comprise claims held by residents of the euro area in the form of the respective instruments, including claims on the Rest of the World (shown in the column* ***liabilities – RoW****).*

Liabilities – euro area residents *comprise liabilities of residents of the euro area in the form of the respective instruments, including liabilities to the Rest of the World (shown in the column* ***assets – RoW****).*

Since the euro area financial accounts are horizontally balanced, as explained in the box in Chapter 2, apart from a rounding difference in other accounts receivable/payable total assets equal total liabilities in each category except monetary gold and SDRs.

ESA95 definition (Annex 7.1 – Definition of each asset category)

8.1 Financial instruments created when creditors lend funds to debtors, either directly or through brokers; the loan is evidenced by a non-negotiable document, or not evidenced by a document at all.

Further definitional remarks in the ESA95

8.2 Chapter 5 notes that the conditions governing a loan are either fixed by the financial corporation granting the loan, or negotiated by the creditor and the debtor directly or through a broker; and that the initiative concerning a loan normally lies with the borrower.[39] A loan is an unconditional debt to the creditor, and normally bears interest (*5.70*) – though it might be noted that non-interest-bearing loans, usually between related units, are possible.

Balance sheet valuation in the ESA95

8.3 Chapter 7 requires loans to be valued at the amount of principal that the debtor is contractually obliged to repay the creditor, even where the loan has been traded at a discount or premium (*7.51*). The treatment of interest accruing on loans (mentioned in *5.17*, but not further specified in Chapters 5 and 7) is covered by the requirements for recording accrued interest generally: the ESA95 requires interest to be recorded as it accrues, not when it is paid, with a matching entry in the financial account (*5.50*, *5.17*). But the ESA95 does not prescribe whether this imputed transaction should be allocated to the relevant instrument category, loans here, in which case the accrual of interest is treated as a transaction in loans, as if the holder of the financial asset had promptly reinvested the accrued interest by adding to his holding of loans (and the debtor had promptly added to his borrowing). While *5.130* expresses a preference for imputing accrued interest to the relevant asset category, the ESA95 accepts that national accounting practices may be otherwise, in which case the counter-entry should be in 'other accounts receivable/payable' (AF.79). Although Chapter 7 does not say so explicitly, the valuation of loans in the balance sheet should be consistent with the treatment of accrued interest in the financial account. Foreign currency loans should be converted into national currency at the mid-market exchange rate on the balance sheet date (*7.31*).

Transactions in the ESA95

8.4 The ESA95 defines a transaction as '*an economic flow that is an interaction between institutional units by mutual agreement or an action within an institutional unit that it is useful to treat as a transaction, often because the unit is operating in two capacities*' (*1.32*). The ESA95 goes on to define financial transactions as '*transactions in financial assets and liabilities between institutional units, and between them and the rest of the world*' (*5.1*). Financial transactions are recorded at transaction values (*5.134*) excluding charges, fees, commissions, etc., which are treated as separate transactions in services (*5.137*).

8.5 Accrual of interest is a transaction; if the accrual is recorded in the relevant instrument category (here loans), it is a transaction in loans. Usually there will be many transactions in loans (new lending, partial or full repayments) between balance sheet dates. Since loans are valued at the amount of principal that the debtor is contractually obliged to repay the creditor (normally the nominal or face value), the change in loans denominated in national currency between two balance sheet dates, leaving aside write-offs, write-downs, reclassifications and revisions, must equal net transactions in the intervening period. Transactions in foreign currency loans cannot be derived directly from the change in balance sheet levels (in the

[39] It will be recalled that the ESA95 – unlike ECB statistics - uses this feature to distinguish between loans and deposits.

absence of write-offs, reclassifications, etc.) since exchange rate changes must be taken into account.

Definition of loans in ECB statistics

General remarks

8.6 Because of their importance in MFI balance sheet statistics, Regulation ECB/2008/32 is the prime source for the treatment of loans in ECB statistics.[40] The breakdowns are more detailed and in some respects different from those in the ESA95.

8.7 In Regulation ECB/2008/32, loans are claims on debtors by MFIs, other than those arising from the issue of negotiable securities, or from trade credits, other receivables and financial derivative contracts with a positive market value (i.e. assets to the MFI holding them), all of which are included in 'remaining assets'. The definition of 'negotiable' in ECB/2008/32 differs slightly from that in the ESA95, in that loans are credits '*not evidenced by documents or… represented by* [only] *a single document (even if it has become negotiable)*', whereas the ESA stipulates that any document evidencing a loan must be non-negotiable. Restrictions on the transfer of legal ownership of an instrument that prevent it from being marketed, or the absence of an organised market, are sufficient for it to be regarded as non-negotiable. Instruments issued in non-negotiable form that subsequently become negotiable and tradable on secondary markets should be reclassified in MFI balance sheets as 'debt securities'. By convention, MFIs record no loans on the liability side of their balance sheets, and no deposits as assets. The balance sheet category 'loans' accordingly includes assets held by MFIs in the form of deposits. Annex II, Part 2 to ECB/2008/32 says this explicitly.

8.8 As in the case of deposits, Regulation ECB/2008/32 instructs MFIs to record accruing interest on loans in 'remaining assets', not in the relevant instrument category. Also as for deposits, the transaction value of loans excludes fees, etc. (Guideline ECB/2008/9, as amended, Annex V, Part 3).

Definition and treatment of various categories of loan (AF.4) in ECB statistics

Residence and sector of counterparties

MFI balance sheet statistics distinguish between loans to domestic residents (residents of the same country as the reporting MFI), to residents of other euro area countries, and to non-residents of the euro area.

MFI balance sheet statistics contain detailed sectoral information on loans to domestic counterparties and to counterparties resident in other euro area countries. The sectors/sub-sectors are: MFIs (S.121-122), general government (S.13, with a quarterly breakdown showing sub-sectors S.1311, 1312, 1313, and 1314); other (non-monetary) financial intermediaries and financial auxiliaries (S.123 and S.124 combined, but with loans in the form of repos to central

[40] Of the €22.7 trillion of loans owed by other euro area sectors and non-residents of the euro area in mid-2010, €13.1 trillion represented borrowings from euro area MFIs.

counterparties[41] shown separately); insurance corporations and pension funds (S.125); non-financial corporations (S.11); households and non-profit institutions serving households (S.14 and S.15 combined, but distinguishing between credit for consumption, lending for house purchase, and 'other' lending, and within the last category identifying lending to sole proprietors/unincorporated partnerships. Lending to non-residents of the euro area shows a quarterly breakdown into lending to 'banks' (MFIs elsewhere in the European Union), government, and to other sectors combined.

Purpose of the loan
Loans to households (and to non-profit institutions serving households, shown indistinguishably) are broken down by purpose, as described below. Loans to other sectors provide no information on the purpose of the loan.

Collateralised loans
The ESA95 ignores collateral, but it is relevant to other purposes to which the MFI balance sheet information is put, notably its use with data on interest rates charged on loans to households and non-financial corporations. Collateral is also relevant for financial stability purposes. Here it is merely noted that Regulation ECB/2008/32 requires quarterly information on real estate collateral backing loans to these sectors.

Residual maturity
Again, the ESA95 is concerned only with original maturity, which is also the concept mainly used in MFI balance sheets. Nevertheless, Regulation ECB/2008/32 requires some quarterly information on the residual maturity of loans to households and non-financial corporations, and also (for loans with a remaining life exceeding one year) on amounts on which the interest rate may be reset within a year.

Instruments
Some types of loan are specific to particular sectors. Thus loans reported for MFI balance sheet purposes include the following.

(a) loans granted to households and non-profit institutions serving households, broken down by:
— credit for consumption (loans granted for mainly personal consumption spending). This category includes credit for consumption granted to sole proprietors/unincorporated partnerships, if the reporting MFI knows that the loan is predominantly used for personal consumption purposes
— lending for house purchase (credit extended for the purpose of investing in houses for own use or rental, including building and refurbishments) comprises loans secured on residential property for the purpose of house purchase and other loans for house purchase made on a

[41] Central counterparties are institutions interposed between parties to contracts traded in financial markets, which are not themselves MFIs but are classified in S.123. Where a reporting MFI conducts a reverse repo with a central counterparty (buys securities with a commitment to sell them back later), it will enter the amount under 'loans: of which, repos' because it has in effect provided cash against collateral in the form of securities. The MFI does not record the securities on its balance sheet (see the section on repos in Chapter 4 on deposits (AF.29)).

personal basis or secured against other forms of assets. Thus lending for house purchase, etc. is not confined to mortgage finance, and may indeed exclude some mortgages arranged for a purpose other than house purchase (or for building or improving a house). The category includes housing loans granted to sole proprietors/unincorporated partnerships unless the reporting MFI knows that the house is predominantly used for business related purposes, in which case it is reported as ‘other lending of which sole proprietors/unincorporated partnerships’

— other (loans granted for purposes other than consumption and house purchase, such as business, debt consolidation, education, etc.). This category may include loans for consumption purposes to sole proprietors/unincorporated partnerships if these are not reported under the category ‘credit for consumption’.

(b) credit card debt

For the purpose of Regulation ECB/2008/32, this category comprises credit granted to households or non-financial corporations either via delayed debit cards (i.e. cards providing convenience credit) or via credit cards (i.e. cards providing both convenience credit and extended credit). Convenience credit is the credit granted at zero interest rate between the payment transaction(s) carried out with the card and the date at which the balance from this specific billing cycle becomes due. Extended credit on which interest is usually charged is the balance remaining unpaid after the relevant billing date. The counterpart to these forms of credit is the cardholder in the case of privately used cards, and the company in the case of company cards

(c) revolving loans and overdrafts

Revolving loans are loans where: the borrower may use or withdraw funds to a pre-approved credit limit without giving notice to the lender; the amount of available credit can increase and decrease as funds are borrowed and repaid; the credit may be used repeatedly; and there is no obligation to repay funds regularly. Revolving loans include the amounts obtained through a line of credit and not yet repaid (outstanding amounts). A line of credit is an agreement between a lender and borrower that allows a borrower to take advances, during a defined period and up to a certain limit, and repay the advances at his discretion before a defined date. Overdrafts are debit balances on current accounts. Both revolving loans and overdrafts exclude loans provided through credit cards. In all cases only amounts drawn and outstanding are to be reported.

(d) syndicated loans (single loans in which several lending institutions participate).

Syndicated loans cover cases where the borrower knows, from the loan contract, that the loan is made by several lenders. Only amounts disbursed by lenders (and not total credit lines) are recorded for statistical purposes. The syndicated loan is usually arranged and coordinated by one institution (the lead manager). MFIs participating in the syndicate, including the lead manager, report their share of the loan as a claim on the borrower, not on the lead manager.

(e) deposits held as assets by the reporting MFI (under the convention that MFIs report deposits only on the liabilities side).

(f) financial leases granted to third parties

Financial leases are contracts whereby the legal owner of a durable good (the lessor) lends it out to the lessee for most if not all of its economic lifetime, in exchange for instalments covering the cost of the good plus an imputed interest charge. The lessee is assumed to receive all of the benefits from the use of the good and to incur the costs and risks of ownership. For statistical purposes, financial leases are treated as loans from the lessor to the lessee. The assets (durable goods) which have been leased out to the lessee are not recorded anywhere on the MFI's balance sheet

(g) bad debt loans that have not yet been repaid or written off
The total amount of loans in respect of which repayment is overdue or which are otherwise identified as being impaired, partially or totally, in accordance with the definition of default in Directive 2006/48/EC

(h) holdings of non-negotiable securities
Holdings of securities other than shares and other equity which are not negotiable and cannot be traded on secondary markets (see also ‘traded loans’)

(i) traded loans
Loans that have *de facto* become negotiable, provided that they continue to be evidenced by a single document and are, as a general rule, only traded occasionally (note this difference from the ESA95, and from balance of payments and international investment statistics)

(j) subordinated debt in the form of loans
Subordinated debt instruments provide a subsidiary claim on the issuing institution that can only be exercised after all claims with a higher status have been satisfied, giving them some of the characteristics of ‘shares and other equity’. For statistical purposes, subordinated debt is to be classified as either ‘loans’ or ‘securities other than shares’ according to the nature of the financial instrument. Where MFI holdings of all forms of subordinated debt are currently identified as a single figure for statistical purposes, this figure is to be classified under the item ‘securities other than shares’, not ‘loans’, on the grounds that subordinated debt mainly takes the form of securities

(k) claims under reverse repos or securities borrowing against cash collateral
The counterpart of cash paid out in exchange for securities purchased by reporting agents, or securities borrowing against cash collateral.

For the purpose of this reporting scheme, the breakdown of loans according to real estate collateral includes the total amount of outstanding loans which are collateralised in accordance with Annex VIII, Part 1, Sections 13-19 of Directive 2006/48/EC, with an outstanding loan/collateral ratio of 1 or below 1. If these rules are not applied by the reporting agent, the determination of the loans to be included in this breakdown is based on the approach chosen to comply with capital requirements.

8.9 Loans granted on a trust basis are not to be recorded in AF.4 (indeed they are not reported at all under the MFI balance sheet Regulation). Also called trust loans or fiduciary loans, these are loans made in the name of one party (the trustee – an MFI in the present case) on behalf of another (the beneficiary). Such loans are not to be recorded on the statistical balance sheet of the MFI extending them where the risks and rewards of advancing the funds remain with the beneficiary, as they do when:

- the beneficiary assumes the credit risk of the loan (i.e. the trustee – the MFI - is responsible only for administering the loan); or
- the beneficiary is protected against loss, should the trustee go into liquidation (i.e. the loan is not part of the assets of the trustee that can be distributed in the event of bankruptcy).

Loan securitisations involving MFIs

8.10 MFI s report loans currently on their balance sheets. Loans originally extended by MFIs may however be sold (despite their generally non-negotiable nature) or otherwise transferred to third parties, often financial vehicle corporations set up for the purpose. In the absence of statistical reporting by the acquiring institution, 'securitisations' of this type would result in loss of information about lending flows and outstanding positions. Regulation ECB/2008/32, a separate but complementary Regulation on financial vehicle corporations involved in securitisation transactions (ECB/2008/30), and an amendment to Guideline ECB/2007/9 (Guideline ECB/2008/31) seek to ensure that securitised loans are neither lost to the statistics (since the operation involves no withdrawal of credit from borrowers) nor counted twice, and also that essential information about the securitised loans is preserved (including when they are repaid). Since all this is relevant to both loans (AF.4) and securities (AF.3), the treatment of securitisations is explained in a box at the end of this chapter. It might be noted here, though, that the financial vehicle corporation Regulation contains a brief definition of loans which is consistent with that in Regulation ECB/2008/32. The information required by ECB/2008/30 on the originators of the securitised loans held by the reporting financial vehicle corporation (meaning the institutions which initially granted the loans) is not relevant to financial accounts.

8.11 In balance of payments/international investment position statistics, loans are recorded together with currency and deposits either in the functional categories 'other investment' or 'direct investment'. Loans must be separated from currency and deposits when balance of payments/international investment position statistics are used to represent the transactions and positions of the Rest of the World sector in euro area financial accounts.

Loans taken or held by investment funds

Since investment funds are unlikely to receive or make loans on any scale except through repo or reverse repo operations, Regulation ECB/2007/8 has little to say about them.

Additional definitional points from the ECB's financial terminology database

8.12 The ECB's financial terminology database explains that securities backed by loans are to be classified as debt securities in AF.331 or 332 depending on the initial maturity of the instrument. In effect the collateral is ignored for statistical purposes. Examples of such instruments are mortgage-backed bonds and collateralised mortgage obligations.

Valuation in ECB statistics

In MFI balance sheet statistics

8.13 Regulation ECB/2008/32 states that '*[Deposit liabilities and] loans shall be reported at their principal amount outstanding at the end of the month. Write-downs as determined by the relevant accounting practices shall be excluded from this amount. [Deposit liabilities and] loans shall not be netted against any other assets or liabilities. Without prejudice to accounting practices and netting arrangements prevailing in Member States, all financial assets and liabilities shall be reported on a gross basis for statistical purposes. National central banks may allow the reporting of provisioned loans net of provisions and the reporting of purchased loans at the price agreed at the time of their acquisition, provided that such reporting practices are applied by all resident reporting agents and are necessary to maintain continuity in the statistical valuation of loans with the data reported for periods prior to January 2005*' (Article 7)

8.14 Loans are therefore to be reported at the principal amount owed, and not for example at 'fair value'. This corresponds to the ESA95 requirement for the amount of principal that a debtor is contractually obliged to repay to a creditor (here the reporting MFI), and excludes any accrued interest (this is not explicit in the main part of the Regulation, but Annex II, Part 2 makes clear that accrued interest on loans is to be recorded in 'remaining assets', part of AF.7). 'At gross value' means without deduction of provisions: doubt about the debtor's ability to repay should be reflected in the balance sheet only when a loan is written down or written off. The written down/written off amount will then be recorded on the balance sheet with separate recording of the amount of the write down/write off to enable the effect to be excluded from transactions data on loans. Reporting net of provisions is however accepted in some circumstances. If loans are reported net of provisions, MFIs should report any change in provisioning: thus Guideline ECB/2007/9, Annex V, Part 2 states '*The [revaluation] adjustment also reflects the changes in the level of loan-loss provisions [which may rise, or fall if provisions are reversed], if a national central bank decides that the outstanding stocks are recorded net of provisions.*' The aim, again, is to keep (the flow of) lending data clean of valuation adjustments. Where a loan which has been provisioned against and recorded net of the provision is subsequently written off, it is important that the write off records only the adjustment to the value of the loan additional to the provision.

8.15 Other relevant ECB legislation (Regulations ECB/2006/8 concerning post office giro institutions, ECB/2007/8 on investment funds and ECB/2008/30 on financial vehicle corporations (none of which are MFIs but are nevertheless best considered here), and, for other financial corporations on which national central banks provide data to the ECB, Guideline ECB/2007/9, as amended by ECB/2009/23), establishes similar rules. Thus the annex to Guideline ECB/2009/23 concerning the reporting of loans made by the residual group of OFIs states that: '*[Deposits and] loans must be recorded at face value, excluding accrued interest…Loans made by OFIs must be recorded gross of all related provisions, both general and specific, until the loans are written off…at which point the loans must be removed from the balance sheet….Interest earned on loans must be subject to on-balance-sheet recording as it accrues…Accrued interest on loans must be classified on a gross basis under the category "Other assets".*'

8.16 The transaction value of loans excludes fees, etc.

8.17 MFIs must distinguish between loans denominated in euro and in foreign currency. When submitting MFI balance sheet data to the ECB, national central banks ensure that asset (and liability) positions denominated in foreign currencies are converted into euro at the market exchange rate on the last day of the period, commonly at the ECB reference exchange rate (Guideline ECB/2007/9, Annex V). MFIs report quarterly the amounts of loans denominated in each of the main foreign currencies; this information is used by the ECB to remove (as an approximation) the effect of exchange rate changes for the purpose of compiling ‘flows’ data.

National practice in reporting MFI loans gross or net of provisions in euro area 12[42]

	Loans - gross or net of provisions
Euro area:	
BE	gross
DE	net
EE	gross
GR	gross
ES	gross
FR	gross
IE	net
IT	gross
LU	gross
NL	gross
AT	gross
PT	gross
FI	net
Note	IE MFIs report loans net of provisions, but the NCB provides gross data to the ECB.
Source	*Methodological notes for the compilation of the revaluation adjustment*, February 2006 (mainly) with some updates, e.g. for EE.

In investment fund statistics

8.18 Regulation ECB/2007/8 (Article 8) states that ‘*The accounting rules followed by investment funds for the purposes of reporting under this Regulation shall be those laid down in the relevant national law implementing Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, or, if the former provision is inapplicable, in any other national or international standards that apply to investment funds. Without prejudice to accounting practices and netting arrangements prevailing in the participating Member States, all financial assets and liabilities shall be reported on a gross basis for statistical purposes*’. The Regulation does not give explicit guidance on valuation of loans. Annex II does however state that accruing interest on [deposits and] loans is to be recorded in ‘remaining assets/remaining liabilities’.

In financial vehicle corporation statistics

[42] This table based on information available in February 2006 predates the entry of Slovenia, Cyprus, Malta, Slovakia and Estonia into the euro area.

8.19 In the nature of their business, financial vehicle corporations hold on their balance sheets a large amount of securitised loans which have been removed from the balance sheets of the initial lenders, usually MFIs (and, in some cases, loans which, although securitised, do not meet the accounting condition for 'de-recognition', and so remain on the balance sheet of the MFI despite being recorded as an asset of the financial vehicle corporation). To provide continuity and consistency of reporting of these amounts, Regulation ECB/2008/30 accordingly sets rather detailed requirements for the reporting of this item by financial vehicle corporations. Thus financial vehicle corporations, if required to report, must provide quarterly outstanding amounts, financial transactions and write offs/write-downs on their assets [and liabilities]. (The financial vehicle corporation Regulation complements the MFI balance sheet Regulation in various respects, one being that national central banks have some discretion in dividing the data request concerning securitisations between the two sets of institution.) Assets and liabilities of financial vehicle corporations must be reported in accordance with the reporting rules laid down in the relevant national law transposing Council Directive 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions. Where financial vehicle corporations do not fall within the scope of such national law, the accounting rules in the relevant national law transposing the Fourth Council Directive 78/660/EEC based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of companies are applicable. Failing that, any other relevant national or international accounting standards or practices apply. Where relevant, financial vehicle corporations should report instruments on a mark-to-market basis, but national central banks may waive this requirement if the costs of meeting it would be unreasonably high.

8.20 All financial assets and liabilities must be reported on a gross basis, i.e. financial assets must not be reported net of financial liabilities.

8.21 As elsewhere in ECB reporting, financial vehicle corporations should record accrued interest on assets and liabilities in 'remaining assets/remaining liabilities'. Assets acquired by the financial vehicle corporation from the originator are typically not evidenced by documents or are represented by a single document, and, even if it has become negotiable, are classified as loans. Thus financial vehicle corporations' holdings of financial leases granted by an originator acting as the lessor; their holdings of debt securities which are not negotiable and cannot be traded on secondary markets, or of loans that have *de facto* become negotiable while continuing to be evidenced by a single document and, as a general rule, trade only occasionally; and their holdings of subordinated debt in the form of deposits or loans, where identifiable as such; are all to be reported as securitised loans in AF.5.

8.22 Securitised loans must be reported at nominal value, even if purchased from the originator at a different price, and with information on (original) maturity. The counterpart to the difference between the nominal value and the purchase price must be included under 'remaining liabilities' (see also Chapter 12 on other accounts receivable/payable (AF.7)).

8.23 Financial vehicle corporations may also have loans on the liabilities side of their balance sheet, as amounts owed to creditors other than from the issue of negotiable securities. AF.4 liabilities may include debt instruments issued by financial vehicle corporations which are non-negotiable in the sense that the transfer of legal ownership of the instrument is restricted, meaning that they cannot be marketed or, although technically negotiable, cannot be traded owing to the absence of an organised market. (Non-negotiable instruments that subsequently become negotiable and tradable on secondary markets should be reclassified as 'debt securities'.) Repos or repo-type obligations are also to be included as loans (AF.4).

In other OFI statistics

8.24 National central banks currently provide data on some groups of OFIs not addressed by a Regulation under Guideline ECB/2007/9, as amended (notably – so far as loans are concerned – financial corporations engaged in lending). The Guideline states that '*Accounting rules followed by OFIs in drawing up their accounts shall comply with the national transposition of Directive 86/635/EEC and any other international standards applicable. Without prejudice to the prevailing accounting practices in Member States, all assets and all liabilities are to be reported on a gross basis for statistical purposes*'. Annex III, Part 11 of the Guideline requires that '*loans made by OFIs must be recorded gross of all related provisions, both general and specific, until the loans are written off by the reporting institution, at which point the loans must be removed from the balance sheet. In accordance with the general principle of accruals accounting, interest earned on loans must be subject to on-balance-sheet recording as it accrues i.e. on an accruals basis, rather than when it is actually received or paid i.e. on a cash basis. Accrued interest on loans must be classified on a gross basis under the category 'Other assets'.'*

In balance of payments/international investment position statistics

8.25 As regards valuation of transactions and positions, timing of transactions, the treatment of repurchase agreements and other reversible transactions and the consequences for the recording of loans, and the accrual of interest on loans, requirements for the balance of payments/international investment position and the financial accounts (see immediately below) coincide. The treatment of accrued interest on loans consequently differs from the ECB's requirements for monetary and financial markets statistics.

Requirements for euro area financial accounts (Guidelines ECB/2002/7, ECB/2005/13)

8.26 Recital 4 in ECB/2002/7 states the general principle that quarterly euro area financial accounts should be based as much as possible on the ESA95. In the absence of sufficient source statistics for certain items, national central banks must nevertheless provide best estimates for the compilation of euro area aggregates (Article 2).

8.26 ECB/2005/13 requires a breakdown of loans into short-term (AF.41) and long-term (AF.42). The Guideline requires a complete sectoral breakdown of holdings (assets). Loans held by central government (S.1311) and by social security funds (S.1314) are to be broken down between loans granted to S.11, S.125, and S.14-15 (from whom-to-whom information). ECB/2005/13 requires a complete sectoral breakdown of liabilities in the form of loans, including S.2 (rest of the world), except that the Guideline requires no information on MFIs' (S.121-122) liabilities in the form of short-term loans. Loans by debtor sector are to be further broken down (more from-whom-to-whom information) into those granted by all residents (S.1), and then by MFIs (S.121-122), by other domestic sectors (except that insurance corporations and pension funds (S.125) are identified as a source for loans undertaken by central government (S.1311) and social security funds (S.1314) only), and finally by non-residents (S.2). As with deposits (Chapter 4), the from-whom-to-whom information extends to cross-border positions and transactions in loans in the euro area.

Intercompany loans, and lending by non-financial corporations to other sectors

8.27 The emphasis so far has been on loans extended by financial corporations, especially MFIs. This focus is justified by their importance in the financial accounts: thus outstanding loans by MFIs to non-financial corporations (S.11) and households and non-profit institutions serving households (S.14/15) in the euro area at end-2011 amounted to €4.7 trillion and €5.2 trillion respectively. A substantial amount of lending recorded in AF.4 – that is, excluding trade credit and other accounts receivable/payable, recorded in AF.7 – is nevertheless lending among companies, often within a business group, both domestic and cross-border, and lending by non-financial corporations to other sectors. Thus non-financial corporations in the euro area at end-2011 included among their financial assets loans of €3.2 trillion.

8.28 Data on intercompany loans and lending by non-financial corporations to other sectors are generally much more limited than are data on lending by MFIs and other financial corporations.

BOX

Loan securitisation in the context of MFI balance sheet statistics

A feature of Regulation ECB/2008/32 is the requirement on MFIs to provide data on loan securitisation (and other loan transfers). Related information is provided by financial vehicle corporations under Regulation ECB/2008/30, and Guideline ECB/2008/31, amending ECB/2007/9, concerns the new requirements set out in the two Regulations and the link between them.

The focus here is securitisation as it affects MFI balance sheet statistics. Other aspects (the functioning and operations of the financial vehicle corporations; the structure of financial markets) are important, but are not developed here.

Securitisation allows the originator of a loan (here, an MFI) to transfer the loan itself (or part of it), or sometimes only the credit risk that the borrower will default, to another entity (the financial vehicle corporation).

In a ‘traditional’ securitisation, the economic ownership of the loan is transferred. The MFI has no further claim on the borrower, though it may continue to administer the loan. The loan is said to have been ‘derecognised’ through a ‘true sale securitisation’. However, accounting rules may in some circumstances not permit the loan to be removed from the originating MFI’s balance sheet, even in a traditional securitisation, in which case the MFI will continue to report the loan on its balance sheet.

In a ‘synthetic’ securitisation the economic ownership of the loan is not transferred. It remains on the balance sheet of the originating MFI, which accordingly continues to be the creditor, but the default risk is transferred by means of contracts that resemble insurance (usually credit derivatives but sometimes simply guarantees). Synthetic securitisation has no impact on the statistics of lending.

In both a traditional securitisation and a synthetic securitisation, however, the financial vehicle corporation will issue securities. In the case of traditional securitisation, the proceeds finance the acquisition of the loans from the originating MFI; in the case of a synthetic securitisation, the proceeds are used to acquire assets to place as collateral, usually for an amount representing only a fraction of the total insured exposure which the financial vehicle corporation has taken on. It is important to avoid confusing a traditional securitisation that does not qualify as a 'true sale' with a synthetic securitisation. This confusion often occurs because in both cases the loans remain on the balance sheet of the originating MFI, although for different reasons (in the former an accounting requirement, in the latter the absence of an asset disposal of any kind). The impact on the balance sheet liabilities is however different. Where in a traditional securitisation the loans nevertheless remain on the balance sheet of the MFI, the MFI will report a matching deposit liability for the same reason that a repo gives rise to a deposit liability – here, the MFI undertaking the securitisation receives cash, but the loans remain on its balance sheet. It is as if the MFI has itself borrowed against collateral provided by the loans.

Securitisations are transactions, since they involve the exchange of economic value between entities by mutual agreement. Traditional loan securitisations which qualify as a 'true sale' may however conceal underlying credit developments. If only the removal of loans from the balance sheet of the originating MFIs is recorded on the MFI balance sheet, it will appear that loans have been repaid, whereas in reality the borrowers still owe the same amount and no credit has been withdrawn overall from the economy. If the originating MFI, or the MFI sector as a whole, purchases the securities issued by the financial vehicle acquiring the loans, it will appear (if, for example, the loans are mortgage or consumer credit loans, or loans to non-financial businesses) that there has been a switch from MFI lending to households/non-financial corporations to credit to other financial intermediaries, which, although correct if the MFI balance sheet is considered in isolation, does not capture the economic reality of what has happened.

For various reasons, therefore, the information on the assets side of an MFI's balance sheet needs to be supplemented, either by further information on its securitisation activities, which can be provided by the MFI itself, or by the partner financial vehicle taking on the loans or assuming the credit risk, or some combination of the two. The main concern for MFI balance sheet statistics and the data based on them is the effect of traditional loan securitisation on outstanding MFI loans where the loans are derecognised and removed from the balance sheet. But it is also important to know when there has been a traditional securitisation yet the loans remain on the balance sheet of the originating MFI.

Under Regulation ECB/2008/32, MFIs must report on a monthly and quarterly basis comprehensive information regarding traditional securitisation. This includes the net amount (disposals minus acquisitions) of loans securitised or otherwise transferred, with a sector breakdown of the borrowers where these are domestic residents or residents of other euro area Member States (no sector breakdown is requested if the borrowers are resident outside the euro area). Quarterly data provide a fuller sector breakdown of original borrowers, with (for households and non-profit institutions serving households) information on the purpose of the original loan (consumption, house purchase, and 'other', within which loans to sole proprietors/unincorporated partnerships); and on the original maturity of the loan where the original borrower is a non-financial corporation. Information on MFIs' disposals of loans minus (re)acquisitions, with a sector analysis, measures the impact of securitisation operations on the total and on the composition of their lending. The required distinction between transactions affecting the amount of loans recorded on the MFI balance sheet (where the loans are derecognised) and those not affecting it (where accounting rules prevent MFIs from derecognising securitised loans) is critical to the analysis of lending and monetary developments.

MFIs must also report quarterly, with the same sector and maturity breakdowns, the outstanding amount of securitised loans which they continue to administer. This is important because it enables the ECB and national central banks to continue to receive information on the loans after they have been transferred. In particular, repayments will show in these outstanding amounts, as they would if the loans had remained on the balance sheet of the originating MFI.

With complementary data from financial vehicle corporations, all this enables national central banks and the ECB to keep track of loans that have been securitised and ensure that they are neither lost to the monetary statistics and financial accounts nor recorded twice.

The ECB's *Manual on MFI balance sheet statistics* contains more on securitisation.

National practices in recording inter-company loans

1) <u>Cross-border loans</u> between non-financial corporations

Summary of replies

The source of inter-company cross-border loans is always BOP data, usually without further adjustment. Only a minority of Member States (even in the euro area) can distinguish between cross-border business with residents of the euro area and other cross-border business.

Table 8.2 – Coverage of inter-company cross-border loans granted by or to NFCs

Euro area	***1a) What is the source for inter-company cross-border loans granted by or to NFCs? BOP data?*** ***1b) Do you make additional estimations?*** ***1c) Can you distinguish between euro area and other non-resident counterparts?***			
	1a	**1b**	**1c**	**Comments**
BE	**Y**	**N**	**N**	he euro area/other non-resident split is in preparation.
CY	**Y**	**Y**	**N**	he euro area/other non-resident split is in preparation.
DE	**Y**	**N**	**N**	
EE	**Y**	**N**	**Y**	
IE	**Y**	**Y**	**Y**	A BOP survey focuses on non-financial corporations with significant cross-border business; most respondents are direct investment companies. Quarterly returns are received from the larger companies, annual returns from smaller ones, with quarterly estimates interpolated at macro-level. The survey covers all their assets and liabilities (not only cross-border – which are however identified), stocks and transactions, identifying e.g. financial leases, other long-term loans, and short-term loans, in each case analysed by relationship to the counterparty. The direct sources for S.11 enterprises not covered by the BOP survey are audited annual accounts; a sample of such cases is grossed up. Transactions are estimated from changes in position unless other information about revaluations is known. These accounts do not distinguish between resident and cross-border assets and liabilities; all positions for these enterprises are assumed to be with residents. The BOP survey distinguishes between cross-border positions and flows within the euro area and business with non-residents of the euro area.
GR	**Y**	**N**	**N**	Loans by resident NFCs to subsidiaries abroad and loans by foreign companies to resident NFC subsidiaries.
ES	**Y**	**N**	**Y**	
FR	**Y**	**N**	**N**	BOP data provide information on outstanding amounts of loans with short-term/ long term and euro/other currency breakdowns.
IT	**Y**	**N**	**Y**	
LU	**N**	**Y**	**N**	The source is the annual Structural Business Survey and for some large enterprises annual reports. The resident/non-resident split is estimated
MT	**Y**	**N**	**Y**	The source is BOP statistics (specifically 'direct investment - other capital').
NL	**Y**	**Y**	**Y**	Quarterly financial statements of non-financial enterprises, together with BOP information, provide the basis for estimates of S.11 cross-border loans (assets and liabilities).
AT	**Y**	**N**	**Y**	BOP (FDI) data provide information to enable loans to be allocated to AF.5. For split other MS/ euro area Row the creditor/debtor principle is used (unlike in FDI statistics which follow the inward/outward principle).
PT	**Y**	**N**	**Y**	
SI	**Y**	**N**	**Y**	BOP/IIP data are the main source for cross border loans granted by/to S.11.

SK	**Y**	**N**	**N**	
FI	**Y**	**N**	**Y**	Balance sheets are the primary source for cross-border loans, together with BOP data for the euro area/other non-resident split.
Pre-ins:				
BG	**Y**	**N**	**Y**	All cross border loans (including inter-company loans) above a threshold are registered with the central bank, with information on sector classification and the country of the non-resident counterparty.
CZ	**Y**	**N**	**N**	Geographical breakdown is available from primary BOP data
DK	**Y**	**Y**	**Y**	BOP data (coverage about 90%) with euro area/other non-resident split; grossed up to 100%.
LV	**Y**	**N**	**N**	BOP data without further estimation.
LT	**Y**	**N**	**Y**	BOP survey covers FDI loans, debt securities and trade credits between direct investors and direct investment enterprises. Non-FDI element is extracted from ”other capital” also using BOP data.
HU	**Y**	**N**	**N**	BOP data without further estimation.
PL	**Y**	**Y**	**Y**	IIP data for entities other than S.121, S.122, S.13; S.11 data are estimated.
RO	**Y**	**N**	**Y**	Bop/IIP are the main data sources for cross-border loans granted by NFCs (transactions and stocks) and all information are integrated in financial accounts without adjustments. In the balance of payments database all transactions are containing the “country” attribute, so the split between. Other MUMS/euro area rest of the world it is available.
SE	**Y**	**Y**	**Y**	Monthly BOP surveys cover cross-border inter-company loans are possible to distinguish where there is an FDI relationship, with country breakdown. A quarterly survey of NFCs identifies other inter-company cross-border loans.
UK	**Y**	**N**	**N**	Data are collected quarterly by survey and grossed up to the FDI population. A more comprehensive survey is conducted annually.

2) Loans between <u>resident</u> non-financial corporations

Summary of replies

Most euro area Member States (though not a majority of other EU Member States) can capture lending by NFCs to other resident NFCs, usually from balance sheet information. Estimation is commonly necessary because the source is available only at low frequency.

Table 8.3 – Coverage of loans between resident NFCs

Euro area:	***2a) What (if any) is the source for inter-company loans granted by NFCs to other resident NFCs? Balance sheet data? 2b) Do you make additional estimations?***		
	2a	**2b**	**Comments**
BE	**Y**	**Y**	S.11->S.11 loans are calculated by deducting loans granted to S.11 by other sectors (counterpart information) from total loans granted to S.11 enterprises (liability side of S.11 balance sheets).
CY	N	N	
DE	**Y**	**Y**	S11 inter-company loans are calculated using NFC balance sheet statistics
EE	**Y**	**N**	S.11 inter-company loans are calculated as a residual from end-year stock data based on annual balance sheets; quarterly data are based on a sample survey of NFCs.
IE	**Y**	**Y**	Estimates are derived using information from BOP surveys
GR	**N**	**N**	Under Greek legislation (2190/1920) providing loans between "connected' enterprises is not allowed (this may change soon)
ES	**Y**	**Y**	Estimations are based on information from the Central Balance Sheet Data Office
FR	**N**	**Y**	Fiscal and other MoF/INSEE data, with BOP sources, permit estimates of S.11->S.11 loans for the definitive accounts. Earlier estimates are based on (notably) central bank sources.
IT	**Y**	**N**	But amounts are mainly for F.71 (not F.4).
LU	**Y**	**Y**	The source is the annual Structural Business Survey and some annual reports. Grossing up, extrapolation to the recent period and quarterisation by linear interpolation is done.
MT	**Y**	**Y**	The source for domestic S.11->S.11 loans is the aggregated S.11 balance sheet provided annually by the tax authorities. The central bank projects recent quarters from the latest available end-year figure.
NL	**Y**	**N**	Quarterly financial statements of S.11 enterprises include S.11->S.11 loans [which can be derived by residual].
AT	**Y**	**Y**	Balance sheet statistics (no split available between NFC abroad and resident NFC) taking into account the items "loans between affiliated companies, and loans to associated companies (there is an equity relationship, other loans not specified)" of the asset side combined with BOP data to calculate loans granted to domestic loans. Estimates are made for reference periods not covered by balance sheet dates, taking into the average ratio between consolidated and non-consolidated total loans for the last four reference years. Adjustments are made to reflect the cyclical trends.

PT	**Y**	**Y**	Quarterly estimates (using the quarterly survey to NFC) are based on annual Central Balance Sheet Database. It is used annual data regarding loans to/by NFC counterparts that belong to the same economic group or when an equity relationship exists. Then loans granted to/by non-resident NFC are deducted.
SI	**Y**	**N**	S.11->S.11 loans (assets/liabilities) come from the direct reporting system for financial accounts.
SK	**Y**	**N**	Balance sheet statistics are provided by the NSI.
FI	**Y**	**Y**	S.11->S.11 loans (very significant in Finland) are calculated as a residual on the liability side; the most recent annual data are carried forward to provide quarterly data.
Pre-ins:			
BG	**Y**	**Y**	Balance sheet data could be changed in the process of overall balancing
CZ	**N**	**Y**	Loans between resident NFC are estimated as a difference between total sum of loans granted to NFC and sum total of loans granted to NFC by other sectors. Total volume of loans is estimated by means of Chow – Lin method i.e. by means of desegregation of annual time series (in this case yearly national accounts) with using of additional information of so called referential quarterly time series (in this case loans granted to NFC by sector S.122).
DK	**N**	**N**	Balance sheet statistics for S.11->S.11 loans are not directly available and not currently estimated.
LV	**Y**	**Y**	An annual survey on financial positions provides necessary instrument and sector breakdowns; quarterly estimates are based on more limited survey information.
LT	**Y**	**N**	“Loans to subsidiaries and associates” in non-financial corporations’ balance sheets are treated as loans granted by S.11 to S.11 and S.2.
HU	**Y**	**Y**	[Annual] S.11 balance sheets (for fiscal purposes) provide data on S.11->S.11 lending (stocks and transactions) though with no breakdown between loans (F.4) and other assets receivable/payable (F.79). The split must be estimated and projected for recent quarters. Work is under way to improve the estimation.
PL	**Y**	**Y**	Quarterly financial balance sheets. Grossing-up procedure.
RO	**Y**	**Y**	Partly. S.11 balance sheets comprise information for amounts granted to other affiliated companies and are treated as loans granted by non-financial corporations to non-financial corporations.
SE	**N**	**N**	
UK	**N**	**N**	

3) Loans between <u>non-affiliated</u> non-financial corporations

Summary of replies

Loans between non-affiliated NFCs can usually be picked up, though they may not be identifiable.

Table 8.4 – Coverage of loans between <u>non-affiliated</u> NFCs (i.e. where there is no ownership link between debtor and creditor)?

Euro area:	***Do you cover loans between non-affiliated NFCs?***	
	3	**Comments**
BE	**Y**	Such loans are covered indistinguishably.
CY	**N**	
DE	**Y**	
EE	**Y**	NFC loans granted to affiliated and non-affiliated companies are covered, but distinction is not available
IE	**Y**	Such loans are covered indistinguishably
GR	**N**	
ES	**Y**	There is no distinction for loans granted to NFCs between non-affiliated and other NFCs.
FR	**N**	Except for cross-border loans.
IT	**Y**	
LU	**N**	Except for cross-border loans that are split between FDI and non-FDI.
MT	**Y**	The aggregate balance sheet obtained annually from the tax authorities includes such loans.
NL	**Y**	Such loans are covered indistinguishably.
AT	**Y**	Minor part of loans between resident NFCs, There is no distinction for loans granted to NFCs between affiliated NFCs and other NFCs in the item “other loans” on the asset side of the balance sheet data.
PT	**N**	Because a sample of NFCs is used (from Central Balance Sheet Database and thus accounting data) , the procedure covers loans only between affiliated NFCs.
SI	**Y**	Direct reports for financial accounts purposes cover all loans irrespective of the ownership link. BOP/IIP data also include loans data between un-related companies.
SK	**Y**	But only cross-border loans from BOP sources.
FI	**Y**	All loans receivable and payable are covered by balance sheet data.
Pre-ins:		
BG	**Y**	Such loans are covered (indistinguishably from liabilities side).
CZ	**Y**	Estimated total loans (Table 2) include loans between non-affiliated corporations (indeed they cannot be identified).
DK	**N**	
LV	**N**	
LT	**N**	
HU	**Y**	Such loans are probably only a small part of inter-company loans.
PL	**Y**	

RO	**Y**	Partly. The detailed non-financial corporations' balance sheet form includes "loans payable to affiliated enterprises" on the asset side and "loans receivable from the affiliated enterprises" on the liability side..
SE	**N**	
UK	**N**	There are no data on S.11->S.11 loans between unrelated enterprises (or on such cross-border loans).

4) The capital link between debtor and creditor for inter-company loans between resident non-financial corporations

Summary of replies

Usually the capital link between creditor and debtor is not known for domestic intercompany loans.

Table 8.5 –Information on the capital link between NFC debtor and creditor for domestic inter-company loans

Euro area	***Do you have information on the capital link between NFC debtor and creditor in the case of domestic loans?***	
		Comments
BE	**Y**	The information is available (S.11annual accounts) but is not used systematically to compile the accounts.
CY	**N**	
DE	**Y**	
EE	**N**	Some information is available from annual financial statements, but, because additional accounting information is voluntary depending on the significance of the instrument for the entity, the information is not fully covered.
IE	**N**	
GR	**N**	
ES	**N**	
FR	**N**	
IT	**N**	
LU	**N**	Although the item "loans to affiliated enterprises" sometimes exists in the balance sheet data. These are all recorded with counterpart NFC; a resident-non-resident split is estimated.
MT	**N**	
NL	**N**	There is information on foreign private equity stakes in resident NFCs but it is not possible (yet) to link it to data on loan transactions.
AT	**Y**	Possible entity by entity, but not on the aggregated level. (except cross-border loans).

PT	**N**	The information is available for links between resident and non-resident NFCs (FDI surveys, Central-Balance Sheet annual survey and securities statistics integrated system database) but not for links between resident NFCs.
SI	**N**	For financial accounts purposes domestic companies report data on all financial instruments (assets and liabilities). From this report it is evident the capital link between sectors that grant or raise loans (not on individual basis).
SK	**N**	
FI	**Y**	Balance sheet data include separate information on loans receivable from affiliated companies and loans payable to affiliated companies (all intra-group positions, whether foreign or domestic).
Pre-ins:		
BG	**Y**	Balance sheet data include separate information on loans granted to affiliated enterprises.
CZ	**Y**	The information in primary data is only about the immediate investor (counterpart).
DK	**Y**	The information is available only where there are quoted shares, or shares held in custodian banks.
LV	**N**	
LT	**N**	
HU	**N**	Information on the capital link is confined to BOP data (and therefore to cross-border lending). However, it is very likely that resident S.11->S.11 loans are predominantly between NFCs with a capital link.
PL	**Y**	Annual balance sheet data only.
RO	**Y**	The detailed non-financial corporations' balance sheet form includes "loans payable to affiliated corporations" and "loans receivable from affiliated corporation"
SE	**N**	
UK	**Y**	Inward inter-company loans to S.11 enterprises are nearly always from the parent to the UK subsidiary and the capital link is known. Outward loans may be from the UK parent to many subsidiaries; since only an aggregate is collected, the subsidiary to which the loan goes and therefore the capital link is usually not known. There is no information on the capital link in case of domestic S.11->S.11 loans. [ANSWER 'N'??]

5) <u>Loans granted</u> by non-financial corporations <u>to other sectors</u>

Summary of replies

NFC loans to other sectors are quite commonly recorded, though their specific nature may not be known. In some Member States consumer credit is usually provided by financial intermediaries rather than directly by the retailer and therefore does not contribute to NFC lending to households.

Table 8.6 – Coverage of loans granted by NFCs to other sectors

Euro area	***Do you have information on a) instalment loans by retailers to customers b) other loans made by NFCs to other sectors?***		
	5a	**5b**	**Comments**
BE	**N**	**Y**	Other loans, where information is available from counterpart sectors.
CY	**N**	**N**	
DE	**N**	**Y**	
EE	**N**	**Y**	The quarterly survey of large companies provides estimates for NFC loans to households. Some instalment credit may be recorded under trade credit
IE	**Y**	**Y**	These are not separately identifiable from forms.
GR	**N**	**N**	
ES	**Y**	**Y**	Included under the overall amount of commercial credit granted by NFCs. Repurchase agreements with 'other' financial intermediaries (S.123).
FR	**N**	**Y**	*We cover all different kinds of loans between resident and foreign NFC as well as " operations within "groups and associates" inside the NFCs sector.* [QUESTION RELATES TO NFC LOANS TO OTHER SECTORS]
IT	**Y**	**Y**	In principle – no separate evidence.
LU	**N**	**Y**	Loans to clients are treated as trade credits.
MT	**N**	**Y**	The aggregated S.11 balance sheet provided by the tax authorities gives information on loans granted by NFCs however only a partial sectoral split is available.
NL	**N**	**Y**	Quarterly S.11 financial statements include loans granted to other sectors; counterparties can be identified only roughly from annual information.
AT	**N**	**Y**	Instalment loans by retailers are under consideration (if implemented, they would be treated as trade credits): loans by public corporations to the government according the treatment in line with EDP rules.
PT	**N**	**Y**	Instalment loans by retailers are included in trade credits (AF.71). Other loans are included, where information is available from counterpart sectors. In the case of loans granted to/by households, Central Balance-Sheet database provides information.
SI	**Y**	**Y**	In principal all types of loans are covered in financial accounts data. No separate information is available on instalment loans by retailers to customers.
SK	**N**	**Y**	From S.11 balance sheets.
FI	**Y**	**Y**	Some instalment loans by retailers may be recorded in trade credits in line with (rather flexible) accounting practices. However in most cases a finance company intermediates between the NFC and its customers, and the instalment loan is not recorded in the balance

			sheet of the NFC.
Pre-ins:			
BG	**Y**	**Y**	Included in total.
CZ	**N**	**Y**	NFCs are thought not to grant loans to other domestic sectors except households (estimated) and government (small amounts – based on counterpart information from S.13).
DK	**Y**	**Y**	NSI consumer credit statistics cover instalment credit. On 'other' loans by S.11, some counterpart information is available from S.123 and S.13.
LV	**N**	**Y**	An annual survey on financial positions provides necessary sector breakdowns; quarterly estimates are based on more limited survey information.
LT	**N**	**N**	
HU	**N**	**Y**	Instalment loans in Hungary are generally granted by financial corporations. Financial accounts cover loans granted by NFCs to S.122, S.123 and S.15.
PL	**Y**	**Y**	Separate data are not available.
RO	**N**	**N**	Leading retailers in Romania work with financial corporations engaged in lending, so such loans will probably be recorded as lending by S.123.
SE	**N**	N	The NSI survey would capture such loans only if made to non-residents.
UK	**N**	**N**	

CHAPTER 9 – Shares and other equity, excluding investment fund shares (AF.51)

Importance of instrument categories in euro area balance sheets
€ trillions, end-2011

	Assets			Liabilities	
Financial instruments	Euro area residents	Rest of the world		Euro area residents	Rest of the world
Monetary gold and SDRs	0.4				
Currency and deposits	21.6	3.8		22.8	2.6
Debt securities	14.3	4.3		15.5	3.1
Financial derivatives	0.0	0.0		0.0	0.0
Loans	20.9	1.8		19.7	3.1
Shares	24.2	6.0		24.6	5.5
Shares, excl. IF shares*	**19.3**			**18.0**	
Investment fund shares*	4.8			6.7	
Insurance technical reserves	6.2	0.2		6.4	0.0
Other accounts receivable/payable	5.8	0.5		5.9	0.4

Assets – euro area residents *comprise claims held by residents of the euro area in the form of the respective instruments, including claims on the Rest of the World (shown in the column* ***liabilities – RoW****).*

__Liabilities – euro area residents__ comprise liabilities of residents of the euro area in the form of the respective instruments, including liabilities to the Rest of the World (shown in the column __assets – RoW__).

Since the euro area financial accounts are horizontally balanced, as explained in the box in Chapter 2, apart from a rounding difference in other accounts receivable/payable total assets equal total liabilities in each category except monetary gold and SDRs.

I Quoted shares, excluding investment fund shares (AF.511)

ESA95 definition (Annex 7.1 – Definition of each asset category)

9.1 Shares cover beneficial interest in the capital of corporations in the form of securities which in principle are negotiable. Quoted shares cover those shares with prices quoted on an official stock exchange or other form of secondary market.

Further definitional remarks in the ESA95

9.2 Chapter 5 (*5.86*) notes that shares generally entitle the holder to a share in the profits of the corporation, and to a share in its net assets in the event of liquidation.[43] Shares include (*5.91*) capital shares (and redeemed shares); dividend shares, which do not give the holder the status of owner, are not part of the registered capital; and preference stocks or shares. Not included are debentures and loan stock convertible into shares (these are included in AF.33 up to the time when they are converted). Shares not taken up on issue are not recorded in the System.

Balance sheet valuation in the ESA95

9.3 Chapter 7 requires quoted shares to be valued at market price (*7.53*).

Transactions in the ESA95

9.4 The ESA95 defines a transaction as '*an economic flow that is an interaction between institutional units by mutual agreement or an action within an institutional unit that it is useful to treat as a transaction, often because the unit is operating in two capacities*' (*1.32*). The ESA95 goes on to define financial transactions as '*transactions in financial assets and liabilities between institutional units, and between them and the rest of the world*' (*5.1*). Financial transactions are recorded at transaction values (*5.134*) excluding charges, fees, commissions, etc., which are treated as separate transactions in services (*5.137*).[44] New shares are recorded at issue value; scrip dividend shares are valued at the price implied by the issuer's dividend proposal (*5.140*). Issues of bonus shares are not to be recorded (*5.140*).

[43] Net assets in the event of liquidation are defined as the amount of assets of an enterprise less all liabilities other than liabilities to the owners themselves in respect of their invested capital (see ESA95, *5.86* footnote 13).

[44] Taxes on financial transactions are also excluded and treated as taxes on services within taxes on products.

Definition in ECB statistics

Allocation by residence and sector of the issuer and holder

MFI balance sheet statistics break down reporting MFIs' holdings of shares and other equity (reported as a single category) by residence of the issuer (domestic, other euro area, and Rest of the World) and, for issuers in the first two categories, with full sector detail except that issues by OFIs (S.123) and financial auxiliaries (S.124) are combined. Issuers resident outside the euro area are not broken down by sector. Investment funds report under Regulation ECB/2007/8 their holdings of quoted shares separately, with similar residence and sectoral breakdowns (but in practice investment funds may report holdings security-by-security to the national compiler). Financial vehicle corporations provide only a limited breadown under ECB/2008/30; some report security-by-security to the national compiler.

It is much harder for reporting institutions to know who holds their own shares and other equity (included indistinguishably in capital and reserves). MFIs and financial vehicle corporations (investment funds have few liabilities in this form) are not asked to allocate their own issues by residence and sector of the holder – the ECB and national central banks make the necessary estimates from other sources.

In MFI balance sheet statistics

9.5 Regulation ECB/2008/32 defines shares (together with 'other equity', and with no separate breakdown of quoted shares) as securities which represent property rights in corporations or quasi-corporations, generally entitling the holder to a share in the profits and in own funds in event of liquidation. The category in the MFI balance sheet includes investment fund shares – see the section on AF.52 - but not shares issued by money market funds (MMFs), which are themselves part of the MFI sector (and holdings of whose shares/units by other MFIs, including by other MMFs, are shown in a separate balance sheet category to permit consolidation and the correct derivation of monetary aggregates and counterparts). It is therefore a narrower concept than in the ESA95. Shares appear in the MFI balance sheet both as assets and as liabilities, where they are included in capital and reserves.

In investment fund statistics

9.6 Regulation ECB/2007/8 on investment funds defines shares and other equity to include MMF and other investment fund shares, but requires investment funds to report holdings of investment fund and MMF shares/units separately from other components of shares and other equity (and also to identify holdings of quoted shares, excluding investment fund and MMF shares/units).

In financial vehicle corporation statistics

Shares and other equity forms a single item on the assets side of the financial vehicle corporation balance sheet, defined only as '*securities which represent property rights in corporations or quasi-corporations. These securities generally entitle the holder to a share in the profits of corporations or quasi-corporations and to a share in their own funds in the event of liquidation*'.

In other OFI statistics

Guideline ECB/2007/9, Annex III, Part 11 concerning OFI statistics, other than investment funds and financial vehicle corporations, splits shares and other equity into two categories. The first is *shares and other equity excluding investment fund shares*, comprising (in each case excluding investment fund shares) quoted shares, unquoted shares; and other equity. The second category is *investment fund shares/units.* The Guideline says that for financial corporations engaged in lending investment fund shares/units are to be recorded under 'other assets'.

In securities issues statistics

Annex III, Part 12 of Guideline ECB/2007/9 concerning securities issues statistics defines quoted shares and their statistical treatment at some length.

Quoted shares comprise capital shares issued by limited liability companies; redeemed shares in limited liability companies; dividend shares issued by limited liability companies; and preferred or preference stocks or shares which provide for participation in the distribution of the residual value on dissolution of a corporation. Private placements are included where possible.

If a company is privatised and the government keeps part of the shares but the other part is quoted on a regulated market, the whole value of the company's capital is recorded at market value within the outstanding amounts of quoted shares, since all shares could potentially be traded at any time. The same applies if part of the shares is sold to large investors and only the remaining part is traded on the stock exchange.

Quoted shares exclude shares offered for sale but not taken up on issue; debentures and loan stock convertible into shares (these are included only if and when they are converted into shares); equity of partners with unlimited liability in incorporated partnerships; government investments in the capital of international organisations legally constituted as corporations with share capital; and bonus shares at the time of issue, and split share issues. (Bonus shares and split shares are however included indistinguishably in the total outstanding stock of quoted shares.)

Gross issues include all issues of quoted shares where the issuer sells newly created securities for cash. Issues are deemed to be concluded when payment is made. They include new shares issued for cash by corporations quoted on a stock exchange for the first time, including newly created companies or private companies going public. Gross issues also cover new shares issued against cash in the course of privatisation of a public corporation, and quoted on a stock exchange. Listing of a corporation on a stock exchange does not however constitute a share issue if no new capital is raised; nor does the exchange or transfer of existing securities during a takeover or merger.

Redemptions cover all repurchases of quoted shares by the issuer, where the investor receives cash for the securities. Company share buy-backs are covered, if the company repurchases all shares against cash prior to a change of its legal form, or part of its shares which are cancelled, leading to a reduction in capital. Share buy-backs are not treated as redemptions if the company is simply investing in its own shares. Delisting from a stock exchange does not constitute a redemption of shares.

Net issues are gross issues minus redemptions.

The outstanding amounts of quoted shares must cover the market value of all quoted shares issued by resident entities. The outstanding amounts of quoted shares reported by a country may therefore change following relocation of a listed company. This does not however in itself affect gross issues, redemptions and net issues statistics in either country concerned.

This treatment is consistent with the ESA95, though of course the ECB's securities issues statistics do not cover the whole of AF.5.

In balance of payments/international investment position statistics

9.7 The Bop Book has nothing to add on the definition of quoted shares.

Additional definitional points from the ECB's financial terminology database

9.8 The ECB's financial terminology database explains that participating preference shares and most depository receipts (see further in Chapter 6 on debt securities) are to be classified as shares and other equity. By contrast, non-participating preference shares, permanent interest-bearing shares, and bonds convertible into shares are debt securities (AF.33), while some instruments linked to shares are financial derivatives (e.g. equity swaps and stock index futures).

Valuation in ECB statistics

In MFI balance sheet statistics

9.10 Regulation ECB/2008/32 makes the general point on valuation that '*Unless otherwise provided for in this Regulation, the accounting rules followed by MFIs for the purposes of reporting under this Regulation shall be those laid down in the national transposition of Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as well as in any other international standards applicable.*' (As noted elsewhere, however, deposits and loans must be valued at the principal amount outstanding.) Guideline ECB/2007/9, as amended, says in connection with valuation adjustments that '*Although it is recommended that both sides of the balance sheet are recorded at market value, in practice, a variety of different valuation methods may be employed on both the liabilities and the assets sides. This is acceptable as long as the book value does not diverge significantly from the market value…. On the assets side of the balance sheet, holdings of securities may be recorded using market price, purchase price, the lower of market or purchase price or redemption value in accordance with standard accounting practice. The content of the adjustment depends on the valuation method applied.*' (Annex V, Part 3).

9.11 It is clear that MFIs in different Member States use different valuation practices for quoted shares issued and held. It seems that in several euro area Member States MFIs value shares held for trading purposes at market prices (this is no doubt a small part of the portfolio in the case of MFIs), and shares held in the investment or 'fixed' portfolios (usually comprising a durable interest in subsidiaries or affiliates) at acquisition value, or the lower of market and acquisition price, or at some other book value.

9.12 Varying valuation practice must affect the data on outstanding issues and holdings of these instruments in MFI balance sheet statistics. The method of revaluation adjustment however accommodates these differences and should ensure that transactions data based on MFI balance sheets but adjusted for non-transactional changes in balance sheet outstandings are not distorted by different valuation practices. Revaluation adjustments for shares and other equity held as assets are part of the minimum requirement under Regulation ECB/2008/32 because significant valuation effects are likely to be experienced in this category. National central banks may seek from MFIs information on the effect of price changes on holdings of shares in three ways:

- MFIs report the valuation changes due to change in prices. The national central bank aggregates the adjustments reported by MFIs for the submission of data to the ECB;
- MFIs accumulate transactions in shares during the month and transmit the value of purchases and sales to the national central bank (the compilation and submission to the national central bank of net transactions is also acceptable). The national central bank receiving transactions data calculates the 'revaluation adjustment' as a residual from the difference between the change in stocks, the transactions, and other (reclassification) adjustments, and submits the revaluation adjustment to the ECB;
- MFIs report information on holdings of shares security-by-security. The national central bank can then calculate the 'revaluation adjustment' to be submitted to the ECB.

Table 9.1

National practice in the valuation of equities in MFI balance sheets in euro area 12[45]

Euro area:	**Trading portfolio**	**Investment portfolio**	**Other holdings**
BE	usually market	lower of cost/market	
DE	lower of cost/market used for all purposes	lower of cost/market used for all purposes	
EE	Market value	own funds at book value/market value purchase value/redemption value/book value	
GR	market prices used for all purposes		
ES	market	purchase price	purchase price
FR	market	purchase price	purchase price
IE	book value	book value	book value
IT	**book value - not explicit**	**book value - not explicit what it**	

[45] This table based on information available in February 2006 predates the entry of Slovenia, Cyprus, Malta, Slovakia and Estonia into the euro area.

	what it is	**is**	
LU	**usually lower of cost/market**	**usually lower of cost/market**	
NL	market	market	market
AT	market	market	market
PT	IAS (market/nominal/book value)	IAS (market/nominal/book value)	IAS (market/nominal/book value)
FI	market	lower of cost/market	lower of cost/market

Source: *Methodological notes for the compilation of the revaluation adjustment*, February 2006)

In investment fund statistics

9.13 Regulation ECB/2007/8 (Article 8) states that '*The accounting rules followed by investment funds for the purposes of reporting under this Regulation shall be those laid down in the relevant national law implementing Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, or, if the former provision is inapplicable, in any other national or international standards that apply to investment funds. Without prejudice to accounting practices and netting arrangements prevailing in the participating Member States, all financial assets and liabilities shall be reported on a gross basis for statistical purposes*.'

9.14 Guideline ECB/2007/9 (Annex V, Part 4 on revaluation adjustments by investment funds) recognises a variety of valuation practices: *'Regulation ECB/2007/8 allows flexibility in terms of the type of data needed to calculate the revaluation adjustments of assets and liabilities and the form in which these data are collected and compiled. The decision on the method is left to the national central banks.'* Where investment funds provide security-by-security information following the 'combined' approach (Annex I of Regulation ECB/2007/8), national central banks have two ways of deriving revaluation adjustments for shares:

- Investment funds report security-by-security information that allows national central banks to derive revaluation adjustments (the information in Table 2, paragraphs a, b and d of Regulation ECB/2007/8, Annex I, Part 3). The national central bank may use it to calculate the revaluation adjustment for shares following the 'flow-derivation method' described in the *Investment Fund Manual* accompanying Regulation ECB/2007/8;
- Investment funds report cumulative transactions in the period security-by-security as in Table 2, paragraphs a and c of Regulation ECB/2007/8. The national central bank may calculate the revaluation adjustment for shares as the difference between the change in stocks and the transactions (allowing for any reclassification adjustments).

9.15 Where investment funds follow the 'aggregated' approach (not reporting holdings of shares security-by-security), the national central bank may derive revaluation adjustments in two ways:

- investment funds report aggregated adjustments. The national central bank provides the total to the ECB;

- investment funds report aggregated transactions. The national central bank calculates the revaluation adjustment for shares as the difference between the change in stocks and total transactions (allowing for any reclassification adjustments).

In practice, all investment funds report their portfolio of quoted shares on a security-by-security basis.

In other OFI statistics
9.16 Here Guideline ECB/2007/9, Annex III, Part 11 requires national central banks to submit to the ECB data on OFIs' (other than investment funds and financial vehicle corporations) assets and liabilities '*in line with the ESA95…at current market prices on the date to which the balance sheet relates*' (except for deposits and loans).

In securities issues statistics
9.17 On data concerning securities issues, redemptions and outstandings, Guideline ECB/2007/9, Annex III, Part 12 requires national central banks to value quoted shares at market value in data submitted to the ECB.

In balance of payments/international investment position statistics
9.18 The principle of transactions value is followed in the euro area balance of payments. For holdings in quoted companies, direct and portfolio investment stocks in the euro area international investment position are measured by the stock exchange price of the company.

Requirements for euro area financial accounts (Guidelines ECB/2002/7, ECB/2005/13)

9.19 Recital 4 in ECB/2002/7 states the general principle that quarterly euro area financial accounts should be based as much as possible on the ESA95. In the absence of sufficient source statistics for certain items, national central banks must nevertheless provide best estimates for the compilation of euro area aggregates (Article 2).

9.20 ECB/2005/13 requires a sectoral breakdown of holdings (assets) in the form of quoted shares (AF.511), including holdings by the rest of the world (S.2), except that no breakdown of holdings by the sub-sectors of general government is requested (this information being required only for shares and other equity in total, AF.5). ECB/2005/13 requires the same sectoral breakdown of liabilities in the form of quoted shares (but not of course S.13 and S.14-15), including liabilities of S.2 (Rest of the World).

II Unquoted shares, excluding mutual fund shares (AF.512); other equity (AF.513)

9.21 In several EU Member States (including France, Germany and Spain), unquoted shares and other equity are very important, exceeding 50% of AF.51.

ESA95 definition (Annex 7.1 – Definition of each asset category)

9.22 Unquoted shares are those shares (see Part I) that are not quoted.

Other equity comprises all forms of equity other than quoted shares, unquoted shares, and investment fund shares.

Further definitional remarks in ESA95

9.23 The ESA95 defines shares and other equity (excluding mutual fund shares) as financial assets which represent property rights on corporations or quasi-corporations, generally entitling the holder to a share in profits and to a share in net assets in the event of liquidation; shares are securities which are in principle negotiable (*5.88)*. Unquoted shares are shares whose prices are not quoted on a recognised stock exchange or other form of secondary market (*5.90)*, though they are in principle negotiable. For the various types of share listed in *5.91*, see the relevant section on quoted shares in Part I of this chapter: they include capital, redeemed, dividend, and preferred (or preference) shares. Not included are debentures and loan stock convertible into shares (classified as debt securities up to the time when they are converted), and shares not taken up on issue.

9.24 Other equity covers all forms of equity except quoted and unquoted shares; instruments included in other equity are not negotiable. *5.95* lists various forms that other equity may take: the equity in incorporated partnerships and limited liability companies whose owners are partners; capital invested in ordinary or limited partnerships and cooperative societies, and in quasi-corporations; holdings by government in public enterprises whose capital is not divided into shares, and in (most) international and supranational organisations; the claims of residents on notional units abroad (e.g. units deemed to own land or buildings abroad), and similar claims of non-residents on resident notional units.[46] A central bank's contribution to the capital of the ECB is also 'other equity'. The general principle is that the enterprise, etc. in which the equity is held is an independent legal entity.

Balance sheet valuation in ESA95

9.25 See Part I for the general rule of market price.

9.26 By definition, no market prices are available for these items. The ESA95 sets out a clear aim for the valuation of unquoted shares. Their values should be estimated with reference to the values of quoted shares, but taking account of liquidity (assumed to be inferior for unquoted shares), reserves accumulated by the business, and its branch of activity (*7.54*). *7.55* goes on to suggest a formula, taking into account own funds and to be applied branch by branch (but with discretion, having regard to differences between quoted and unquoted corporations):

current price of unquoted shares =

current price of quoted shares x (own funds of unquoted corporations / own funds of quoted corporations).

[46] Entities owning land and other immovable property (e.g. houses) in another economic territory are treated statistically as owning a quasi-corporation in the territory in which the property is located, which in turn owns the property. It is this holding in the notional quasi-corporation which represents the holding of 'other equity'.

The ESA95 defines 'own funds' as the sum of net worth (B.90) and shares and other equity issued (*7.05*). This is called the capitalisation approach.

Transactions in the ESA95

9.27 See Part I for the definition of transactions.

9.28 *5.140* notes that for unquoted shares an unknown transaction value may be approximated by book value. The transaction value of other equity is the amount of funds transferred by the owners to the entity (corporation or quasi-corporation); funds may be transferred to the entity by taking on its liabilities (also *5.140*).

Definition in ECB statistics

9.29 See the corresponding section in Part I of this chapter (so far as it is relevant to unquoted shares and other equity).

Allocation by residence and sector of the issuer and holder

See the section on quoted shares. Only investment fund statistics under Regulation ECB/2007/8 identify the residence status and sector of the issuer.

Valuation in ECB statistics

In MFI balance sheet statistics

9.30 See Part I for the general valuation rule in Regulation ECB/2008/32. The Regulation makes no distinction between quoted shares and unquoted shares and other equity (the single instrument category is 'shares and other equity').

In investment fund statistics

9.31 See Part I for the general valuation rule in Regulation ECB/2007/8. The Regulation requires investment funds to report in a way that enables holdings of unquoted shares and other equity to be derived by residual, but does not contain specific guidance on their valuation.

In financial vehicle corporation statistics

Regulation ECB/2008/30 makes no distinction between quoted shares and unquoted shares and other equity (the single instrument category is 'shares and other equity').

In other OFI statistics

Guideline ECB/2007/9, Annex III, Part 11 states that shares and other equity should be reported at market value, with no distinction between quoted shares and the rest of AF.51. The Guideline does not contain specific guidance on the valuation of unquoted shares and other equity.

In securities issues statistics

9.33 On data concerning securities issues, redemptions and outstandings, see Part I for the general valuation rule in Guideline ECB/2007/9, Annex III, Part 12. Unquoted shares and other equity are reported as a memo item. The Guideline offers no specific guidance on their valuation.

In balance of payments/international investment position statistics

9.34 The principle of transactions value is followed so far as possible in the balance of payments. For holdings in unquoted companies, direct and portfolio investment stocks in the euro area international investment position are measured by the companies' own funds at book value. Own funds comprise: paid-up capital (excluding any of its own shares held by the company itself, and including share premium accounts); all types of reserves (including investment grants when accounting guidelines consider them company reserves); and undistributed profits net of losses (including results for the current year).

Requirements for euro area financial accounts (Guidelines ECB/2002/7, ECB/2005/13)

9.35 Recital 4 in ECB/2002/7 states the general principle that quarterly euro area financial accounts should be based as much as possible on the ESA95. In the absence of sufficient source statistics for certain items, national central banks must nevertheless provide best estimates for the compilation of euro area aggregates (Article 2).

9.36 ECB/2005/13 requires a sectoral breakdown of holdings (assets) in the form of unquoted shares and other equity together (AF.512 and AF.513), including holdings by the Rest of the World (S.2), except that no breakdown of holdings by the sub-sectors of general government is requested (this information being required only for shares and other equity in total, AF.5). ECB/2005/13 requires the same sectoral breakdown of liabilities in the form of unquoted shares and other equity (but not for S.13 and S.14-15), including liabilities of S.2 (Rest of the World).

National practices in recording unquoted shares and other equity

Recording positions and transactions in unquoted shares and other equity presents far more statistical difficulties than the treatment of quoted shares. The following section summarises the results of a survey of national sources and statistical practices in this area. The paragraphs in italics at the beginning of most sections summarise the replies.

1) Main features of unquoted shares and other equity

Summary of replies

Two immediate issues arise: the distinction between quoted and unquoted shares; and the identification of other equity. The distinction between quoted and unquoted shares is fairly easy to establish: most Member States base it on the legal form of the enterprise issuing the equity, and the absence of a price quotation. In line with the ESA95 (5.90), the distinction between unquoted shares and other equity is often based on negotiability of the instrument, or, and often giving the same result, on the legal form of the issuer. No distinction is made in some

Member States. In all Member States providing the information, the amount of unquoted shares is large in relation to AF.51 as a whole, and in some, very large.

Table 9.1 Main features of unquoted shares (AF.512) and their importance

Euro area:	Legal form of issuing entities	Outstanding amount as proportion of shares and other equity (AF.512/AF51) end 2005	Distinction vis-à-vis…	
			quoted shares based on quotation of share price?	other equity, based on negotiability?
BE	Public limited company (Société Anonyme, Naamloze Vennootschap)	64% (end 2005) 64% (end 2010)	Yes	Yes
CY	Incorporated company with limited liability	20% (2003)	Y	No – based on legal form of issuer, which in practice leads to same results.
DE	Public limited company (Aktiengesellschaft)	22%	Y	Y
EE	Public limited company	77%	Y	No
IE	Limited companies, public limited companies (other than quoted companies)			No distinction made between F.512 and F.513
GR	Societé Anonyme	56% (incl AF.513)	Y	No distinction made between AF.512 and AF.513
ES	Public limited company	45%	Y	Y
FR	Public limited company (Société anonyme)	62%	Y	No – based on legal form of issuer
IT	Joint stock company, limited share partnerships, joint stock cooperative society	65% (incl AF.513)	Y	No distinction made between AF.512 and AF.513
LU	Société Anonyme	90%	Yes	Based on CSDB data
MT	Incorporated company with limited liability	85% (end 2011)	Yes	No. Distinction is made on the basis of the legal form of the entity.
NL	Besloten Vennootschap (BV) Naamloze Vennootschap (NV)	61% (41% if SPEs excluded)	Y	Y
AT	Joint-stock company	Based on book value for all types of equity: FC: 57% NFC (excluding	Y	No - based on legal form of issuer

		SPE) 16% FC+NFC (capital weighted) 24%		
PT	Public limited company (Sociedades anónimas)	46%	Y	No – based on the legal form of issuer
SI	Public limited company	40%	Y	No - based on legal form of issuer
SK	Stock company	90%	Y	No – see other equity
FI	Limited (joint stock) company	47%	Y (including unquoted shares of companies having also quoted shares as they have different characteristics)	No – based on legal form of issuer which leads in practice to same results
Pre-ins:				
BG	Corporation limited by shares	S1 – 61% (holdings, end 2010)	Y	No – based on legal form of issuer
CZ	Joint stock company	Approx. 53%	Y	N
LV	Joint-stock company.	38% (end 2005) 40% (end 2011)	Y	No
LT	Public limited companies and private limited companies	68%	Y	Y
HU	Corporation limited by shares	34%	Y	No – based on legal form of issuer which leads in practice to same results
PL	Joint stock company	34 % (end 2005) 35 % (end 2011)	Y	No – based on legal form of issuer
RO	Joint – stock companies and limited partnership by shares	54% (2005) 58% (AF512/AF.51 end 2010)%	Y	No – based on the legal form of the isssuer
UK	Corporation (includes the capital investment in UK subsidiaries by the overseas parent corporation) _	34%	Y	Y

Other equity must not only be distinguished from unquoted shares, but also from holdings in sole proprietorships and partnerships without autonomy of decision making (i.e. not independent legal entities), which are part of the household sector (S.14). Table 8.2 summarises current national practice.

Summary of replies

In most Member States providing data, other equity is a significant part of AF.51 as a whole. The distinction between other equity and holdings in partnerships, etc. classified in the *household sector is only sometimes based on the existence of a complete set of accounts, as the ESA95 (2.13f) suggests that it should be.*

Table 9.2 Main features of other equity (AF.513) and its importance

Euro area:	Legal form of issuing entity: a1) incorporated partnership (unlimited partners)? a2) limited liability company (owners are partners)? a3) ordinary or limited partnership? a4) co-operative society? b) special legislation public enterprise? e) quasi-corporation? f) assets that non-residents have against notional resident units and vice versa?							Outstanding amount as proportion of shares and other equity (AF.513 /AF.51) end-2005	Distinction vis-à-vis net worth of sole proprietorships and partnerships based on existence of complete set of accounts (see ESA95 *2.13 f*)?:
	A 1)	a2)	a3)	a4)	b)	e)	f)	Comments:		
BE	Y	Y	Y	Y	Y	Y	Y		17% (end 2005) 23% (end 2010)	No, based on legal status
CY	Y	N	Y	Y	Y	na	Y		6% (2005)	Currently under investigation
DE	Y	Y	Y	Y	na	Y	na		32%	No, based on legal status
EE	Y	N	Y	na	Y	Y	Y		17%	N, also based on number of employees <10=>S.14
IE	?	?	Y	Y	Y	N	Y			We cannot distinguish between F512 and F512
GR	Y	Y	Y	Y	na	na	na		Not applicable. There is no distinction between unquoted shares and other equity in the financial accounts.	na
ES	Y	Y	Y	Y	Y	na	Y		20%	No, based on legal status
FR	Y	Y	Y	Y	Y	na	na	See annex	6%	No, based on legal form of issuer

IT	Y	Y	Y	Y	Y	Y	Y		see T 1.1	Y
LU	Y	Y	Y	Y	Y	Y	N	Cross-border real estate is recorded under AF.513	Not published	No
MT	Y	N	Y	Y	N	n /a	Y		2%	No, distinguished on the basis of legal status.
NL	Y	Y	na	Y	na	n a	n a	Partial coverage, see annex	0.3%	N
AT	Y	Y	Y	Y	Y	Y	Y	Question f): Land (transactions derived from BOP statistics; stocks = accumulated flows)	Based on book value for all types of equity: FC:18% NFC (excluding SPE): 71% FC+NFC (capital weighted) 60%	No, based on legal status
PT	Y	Y	Y	Y	Y	Y	Y		37%	No – based on the legal form (limited liability S.11; unlimited liability S.14)
SI	Y	Y	Y	Y	Y	n a	n a		42%	No - based on other criteria (legal status)
SK	N	N	N	N	N	Y	N	*Financial sector only	1*	Na
FI	Y	N	Y	Y	Y	Y	Y		7% (2010)	N, also other criteria, e.g. number of employees
Pre-ins:										
CZ	N	Y	n. a.	Y	Y	n. a	Y		49%	N
LV	Y	Y	Y	Y	N	Y	N		49% (end 20011)	N
LT	Y	na	na	N	Y	n a	Y	*Position b) includes investments by government in the capital of public enterprises, whose capital is not divided into shares. (ESA95, 5.95b)*	13%	Y
HU	Y	Y	Y	Y	N	n a	Y		39%	na
PL	Y	Y	Y	Y	Y	Y	n a		37 % (end 2005) 36 % (end 2011)	N, based on number of employees <10=>S.14 for own-account workers
RO	Y	Y	Y	Y	Y	N	N		23% (end	Na

									2005) 28% (end 2010)	
UK	N	N	Y	Y	na	Y	Y		1%	Y

1) This question was amended between the draft template filled out by ES, FR, PT and SI and the final template.

2) Data sources

Data compilers first seek to establish what issues of unquoted shares, and holdings of other equity, exist; and then obtain timely quarterly information on transactions in them, and on outstanding amounts.

Summary of replies

These two stages may require access to different data sources, the need for quarterly information requiring in many Member States a fair degree of estimation. Some Member States gross up partial quarterly data to give an estimate for the whole population, using different methods (see Table 9.5). Most Member States believe that they can identify all or nearly all the enterprises issuing unquoted shares and other equity, but the coverage of timely quarterly data sources is often limited, necessitating estimation and inter- or extrapolation.

Table 9.3 Data sources for unquoted shares

Euro area:	(1) Establishing total population / most comprehensive data source				(2) Timely, quarterly data sources/indicators			
	Coverage in terms of total population	Availability		Estimation / comments	Coverage in terms of total population	Availability		Comments
		Periodicity (updated)	Time lag			Periodicity	Time lag	
BE	100%	annual	15 m	No	almost 100%	monthly	3 m	
CY	MFIs: 100% OFIs: close to 100% ICPFs: close to 100% NFCs: :close to 100%	MFIs: Q OFIs: Q ICPFs: 6m/annual NFIs: Q		Y	Same as (1)	Same as (1)	Same as (1)	Same as (1)

DE	almost 100%	monthly	2 m	No	Almost 100%	monthly	2 m	
EE	99%	Annual		Y, see Annex		NFC: MFIs: OFIs/FAs: ICPFs:	1 m 1.5 m 1.5 m 3 m	
IE	almost 100%	annual	11 m	No	NFC:60-65% NFC: 40%; sample of the balance	quarterly annual	3 m 11-15 m	Large BOP-relevant companies
GR	100%	annual (1/y)		No	?	quarterly	MFI: 20 d OFI: 30 d ICPF: 3 m NFC: 3 m	
ES	40-60%	annual (1/y)	15m	Y, see Annex	40-60%	annual	15 m	quarterly intra-/extrapolation
FR	100%	Transactions: MFIs: q. OFIs: q Others: monthly	2m	No	100%	Transactions: q;	2	Stocks: cumulated transactions with market price valuation
IT	NFC:65% FC: 100%	NFC: A MFI: 25 d ICPF: 5 m Row: 110 d	NFC: 17 m MFI: 25 d ICPF: 5 m	No	NFC:65% FC: 100%	NFC: A MFI: 25 d ICPF: 5 m Row: 110 d	NFC: 17 m MFI: 25 d ICPF: 5 m	Temporal disaggregation ,
LU	100%	see comment						
MT	Close to 100%	Q	Q+2months	No	Close to 100%	NFC: A MFI: monthly ICPF: quarterly IF: quarterly ROW: Quarterly	NFC: 9months MFI: 1 month IF, ICPF, ROW: 2 months	Quarterly interpolation
NL	Close to 100%	NFC: annual FC: quarterly	14m (NFC, annual) 3m (FC,	No	13%	NFC: annual FC: quarterly	FC: 3 m	NFC: estimation base on

			quarterly)					counterpart information
AT	95%	NFC: Q (import companies), A (residual); update A FC: Q (except funded pension funds, OFI other than banks); A	NFC: if Q: 3m if A: 18m FC: if Q: 2 m if A: 9 m	NFC, FC: Y not covered by Q data	NFC: 60-70% FC: 90-95%	MFIs: Q IC: Q, A Banks other than MFIs: Q Securities statistics: Q PF: linear trend	2 m 11 weeks 2 m 11 weeks	
PT	Close to 100%	NFC: annual MFI: monthly OFIFA: quarterly ICPF: annual	NFC: 10 m MFI: 50 d OFIFA: 60 d ICPF: 8 m	No		NFC: quarterly MFI: monthly OFIFA/ICPF: quarterly	NFC: 65 d MFI: 50 d OFIFA/ ICPF: 50 d	
SI	98%	m / q	1 m / 1 q	No	Same as (1)	Same as (1)	Same as (1)	Same as (1)
SK	MFIs : 100%	MFIs : m / q	15 cd	No	Same as (1)	Same as (1)	Same as (1)	Same as (1)
FI	NFC: 100%	Annual	5 (11) m	No	70%	BSI, SUP, IF: q QFAGG: q	2 m 3 m	
Pre-ins:								
CZ	100%	quarterly	2M	Y	Same as (1)	Same as (1)	Same as (1)	Same as (1)
LV	100%	quarterly	75 d	No	Same as (1)	Same as (1)	Same as (1)	Same as (1)
LT	100%	Quarterly	80 d	No	100%	Quarterly	80 d	
HU	99%	Annual	9 m	Y, see Annex	?	See Annex		
PL	100% (for NFCs with 10 and more employees)	MFIs: m ICPFs:q NFCs: a	MFIs: 15 d ICPFs:80 d NFCs: 10 m	No	NFCs : 30% (with 50 and more employees)	NFCs : q	NFCs : 100 d	Grossing-up procedure
RO	95%	MFIs:monthly OFIs: quarterly ICPFs: quarterly NFCs: annual	MFIs: 15 d OFIs: 90 d ICPFs: 90 d NFCs: 9 m	No	MFIs:monthly OFIs: quarterly ICPFs: quarterly NFCs: annual	MFIs: 15 d OFIs: 90 d ICPFs: 90 d NFCs: 9 m		

UK		q			Same as (1)	Same as (1)	Same as (1)	Same as (1)

Table 9.4 Data sources for other equity

Euro area:	(1) Establishing total population / most comprehensive data source				(2) Timely, quarterly data sources/indicators			
	Coverage in terms of total population	Availability		Estim a-tion / comments	Coverage in terms of total population	Availability		Comments
		Periodicity (updated)	Time lag			Periodicity	Time lag	
BE	99%	annual (2/y)	16 m	No	almost 100%	monthly	3 m	
CY	MFIs: 100% OFIs: close to 100% ICPFs: close to 100% NFCs: :close to 100%	MFIs: Q OFIs: Q ICPFs: 6m/annual NFIs: Q		Y	Same as (1)	Same as (1)	Same as (1)	Same as (1)
DE	almost 100%	MFIs: monthly BOP: qtrly Others: annually	1 m 3 m 18 m	No	almost 100%	MFIs: :mthly BOP: qtrly	1 m 3 m	
EE	95%	Annual		Y, see Annex		NFC: MFIs: OFIs/FAs: ICPFs:	1 m 1.5 m 1.5 m 3 m	
IE								Not possible to distinguish between F.512 and F.513
IE	c 90%	qtrly	3 m	Refers to item f) in Table 2	c 90%	qtrly	3 m	Refers to item f) in Table 2

GR	100%	annual (1/y)		No	?	quarterly	MFI: 20 d OFI: 30 d ICPF: 3 m NFC: 3 m	
ES	30-45%	annual (once per year)	15m	Y, see Annex	30-45%	annual	15 m	Quarterly intra-/extrapolation see Annex
FR	100%	Transaction: MFIs: q. OFIs: q Others: monthly Stocks: MFIs: q. OFIs: q Others: annual	2m	No	100%	Transactions: q;	2m	Stocks: cumulated transactio n s with market price valuation
IT	NFC:65 % FC: 100%	NFC: A MFI: 25 d ICPF: 5 m Row: 110 d	NFC: 17 m MFI: 25 d ICPF: 5 m	No	NFC:65% FC: 100%	NFC: A MFI: 25 d ICPF: 5 m Row: 110 d	NFC: 17 m MFI: 25 d ICPF: 5 m	Temporal disaggregation, see Annex
LU	100%	see comment						
MT	Not calculable	Quarterly for ROW	85d	No	Same as (1)	Same as (1)	Same as (1)	Same as (1)
NL	59% see Annex	Quarterly data on government holdings only		No	MFIs: q OFIs: q ICPF: q NFC: ad hoc updates	MFIs: q OFIs: q ICPF: q NFC: ad hoc updates	FC: 3 m	
AT	90-95%	NFC: A FC: Q, A (OFI other than banks)		NFC, OFI other than banks: Y	NFC: 70% FC: 85-90% depending on subsector	MFIs: Q IC: Q, A Banks other than MFIs: Q business register: Q	4 weeks 2 m 11 weeks 2 m	
PT	Close to 100%	NFC: annual MFI: monthly OFI/fin aux: quarterly ICPF: annual	NFC: 10 m MFI: 50 d OFI/fin aux: 60 d ICPF: 8 m	No		NFC: quarterly MFI:monthly OFI/fin aux/ ICPF: quarterly	NFC: 90 d MFI: 50 d OFI/fin aux/ ICPF: 60 d	see Annex
SI	90-95%	quarterly	1 m / 1 q	NFCs :	Same as	Same as	Same as	Same as

				Y	(1)	(1)	(1)	(1)
SK	MFIs : 100%	MFIs : m / q	15 cd	No	Same as (1)	Same as (1)	Same as (1)	Same as (1)
FI	NFC: 100%	Annual	5 (11) m	No	40%	BSI, SUP, IF: q QFAGG: q	2 m 3 m	
Pre-ins:								
CZ	100%	quarterly	2M	Y	Same as (1)	Same as (1)	Same as (1)	Same as (1)
LV	100%	Quarterly	75 d	No	Same as (1)	Same as (1)	Same as (1)	Same as (1)
LT	100%	Quarterly	80 d	No	100%	Quarterly	80 d	
HU	99%	Annual	9 m	Y, see Annex	?	See Annex		
PL	100% (for NFCs with 10 and more employees)	MFIs: m ICPFs:q NFCs: a	MFIs: 15 d ICPFs:80 d NFCs: 10 m	No	NFCs : 30% (with 50 and more employees)	NFCs : q	NFCs : 100 d	Grossing-up procedure
RO	95%	MFIs:monthly OFIs: quarterly ICPFs: quarterly NFCs: annual	MFIs: 15 d OFIs: 90 d ICPFs: 90 d NFCs: 9 m	No	MFIs:monthly OFIs: quarterly ICPFs: quarterly NFCs: annual	MFIs: 15 d OFIs: 90 d ICPFs: 90 d NFCs: 9 m		
UK		q	2 m	?	Same as (1)	Same as (1)	Same as (1)	Same as (1)

Table 9.5 Grossing-up methods

Euro area:	Are timely, high frequency data sources grossed up to estimate the total population using ratios?	Grossing-up ratios are differentiated by:			Frequency of grossing-up ratio updates
		Sector/branch (number of categories)?	Legal form (number of categories)?	Size (number of categories)?	
BE	N				
CY	N				
DE	N				
EE	N				
IE	Y	N	N	N	annually
GR	Y (for NFCs)	N	N	N	annually
ES	Y	Y (30 branches)	Y (4)	Y (8)	annually

FR	No				
IT	No				
LU	See comment.				
MT	No	n/a	n/a	n/a	n/a
NL	No significant grossing-up				
AT	Y	Y (15 branches; derived from the 2digit NACE subcategories)	Y (3)	Y (1)	annually
PT	N				
SK	N				
SI	Y	Y (1 sector)	N	N	
FI	N	N	N	N	
Pre-ins:					
CZ	N	N	N	N	N
LV	N				
LT	N				
HU	N				
PL	Y	N	N	N	annually
RO	N				
UK	Y for (NFC and MFIs)				Based on analysis in 1986-88

LU - The Business Register covers 100% and is regularly updated. Turnover data based on TVA lags behind typically one year. For unquoted shares issued by NFC we use the annual Structural Business Survey. It lags behind 2 years. It is a sample, of roughly 12% of the population that has to be grossed up. Typically 20% of the balance sheet total is added during the grossing up. So, timely, high frequency data does not exist. The grossing up is stratified by NACE class and 5 size categories based on turnover. The grossing up method uses turnover and number of employees as help variables. Quarterly data is calculated by linear interpolation of the annual data. Recent years are calculated by extrapolation.

3) Valuation

A difficult issue concerning unquoted shares and other equity is valuation. As noted above, the ESA95 (*7.55*) suggests the ‘capitalisation’ approach, which takes into account own funds and is applied branch by branch of activity (but with regard to differences between quoted and unquoted corporations):

current price of unquoted shares = current price of quoted shares **x** *(own funds of unquoted corporations / own funds of quoted corporations).*

Statisticians have twice in recent years attempted to apply the capitalisation approach. The more recent report is that of the Working Group on unquoted shares (*The valuation of* *unquoted shares: current state and new proposals,* March 2003). Common ground was that the capitalisation ratio should be based on the ratio of total capitalisation to own funds at book value, because of the practical difficulty of establishing market value. Thus:

total value of unquoted corporations [the amount to be estimated]*/ own funds at book value = total value of quoted corporations / own funds at book value*

where own funds at book value are defined as nominal capital plus reserves.

The Working Group considered that both small and very large quoted companies have special features in terms of market valuation, and should be excluded from the sample of quoted companies used in valuing unquoted companies (recommendations 9 and 10 – inclusion in the Stoxx-600 index is a proxy for large size). They further considered that the quoted companies should be divided into 11 activity categories or 'branches' (recommendation 7), and that a weighted average of capitalisation ratios within each branch should be used (recommendation 11). Recognising that in some Member States the number of quoted shares is small, and that there may be none in some branches, they proposed a pan-European database of quoted corporations to which national compilers would have access (recommendation 7).[47] Finally, they considered that unquoted shares should be valued at a discount to quoted shares, reflecting their inferior liquidity (recommendation 12).

Table 8.6 shows four acceptable approaches to valuing unquoted shares based on the recommendations of the Working Group.

[47] Some work has been done on a pan-European index, but it is not readily useable.

Approaches to the valuation of unquoted shares

Strategy 1	Strategy 2	Strategy 3	Strategy 4
Exclusion of small quoted companies with a common threshold (€10 million)	Exclusion of small quoted companies with a common threshold (€10 million)	Exclusion of small quoted companies with a common threshold (€10 million euro)	Exclusion of small quoted companies with a common threshold (€10 million)
Exclusion of companies in the Stoxx-600 index	Exclusion of companies in the Stoxx-600 index	Exclusion of companies in the Stoxx-600 index	Exclusion of companies in the Stoxx-600 index
Weighted average of the ratios of capitalisation to own funds at book value of remaining quoted companies	Weighted average of the ratios of capitalisation to own funds at book value of remaining quoted companies	Weighted average of the ratios of capitalisation to own funds at book value of remaining quoted companies	Weighted average of the ratios of capitalisation to own funds at book value of remaining quoted companies
11 activity branches (as in the common test exercise)	11 activity branches (as in the common test exercise)	11 activity branches (as in the common test exercise)	No branches
Pan-European database of quoted companies	Pan-European database of quoted companies	National database of quoted companies	National database of quoted companies
Common liquidity premium	National liquidity premium	National liquidity premium	National liquidity premium

Shaded cells signal a change in elements of the strategy. Strategies 1 and 2 represent a strongly coordinated common approach to the valuation of quoted shares. Strategies 3 and 4 represent a weaker common approach. The Working Group did not rule out other national approaches, but considered that Member States using them should explain how they fit in with the ESA95, why one of the common approaches was not adopted instead, and how comparable the results are with a common approach.

It might be noted here that the ECB's centralised securities database includes unquoted shares. Although the coverage and content may not in practice be as comprehensive as for debt securities and quoted shares, national central banks and commercial data providers add unquoted shares to the database as soon as they become aware of them. By definition, they have no price quotation, and, although some past prices may provide the basis for an estimate, this attribute is often unavoidably missing for unquoted shares in the database.

Summary of replies

Table 9.7 shows that current practice of Member States in valuing unquoted shares is rather varied, though use in some way of own funds at book value is usual.

Table 9.7 National practices in the valuation of unquoted shares

Euro area:	COFBV[48] method (recommended by WGUS) is applied?	ESA95 requirements concerning: … reference to the value of quoted shares?	… differences in liquidity and reserves?	…taking into account the branch of business?	Other comments
BE	Y	Y	Y	Y, Separately for NFCs, OFIs, MFIs, ICPFs	
CY	No: own funds at book value				
DE	Y	Y	N	Separately for: NFCs MFIs ICPFs	
EE	No: own funds at book value				
IE	Own funds at book value				
GR	Y	Y		N	
ES	No; the method is based on the discount of ordinary results	Y, the discount factor is the IRR (internal rate of return) of companies quoted in the stock market	Y, 3% premium on the discount factor	Y (8)	
FR	Yes	yes	With a 25% discount factor	Y	
IT	Y		Y	Y	
LU	No, own funds at book value				
MT	Own funds at book value				
NL	Own funds at book value				
AT	Own funds at book value	N	N	N, but separately for: NFCs MFIs ICPFs	Estimation of market value mainly based on strategy 3 envisaged, but not included in the core

[48] COFBV means capitalisation from own funds at book value.

					accounts
PT	Own funds at book value				Annually through direct observation
SI	Book value	N	N	N	
SK	No: own funds at book value				
FI	No: Own funds at book value	N	N	N	
Pre-ins:					
CZ	Y	N	N	Y	N
LV	No: own funds at book value				
LT	No: own funds at book value				
HU	No: corrected own funds				
PL	No: in principle own funds at book value	Y: for unquoted shares issued by listed companies	N	N	
RO	Own funds (capital + reserves + undistributed profit) at book value	Y	N	N	
UK	No: stable proportion of all shares	Y			Based on analysis in 1986-88

Valuation of other equity is more difficult again. Noting that other equity is often a liability of specific institutional units with particular features (quasi-corporations, state-owned entities, international organisations, notional units), the ESA95 says that it should in general be valued according to specific methods, suggesting own funds or nominal value (*7.56*). Own funds is considered particularly appropriate for quasi-corporations which have a net worth of zero by convention.

Summary of replies

Current national practice mainly uses own funds at book value.

Table 9.8 National practices in the valuation of other equity

Euro area:	Valuation method	Other comments
BE	Own funds at book value	

CY	Own funds at book value	
DE	Nominal value	
EE	Own funds at book value	
IE	Own funds at book value	
GR	Own funds at book value	Holdings of government sector are at book value
ES	Own funds at book value	
FR	Own funds at book value	Flows are changes in capital
IT	Own funds at book value	Holdings of government sector are at book value
LU	Own funds at book value	
MT	Own funds at book values	
NL	Own funds at book value	
AT	Own funds at book value	
PT	Own funds at book value	
SI	Own funds at book value	
SK	Own funds at book value	
FI	Own funds at book value	
Pre-ins:		
CZ	Nominal value	
LV	Own funds at book value	
LT	Own funds at book value	
HU	Corrected own funds	
PL	Own funds at book value	
RO	Own funds at book value	
UK	No: stable proportion of all shares	Based on analysis in 1986-88

4) Identifying holdings of unquoted shares and other equity
Once information on unquoted shares and other equity is available, identifying the issuer is straightforward. Identifying the holders of unquoted shares is more difficult, although – because the instruments are less likely to be traded in secondary markets – perhaps less so than for quoted shares. It may also be difficult to classify the holders of other equity, though the nature of many of the entities with liabilities of this kind as listed in *5.95* makes it a simple task in many cases.

Summary of replies

MFIs and certain other financial corporations report their holdings of shares and other equity (in total) monthly or quarterly and in timely fashion. Holdings by general government are also usually available, at least in part. Custodians or other sources may provide information on other holdings, but compilers are sometimes compelled to calculate holdings of non-financial corporations and households by residual or by rule of thumb.

Table 9.9 Holdings of unquoted shares and other equity by sector

Euro area:	(1) Unquoted shares				(2) Other equity			
	Resident non-financial sector holdings calculated as residual? (S.11+S.14/15= total in issue *less* S.2, S.12, S.13 holdings)	Final residual sector?		Direct information for government sector?	Resident non-financial sector holdings calculated as residual? (S.11+S.14/15= total in issue *less* S.2, S.12, S.13 holdings)	Final residual sector		Direct information for government sector?
		NFC (S.11)	HH (S14+15)			NFC (S.11)	HH (S.14/15)	
BE	Y	No – direct data	Y	Y		Y	N	Y
CY	Y	Y	Y	Y	Y	Y	Y	Y
DE	Y	Y	N	Y	Y	Y	N	Y
EE	No - direct data	Liability side is used as residual	?	Y	No - direct data	Liability side is used as residual	?	Y
IE	Y		Y	Y	Y	Y	Y	
GR	No - direct data	No - direct data	Y	Y	No - direct data	No - direct data	Y	Y
ES	Y	No - structural estimate	No - structural estimate	Y	Y	No - structural estimate	No - structural estimate	Y
FR	Y	No - supplementary info	No - supplementary info	Y	Y	No - supplementary info	No - supplementary info	Y
IT	Y	No - direct data	Y	Y	No - pattern of unquoted shares is applied			
LU	No	No	No	No, independent estimate	No	No	No	No
MT	No	No	No	Y	No	No	No	Yes
NL	Y	No - direct data	Y	Y	Y	No - direct data	Y	Y

AT	Y	Y	No	Y	Y	Y	No	Y
PT	Y	Y	Y	Y	Y	Y	Y	Y
SI	No - direct data	No - direct data	No - direct data	Y	No - direct data	No - direct data	No - direct data	Y
SK								
FI	No - micro allocation by issuing enterprise		Y	Y	No - micro allocation by issuing enterprise		Y	Y
Pre-ins:								
CZ	N	partially	N	Y	N	N	N	Y
LV	No – direct data	N	Y	Y	No – direct data	N	Y	Y
LT	No - direct data	No - direct data	Y	Y	No - estimations	No - estimations	No - estimations	Y
HU	No - estimations			Y	No - estimations			Y
PL	Y	N	Y	Y	Y	N	Y	Y
RO	Y	Y	Y	Y	Y	Y	Y	Y
UK			Y		No - only OFIs hold other equity			

5) **Unquoted shares and other equity and the Rest of the World (S.2)**

Compilers of balance of payments and international investment position statistics record cross-border transactions and positions in unquoted shares and other equity, from direct reporting, settlements data provided by banks, and information from custodians/securities settlement institutions and other sources. Balance of payments and international investment position statistics however emphasise functional categories rather than instruments. Unquoted shares and other equity may form part of direct, portfolio or 'other' investment, and need to be taken out of these categories for purposes of financial accounts where the focus is instruments and the sector of the domestic counterparty. The adoption of security-by-security reporting for balance of payments and international investment position purposes has to some extent eased the task.

CHAPTER 10 - Investment fund shares (AF.52)

Importance of instrument categories in euro area balance sheets
€ trillions, end-2011

Financial instruments	Assets: Euro area residents	Assets: Rest of the world	Liabilities: Euro area residents	Liabilities: Rest of the world
Monetary gold and SDRs	0.4			
Currency and deposits	21.6	3.8	22.8	2.6
Debt securities	14.3	4.3	15.5	3.1
Financial derivatives	0.0	0.0	0.0	0.0
Loans	20.9	1.8	19.7	3.1
Shares	24.2	6.0	24.6	5.5
Shares, excl. IF shares*	19.3		18.0	
Investment fund shares*	**4.8**		**6.7**	
Insurance technical reserves	6.2	0.2	6.4	0.0
Other accounts receivable/payable	5.8	0.5	5.9	0.4

* Instrument breakdown is not available for Rest of the world.

***Assets – euro area residents** comprise claims held by residents of the euro area in the form of the respective instruments, including claims on the Rest of the World (shown in the column **liabilities – RoW**).*

***Liabilities – euro area residents** comprise liabilities of residents of the euro area in the form of the respective instruments, including liabilities to the Rest of the World (shown in the column **assets – RoW**).*

Since the euro area financial accounts are horizontally balanced, as explained in the box in Chapter 2, apart from a rounding difference in other accounts receivable/payable total assets equal total liabilities in each category except the first (monetary gold and SDRs are financial assets with no corresponding liability).

10.1 It will be remembered that the ESA95 calls these instruments 'mutual funds shares'; sometimes the 'shares' are called 'units' or 'shares/units'. This handbook uses the term 'investment fund shares', which is the term mostly used by the ECB (and in the revised international statistical standards), or 'investment fund shares/units', except when quoting directly from other sources.

ESA 95 definition (Annex 7.1 – Definition of each asset category)

10.2 Shares issued by a specific type of financial corporation, whose exclusive purpose is to invest the funds collected on the money market, the capital market and/or in real estate.

Further definitional remarks in the ESA95

10.3 Chapter 5 (*5.96*) explains that the institutions the instruments included in AF.52 may be called mutual funds, unit trusts, investment trusts, and collective investment schemes; in structure they may be open-end, semi-open or closed-end, and their shares may be quoted or unquoted. The funds are revalued regularly on the basis of the market value of their components.

Balance sheet valuation in the ESA95

10.4 Chapter 7 (*7.57*) requires investment fund shares to be valued at their current stock market price, if they are quoted, or at their current redemption value, if they are redeemable by the fund itself.

Transactions in the ESA95

10.5 The ESA 95 defines a transaction as '*an economic flow that is an interaction between institutional units by mutual agreement or an action within an institutional unit that it is useful to treat as a transaction, often because the unit is operating in two capacities*' (*1.32*). The ESA95 goes on to define financial transactions as '*transactions in financial assets and liabilities between institutional units, and between them and the rest of the world*' (*5.1*). Financial transactions are recorded at transaction values (*5.134*) excluding charges, fees, commissions, etc., which are treated as separate transactions in services (*5.137*).

Definition in ECB statistics

10.6 A key distinction in ECB statistics is between shares issued by money market funds (MMFs), which are close substitutes for deposits and included in broad money (M3), and shares/units issued by other investment funds. MMFs are classified as MFIs (in S.122), not as investment funds (S.123). Regulation ECB/2008/32, Annex I, Part 1 defines MMFs in terms of the characteristics of the shares/units which they issue and hold, as '*collective investment undertakings (CIUs) the shares/units of which are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in MMF shares/units and/or in other transferable debt instruments with a residual maturity of up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments. The criteria applied in order to identify MMFs are derived from the public prospectus as well as fund rules, instruments of incorporation, established statutes or by-laws, subscription documents or investment contracts, marketing documents, or any other statement with similar effects, of the CIUs* '. (Following the issue of guidelines on a common definition of MMFs by the Committee of European Securities Regulators Regulation (the predecessor of the European Securities and Markets Authority) in May 2010, ECB/2011/12 contains a more detailed and restrictive definition, with the consequence that some MMFs have been reclassified as other investment funds in S.123.) Reporting by MMFs (and thus reporting of MMF shares as liabilities, and as assets when held by MMFs and other members of the MFI population) is governed by Regulation ECB/2008/32 and the parts of Guideline ECB/2007/9 dealing with MFIs. MMFs may nevertheless by derogation (ECB/2008/32, Article 8(2)) report under Regulation ECB/2007/8 (on investment funds) provided they meet the frequency and timeliness requirements of the MFI balance sheet Regulation. This possibility, which does not affect their statistical classification and treatment, is not relevant to financial accounts and is not further discussed here.

10.7 Investment funds other than MMFs are covered by Regulation ECB/2007/8, and by Article 18 and Annex III, Part 14 of Guideline ECB/2007/9. Article 1 of the Regulation defines an investment fund (explaining that MMFs and pension funds are excluded from the definition) as follows:

‘[*an investment fund is*] *a collective investment undertaking that:*
(a) invests in financial and non-financial assets… to the extent that its objective is investing capital raised from the public; and
(b) is constituted pursuant to Community or national law under:
(i) contract law (as a common fund managed by management companies);
(ii) trust law (as a unit trust);
(iii) company law (as an investment company); or
(iv) any other similar mechanism.

The following are included within the definition of investment fund:
(a) those undertakings whose units or shares are, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking’s assets; and
(b) those undertakings which have a fixed number of issued shares and whose shareholders have to buy or sell existing shares when entering or leaving the fund.
For the purposes of the definition of investment fund, ‘public’ shall encompass retail, professional and institutional investors’.

10.8 Article 18 of the Guideline provides for a breakdown of investment funds according to the type of assets in which they predominantly invest - equity funds, bond funds, mixed funds, real estate funds, hedge funds, and other funds, each group being further broken down into open-end funds and closed-end funds. ‘Funds of funds’ are classified under the category of fund in which they primarily invest. Thus investment fund shares/units in ECB statistics are divided into twelve categories (excluding MMF shares/units).

10.9 In euro area balance of payments/international investment position statistics, transactions and positions in investment fund shares are recorded indistinguishably with shares and other equity (i.e. included in AF.5).

Allocation by residence and sector of the issuer and holder
MFI balance sheet statistics (Regulation ECB/2008/32) include holdings of investment fund shares/units (except money market fund shares – see below) in the single category shares and other equity, which they break down by residence of the issuer (domestic, other euro area, and rest of the world), with a breakdown by sector (though of course all investment fund shares/units are issued by entities in S.123). Investment funds report under Regulation ECB/2007/8 holdings of investment fund shares/units separately, with the same residence breakdown. Financial vehicle corporations provide no breakdown of holdings of shares and other equity under ECB/2008/30, but some report security-by-security.

Investment funds provide residence and sector breakdowns of holders of their shares/units.

Valuation in ECB statistics
In MFI balance sheet statistics
10.10 As noted above, MFIs report holdings of investment fund shares (excluding MMF shares) indistinguishably within ‘shares and other equity’.

Regulation ECB/2008/32 makes the general point on valuation that '*Unless otherwise provided for in this Regulation, the accounting rules followed by MFIs for the purposes of reporting under this Regulation shall be those laid down in the national transposition of Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as well as in any other international standards applicable.'* (As noted elsewhere, however, deposits and loans must be valued at the principal amount outstanding.) Guideline ECB/2007/9, as amended, says in connection with valuation adjustments that '*Although it is recommended that both sides of the balance sheet are recorded at market value, in practice, a variety of different valuation methods may be employed on both the liabilities and the assets sides. This is acceptable as long as the book value does not diverge significantly from the market value…. On the assets side of the balance sheet, holdings of securities may be recorded using market price, purchase price, the lower of market or purchase price or redemption value in accordance with standard accounting practice. The content of the adjustment depends on the valuation method applied.*' (Annex V, Part 3).

It is likely that MFIs in different Member States use different valuation practices for investment fund shares/units held and reported indistinguishably within the asset category 'shares and other equity'. Guideline ECB/2007/9 recognises that reporting MFIs may value such holdings in a variety of ways: *'On the assets side of the balance sheet, holdings of securities [i.e. including if shares/units] may be recorded using market price, purchase price, the lower of market or purchase price… in accordance with standard accounting practice. The content of the adjustment depends on the valuation method applied.'*

Different valuation practices inevitably affect the data on outstanding issues and holdings of these instruments in MFI balance sheet statistics. The method of revaluation adjustment however accommodates these differences and should ensure that transactions data based on MFI balance sheets but adjusted for non-transactional changes in balance sheet outstandings are not distorted by different valuation practices. Revaluation adjustments for shares and other equity (including if shares/units) held as assets are part of the minimum requirement under Regulation ECB/2008/32 because significant valuation effects are likely to be experienced in this category. National central banks may seek from MFIs information on the effect of price changes on holdings of shares in three ways:

- MFIs report the valuation changes due to change in prices. The national central bank aggregates the adjustments reported by MFIs for the submission of data to the ECB;
- MFIs accumulate transactions during the month and transmit the value of purchases and sales to the national central bank (the compilation and submission to the national central bank of net transactions is also acceptable). The national central bank receiving transactions data calculates the revaluation adjustment as a residual from the difference between the change in stocks, the transactions, and other (reclassification) adjustments, and submits the revaluation adjustment to the ECB;
- MFIs report information on holdings security-by-security. The national central bank can then calculate the 'revaluation adjustment' to be submitted to the ECB.

10.11 The above concerns investment fund shares viewed as assets of MFIs. They are also the liabilities of one group of MFIs, the money market funds (MMFs). As Chapter 5 explained, until recently MMF shares/units were not subject to revaluation adjustments; rather changes in their price (assumed to be increases) were treated like the payment of interest on MFI deposits, and regarded as transactions in the instruments. Now revaluation adjustments may be reported for shares/units issued by MMFs, in which case they are excluded from transactions in the instruments, affecting monetary aggregates. Chapter 5 also noted that exchange rate effects on the value of MMFs' assets denominated in currencies other than the euro, which feed through to the value of their shares/units, are also adjusted for. MMFs may hold foreign currency denominated assets, the amount of which in euro may be affected by changes in exchange rates. A corresponding adjustment to shares/units on the liabilities side of their balance sheet, based on the proportion of non-euro denominated assets held by the MMFs in their total assets as reported in the quarterly detailed MMF balance sheet statistics, is attributed to non-resident holdings of these instruments. The effect of exchange rate changes on the outstanding value of MMF shares/units through its effect on assets held by MMFs therefore has no impact on monetary aggregates (stocks or flows), since non-resident holdings of monetary instruments are not included.

Investment fund (excluding MMF) statistics

10.12 Regulation ECB/2007/8 (Article 8) states that '*The accounting rules followed by investment funds for the purposes of reporting under this Regulation shall be those laid down in the relevant national law implementing Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, or, if the former provision is inapplicable, in any other national or international standards that apply to investment funds. Without prejudice to accounting practices and netting arrangements prevailing in the participating Member States, all financial assets and liabilities shall be reported on a gross basis for statistical purposes*'. Regulation ECB/2007/8 provides the possibility for investment funds to report on a security-by-security basis.

10.13 Guideline ECB/2007/9 (Annex V, Part 4, Section 2 on revaluation adjustments by investment funds) recognises a variety of valuation practices: '*Regulation ECB/2007/8 allows flexibility in terms of the type of data needed to calculate the revaluation adjustments of assets and liabilities and the form in which these data are collected and compiled. The decision on the method is left to the national central banks.*' Where investment funds follow the combined approach in accordance with Annex I of Regulation ECB/2007/8, national central banks have two ways of deriving revaluation adjustments for investment fund shares:

- investment funds report security-by-security information that allows national central banks to derive revaluation adjustments (the information in Table 2, paragraphs a, b and d of Regulation ECB/2007/8, Annex I, Part 3). The national central bank may use it to calculate the revaluation adjustment for investment fund shares following the 'flow-derivation method' described in the investment fund Manual accompanying Regulation ECB/2007/8;
- investment funds report cumulative transactions in the period security-by-security as in Table 2, paragraphs a and c of Regulation ECB/2007/8. The national central bank may calculate the revaluation adjustment for investment fund shares as the difference between the change in stocks and the transactions (allowing for any reclassification adjustments).

10.14 Where investment funds follow the aggregated approach in reporting holdings of investment fund shares, the national central bank may derive revaluation adjustments in two ways:

- investment funds report aggregated adjustments: the national central bank provides the total to the ECB;
- investment funds report aggregated transactions: the national central bank calculates the revaluation adjustment as the difference between the change in stocks and total transactions (allowing for any reclassification adjustments).

In practice, nearly all investment funds follow the 'combined' approach (i.e. report security-by-security, both assets and liabilities, so far as possible).

In financial vehicle corporation statistics

Regulation ECB/2008/30 does not mention investment fund shares/units. In the unlikely event that a financial vehicle corporation held any, they would presumably be valued as 'shares and other equity' (see Chapter 9).

In other OFI statistics

Guideline ECB/2007/9, Article 14 states that '*Accounting rules followed by OFIs in drawing up their accounts shall comply with the national transposition of Directive 86/635/EEC and any other international standards applicable. Without prejudice to the prevailing accounting practices in Member States, all assets and all liabilities are to be reported on a gross basis for statistical purposes.'* Annex III, Part 11, Section 2 says '*In line with…the ESA95, in principle assets and liabilities [and specifically investment fund shares viewed as assets of OFIs, but not deposits and loans] must be valued using current market prices on the date to which the balance sheet relates.*'

In securities issues statistics

10.15 ECB statistics on securities issues, redemptions, and outstandings exclude issues, etc. of investment fund shares/units.

In balance of payments/international investment position statistics

10.16 As noted above, in euro area balance of payments/international investment position statistics, transactions and positions in investment fund shares are recorded indistinguishably with shares and other equity.

Requirements for euro area financial accounts (Guidelines ECB/2002/7, ECB/2005/13)

10.17 Recital 4 in ECB/2002/7 states the general principle that quarterly euro area financial accounts should be based as much as possible on the ESA95. In the absence of sufficient source statistics for certain items, national central banks must nevertheless provide best estimates for the compilation of euro area aggregates (Article 2).

10.18 ECB/2005/13 requires a sectoral breakdown of holdings (assets) in the form of investment fund shares (AF.52), including holdings by the rest of the world (S.2), with holdings of MMF shares separately identified; no breakdown of holdings by the sub-sectors of general government is requested. ECB/2005/13 requires the same sectoral breakdown (so far as relevant – only S.122, S.123, and S.2 issue such instruments) of liabilities in the form of investment fund shares.

CHAPTER 11 - Insurance technical reserves (AF.6)

Importance of instrument categories in euro area balance sheets
€ trillions, end-2011

	Assets			Liabilities	
Financial instruments	Euro area residents	Rest of the world		Euro area residents	Rest of the world
Monetary gold and SDRs	0.4				
Currency and deposits	21.6	3.8		22.8	2.6
Debt securities	14.3	4.3		15.5	3.1
Financial derivatives	0.0	0.0		0.0	0.0
Loans	20.9	1.8		19.7	3.1
Shares	24.2	6.0		24.6	5.5
Shares, excl. IF shares*	19.3			18.0	
Investment fund shares*	4.8			6.7	
Insurance technical reserves	**6.2**	**0.2**		**6.4**	**0.0**
Other accounts receivable/payable	5.8	0.5		5.9	0.4

* Instrument breakdown is not available for Rest of the world.

Assets – euro area residents *comprise claims held by residents of the euro area in the form of the respective instruments, including claims on the Rest of the World (shown in the column* ***liabilities – RoW****).*

Liabilities – euro area residents *comprise liabilities of residents of the euro area in the form of the respective instruments, including liabilities to the Rest of the World (shown in the column* ***assets – RoW****).*

Since the euro area financial accounts are horizontally balanced, as explained in the box in Chapter 2, apart from a rounding difference in other accounts receivable/payable total assets equal total liabilities in each category except the first (monetary gold and SDRs are financial assets with no corresponding liability).

ESA95 definition (Annex 7.1 – Definition of each asset category)

11.1 Technical provisions of insurance corporations and (autonomous and non-autonomous) pension funds against policy holders or beneficiaries as laid down in Council Directive 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings.

11.2 AF.6 is divided into:

- **Net equity of households in life insurance reserves and in pension fund reserves (AF.61)**
  Technical provisions set aside for the purpose of obtaining, once the established conditions are met, the claims and benefits foreseen.

- **Prepayments of insurance premiums and reserves for outstanding claims (AF.62)**

Technical provisions established by insurance corporations and (autonomous and non-autonomous) pension funds for:

- the amount representing that part of gross premiums written which is to be allocated to the following accounting period – such sums are prepayments;
- total estimated ultimate costs of settling all claims arising from events which have occurred up to the end of the accounting period, whether reported or not, less amounts already paid in respect of such claims – such sums are provisions for outstanding claims.

Further definitional remarks in the ESA95

11.3 The ESA95 describes insurance corporations and pension funds (S.125) as financial corporations and quasi-corporations engaged in financial intermediation as a result of risk pooling (*2.60*). Among pension funds, only those that have autonomy of decision and maintain a complete set of accounts are included in S.125 (*2.64*); non-autonomous pension funds remain part of the institutions that set them up, for instance non-financial corporations (also *2.64*). Government units that impose, approve and manage social security schemes, whether funded or unfunded, form the social security funds sub-sector of the general government sector, S.1314 (*2.74*).[49]

11.4 The reserves of the insurance corporations and pension funds are provisions accumulated by them to meet risks and claims, including amounts attributable to with-profit life policies (*5.106, 5.107, 5.110*). These accumulated amounts in life insurance and pension funds are financial assets predominantly of resident households (S.14) and liabilities of insurance corporations and pension funds (S.125). Prepayments of premiums for other forms of insurance may be financial assets of any sector.

Balance sheet valuation in the ESA95

11.5 Chapter 7 requires net equity of households in life insurance reserves to measure the present value of policy holders' actuarially determined claims to the payment of capital and income, including, for with-profit insurance, holding gains (*7.58*).

11.6 The valuation of net equity of households in pension fund reserves depends on the nature of the pension scheme (*7.59*). Their net equity in a defined benefits scheme equals the present value of the promised benefits. Since it may be over- or underfunded, the scheme itself may have a positive or a negative net worth. Their net equity in a money purchase scheme equals the current market value of the fund's assets. The fund itself always has zero net worth.

11.7 The value of prepayments of insurance premiums is calculated as the proportion of premiums payable in the period which relates to insurance cover in subsequent periods (*7.60*). Reserves for outstanding claims represent the present value of the amounts expected to be paid out in settlement of claims, including claims which have not yet been lodged, and disputed claims.

[49] Management in this context means the approval of contributions and benefits. It is separate from the role of supervisory body or employer.

Transactions in the ESA95

11.8 Chapter 5 distinguishes between transactions in net equity of households in life insurance reserves (F.611), in net equity of households in pension fund reserves (F.612), and in prepayments of insurance premiums and reserves for outstanding claims (F.62).
Transactions in net equity of households in life insurance reserves (*5.108*) consist of:

- additions to net equity – premiums payable in the period, plus premium supplements corresponding to the income accruing on earlier premiums attributed to policy holders, minus service charges for life insurance;
- reductions in net equity – amounts payable in the period to holders of mature policies and to beneficiaries from the deaths of insured persons, plus amounts payable on policies surrendered before maturity.

11.9 Transactions in net equity of households in pension fund reserves (*5.111*) consist of:

- additions to net equity – contributions payable in the period by employers, employees, self-employed persons and other institutional units contributing on behalf of households with claims on the funds, plus premium supplements corresponding to the income accruing on earlier contributions attributed to participating households, minus service charges for managing the funds;
- reductions in net equity – benefits payable in the period to pensioners or their dependents (whether regular payments or lump sums payable on retirement).

In neither case do transactions include holding gains or losses on the funds invested by the life insurance corporations or pension funds as these are not recorded as income.

11.10 Transactions in prepayments of insurance premiums and reserves for outstanding claims (*5.114*) consist of:

- the part of premiums payable in the period which relates to subsequent periods (premiums are usually payable at the start of the period covered by the insurance, which does not normally coincide with the current accounting period). The amount of prepayment is usually calculated pro rata;
- the estimated cost of settling all claims arising from events in the current period, whether reported or not, minus amounts already paid in respect of such claims (reserves for outstanding claims).

Definition in ECB statistics

11.11 ECB statistics use the ESA 95 definitions.

11.12 In euro area balance of payments/international investment position statistics, transactions and positions in insurance technical reserves are recorded indistinguishably in a catch-all category of the financial account ‘other investment - other assets/other liabilities’.

Allocation by residence and sector

In MFI, investment fund and financial vehicle corporation statistics any assets and liabilities in the form of insurance technical reserves are included indistinguishably in residual categories of assets and liabilities, and are unallocated.

Valuation in ECB statistics

In MFI balance sheet statistics

Regulation ECB/2008/32 makes the general point on valuation that '*Unless otherwise provided for in this Regulation, the accounting rules followed by MFIs for the purposes of reporting under this Regulation shall be those laid down in the national transposition of Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (2), as well as in any other international standards applicable.'* (As noted elsewhere, however, deposits and loans must be valued at the principal amount outstanding.)

11.13 Like other businesses, MFIs may have claims on insurance technical reserves (e.g. in respect of unsettled fire, accident, etc. claims, and advance payment of premiums). They may also have liabilities in respect of their commitments to pay pensions to their employees if employee pensions are arranged through a non-autonomous pension fund. Such assets and liabilities are not shown separately in the MFI balance sheet required by Regulation ECB/2008/32. The Regulation does not mention claims in the form of insurance technical reserves – implicitly they are included in 'remaining assets'. The Regulation (Annex I, Part 3) notes that provisions representing (among other things) pension liabilities to third parties are to be included in 'remaining liabilities'. There are no specific instructions about the valuation of such items.

In investment fund statistics

11.14 Regulation ECB/2007/8 on investment funds excludes pension funds from its coverage. Insurance technical reserves are not listed among assets or liabilities in the balance sheet required by the Regulation. Implicitly any claims in this form are to be included in 'remaining assets'. The Regulation (Annex II, Part 1) notes that provisions representing (among other things) pension liabilities to third parties are to be included in 'remaining liabilities'. There are no specific instructions about the valuation of such items.

In financial vehicle corporation statistics

Regulation ECB/2008/30 notes that provisions representing (among other things) pension liabilities to third parties are to be included in 'remaining liabilities'. There are no specific instructions about the valuation of such items.

In other OFI statistics

Insurance corporations and pension funds are excluded from this category of financial corporations. Guideline ECB/2007/9, Annex III, Part 11 does not mention insurance technical reserves or pension liabilities. Presumably any amounts are reported indistinguishably in remaining assets/remaining liabilities.

In structural financial indicators

11.15 Guideline ECB/2007/9, Annex III, Part 8 (concerning structural financial indicators) requires national central banks to provide total investments of insurance companies and total assets under management by pension funds, but gives no guidance on definition or valuation. Insurance corporations and pension funds are not among the financial intermediaries covered by Annex III, Part 11 (OFI statistics), since they are not classified as OFIs (S.123) in the ESA95 but form the separate sub-category S.125.

In securities issues statistics

11.16 AF.6 is not relevant to securities issues statistics. (Insurance corporations and pension funds may of course issue securities, but the question of the treatment of technical reserves does not arise.)

In balance of payments/international investment position statistics

11.17 As noted above, in euro area balance of payments/international investment position statistics, transactions and positions in insurance technical reserves are recorded indistinguishably in a catch-all category of the financial account 'other investment - assets/other liabilities'. In practice, recording of cross-border transactions and positions in insurance technical reserves is not well developed.

Requirements for euro area financial accounts (Guidelines ECB/2002/7, ECB/2005/13)

11.18 Recital 4 in ECB/2002/7 states the general principle that quarterly euro area financial accounts should be based as much as possible on the ESA95. In the absence of sufficient source statistics for certain items, national central banks must nevertheless provide best estimates for the compilation of euro area aggregates (Article 2).

11.19 ECB/2005/13 requires a sectoral breakdown of holdings (assets) in the form of AF.61, AF.611, AF.612 and AF.62. Only households, etc. (S.14-15) and the Rest of the World (S.2) hold assets in the form of AF.61, AF.611, and AF.612. All sectors may however hold assets in the form of AF.62 (prepayments of premiums and reserves for outstanding claims). ECB/2005/13 requires a sectoral breakdown of liabilities in the form of these instruments. Only S.125 and S.2 have liabilities in the form of AF.611; S.11, S.121-122, S.123, S.124, S.125, S.13 and S.2 may have liabilities in the form of AF.612; S.125, S.13 and its sub-sectors, and S.2 may have liabilities in the form of AF.62.

Insurance technical reserves as assets and liabilities of the rest of the world sector (S.2)

11.20 At least at present, in most Member States business of ICPFs is largely domestic. Cross-border transactions and positions should nevertheless be appropriately classified, and recorded in a way that enables cross-border business for the euro area as a whole to be properly recorded. The following sections note national responses where available to a series of questions on the treatment of cross-border business in the instruments included in AF.6.

National practices in recording cross-border business in insurance technical reserves

1) Insurance technical reserves as financial assets of the rest of the world (S.2)

Insurance technical reserves are financial assets of the rest of the world where non-residents hold insurance policies or pension rights in resident ICPFs, giving rise to transactions with non-residents and positions with them in insurance technical reserves.

1a) Net equity of households in life insurance reserves (AF.611)

Can such liabilities of (life) insurance corporations vis-à-vis non-resident households (policy holders) be estimated from (life) insurance balance sheet (and/or profit and loss accounts)?

Summary of replies

The majority of respondents cannot currently make such estimates from (life) insurance balance sheets and/or profit and loss accounts. Nevertheless they can often make estimates from other sources (often b.o.p. statistics) or base estimates on a breakdown of premiums. Some Member States which cannot make estimates believe that net equity of non-resident households in their resident insurance corporations is anyway nil or negligible.

Table 11.1

		Comments:
Euro area		
BE	Y	Liabilities of life insurance corporations to non-resident households are estimated using the annual profit and loss and balance sheets accounts of ICs controlled by the Banking, Finance and Insurance Commission.
CY	N	The balance sheets/profit and loss accounts of ICs currently used for MUFA do not contain this information.
DE	Y	
EE	N	The breakdown is not available from balance sheets and profit and lost accounts. Such liabilities are thought to be negligible.
IE	N	Liabilities of life corporations to non-residents are estimated from BOP surveys
IE	N	Liabilities of life corporations to non-residents are estimated from annual regulatory data.
GR	Y	Liabilities of (resident) insurance corporations to non-resident households are reported as an on balance sheet item in the central bank questionnaire to ICs. In Greece life insurance corporations are not separately identified among ICs; life insurance may be provided together with other kinds of insurance services. However, there are certain ICs which specialize in life insurance without being restricted to it.
ES	N	Data not available
FR	N	ICs' balance sheets do not provide any counterpart information on the liability side. BOP flows do not provide the split between life and non-life insurance, but their use for an estimation is being explored.
IT	N	Quarterly flows are obtained from BOP statistics. Stocks are based on flows. IC balance sheets and P&L accounts are not used.
LU	Y	A resident / non-resident split is obtained from BOP surveys
MT	Y	Quarterly estimates are derived from the insurance principals' balance sheets, with counterparty information including S.2.
NL	Y	Both annual and quarterly transactions in F.611 assets for the RoW are derived from a direct reporting survey (DRA). This survey includes a geographical breakdown which is used to make a distinction between residents and non-residents. This method applies to the transactions. For the balance sheets and other changes, the total value for AF.61 taken from the survey is divided it between AF.611 and AF.612 based on the opening balance sheets.
AT	Y	Under (EU) Regulations 1225/1999 and 1228/1999, Austrian ICs report (life) insurance premiums received from non-resident households to the Financial Market Authority (FMA) quarterly. The central bank uses these data to calculate the insurance service charge by applying a ratio obtained from national accounts data. The remaining amount of (life) insurance

		premiums received from non-resident households is the source for ITR/AF.611 in financial accounts. Delimited claims would be treated in practice as a reduction in liabilities. But so far insurance corporations do not report claims under (life) insurance to FMA.
PT	N	No data from direct source.
SI	Y	ICs report their assets and liabilities, including a small amount of liabilities to non-resident households in F.611.
SK		
FI	Y	Annual: the total stock (AF.61) is obtained from balance sheets of ICs (collected by the national Financial Supervisory Authority), and split between AF.611 and AF.612 in proportion to life and pension insurance savings provided by the Federation of Finnish Financial Services (FFI). The stock of AF.611 is further divided between residents and non-residents in proportion to residents'/non-residents' premium payments included in balance sheets of life ICs. Financial transactions are calculated according to changes in claims reserves adjusted for holding gains/losses (which are included in profit/loss accounts). Quarterly: Estimation methods based on the balance sheets and the annual percentage shares are used to derive (A)F.61.
Pre-ins:		
BG	Y	ICs' balance sheets provide counterpart data from the liabilities side to non-residents.
CZ	N	
DK	Y	BOP/IIP data from ICPFs provide estimates (in 2005 AF.611 was about 48% of AF.61).
LV	Y	The balance sheets and annexes of ICs used for quarterly financial accounts identify AF.611 with a residency split (such liabilities to non-residents are zero).
LT	Y	Total stock of AF.611 (from quarterly balance sheets of ICs, collected by the national insurance supervisory authority) is split between residents and non-residents in proportion to residents'/non-residents' premiums written (from annual survey of ICs conducted by NSI), Non-resident share comprises about 0.1% of AF.611
HU	N	No data on liabilities to non-resident households are available from ICs' balance sheets; such amounts are thought insignificant.
PL	N	ICs' liabilities to non-resident households cannot be estimated from their balance sheets/profit and loss account but are thought negligible.
RO	N	There are no data about non-resident households available from ICs. These liabilities of insurance corporations are hold only by residents.
SE	Y	There is no estimate of (A)F.611 liabilities of resident life ICs to non-resident policy holders.
UK	N	LAPFs' liabilities to non-resident households cannot be estimated from balance sheet sources. Although not used at present, it would be possible to derive balance sheet estimates for non-resident households from the ratio of overseas premiums to total premiums, from the P&L inquiry form.

1b) Net equity of households in pension fund reserves (AF.612)

a. Can such liabilities of pension funds vis-à-vis non-resident households (current and former employees of resident employers) be estimated from pension funds' balance sheets and/or profit and loss accounts?

b. Are these transactions/stocks significant?

Summary of replies

The majority of respondents cannot make such estimates from pension fund balance sheets and/or profit and loss accounts. Only in NL, however, are such liabilities of pension funds vis-à-vis non-resident households (usually current and former employees of resident employers now resident abroad) considered to be significant.

Table 11.2

Euro area:	a)	b)	Comments:
BE	N	N	
CY	N	N	The balance sheets/profit and loss accounts of PFs currently used for MUFA do not contain this information.
DE			
EE	Y	N	
IE	Y	Y	
GR	N	NA	There are at present no (autonomous) pension funds in Greece.
ES	NA	N	[No]; assumed to be insignificant.
FR	N	N	Pension funds did not exist in France until recently. Collection of data on them (EUR 500 millions of assets in June 2006) is under discussion. Liabilities towards non-resident households are unlikely.
IT	N	N	Flow data are obtained from BOP statistics, and stocks are estimate from flows. PF balance sheets/profit and loss accounts are not useful for this purpose.
LU	Y	Y	The non-resident holdings are estimated based on the number of cross-border employees working in banks as most pension funds are for bank employees.
MT	N	N	There are no PFs in Malta
NL	Y	Y	Both annual and quarterly transactions in F.612 assets for the RoW are derived from a direct reporting survey (DRA). This survey includes a geographical breakdown which is used to make a distinction between residents and non-residents. F.612 is adjusted to fit D8 in the non-financial accounts. This method applies to transactions. Balance sheets and other changes use the total value for AF.61 from the survey, divided between AF.611 and AF.612 according to the opening balance sheets. National accounts figures for 2010 show assets of the ROW of €1.1 billion (AF.611) and €6.9 billion (AF.612), with transactions in 2010 of €2.0 billion and €-0.2 billion, respectively. These amounts are small in relation to the totals.
AT	Y	N	In principle the approach for PFs vis-à-vis non-resident households is similar to that for (life) ICs. In practice, ROW claims on Austrian pension funds are negligible, and the FMA has not yet developed a database suitable for BOP purposes. The central bank is keeping this area under review.
PT	N	N	No data from direct source; assumed not to be significant.
SI	Y	N	PFs report their assets and liabilities, including a small amount of liabilities to non-resident households in F.612.
SK			
FI	Y	N	Annual: the total stock (AF.61) is obtained from balance sheets of insurance corporations (collected by the national Financial Supervisory Authority), and split between AF.611 and AF.612 in proportion to life and pension insurance savings provided by the Federation of Finnish Financial Services (FFI). The stock of AF.612 is further split between residents and non-residents in proportion to residents'/non-residents' premium payments included in the balance sheets of life ICs. Financial transactions are calculated according to the change in claims reserves adjusted for holding gains/losses (which are included in profit/loss accounts). Quarterly: Estimation methods based on the balance sheets and the annual percentage shares are used to derive (A)F.61.
Pre-ins:			

BG	Y	N	PFs' balance sheets provide counterpart data from the liabilities side to residents and to non-residents There are no liabilities of Bulgarian PFs towards non-resident households.
CZ	N	N	
DK	N	N	See answers to (A) F.611
LV	Y	N	The balance sheets and annexes of private PFs and assets and liabilities of investment plans for state-funded pension scheme used for quarterly financial accounts identify AF.612 and, for private PFs, provide a residency split (but such liabilities to non-residents are close to zero). Liabilities (AF.612) of investment plans for state-funded pension scheme assets to non-resident households are assumed to be zero.
LT	N	N	Supervisory authority information shows that non-resident households do not participate in Lithuanian pension funds.
HU	N	N	There are no data on PFs' liabilities to non-resident households. Any amounts are assumed to be negligible.
PL	N	N	There are no data on PFs' liabilities to non-resident households. Any amounts are assumed to be negligible.
RO	N	N	There are no data on PFs' liabilities to non-resident households.
SE	na	na	There is no estimate of (A)F.612 liabilities of resident life PFs to non-residents.
UK	N	N	The liabilities of LAPFs to non-resident households cannot be estimated from balance sheet sources**.** Although not used at present, it would be possible to derive balance sheet estimates for non-resident households from the ratio of overseas premiums to total premiums, from the P&L inquiry form.

1c) Prepayments of insurance premiums and reserves for outstanding claims (AF.62)

a. Can such liabilities of insurance corporations vis-à-vis non-residents be estimated from insurance corporations balance sheet (and/or profit and loss accounts)?
b. Are cross border reinsurance claims recorded?
c. Are these reinsurance claims consolidated?
d. Are these significant transactions/stocks in your country?
e. Are balance of payments/international investment position data used for estimating any of the three items AF.611, AF.612 and AF.62)?

Summary of replies

Most respondents cannot make such estimates from insurance corporations' balance sheets and/or profit and loss accounts. Cross-border reinsurance claims are recorded in most cases, but they are only consolidated by four countries. Only seven countries consider such transactions to be significant. Only IT, AT and DK fully use b.o.p./i.i.p. data for estimating any of the three items (AF.611, AF.612 and AF.62) although some countries include this as part of their estimation, whilst others plan to use b.o.p./i.i.p. data or are considering the possibility. LV record reinsurance positions in AF.7.

Table 11.3

	a.	b.	c.	d.	e.	Comments:
Euro area:						
BE	Y	Y	N	N	See comments	AF.62 liabilities to non-residents are estimated from annual balance sheets and profit and loss accounts of ICs controlled by the Banking, Finance and Insurance Commission; they amounted to €0,9 billions at end-2011.
CY	N	na	na	na	We plan to	The balance sheet (and/or profit and loss accounts) of insurance companies that are currently processed for the purposes of financial accounts do not contain this information
DE	Y	na	N	25%	N (see comments)	Based on estimates from balance sheet data, about 25 % of (A) F.62 liabilities of ICs are to non-residents.
EE	N	N	N	Y	N	Reinsurance is mostly connected with cross-border activity. Stocks are obtained from the balance sheets of ICs.
IE	Y	Y	N	Y	Y (see comments)	Liabilities of non-life ICs to non-residents are estimated from annual regulatory data. Reinsurance transactions/stocks are very significant in Ireland. Liabilities of reinsurance corporations to non-residents, and reinsurance claims, are estimated from BO P surveys; amounts are recorded in AF.62.
GR	Y	N	N	Y	N	AF.62 items are available from ICs' balance sheets. Reinsurance claims as accounts receivable/payable vis-à-vis non -residents are recorded the on balance sheet: such positions with non-residents are about 50% of the total.
ES	Y	Y	Y	25-30%	N	Assets/liabilities of S.125 vis-à-vis non-residents are estimated from premiums paid from/to abroad. The net position is allocated to the asset side.
FR	N	N	Y	Y	N	Prepayments of cross-border reinsurance claims are not recorded for the moment. Reinsurance liabilities to non-resident ICs amount to about 15% of total liabilities of French ICs in AF.62.
IT	N	Y	N	Y	Y	BOP statistics provide quarterly flows. Stocks are estimated from flows in a manner consistent with the IIP. IC balance sheets and P&L accounts are not used. Reinsurance liabilities to non-residents recorded in (A)F.62 are significant (stocks around €10 billion, or 0.7% of IT GDP). Quarterly flows are obtained from BOP statistics, and stocks are estimated on the basis of flows, constrained to consistency with the IIP.
LU	Y	Y	N	N	N	We record reinsurance on a gross/unconsolidated basis.
MT	Y	Y	N	N	N	Insurance principals' balance sheets provide quarterly estimates (with a resident/non-resident split).
NL	Na	Na	N	Y	See comments	BOP/IIP data are an important element in the compilation of the ROW account for (A)F.62. Cross-border reinsurance is recorded as zero due lack of data.
AT	N	N	Y	N	Y	BOP data use partially information of insurance corporations balance sheets and data provided by the financial market authority

PT	Y	N	N	N	See comments	F.62 liabilities of ICs to non-residents (prepayments of premiums and reserves for outstanding claims) are estimated by applying annual NSI data on the structure of premiums (D.71) to balance sheet information. BOP/IIP information is used to split non-residents between the euro area and the rest of the world. Reinsurance liabilities to non-residents are considered negligible since there are no specialist reinsurers in Portugal.
SI	Y	Y	Y	N	N	ICs report net liabilities in F.62 to all sectors, including non-residents.
SK						
FI	Y	Y	N	N	N	Annual: total stock (AF.62) is obtained from IC balance sheets (collected by the national Financial Supervisory Authority) and split to residents/non-residents in proportion to premium payments (from in profit/loss accounts of ICs). Quarterly: quarterly AF.62 stocks are projected from annual NSI data; quarterly flows are calculated from the stocks. Reinsurance liabilities to non-residents are estimated cross border reinsurance premium payments.
Pre-ins:						
BG	Y	Y	N	N	N	The balance sheets of ICs provide information on AF.62 concerning S1, S2 and their subsectors.
CZ	na	na	na	na	na	
DK	Y	Y	Y	Y	Y	The part of AF.62 attributable to the rest of the world is less than 10% of the total.
LV	Y	Y	N	N	N	The balance sheets and annexes of ICs used for quarterly financial accounts provide data on AF.62 with a residency split; AF.62 liabilities to non-residents are zero. The item ICs' liability from reinsurance operations (with a residency split) is allocated to AF.71.
LT	Y	Y	Y	N	N	Total stock of AF.62 (from quarterly balance sheets of ICs, collected by the national insurance supervisory authority) is split between residents and non-residents in proportion to residents'/non-residents' premiums written (from annual survey of ICs conducted by NSI), Non-resident share is about 3% of AF.62.
HU	Y	Y	N	N	N	
PL	N	N	N	N	N	The liabilities of ICs to non-residents cannot be estimated from available sources; they are assumed to be negligible. It is assumed that resident ICs do not provide reinsurance services to non-residents.
RO	N	Y	N	N	N	No data for non-resident households are available from ICs balance sheet; business is entirely with residents. Reinsurance liabilities are recorded in AF 62. Reinsurance claims/liabilities are not consolidated
SE	N	N	N	N	N	There is no estimate of (A)F..62 liabilities of resident life ICs to non-residents.
UK	N	N	N	N	N	A number of different sources of data are used to sectorise non-life insurance business. The ratios derived are used throughout the accounts to ensure consistency. This approach is used for (A)F.62.

						Reinsurance liabilities to non-residents are not recorded. It is not known if the transactions/stocks of non-resident business are significant. BOP/IIP data cannot be used. Reinsurance claims/liabilities are recorded net in the P&L but are not recorded on the balance sheet.

2) Insurance technical reserves as liabilities of the Rest of the World (S.2)

Insurance technical reserves are liabilities of the rest of the world where residents hold insurance policies or pension rights in non-resident ICPFs, giving rise to transactions with non-residents and positions with them in insurance technical reserves.

Net equity of households in life insurance reserves (AF.611)

a. How are such liabilities of non-resident (life) insurance corporations vis-à-vis resident households (policy holders) estimated? Are balance of payments/international investment position data used?

Summary of replies

Currently only IT and NL use b.o.p./i.i.p. data in their estimations although FR is investigating the possibility. For most countries, this item is not considered to be very significant in their national financial accounts. In FI and LV, amounts are thought to be included indistinguishably in AF.7.

Table 11.4

	Comments
Euro area:	
BE	The central bank estimates these liabilities only for ICs located in Luxembourg, where the annual report of the Insurance Control Office of Luxembourg shows total life insurance reserves with a breakdown by residence of counterpart of premiums received, permitting an estimate of AF.611 liabilities of insurance corporations located in Luxembourg to Belgian residents. These estimates are not however used in the BOP/IIP.
CY	No data at present; assumed to be insignificant.
DE	
EE	Currently no data available. Assumed to be insignificant.
IE	BOP/IIP used to estimate these items
GR	No data at present; assumed to be insignificant.
ES	No data – assumed to be insignificant.
FR	(A)F.611liabilities of non-resident ICs to resident households are not at present recorded.
IT	BOP statistics provide quarterly flows; stocks are estimated from flows. Amounts have been negligible so far.
LU	No data available; estimated to be negligible.
MT	No data at present.
NL	The approach is similar to that for (A)F.611 liabilities of resident ICs to non-resident households. Other economic flows are estimated zero and stocks are derived from cumulative estimated flows.
AT	The FMA receives yearly data about residents' (life) insurance policies with ICs in other EU countries, used to revise the Austrian BOP and financial accounts after about 12 months.
PT	No data at present - assumed to be insignificant.
SI	The share of liabilities of non-resident (life) insurance corporations to resident households in F.611 is estimated from the share of S.2 liabilities sectors to resident households in similar (conservative)

	instruments (e.g. deposits).
SK	
FI	Data hardly exist, but (A)F.611 liabilities of the rest of the world are assumed to be negligible. BOP data include (indistinguishably in (A)F.7) only S.2 reinsurance liabilities.
Pre-ins:	
BG	No data – assumed to be insignificant.
CZ	No data at present.
DK	Data from the National Supervisory Authority have no counterpart sector breakdown. There are no relevant BOP/IIP data.
LV	(A)F.611 liabilities of non-resident (life) IFs to resident households are not identified; they may be included in (A)F.7. Amounts are assumed to be insignificant.
LT	No data - currently assumed to be zero.
HU	No data – assumed to be insignificant.
PL	No data – assumed to be insignificant.
RO	No data at present – assumed to be insignificant.
SE	Semi-annual BOP/IIP data provide information on (A)F.611-612 liabilities of non-resident ICs and PFs (not separately identified) to resident households. Transactions are estimated to be very low.
UK	No estimates are made. Any imported business is thought to be very small.

2b) Net equity of households in pension fund reserves (AF.612)

How are such liabilities of non-resident insurance corporations and pension funds vis-à-vis resident households (current and former employees of non-resident employers) estimated? Are balance of payments/international investment position data used? Are these significant transactions/stocks?

Summary of replies

In most countries the data are not available but the item is not considered to be significant. IT uses b.o.p./i.i.p. data and this source is also being considered by PT and CY. In LV some amounts may be included indistinguishably in AF.7.

Table 11.5

	Comments
Euro area:	
BE	No data – assumed to be insignificant.
CY	No data at present; assumed to be insignificant.
DE	See footnote above.
EE	Currently no data available. Assume to be insignificant.
IE	Assumed to be insignificant.
GR	No data – assumed to be insignificant.
ES	No data – assumed to be insignificant.
FR	No data at present.
IT	BOP statistics provide quarterly flows; stocks are estimated from flows. Amounts are negligible.
LU	No data available or estimated.
MT	No data.

NL	No data - currently assumed to be zero.
AT	No data.
PT	No data at present - assumed to be insignificant.
SI	Assumed to be insignificant.
SK	
FI	Assumed to be insignificant.
Pre-ins:	
BG	No data – assumed to be insignificant.
CZ	No data at present.
DK	See answer to (A)F.611 liabilities
LV	(A)F.611 liabilities of non-resident PFs to resident households are not identified; they may be included in (A)F.7.
LT	No data - currently assumed to be zero.
HU	No data – assumed to be insignificant.
PL	No data – assumed to be insignificant.
RO	No data.
SE	Semi-annual BOP/IIP data provide information on (A)F.611-612 liabilities of non-resident ICs and PFs (not separately identified) to resident households. Transactions are estimated to be very low.
UK	No estimates are made. Any imported business is thought to be very small.

2c) Prepayments of insurance premiums and reserves for outstanding claims (AF.62)

a. How are such liabilities of non-resident insurance corporations and pension funds vis-à-vis residents estimated? Are resident sector balance sheet data used? Are balance of payments/ international investment position data used?

Summary of replies

Most countries consider this item to be negligible and do not record it. ES, PT, SI and HU do compile this item, although b.o.p./i.i.p. data are not the main source; where it is recorded, amounts may be confined to resident claims arising from reinsurance business. In LV, some amounts may be included indistinguishably in AF.7.

Table 11.6

	Comments
Euro area:	
BE	No data.
CY	No data at present – assumed to be zero.
DE	See footnote above
EE	IIP and BOP data are not used. Reinsurance claims are obtained from resident IC balance sheets. It is assumed that all reinsurance activity is connected to non-resident ICs
IE	No data – assumed to be insignificant.
GR	The only data come from resident IC balance sheets (reinsurance claims/accounts receivable from non-resident ICs).
ES	The only data come from resident IC balance sheets (reinsurance positions - assets minus liabilities).

FR	No data.
IT	BOP statistics provide flows; stocks are estimated from flows. Sector balance sheet data are not used.
LU	No data available or estimated.
MT	No data.
NL	No data at present – assumed to be zero.
AT	No data.
PT	Assumed to equal resident IC balance sheet data on reinsurance claims vis-à-vis non-residents. BOP/IIP data on premiums/claims are used to split (A)F.62 ROW liabilities between euro area and other non-resident counterparties.
SI	ICs (and PFs) report their net claims on non-resident ICs.
SK	
FI	Not significant
Pre-ins:	
BG	No data currently available.
CZ	No data currently available.
DK	See answer to (A) F.611.
LV	(A)F.62 liabilities of non-resident ICPFs to resident households are not identified; they may be included in (A)F.7.
LT	BOP/IIP data are used.
HU	Balance sheets of resident ICs show (stock) data on claims on non-resident ICs.
PL	The claims of residents on non-resident ICs cannot be estimated from available sources; they are assumed to be negligible. Resident ICs' balance sheets however show reinsurance claims; the whole amount is attributed to non-resident counterparts.
RO	Resident IC balance sheets provide data for reinsurance claims, information recorded in annual financial accounts. At present there are no quarterly data.
SE	No data on (A)F.62.
UK	No estimates are made. Any imported business is thought to be very small.

b. If balance of payments/ international investment position data are used, how are they adjusted for subsequent use for the rest of the world account?

Summary of replies

This adjustment is not at present made anywhere.

c. How are cross-border reinsurance claims recorded (are they consolidated?)?

Summary of replies

Most respondents record some prepayments arising from reinsurance business as claims on non-residents; only in ES and AT financial accounts are cross-border reinsurance claims recorded as consolidated. In LV and LT some such amounts are thought to be recorded indistinguishably in AF.7.

Table 11.7

	Comments
Euro area	
BE	Balance sheets of Belgian ICs show reinsurance claims as both assets and liabilities: assets without distinction between resident and non-resident counterparts exceed liabilities. As there are no major reinsurance corporation in Belgium and Belgian corporations are often reinsured abroad, the central bank assumes that the difference between the amounts recorded in the two sides is a claim on non-residents.
CY	No data at present.
DE	See earlier footnote
EE	No. All such claims are assumed to be on non-residents.
IE	The data (not consolidated) are available from BOP surveys.
GR	Reinsurance claims are not consolidated; they are recorded as accounts receivable from non-residents.
ES	Not consolidated.
FR	No data.
IT	These claims are recorded as assets of resident ICPFs, without consolidation.
LU	Estimated on the basis of the origin/nature of the limited number of reinsurance branches. No consolidation.
MT	Not consolidated.
NL	No data; cross-border reinsurance claims are assumed to be zero.
AT	Custody account assets and liabilities from deposits (working balance) are consolidated but shown in AF.79.
PT	Not consolidated.
SI	Consolidated.
SK	
FI	Not significant
Pre-ins:	
BG	Balance sheets of Bulgarian ICs provide information on cross-border reinsurance activities from both assets (as deposits) and liabilities (as reserves) sides
CZ	No data currently available.
DK	See answer to (A). F.611 liabilities.
LV	IC balance sheets record “Debtors from reinsurance operations” , included in AF.71, and not consolidated. Debtors from reinsurance operations are 1% of the total assets of insurance corporations in Latvia
LT	Reinsurance claims are recorded as other accounts receivable AF.79; amounts are not significant; not consolidated.
HU	Resident IC balance sheets provide (stock) data on reinsurance claims on non-residents.
PL	On the basis of information from the Polish Financial Supervisory Authority, it is assumed that all reinsurance is provided by non-resident ICs.
RO	Resident ICs balance sheets show claims from reinsurance operations; the amount is included in AF.62, not consolidated.
SE	Not applicable.
UK	Not applicable.

d. Are these significant transactions/stocks?

Summary of replies

With the exception of BE, ES, IE, IT and NL these items are not considered significant.

Table 11.8

	Comments
Euro area:	
BE	Cross-border reinsurance claims amounted to about €5 billions at end-2011.
CY	**No data currently available.**
DE	See earlier footnote
EE	Not significant.
IE	Reinsurance transactions/stocks are very significant in Ireland.
GR	Not significant.
ES	They represent around 25% - 30% of total reinsurance assets positions on ICs' balance sheets.
FR	Reinsurance claims within the reinsurance resident sector are consolidated.
IT	The amount is significant, for both stocks (around €22 billion , or 1.5% of GDP) and flows, almost entirely explained by reinsurance.
LU	Hundreds of millions of euro, but not significant relative to the rest of the financial cross-border flows.
MT	Not significant
NL	National accounts show outstanding AF.611liabilities of the ROW of € 665 million at end-2011). F.611 flows in 2010 amounted to zero. These amounts are small in relation to the relevant totals.
AT	Stocks: gross reinsurance on ITR 10% of the total value in the balance sheet; net liabilities to the rest of the world 3% of the total value in the balance sheet. Flows are not significant.
PT	Not significant
SI	Not significant
SK	
FI	Not significant
Pre-ins:	
BG	Not significant
CZ	Not significant
DK	See answer to (A). F.611 liabilities
LV	Not significant
LT	Not significant
HU	Not significant
PL	Not significant - reinsurance business accounts for about 5% of the technical reserves of resident ICs.
RO	Not significant
SE	Not applicable
UK	Not applicable

CHAPTER 12 - Other accounts receivable/payable (AF.7)

Importance of instrument categories in euro area balance sheets
€ trillions, end-2011

	Assets			Liabilities	
Financial instruments	Euro area residents	Rest of the world		Euro area residents	Rest of the world
Monetary gold and SDRs	0.4				
Currency and deposits	21.6	3.8		22.8	2.6
Debt securities	14.3	4.3		15.5	3.1
Financial derivatives	0.0	0.0		0.0	0.0
Loans	20.9	1.8		19.7	3.1
Shares	24.2	6.0		24.6	5.5
Shares, excl. IF shares*	19.3			18.0	
Investment fund shares*	4.8			6.7	
Insurance technical reserves	6.2	0.2		6.4	0.0
Other accounts receivable/payable	**5.8**	**0.5**		**5.9**	**0.4**

* Instrument breakdown is not available for Rest of the world.

Assets – euro area residents *comprise claims held by residents of the euro area in the form of the respective instruments, including claims on the Rest of the World (shown in the column* ***liabilities – RoW****).*

Liabilities – euro area residents *comprise liabilities of residents of the euro area in the form of the respective instruments, including liabilities to the Rest of the World (shown in the column* ***assets – RoW****).*

Since the euro area financial accounts are horizontally balanced, as explained in the box in Chapter 2, apart from a rounding difference in other accounts receivable/payable total assets equal total liabilities in each category except the first (monetary gold and SDRs are financial assets with no corresponding liability).

ESA95 definition (Annex 7.1 – Definition of each asset category)

12.1 Financial assets [or liabilities] arising from a timing difference between a financial or non-financial transaction and the corresponding payment.

12.2 AF.7 is divided into:

- **Trade credits and advances (AF.71)**
  Financial assets [or liabilities] arising from the direct extension of credit by suppliers and buyers of goods and services, including advance payment for work in progress or to be undertaken.

- **Other accounts receivable/payable, excluding trade credits and advances (AF.79)**
  Financial assets [or liabilities] arising from other timing differences between transactions and the corresponding payment, including those arising from the recording of income as it accrues.

Further definitional remarks in the ESA95

12.3 AF.71 includes trade credit accepted by a factoring corporation except where it is recorded as a loan (AF.4 – see Chapter 7), and rental on buildings accruing over time (*5.125*).

12.4 AF.79 includes positions arising from the time lapse between transactions and payments in such areas as taxes, social contributions, wages and salaries, rent (on land and mineral resources), dividends, interest and secondary market transactions in financial instruments (*5.129*). *5.130* states however a preference for accrued interest to be recorded in the appropriate instrument category (it does not say that most security transactions are preferably to be recorded on the settlement date, not the transaction date, though it might - cf *5.144*).

12.5 Not to be included in AF.7 are statistical discrepancies, errors and omissions, and items about which too little is known for classification (which should be based on whatever information is available). Thus AF.7 is not to be treated as a catch-all instrument category. Delayed or premature redemption of financial instruments should be recorded if appropriate in the relevant instrument category (*5.122*).

Balance sheet valuation in the ESA95

12.6 Trade credits and advances and other accounts receivable/payable are to be valued in the balance sheet of both creditor and debtor at the amount the debtor is contractually obliged to pay the creditor when the obligation is extinguished (*7.61*).

Transactions in the ESA95

12.7 Chapter 5 provides no further specific guidance on the recording of transactions in AF.7.

Definition in ECB statistics

12.8 Regulations ECB/2008/32 (MFI balance sheets), ECB/2007/8 (investment fund assets and liabilities) and ECB/2008/30 (financial vehicle corporations) define balance sheet items 'remaining assets' and 'remaining liabilities' into which all items covered by AF.7 fall (together with some other items which the ESA95 would prefer to classify elsewhere). There is no allocation to residence or sector of counterparties.

12.9 Thus ECB/2008/32 (Annex I, Part 3) describes remaining assets as the residual item on the asset side. It states (slightly shortened and paraphrased) that they include:

- *financial derivative positions with gross positive market value;*
- *gross amounts receivable in respect of suspense items (asset balances which are not booked in the name of customers but which nevertheless relate to customers' funds, e.g. funds awaiting investment, transfer or settlement);*
- *gross amounts receivable in respect of transit items (funds, usually customers' funds, in the course of transmission between MFIs, e.g. cheques sent for collection to other MFIs);*
- *accrued interest receivable on loans* [as noted elsewhere, the ESA95's preference is for accrued interest to be recorded in the asset category to which it relates]*;*
- *dividends receivable;*

- *amounts receivable not related to the MFI's main business, e.g. advance payments for goods and services;*
- *the asset counterpart to coins issued by national government* [as Chapter 5 on banknotes and coins explained, in ECB statistics the issue of coins is attributed to the national central bank, though coins are issued by central government. The notional counterpart to the coin issue appears in national central banks' balance sheets in remaining assets].

Not included in remaining assets are financial instruments recorded off-balance sheet, e.g. guarantees, commitments, administered and trust loans, and non-financial assets such as land and commodities, which are included in fixed assets.

12.10 Annex I, Part 3 describes remaining liabilities as the residual item on the liabilities side, comprising:

- *financial derivative positions with gross negative market values;*
- *gross amounts payable in respect of suspense and transit items;*
- *accrued interest payable on deposits;*
- *dividends payable;*
- *amounts payable not related to the MFI's main business (amounts due to suppliers and in respect of taxes, wages, social contributions, etc.);*
- *provisions representing liabilities against third parties (pensions, dividends, etc.);*
- *non-repayable margins under derivative contracts (repayable margins should be classified as deposit liabilities, although in practice it may be difficult to distinguish between repayable and non-repayable margins and it is acceptable to classify all margins under remaining liabilities or as deposit liabilities, according to national practice);*
- *net amounts payable in respect of future settlements of transactions in securities or foreign exchange* (as noted elsewhere, the ESA95 prefers such transactions to be recorded when payment is made, in which case no 'remaining liability' would arise).

Not included in remaining liabilities are financial instruments recorded off-balance sheet, and capital items on the liabilities side more appropriately recorded in capital and reserves.

12.11 National practice in recording remaining assets/remaining liabilities in the MFI balance sheet is not however uniform; and, as noted earlier, there are anyway some items recorded in remaining assets/remaining liabilities which should not be in other accounts receivable/payable (AF.7). The most important of these are financial derivatives and accrued interest on deposits and loans (and on securities, where accrued interest is excluded from the stock value of the securities to which it relates – see Chapter 6). In some Member States, remaining assets/remaining liabilities include revaluation accounts (more properly included in capital and reserves), and sometimes other items which (according to ESA95) should not be on the balance sheet at all. Revaluation accounts will in any case not be uniform across Member States, because they necessarily reflect differences in recording practices for the underlying items (see especially the discussion on valuation of debt securities in Chapter 6).

12.12 A survey of recording practices in MFI balance sheets for remaining assets/remaining liabilities in 2008 revealed substantial differences across Member States. The survey showed however that only two or three instruments dominate remaining assets and remaining liabilities in most countries, and that the shares of the components in remaining assets/remaining liabilities seem to be relatively stable (some central banks provided short time series for the components of remaining assets/remaining liabilities). Over 90% of the differences from the correct definition of AF.7, at least in the euro area, are concentrated in a few countries. To improve understanding of the contents of remaining assets/remaining liabilities and to facilitate their use in quarterly financial accounts, the amended Guideline ECB/2007/9, Annex III, Part 4 now requests as a memorandum item a quarterly breakdown of MFIs' remaining assets/remaining liabilities as follows:

- assets: accruals on loans, transit items, suspense items, financial derivatives
- liabilities: accruals on deposits, transit items, suspense items, financial derivatives.

12.13 For investment funds, Regulation ECB/2007/8 (Annex II, Part 1) describes remaining assets as the residual item on the asset side. It states (slightly shortened and paraphrased) that they include the following items, of which national central banks may request individual breakdowns:

- *accrued interest receivable on deposits, loans, and securities other than shares;*
- *accrued rental on buildings;*
- *amounts receivable which do not relate to the main business of the investment fund.*

12.14 Similarly, Annex II, Part 1 describes remaining liabilities as the residual item on the liability side, comprising:

- *debt securities issued* [investment funds normally borrow by taking loans or deposits of some sort and – in particular – raise funds by issuing investment fund shares/units. If they issue debt securities, however, the amount is recorded in remaining liabilities]*;*
- *accrued interest payable on loans and deposits;*
- *amounts payable not related to the main business of the investment fund (amounts due to suppliers, and in respect of taxes, wages, social contributions, etc.);*
- *provisions representing liabilities against third parties (pensions, dividends, etc.);*
- *net positions arising from securities lending without cash collateral;*
- *net amounts payable in respect of future settlements of transactions in securities.*

National central banks may request individual breakdowns of these items.

For financial vehicle corporations, Regulation ECB/2008/30 provides the same list for remaining assets as for investment funds, and a similar list for remaining liabilities (omitting debt securities issued and adding *counterparts to the valuation adjustment, i.e. nominal less purchase price, of loans*).

The lists of items to be reported in remaining assets/ remaining liabilities by other OFIs under Annex III, Part 11 of Guideline ECB/2007/9 is longer, and varies with the type of institution concerned. Thus:

'Other assets: all amounts that cannot be allocated in one of the main balance sheet items (BSI) must be allocated in 'other assets'. This item comprises assets such as accrued interest receivable on loans and accrued rent on buildings, dividends to be received, amounts

receivable not related to the main OFI business, gross amounts receivable in respect of suspense items, gross amounts receivable in respect of transit items, other assets not separately identified, e.g. fixed assets, loans and deposits depending on the subcategory of OFI.

Other liabilities: all amounts that cannot be allocated in one of these main items of the liability side must be allocated in 'other liabilities'. This item comprises liabilities such as gross amounts payable in respect of suspense items, gross amounts payable in respect of transit items, accrued interest payable on deposits, dividends to be paid, amounts payable not related to the main OFI business, provisions representing liabilities against third parties, margin payments made under derivative contracts representing cash collateral placed to protect against credit risk but remaining in the ownership of the depositor and being repayable to the depositor when the contract is closed out, net positions arising from securities lending without cash collateral, net amounts payable in respect of future settlements of transactions in securities, other liabilities not separately identified, e.g. debt securities, financial derivatives depending on the sub-category of OFI.'

12.15 The Bop Book has nothing to add on the definition of trade credit (including advance payment for work in progress or to be undertaken). In euro area balance of payments/international investment position statistics, accounts receivable/payable other than trade credit (i.e. category AF.79) are included in the catch-all balance of payments/international investment position category 'other assets/other liabilities'. An important feature of euro area balance of payments statistics, however, is that accrued interest is added to the relevant instrument and not recorded in remaining assets/liabilities, as it is for deposits and loans (and in part for debt securities) in monetary and financial markets statistics.

Valuation in ECB statistics

In MFI balance sheet statistics

12.16 Regulation ECB/2008/32 does not mention the valuation of these balance sheet items specifically. Regulation ECB/2008/32 makes the general point on valuation (except for deposits and loans) that '*Unless otherwise provided for in this Regulation, the accounting rules followed by MFIs for the purposes of reporting under this Regulation shall be those laid down in the national transposition of Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as well as in any other international standards applicable.'* Guideline ECB/2007/9, as amended, says in connection with valuation adjustments that '*Although it is recommended that both sides of the balance sheet are recorded at market value, in practice, a variety of different valuation methods may be employed on both the liabilities and the assets sides. This is acceptable as long as the book value does not diverge significantly from the market value…The content of the adjustment depends on the valuation method applied.*' (Annex V, Part 3). In practice, apart from financial derivative positions, it seems unlikely that these residual items will be subject to much valuation change. Items denominated in foreign currencies will be converted into euro at the market exchange rate on the last day of the period.

In post office giro statistics

12.17 Regulation ECB/2006/8 does not require information on remaining assets or remaining liabilities.

In investment fund statistics

12.18 Regulation ECB/2007/8 does not mention the valuation of these balance sheet items specifically. They are therefore covered by the general accounting rule in Article 8 of the Regulation, namely '*The accounting rules followed by investment funds in reporting under this Regulation shall be those laid down in the relevant national law implementing Council Directive 86/635/EEC… on the annual accounts and consolidated accounts of banks and other financial institutions, or, if the former provision is inapplicable, in any other national or international standards that apply to investment funds*.'

In financial vehicle corporation statistics

Regulation ECB/2008/30 says nothing specifically about the valuation of these items.

In other OFI statistics

As noted above, more items are included in the residual asset and liability categories for these institutions, and the content varies among sub-groups. On the valuation of other assets and other liabilities, the Guideline requires (so far as these instruments are included in these categories) deposits and loans to be recorded at nominal or face value, with loans recorded gross of provisions; debt securities, shares and other equity and investment fund shares at market value; and financial derivatives in principle at market value but if necessary following different valuation methods. As usual in ECB statistics, accrued interest is to be recorded in other assets or other liabilities.

In securities issues statistics

12.19 Valuation of securities issues, redemptions and outstanding amounts in the ECB's securities issues statistics was discussed in Chapter 6 on debt securities and Chapter 9 on shares and other equity.

12.20 Securities issues statistics could be relevant to AF.7 in that timing differences might arise between the issuance or redemption transaction and settlement. Guideline ECB/2007/9, Annex III, Part 12, however, states that an issue is considered to have occurred when the issuer receives payment. Redemptions are also against cash – implicitly the same timing rule applies as to issues. Also relevant is that issues, redemptions and outstandings of debt securities (except zero coupon and deep-discounted bonds, where issues are recorded at the effective amount paid, redemptions at nominal value, and outstandings at the effective amount paid plus accrued interest) are recorded at nominal or face value, excluding accrued interest. (Quoted shares are recorded at market value.) This implies that, for example, the recorded amount of outstanding conventional debt securities will understate the liability of borrowers to the extent that some interest has accrued on the bonds (separately from the possibility that the bonds are trading at a premium because of a general fall in market interest rates).

In balance of payments/international investment position statistics

12.21 As noted above, in euro area balance of payments/international investment position statistics accounts receivable/payable other than trade credit (i.e. category AF.79) are included in the catch-all balance of payments/international investment position category ‘other assets/other liabilities’.

Requirements for euro area financial accounts (Guidelines ECB/2002/7, ECB/2005/13)

12.22 Recital 4 in ECB/2002/7 states the general principle that quarterly euro area financial accounts should be based as much as possible on the ESA95. In the absence of sufficient source statistics for certain items, national central banks must nevertheless provide best estimates for the compilation of euro area aggregates (Article 2).

12.23 ECB/2005/13 requires a sectoral breakdown of holdings (assets) and liabilities in the form of other accounts receivable/payable: all sectors, including the rest of the world (S.2), may have assets and liabilities in this form. No breakdown of AF.7 is required.

National practices in recording other accounts receivable/payable

The following sections summarise current national practices in compiling these heterogeneous items. They are in the form of responses to a series of questions.

A. General questions

1. Delimitation

ESA95 definitions were described above: the relevant paragraphs of the ESA are *5.120-5.123; 5.124-5.127; 5.128-5.131; 6.51; 7.61.*

On the definition, respondents comment as follows.

Euro area Member States

GR - Currently there is no breakdown between AF.71 and AF.79 in the financial accounts.

FR – AF.71 (trade credits) are derived from fiscal data on French non-financial corporations. The accounting category “customers and suppliers” and similar items are recorded under AF.71.

Member States outside the euro area

SE - In practice AF.79 is very incomplete in the financial accounts. The NSI is working to improve AF.79, especially consistency with the non-financial accounts in the treatment of tax payments.

2. Coverage

2a) Do you compile both assets and liabilities with a breakdown for AF.71 and AF.79?

Summary of replies

Most Member States have both breakdowns. Where the AF.71/79 split (which is not a requirement of the ECB Guidelines) is not made, there is usually a distinction between assets and liabilities within AF.7.

2b) Do you have information both on stocks and transactions for AF.71 and AF.79?

Summary of replies

Some Member States have both stocks and transactions, but it is still common to have only one (usually stocks) and derive the other from it.

Table 12.1

Euro area:	Assets and liabilities	Breakdown (A)F.71/79	Stocks and transactions
BE	Y	Y	One only; other derived
CY	Y	Only in annual fin'l acc'ts	Stocks only
DE	Y	Y	Y
EE	Y	Y	Mostly stocks; transactions are derived from stocks (except S.2, S.13)
GR	Y	N	Y
ES	Y	Y	Stocks only
FR	Y	Y	Mostly stocks only (exc S.13, S.2 (part))
IE	Y (where data permit)	Y (where data permit)	Stocks only
IT	Y	Y	S.13,S.2 stocks from trans'ns; reverse elsewhere
LU	Y	Y	Stocks, transactions are estimated from the change in stocks, except for S.13.
MT	Y	Y	Stocks only, transactions data for S.2, S.125 and S.13.
NL	Partial (see note)	Partial (see note)	Y (with some estimation)
AT	Y	Y	Partial (see note)
PT	Y	Y	Y
SI	Y	Y	Y
SK	Y	Y	Stocks only
FI	Y	Y	Y

Pre-ins:	Assets and liabilities	Breakdown (A)F.71/79	Stocks and transactions
BG	Y	Y	Stocks only
CZ	Partial; not published	Partial; not published	Partial
DK	Y	Y	Y
LV	Y	Y	Stocks only, transactions compiled from stocks
LT	Y	Y	Stocks only; transactions compiled from stocks
HU	Y	Y	Y
PL	Y	Y	Stocks only; transactions compiled from stocks
RO	Y	Y	Y (S.13, S.2; otherwise stocks only)
SE	Y	Partial (see note)	Partial (see note)
UK			

Notes:

NL – (A)F.71 and (A)F.79 are currently (September 2011) compiled or estimated separately for all the (sub)sectors) S.11, S.121, S.122, S.123, S.124, S.125, S.1311, S.1313, S.1314, S.14/15 and S.2 for both assets and liabilities.

AT – Not for all items, and partly only for stocks or flows.

SE - For S.11, annual stocks for AF.71 and AF.79; for S.121, quarterly stocks and transactions for AF.79; for S.122, quarterly stocks and revaluations for AF.79; for S.125, annual stocks for AF.79; for S.123 (investment funds) quarterly stocks for AF.79; for S.1311, quarterly stocks for AF.79; for S.1313, quarterly stocks for AF.71 and AF.79; for S.1314, quarterly stocks and transactions for AF.79; and for S.14/15, no information at present. For S.2, counterpart information from S.122 is used for assets and liabilities, and stocks and transactions for F.79; for F.71 BOP data are used.

3. Sources

What are the sources (assets and liabilities) for AF.71 and AF.79? In particular for trade credits AF.71, are sources linked to goods and services transactions data? Do you have subsector information?

Summary of replies

Member States commonly obtain data from a mixture of own and counterpart sector sources, and apply varying degrees of estimation. Except where there is some central database of enterprise accounts, data for S.11 rely on counterpart sources and/or estimation, and data on S.14/15 invariably do so and are estimated/obtained by residual in its absence.

Table 12.2

Euro area:	Own sector source	Counterpart sector source	Estimation
BE	(A)F.71:S.123-4,125 (IC),1314,S.2 **(A)F.79:S.122 (CI),123-4,125(IC)**	S.11,14/15 (no data for (A)F.71 within and between these sectors)	(A)F.79:S.13 (incl. Interest

CY	S.121-5,13,S.2	S.11,14/15 using S.121-5,13,S.2	S.11 (for (A)F.7)
DE	S.121-3, 125, 13,1311-3,S.2	S.11,124-5,14/15	(A)F.71 where not
EE	S.121,122(CI),123-5,13,S.2, S.11(last quarter)	S.14/15, S.11, S.123-5	S.11 (qtrly estimates based on sample survey of NFC)
GR	S.121-2, S.123-5, S.13, S.2	S.11,14/15 using S.121-2, S.125 S.13, S.2	S.11 (sample surveys)
ES	(A)F.71:S.11 Central Balance Sheet Data Office and S.13 (A)F.79: S.12 and S.13	S.11,14/15,S.2 S.11,14/15, and S.2	S.11 (ratios are used to split (A)F.71)
FR	Mostly used	Used to elaborate/improve data for some sectors	F.7 transactions within S.11 and between S.11 and S.14 (in estimating, data from S.13, S.2 have priority)
IE	Available from BOP surveys only for S123, S125, S2 ((A)F.71,79 separable for all above) S.13 ((A)F.71,79 split estimated)		Sector sources. Goods/ services transactions used to check F.71 for S.11
IT	S.13,S.2		
LU	For S.11 we have a split but in general “other assets/liabilities” are recorded as AF.79.	No data.	The inter-NFC part of AF.71 is estimated based on balance sheet data. Goods and services data is not used
MT	All sectors except S.14&S.15	S. 14&.15	The value of NFC to NFC balances of AF.71 is estimated on the basis of related information derived from balance sheet data.
NL	(A)F.7:S.11,121-2,123-4 (part),125,13 (incl. subsectors), S.2 (A)F.71:S.121,125,1311 (part),1313 (part),S.2 (A)F.79:S.121-2 (accrued interest (loans, deposits) element)	S.11,14/15 (all from S.13,S.2)	(A)F.7 where not covered by direct source (col 1) (A)F.79 (other than acc'd interest (loans, deps)) calc'd as (A)F.7 less 79 S.14/15 calc'd as residual Under consideration
AT	S.121,123 (part),125,13,S.2 (incl.sample trade credit survey);S.122 under consideration	S.11,14/15 (all from S.13,S.2) AF.71 S.11 vis-à-vis S.11 balance sheet data (A)F for S.11 mainly	quarterly estimates from annual data and average ratio for reference periods not covered by balance sheet data
PT	S.11 (Central Balance Sheet D/base – annual and full coverage of the population) (plus qtrly sample);S.121-5,1311-14, S.2	S.14/15; some use also for S.11	(A)F.71 for S.11(mainly qtrly estimates from yrly data) (A)F.79:mainly adj'ts for timing diffs in non-fin accts
SI	S.11, S.123-S.125,S.13,S.2 (all parts) S.121, S.122	S.11, S.123-S.125, S.13, S.2 (all parts; for cross-border business BoP/IIP provides counterpart data) Only c'part info used for	None

		S.14/15	
SK	S.12, S.13, S2	S.11, S.14/15	
FI	S.11,S.121-5,S.1311-4,15 (mainly b/s data, with some info on timing adj'ts w.r.t. taxes (part of (A)F.79); S.2 (BOP)	S.14 (often residual)	
Pre-ins:	Own sector source	Counterpart sector source	Estimation
BG	Both direct sources and counterpart information are used for all institutional sectors		
CZ	S.125,1311,1313-4,S.2	S.2 (from S.125 for part of (A)F.79 – ins'nce prem'm prepaym'nts and res'ves	S.11,14/15,121-2 (part)
DK	S.121-5,13, S.2	S.11(from S.2, and S.13 (liabs)) S.122 (from S.2, and S.123 (liabs)) S.123 (from S.2) S.14/15 (from S.123,125,13	S.11,122 (liabs),123-4, 125 (liabs),13 (some assets), 14/15 - all due to smoothing/ balancing on sample survey)
LV	S.121-5,S.2	S.11,14/15	S.13 (available for (A)F.7 only; b'kd'ns estimated)
LT	S.11,121-5,1311-14	S.14/15	(A)F.71 between S.11 and S.14
HU	S.11 (part),121,122 (CI),123-5,1311, 1313-4,15 (part),S.2	S.11 (part),1311,1313 (both part),14, S.15 (part)	S.11,122 (CI),1311,1313 (all part),14,S.2. ((A)F.79 relating to wages/salaries always estimated)
PL	S.11,121-5,1311-14, S.2	S.14/15	S.11 (grossing up; balanc'g (assets));S.13 (some estim'n from yrly data)
RO	S.11,123-5,1311-14,15 S.2	S.14	S.11 (part - based on fuller info from large corps)
SE	For nearly all sectors	S.2	Flows for S.122 est'd from stocks and reval'n comp't of (A)F.79

B. Compilation issues

1. Trade credit (AF.71)

1a) How do you identify trade credit agreed between households and non-financial corporations and those trade credit agreements within the household sector (if any)?

Summary of replies

Most Member States have no or limited information about such trade credits. All rely to some extent on estimation or rule-of-thumb.

Table 12.3

Euro area:	(A)F.71 between S.11 and S.14	(A)F.71 within S.14
BE	N	N
CY		
DE	N	N
EE	N	N
GR	To be estimated	N
ES	Estimated	N (implicitly consolidated)
FR	All non-employer/employee loans	
	betw'n S.11/S.14 treated as (A)F.71	
IE	N	N
IT	Y (Central Balance Sheet Office data)	
LU	Sometimes S.11 "credits to clients" are recorded as AF.71 with S.14, but these data is extremely limited available from balance sheets	N
MT	Estimated	N
NL	Estimated	N
AT	N (Estimation under consideration taking into account volume of pre-paid vouchers derived from information provided by the chamber of commerce)	N
PT	Estimated (credit register info)	N
SI	Y – (counterpart information from non-financial corporations)	Estimated (credit register info)
SK	Y (based on surveys)	N
FI	Estimated	N
Pre-ins:	(A)F.71 between S.11 and S.14	(A)F.71 within S.14
BG	Y – direct balance sheet information from non-financial corporations, splitted by counterparts	N
CZ	N	
DK	N	N
LV	Estimated	N
LT	Estimated	N
HU	Estimated	N
PL	N	N
RO	N	N

SE		N
UK	N	

1b) For the rest of the world sector – how do you record import and export trade credit associated with advance and progress payments? Is this consistent with balance of payments statistics? If not, please explain why.

Summary of replies

This information is commonly obtained from b.o.p. sources, so there is no inconsistency.

Table 12.4a

Euro area:	B.o.p. source	Other source; inconsistency with b.o.p.?
BE	Y; no inconsistency	N
CY		
DE	Y; no inconsistency	N
EE	Y; no inconsistency	N
GR	Y	N
ES	N	S.11 b/s; inconsistency possible
FR	Bop sources: other investment/trade credits; no inconsistency	N
IE	Y; no inconsistency	N
IT		
LU	N	Y
MT	Y; no inconsistency	N
NL	Y (but some balancing possible)	
AT	Y; no inconsistency	N
PT	Y; no inconsistency	N
SI	B.o.p source mostly used	
SK	Y; no inconsistency	N
FI	Y; no inconsistency	N
Pre-ins:	B.o.p. source	Other source; inconsistency with b.o.p.?
BG	Y; the BoP information is balanced with the S11 balances data	S11 balances data, balanced with the BoP data
CZ	Y; no inconsistency	N
DK	Y; no inconsistency	N
LV	Y; no inconsistency	N
LT	Y; no inconsistency	N
HU	Estimated; no inconsistency	
PL	Y; no inconsistency	N
RO	Y; no inconsistency	N
SE		
UK		

1c) How do you distinguish between foreign trade credit and inward/outward direct investment loans (AF.42) rather than resident non-financial corporation affiliates, branches of parent companies in the rest of the world?

Summary of replies

Most Member States can make the distinction.

Table 12.5a

Euro area:	Distinction between foreign trade credit and inward/outward FDI loans ((A)F.42)
BE	Distinction made in b.o.p./i.i.p.
CY	
DE	Distinction made in BOP / IIP
EE	Distinction available from IIP/Bop statistics. External sector data based on direct reporting.
GR	Distinction made in b.o.p./i.i.p.
ES	Distinction available from Central B/S data
FR	Distinction not made
IE	Distinction made in b.o.p./i.i.p.
IT	
LU	FDI loans are taken from the BOP/IIP
MT	Distinction made in b.o.p./i.i.p.
NL	Distinction made in b.o.p./i.i.p.
AT	Distinction made in b.o.p./i.i.p.
PT	Distinction made in b.o.p./i.i.p.
SI	Distinction made in b.o.p./i.i.p.
SK	Distinction made in b.o.p./i.i.p.
FI	
Pre-ins:	
BG	Distinction made in b.o.p./i.i.p.
CZ	Distinction made in b.o.p./i.i.p.
DK	Distinction made in b.o.p./i.i.p.
LV	Distinction made in b.o.p./i.i.p.
LT	Distinction made in b.o.p./i.i.p.
HU	Distinction made in b.o.p./i.i.p.
PL	Distinction made in b.o.p./i.i.p.
RO	Distinction made in b.o.p./i.i.p.
SE	
UK	

2. Other accounts receivable/payable – other (AF.79)

2a) Are there some notable/significantly large examples in your financial accounts for (A)F.79, e.g for the timing differences between accrued transactions and payments made in respect of:
i) taxes
ii) social contributions
iii) wages and salaries
iv) rents
v) dividends
vi) interest (i.e do you include the reinvestment of accrued interest in AF.79 rather than under the relevant instrument as the ESA95 prefers)?

2b) Do F.79 transactions include adjustments for reconciling financial and non-financial accounts?

Summary of replies

AF.79 in most Member States includes some significant amounts of the items listed, and some respondents mention other sizeable items. Accrued interest is more usually allocated to the appropriate instrument category. AF.79 commonly takes some of the adjustment needed to reconcile non-financial and financial accounts (however only certain sectors may be balanced).

Table 12.6

Euro area:	Taxes	Social contri-butions	Wages & salaries	Rents	Dividends	Accrued interest	Other	None	*B.9/B.9f adjustment*
BE	Y	Y	Y			Y (exc.IFs)			Y (BOP E&O)
CY									
DE	N	N	N	N	N	see note			Y
EE	Y	N	N	N	N	N	N		N
GR	Y	Y	N	N	N	N	N		
ES	Y	Y				Y (S.12, deps/loans)			Y
FR	Y	Y	Y	Y	Y	N			see note
IE	N	N	N	N	N	Y			
IT	Y	Y				N			N
LU	N	N	N	N	N	For S.122			Y
MT	N	N	N	N	N	N	N		N
NL	Y	Y	Y	Y	Y	Y			Y
AT							banknote issue/		partial

							allocation		
PT	Y	Y	Y	Y		Y			Y
SI	Y	Y	Y	Y	Y	N			N
SK						N			N
FI	Y	N	N	N	N	see note			see note
Pre-ins:	Taxes	Social contri-butions	Wages & salaries	Rents	Dividends	Accrued interest	Other	None	*B.9/B.9f adjustment*
BG	Y	N	N	N	N	N	Not appl.	Not appl.	N
CZ									
DK	Y								see note
LV	Y	N	N	N	Y	N	N		N
LT	Y	Y	Y			N	compen'n/ restit'n payments		N
HU	Y	Y	Y						
PL	Y	Y	Y			N			Y (S.13)
RO	Y	Y							N
SE	Y	Y	N	N	N	N			Y (S.13)
UK									

Notes

Euro area Member States

BE - The assumption behind the inclusion of BOP errors and omissions in (A)F.79 is that they reflect unrecorded financial transactions; the counterpart sector is deemed to be S.11.

DE – Accrued interest is included in (A)F.79 only for zero-coupon bonds.

ES – A *B.9/B.9f* adjustment is made only for S.12, S.13 and S.2. The average over time is approximately zero.

FR – For some sectors, F.79 may include a *B9/B9f* adjustment.

MT – Currently no *B9/B9f* adjustment is made whilst compiling financial accounts.

NL - *B9/B9f* discrepancies are not eliminated in a mechanical way.

AT – The difference between the central bank's legal banknote issue determined by the banknote allocation mechanism and the actual issue is recorded as an **(**A) F.79 claim on/liability to S.2. B.9/B.9F adjustment is used partially for S.11 / and between S.12 sub sectors (especially between S.122 and S.123 other than investment funds)

PT – ESA95 preferred recording is followed.

SI - The largest amounts for (A)F.79 are between non-financial corporations and general government sector (in respect of taxes and social contributions) and between non-financial corporations and households (in respect of salaries). Accrued interest for financial accounts purposes is in principal (in line with the reporting instructions) reported under the relevant instrument. Adjustments to reconcile financial and non-financial accounts are principally not included in (A)F.79.

FI - Reinvestment of accrued interest is usually recorded in (A)F.79, with exceptions e.g. central

government debt.

In general, F.79 does not include a *B9/B9f* adjustment, but F.79 (together with F.71) between S.14 and S.11 may be adjusted if the discrepancy is too big.

Member States outside the euro area

CZ - There is nothing like this currently, except S.121 and S.122 where primary data enables these calculations but, it requires additional work.

DK- Concerning the *B9/B9f* adjustment, DK does not yet have quarterly non-financial accounts, but smoothing of net borrowing/net lending is comparable.

LT – One large element in (A)F.79 relates to an S.1311 liability (compensation for lost savings and real estate) to S.14 and S.15.

PL – The *B9/B9f* adjustment is recorded in F.79 for S.13 (non-financial and financial accounts for S.13 are compiled by the CSO); for other sectors the reconciliation between non-financial and financial accounts will be conducted in the future.

SE - At present no timing differences for taxes and social contributions are recorded in financial accounts; harmonisation with non-financial accounts is in preparation.

The *B9/B9f* adjustment is recorded in F.79 for some sectors, but to a rather limited amount.

C. Relation with the MFI balance sheet

1a) Are MFI balance-sheet items included under "remaining assets" and "remaining liabilities" used to calculate AF.7?

Summary of replies

Some or all of these residual categories in the MFI balance sheet are included in AF.7 in most Member States.

Table 12.7a

Euro area:	**MFI 'remaining assets' used for (A)F.7?**	**MFI 'remaining liabilities' used for (A)F.7?**
BE	Y	Y
CY	Y	Y

DE	Y	Y
EE	Partly	Partly
GR	Some items are not included in (A)F.7	Y
ES	Y	Y
FR	Some items e.g. real assets not in (A)F.7	??
IE	Y	Y
IT		
LU	Y (We know this post includes other items, but have no breakdown.)	Y
MT	Some items are used for (A)F.7	Some items are used for (A)F.7
NL	Y	Y
AT	MFI b/s not used for (A)F.7 (asset/liability sides)	
PT	Y	Y
SI	MFI b/s not used for (A)F.7 (asset/liability sides)	
SK	In part (assets and liabilities)	
FI	Y	Y
Pre-ins:	MFI 'remaining assets' used for (A)F.7	MFI 'remaining liabilities' used for (A)F.7
BG	Y Some items are not included in F.7 (assets)	Y Some items are not included in F.7 (liabilities)
CZ	**Y**	In part
DK	**Y**	Y
LV	Some items not in (A)F.7 (assets and liabilities)	
LT	Y	Y
HU	Some items not in (A)F.7 (assets and liabilities)	
PL	Some items not in (A)F.7 (assets and liabilities)	
RO	In part (assets and liabilities)	
SE	MFI b/s category defined differently	
UK		

1b) If so, please list them and describe how the corresponding counterpart information is obtained (from statistical or banking supervision reports)?

Summary of replies

Counterpart information is often sparse.

Table 12.8 Content of MFI balance sheet items 'remaining assets' and 'remaining liabilities'

Euro area:	**Remaining assets**	**Remaining liabilities**
BE	Mostly accrued income, deferred charges receivable (including accrued interest)	Mostly accrued income, deferred charges payable (including accrued interest)

CY	Transit/suspense items, dividends/rent receivable, prepaid expenses (excl. insurance premiums), deferred tax, 'other'	Transit/suspense items, rent payable, income received in advance, 'other'.
DE	Cheques, matured debt securities, interest/dividend coupons, items for collection; interest accrued on zero coupon bonds; liabilities arising from refinancing of lease receivables, transactions in goods/services; miscellaneous other assets/liab.	
EE	Other claims from NCB, CIs and customers Prepaid expenses Claims arising from taxes Claims on own branches	Tax obligations Obligations to own branches Other obligations to CIs Other payables
GR	No breakdowns (components or counterparts) are available	
ES	Sundry accounts receivable/payable, items in transit, margin deposits (futures transactions), other unclassified items	
FR		
IE	No breakdowns (components or counterparts) are available	
IT		
LU	No counterpart breakdown is available.	
MT	Items in transit, Suspense items. Counterpart breakdown is not available.	Items in transit, Suspense items. Counterpart breakdown is not available.
NL	No breakdowns (components or counterparts) are available	
AT	Financial derivatives with a positive market value (no counterpart information available); accrued interest on deposits (mainly S.14 recorded within AF.2 in financial accounts, minor S.11, S.123) on debt securities (fully recorded within AF.33 in financial accounts) transit items (normally non-MFI but no sector information is available)	Financial derivatives with a negative market value (no counterpart information available); accrued interest on loans (mainly S.11, S.123 other than IF – but not recorded in financial accounts at present.
PT	Counterpart information available only for 'income to be received'	Counterpart information available only for costs to be paid
SI		
SK	Most components incl. in (A)F.79; omitted are prepayments of insurance premiums, reserves for outstanding claims, advances, accrued interest . There is no counterpart information	Most components incl. in (A)F.79; omitted are advances, accrued interest. There is no counterpart information
FI	Receivables on disposals of securities, items in course of collection, guarantee items, other (not specified) No counterpart information on individual items from MFI sources; allocated to S.11 unless counterpart data available from other sectors	Accounts payable on securities, items in course of collection, finance leasing liabilities, other (not specified)
Pre-ins:	Remaining assets	Remaining liabilities
BG	The remaining assets items, included in F7 are: Transit accounts; Suspense accounts; Advances; Secondary activities accounts. The BSI information is splitted by counterparts.	The remaining liabilities items, included in F7 are: Transit accounts; Suspense accounts; Advances; Secondary activities accounts. The BSI information is splitted by counterparts.
CZ	Only items with corresponding counterparts are included in remaining liabilities (e.g. not provisions for loan losses, revaluation accounts)	
DK	**T**ransit items, suspense items - no counterpart information	Transit items, suspense items - no counterpart

LV	**S**uspense/transit items, precious metals, property for sale, other assets. Only "other assets" and "suspense items" included in (A)F.79; - no counterpart information	**S**uspense/transit items, other liabilities - no counterpart information
LT	See table below	
HU	Omitted from (A)F.7: repurchased own securities, assets linked to financial derivatives, accrued interest, other accounts receivable from S.2, valuation adjustments for loans and deposits	Omitted from (A)F.7: liabilities linked to financial derivatives, accrued interest, declared dividends, items in transit, other accounts payable to S.2
PL	Transit items, capital injections in branches abroad, sundry receivables, advance payments, income receivable, other assets (incl. leasing receivables, cash (travellers' cheques, bankers drafts)	Travellers' cheques/bankers drafts issued, transit items, sundry items, income received in advance, other liabilities (incl. exchange rate adjustments related to subordinated debt)
RO	To 2006 comprised only accrued interest receivable, allocated in financial accounts to appropriate instrument categories. From 2007 information collected to enable some items to be allocated to (A)F.79	To 2006 comprised only accrued interest payable, allocated in financial accounts to appropriate instrument categories. From 2007 information collected to enable some items to be allocated to (A)F.79
SE		Payables relating to security trading, derivatives, "other" liabs. Each item broken down by resident counterpart sector and S.2

LT – The further table below summarizes the situation.

Table 12.8c (Lithuania)

MFI balance-sheet items "remaining assets"	**Financial accounts (assets)**
Financial derivatives (with counterpart information)	AF.34
Suspense items (no counterpart information)	AF.42 (allocated by applying the same proportion as AF.42)
Transit items (no counterpart information)	AF.7 (allocated by splitting between S.2 and S.11)
Accrued interest receivable on loans (no counterpart information)	AF.42 (allocated by applying the same proportion as AF.42)
Accrued interest receivable on debt securities (no counterpart information)	AF.332 (allocated by applying the same proportion as AF.332)
Other amounts receivable (no counterpart information)	AF.7 (allocated by splitting between S.2 and S.11)
Other	Not used in compilation of financial accounts
MFI balance-sheet items "remaining liabilities"	**Financial accounts (liabilities)**
Financial derivatives (with counterpart information)	AF.34
Suspense items (no counterpart information)	AF.22 (allocated by applying the same proportion as AF.22)
Transit items (no counterpart information)	AF.7 (allocated by splitting between S.2 and S.11)
Accrued interest payable on deposits (no counterpart information)	AF.29 (allocated by applying the same proportion as AF.29)

Accrued interest payable on debt securities (no counterpart information)	AF.332 (allocated by applying the same proportion as AF.332)
Other amounts payable (no counterpart information)	AF.7 (allocated by splitting between S.2 and S.11)
Other	Not used in compilation of financial accounts

1c) Are other MFI balance sheet items used to estimate AF.7? If so, which items?

Summary of replies

Remaining assets/remaining liabilities are the main or only source for MFI contributions to AF.7.

Euro area Member States

No – CY, DE, GR, ES, IE, IT, LU, MT, NL, AT, PT, SI, SK, EE

BE – The net financial position of S.122 is by convention zero. AF.79 (liabilities) is adjusted to produce this outcome, with S.11 as counterpart.

FR – Some other items reported by MFIs are included in AF.7 **–** regularisation accounts, such as sundry debtors/creditors, accrued liabilities, unearned income, accrued assets, prepaid charges, other due amounts, securities to charge. They are allocated to counterparts although no information about counterparts is available.

GR – Accrued interest (with a sector breakdown) is also included in AF.7.

Member States outside the euro area

No – BG, CZ, DK, LA, LT, HU, PL, RO

1d) How do you treat the excess of inter-MFI liabilities? Does it affect AF.7?

Summary of replies

Where the issue is relevant, removing any inter-MFI difference is reflected in (A)F.7.

Euro area Member States:

BE – Inter-MFI assets/liabilities are balanced in the compilation process and the initial difference between their assets and liabilities is reflected in (A)F.79

CY – Under investigation.

DE – An adjustment is made to (A)F.7.

GR – Ignored if irrelevant to financial accounts.

ES - Interbank assets positions are made equal to liabilities positions. No specific adjustment is introduced in the system

FR - The excess of inter-MFI liabilities is carried forward to (A)F.79.

IE – F.7 can be effected.

IT – Not applicable.

MT – Not applicable.**LU** - Inter-MFI assets/liabilities are balanced in the compilation process and the initial difference between their assets and liabilities is reflected in (A)F.79 (liability side).

AT –The holdings (asset side) of deposits of domestic MFIs with domestic MFIs is taken into account to calculate the complete asset side. The sum of the creditors is treated as equal to the total liability side of the MFIs. The same approach is used to compile cross-border holdings of deposits.

PT - Banco de Portugal has its own estimates of MFI sector net lending/net borrowing (*B9*). An excess of inter-MFI liabilities is removed by setting the two sides equal (the liability side is considered to be correct because this information is collected in more detail from MFIs) and by adjusting symmetrically (A)F.7.

SI – Data for (A)F.7 is obtained from certain items of MFI reports in line with ESA95. The excess of inter-MFI liabilities does not affect (A)F.7.

SK – The excess is treated as part of (A)F.7, and so affects this item.

FI - Asset side: accrued income and pre-payments. Liability side: accrued expenses and deferred income. (A)F.7 not affected.

EE – Not affected

Member States outside the euro area:

DK – (A)F.79 is affected as part of the balancing process.

LV - MFI statistics assets and liabilities balance; there is nothing to affect (A)F.7.

LT - MFI statistics assets and liabilities balance; there is nothing to affect (A)F.7.

HU – When intra S.122 financial assets and liabilities are not equal, the financial accounts contain the arithmetic average of intra-S.122 assets and liabilities (with appropriate adjustments to (A)F.7).

PL - Central bank data on positions with other MFIs are assumed to be correct. For positions of other resident MFIs with each other, assets data are taken to be correct and are incorporated in the financial accounts except for deposits, for which liability data are assumed to be correct. No adjustments are made to (A)F.7. RO - Interbank assets positions are made equal to liabilities positions. No specific adjustments are recorded in financial accounts.

ECB legal instruments concerning statistics which are relevant to euro area financial accounts[50]

Article 5 of the Statute and Council Regulation (EC) No 2533/98, as amended by No 951/2009 (see Section 2 below), provide the legal framework for the ECB's statistical activities. Further legal instruments, as provided for in Articles 34 and 15.3 of the Statute, impose specific data requirements on a reporting population drawn from the reference reporting population identified under Article 2 of Regulations Nos 2533/98 and 951/2009, or instruct national central banks (or other statistical agencies) what data should be transmitted to the ECB, the form they should take, the transmission times and the means by which they should be transmitted. ECB regulations address reporting agents and are directly applicable in euro area countries. ECB guidelines are binding on members of the Eurosystem, including the ECB itself. A recommendation (as in the area of balance of payments and other external statistics), in substance the same as the related guideline, informs other national statistical authorities of the ECB's requirements, but is not legally binding on them.

The following relevant ECB legal instruments are currently in force.

See the next section for key items of Community legislation.

Financial accounts

Guideline (21 November 2002) on the ECB's statistical reporting requirements in the field of quarterly financial accounts (ECB/2002/7, OJ L334, 11.12.02) (see Section 2 below for the complementary European Parliament and Council Regulation on quarterly *non*-financial accounts).

Guideline (17 November 2005) amending Guideline ECB/2002/7((ECB/2005/13, OJ L030, 2.2.06) (this amending Guideline introduced substantial changes to the data requirements).

There are three other amending Guidelines (ECB/2006/6, OJ L 115, 28.5.06; ECB/2007/13, OJ L 311, 29.11.07; and ECB/2008/6, OJ L 259, 27.9.08). The first two concern derogations and the third, coding standards.

See: http://www.ecb.int/ecb/legal/1005/96887/html/index.en.html

Monetary, financial institutions and markets statistics

Regulation (19 December 2008) concerning the consolidated balance sheet of the monetary financial institutions sector (recast) (ECB/2008/32, OJ L15, 20.1.09) (this Regulation replaced ECB/2001/13 in June 2010). A significant amending Regulation is ECB/2011/12 (OJ L228, 3.9.11).

[50] For all ECB

Regulation (14 June 2006) on statistical reporting requirements concerning post office giro institutions (ECB/2006/8, OJ L184, 6.7.06).

Regulation (27 July 2007) on investment fund statistics (ECB/2007/8, OJ L211, 15.8.07).

Regulation concerning financial vehicle corporations engaged in securitisation transactions (ECB/2008/30, OJ L15, 20.1.09).

Guideline (1 August 2007) on monetary, financial institutions and markets statistics (recast) (ECB/2007/9, OJ L341, 27.12.07) (amended by Guidelines ECB/2008/31, OJ L53, 26.2.09, ECB/2009/23, OJ L16, 21.1.10, and ECB/2011/13, OJ L228, 3.9.11). The main effect of the amending Guidelines is to reflect the new Regulations on MFI balance sheets and financial vehicle corporations, and (the most recent one) the treatment of electronic money issuers).

See: http://www.ecb.int/ecb/legal/1005/1021/html/index.en.html

Balance of payments and related statistics
Guideline (16 July 2004) concerning balance of payments and international investment position statistics (and the international reserves template – of no relevance to financial accounts) (ECB/2004/15, OJ L354, 30.11.04) (the companion recommendation is ECB/2004/16, OJ C292, 30.11.04).

Guideline (31 May 2007) amending Guideline ECB/2004/15 (ECB/2007/3, OJ L159, 20.6.07) (concerns further breakdowns in reported data, requirements for back data in the event of enlargements of the euro area, and portfolio investment collection systems) (the companion recommendation is ECB/2007/4, OJ C136, 20.6.07).

[Guideline ECB/2011/23 (9 December 2011) entered into force on 1 March 2012 but most of its provisions, which concern implementation of the IMF's *Balance of Payments and International Investment Position Manual*, 6^{th} edition (which in turn is consistent with the SNA 2010), will not be adopted until 2014. Guideline ECB/2004/15, as amended, will then be repealed.]

See: http://www.ecb.int/ecb/legal/1005/1022/html/index.en.html

Government finance statistics
Guideline (31 July 2009) on government finance statistics (ECB/2009/20, OJ L228, 1.9.09) (concerns annual data on government deficit and debt, together with a reconciliation between the deficit and the change in outstanding debt, to be submitted twice a year)

See: http://www.ecb.int/ecb/legal/1005/96887/html/index.en.html

2. Community legal instruments concerning statistics which are relevant to euro area financial accounts
(e.g. see http://eur-lex.europa.eu/en/index.htm)

Council Regulation (EC) No 2223/96 (25 June 1996) on the European system of national and regional accounts in the Community (OJ L310, 30.11.96) (the ESA 95)

Council Regulation (EC) No 2533/98 (23 November 1998) concerning the collection of statistical information by the ECB (OJ L318, 27.11.98) (amended by No 951/2009, which among other things adds insurance corporations and pension funds to the reference population for ECB statistics) (sets the framework for the ECB's statistical activities)

European Parliament and Council Regulation (EC) No 1221/2002 (10 June 2002) on quarterly non-financial accounts of general government (OJ L179, 9.7.02)

European Parliament and Council Regulation (EC) No 501/2004 (10 March 2004) on quarterly financial accounts of general government (OJ L81, 19.3.04)

Council Regulation (EC) No 1222/2004 (28 June 2004) concerning data on quarterly government debt (OJ L233, 2.7.04)

European Parliament and Council Regulation (EC) No 1161/2005 (6 July 2005) on quarterly non-financial accounts by institutional sector (OJ L191, 22.7.05) (complements the ECB's Guidelines on quarterly financial accounts by institutional sector)

MUFA CONVENTIONS AS AGREED BY THE WG EAA FOR THE TRANSMISSION OF QUARTERLY NATIONAL FINANCIAL ACCOUNTS DATA AND METADATA

1. MUFA reporting conventions

a. Conventions relating to the recording of deposits and loans

Convention I

The following conditions are used by national compilers (and, where possible, by reporting agents), to assess whether an instrument should be classified as a **debt security**, rather than a loan:

- A sufficient, though not necessary, condition, that the instrument would have an ISIN (or a CUSIP) code ;
- A sufficient, though not a necessary, condition is that the instrument would be quoted on an organised market [even though in practice it might be only very rarely traded there, so that official prices obtained from that exchange might not be usable for valuation purposes];
- One necessary, though not sufficient, condition is that the instrument should be structured into a number of identical documents (conversely, a loan is usually contracted on the basis of a single document with no constraints on the format);
- A second necessary condition is the legal right to transfer instruments without the need for an explicit and ad hoc authorisation from the issuer.

Convention II

Claims against banks outside the euro area are classified as **deposits**. Liabilities of euro area non-banks against banks outside the euro area are classified as **loans**.

Convention III

Short-term non-tradable accounts liabilities of MFIs are to be reported in the deposits subcategories (AF.22, AF.29).

Convention IV

Non-financial corporations' non-tradable accounts on the liabilities side are to be reported as loans (AF.4).

Convention V a

Deposit/loan liabilities of resident OFIs and financial auxiliaries vis-à-vis non-residents are recorded as loans, and by symmetry, deposits/loan assets of resident sectors which are liabilities of non-resident OFIs or financial auxiliaries are recorded as loans.

Convention V

Deposit/loan liabilities of ICPFs (both vis-à-vis residents and non-residents) should be reported as loans in Tables 1-5 of the MUFA Guideline

b. Other reporting conventions

Member States that are not including accruals under the underlying instruments for deposits and loans are invited to send the respective accruals as memo items.

Further guidance:

Attribution of banknotes
1. On banknote issues (liabilities side):
- use of the CSM allocation;
- Compensating balance-sheet entries to be treated as deposits.

2. On banknote holdings (assets side):
- ECB takes on board the national estimates on holdings for those countries providing them and estimates the holdings for the remaining countries on the basis of the CSM key
- The ECB ensures in its estimates full consistency with the EAA estimate based in turn on the euro area BoP/IIP building block estimate for holdings outside the euro area.

Treatment of SDRs according to ESA95 (changeover to new ESA only in 2014):

Following the STC guidance to adopt the new statistical standards only in 2014 and after a careful evaluation of the pros and cons of the possible recording conventions, in particular as regards their consistency with the current statistical standards, the WG EAA members are requested to follow option 2 when reporting SDR data in the MUFA Guideline context: **No counterpart liability should be recorded in the system**. This departs from BSI business accounting logic and implies recording an increase in net financial wealth of the national central bank equal to the allocated amount of SDRs (option 2). Moreover, to avoid inconsistencies between the income account and the underlying financial balance sheet account, no payment of income (accrued interest) should be recorded on the allocated amount of SDRs. The change in treatment should occur with the MUFA data transmission of July 2010. WG EAA members are also requested to make a correction back to the beginning of the relevant time series (1999Q1). (see written WG EAA written procedure April 2010).

2. Consistency checking conventions

Compilers are asked to ensure the internal consistency of the data transmitted, in particular by performing the following checks, if applicable adjusted for existing country derogations:

- **Aggregation checks (Tables 1 to 5):**
  Total economy (transmitted sector total) = sum of sectors (sub-sectors)
  Transmitted instrument total = sum of sub-instruments (and counterpart breakdowns)
- **Horizontal consistency, for all instruments (except AF.1, stock data, Tables 1-5):**
  Assets, sum of relevant sectors[2]=Liabilities, sum of relevant sectors
- **Vertical consistency, for all sectors (Tables 1 to 2):**
  Transmitted B9.F[3] = Assets, sum of relevant instruments – Liabilities, sum of relevant instruments

GLOSSARY

asset
A resource controlled by an economic entity from which future economic benefits are expected to flow to that economic entity.
asset-backed security
A negotiable debt security the holder of which has a claim on specified assets held by the debtor.

balance of payments
A statistical statement that summarises, for a specific period of time, the economic transactions of an economy with the rest of the world. See also current account, capital account, and financial account.
balance sheet
A statement, drawn up at a particular point in time, of the value of assets owned by and of the financial liabilities (claims) against an economic entity.
balance sheet method
An approach to estimating transactions flows, defining the flow as the sum of transactions during the current reference period in assets recorded on the previous and/or the current balance sheet. Sales of assets held on the previous balance sheet are recorded at their value on that balance sheet; purchases of assets are recorded at their value on the current balance sheet, regardless of the prices at which the transactions were done. Assets bought and re-sold during the current reference period, possibly at different prices, are ignored. (See also transaction method.)
balancing item
An accounting construct obtained by subtracting the total value of the entries on one side of an account from the total value from the other side. See integrated economic and financial accounts.
banknote allocation key
A notional allocation of banknote issue in the Eurosystem based on shares in the capital of the ECB after allowance for a notional issue by the ECB itself.

capital accounts
Part of the system of national (or euro area) accounts consisting of the change in net worth that is due to net saving, net capital transfers and net acquisitions of non-financial assets - see also current accounts and integrated economic and financial accounts. In the balance of payments, the capital account covers capital transfers and acquisitions/disposals of non-produced, non-financial assets between residents and non-residents. See also current account and financial account.
central government (S.1311)
This is general government excluding regional and local governments. It includes all administrative departments of the (central) state and other central agencies whose competence extends over the entire economic territory, except for the administration of social security funds.
centralised securities database (CSDB)
A database of securities, managed by the ECB, with information on their attributes.

consolidation
The practice of offsetting or cancelling out assets and liabilities which represent claims on and liabilities to entities within an economic sector or sub-sector. Thus the consolidated balance sheet of the MFI sector is obtained by netting out inter-MFI positions in the aggregated MFI balance sheet. It provides statistical information on the MFI sector's assets and liabilities vis-à-vis residents of the euro area not belonging to this sector (i.e. the general government and other euro area residents) and vis-à-vis non-residents of the euro area. It is the main statistical source for the calculation of monetary aggregates, and it provides the basis for the regular analysis of the counterparts of M3. In general, however, the ESA95 avoids consolidation.
counterpart
In a double-entry system of accounting each transaction gives rise to two corresponding entries. These entries are the counterparts to each other. Thus the counterpart of a payment by one sector is the receipt by another sector.
counterpart information
Information on the transactions or balance sheet positions of a sector obtained from the sector(s) with which it transacts or holds positions. For example, most information on the financial transactions and positions of households comes from data reported by MFIs and other financial intermediaries, and not directly from the household sector itself.
credit institution
An undertaking whose business is to receive deposits or other repayable funds from the public and to grant credit for its own account. All credit institutions resident in the euro area/European Union are classified as monetary financial institutions (MFIs).
currency (F.21)
Banknotes and coins in circulation that are commonly used to make payments. Since 1 January 2002, currency in circulation in the euro area has comprised banknotes issued by the Eurosystem and coins. (Although issued by central government, coins are by convention treated statistically as issued by central banks, which in turn have a notional corresponding claim on central government denominated in euro currency.)
current accounts
Part of the system of national (or euro area) accounts consisting of the production and distribution of income accounts – see also capital accounts and integrated economic and financial accounts. In the balance of payments, the current account covers all transactions in goods and services, income and current transfers between residents and non-residents – see also capital account and financial account.

debt (in the context of the financial accounts, defined for households and non-financial corporations)
loans taken out by households, as well as the loans, debt securities (valued at market prices)and pension fund reserves (resulting from employers' direct pension commitments on behalf of their employees) of non-financial corporations, at the end of the period.
debt assumption
An operation in which one party takes on the debt obligations of another (most commonly where general government takes on the debt of a public corporation in connection with privatisation). Debt assumption is treated statistically as a transaction (unlike e.g. unilateral write-offs, write-downs or debt repudiations).
debt security

A promise on the part of the issuer (the borrower) to make one or more payment(s) to the holder (the lender) on a specified future date or dates. Such securities usually carry a specific rate of interest (the coupon) and/or are sold at a discount to the amount that will be repaid at maturity. Debt securities issued with an original maturity of more than one year are classified as long-term. Money market paper and, in principle, securities issued as private placements are included in the debt securities statistics of the ECB.

defined benefit scheme

A pension scheme which guarantees the beneficiary a particular amount of pension e.g. an agreed proportion of final salary. (See also money purchase scheme.)

deposits with an agreed maturity

Mainly time deposits with a given maturity that, depending on national practices, may be subject to the payment of a penalty in the event of early withdrawal. Some non-marketable debt instruments, such as non-transferable (retail) certificates of deposit, are also included.

depository receipts

Documents representing ownership of securities listed abroad which may be traded on the local stock exchange.

derivatives (F.34)

Financial instruments whose value is linked to changes in the value of another financial instrument, an indicator or commodity.

derogation

A formal provision excusing certain entities to which an ECB or Community legal instrument is addressed from complying with it in full or in part, usually for a limited period.

direct investment

In the balance of payments and international investment position, cross-border investment for the purpose of obtaining a lasting interest in an enterprise resident in another economy (assumed, in practice, to be indicated by ownership of at least 10% of the ordinary shares or voting power). Once a direct investment relationship has been established, all financial transactions – with limited exceptions - between the direct investor and the enterprise in which the direct investment interest is held (the direct investment enterprise), whether in equity capital, debt, reinvested earnings or other investment flows associated with inter-company operations, in either direction, is recorded as direct investment. The direct investment account records net transactions/positions in assets abroad by euro area residents (direct investment abroad) and net transactions/ positions in euro area assets by non-residents (direct investment in the euro area).

equities, equity securities

Securities representing ownership of a stake in a corporation, i.e. shares traded on a stock exchange (quoted or listed shares), unquoted or unlisted shares and other forms of equity. Equities usually produce income in the form of dividends.

euro area

The area encompassing those EU Member States in which the euro has been adopted as the single currency in accordance with the Treaty and in which a single monetary policy is conducted under the responsibility of the Governing Council of the ECB. It currently comprises seventeen countries: Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland. The ECB itself is part of the euro area.

European System of Accounts 1995 (ESA95)
A comprehensive and integrated system of macroeconomic accounts based on a set of internationally agreed statistical concepts, definitions, classifications and accounting rules aimed at achieving a harmonised quantitative description of the economies of the EU Member States. The ESA95 is the Community's version of the world System of National Accounts 1993 (SNA93). The ESA95 and the SNA93 will be replaced by the ESA 2010 (currently in the legislative process; implementation is planned for 2014) and the SNA 2008.
European System of Central Banks (ESCB)
The ESCB comprises the ECB and the national central banks of all Member States of the European Union.
Eurostat
The Directorate General of the European Commission responsible for Community statistics.
Eurosystem
The Eurosystem comprises the ECB and the national central banks of the EU Member States in the euro area.
excessive deficit procedure
The provision set out in Article 126 of the Treaty and specified in Protocol No 12 to the Treaty which requires EU Member States to maintain budgetary discipline, defines the criteria for a budgetary position to be considered an excessive deficit and regulates steps to be taken following the observation that the requirements for the budgetary balance or outstanding government debt have not been fulfilled. See also Stability and Growth Pact.

financial accounts
Part of the system of national (or euro area) accounts showing the financial positions (stocks or balance sheets) and financial transactions of the different institutional sectors of an economy by type of financial instrument, and also 'other' (non-transactional) changes affecting balance sheets. In the balance of payments, the financial account covers financial transactions between residents and non-residents in the functional categories direct investment, portfolio investment, other investment, financial derivatives and reserve assets.
financial asset and liabilities
Financial assets (AF.) are economic assets, comprising means of payment, financial claims and economic assets which are close to financial claims in nature. Means of payment consist of monetary gold, special drawing rights, currency and transferable deposits. Financial claims entitle their owners, the creditors, to receive a payment or series of payments without any counter-performance from other institutional units, the debtors, who have incurred the counterpart liabilities. Examples of economic assets which are close to financial claims in nature are shares and other equity and partly contingent assets. The institutional unit issuing such a financial asset is considered to have incurred a counterpart liability. Contingent assets are contractual arrangements between institutional units, and between them and the rest of the world, which specify one or more conditions which must be fulfilled before a financial transaction takes place. Examples are guarantees of payment by third parties, letters of credit, lines of credit, underwritten note issuance facilities (NIFs) and many of the derivative instruments. In the system, a contingent asset is a financial asset in cases where the contractual arrangement itself has a market value because it is tradable or can be offset on the market. Otherwise, a contingent asset is not recorded in the system (see ESA95 Annex 7.1)
financial corporations (S.12)

All bodies recognised as independent legal entities whose principal activity is financial intermediation and/or the production of auxiliary financial services.

financial intermediation

An activity in which an institutional unit incurs liabilities on its own account and uses the proceeds to acquire financial assets, by engaging in financial transactions on the market.

financial liability

Each financial asset has a counterpart liability, with the exception of those financial assets classified in the category monetary gold and special drawing rights (AF.1) (see ESA95 Annex 7.1)

financial transaction

The creation, transformation, exchange, transfer or extinction of economic value involving a change in the ownership of financial assets or liabilities. Flows can be calculated as differences in stocks adjusted to remove the effect of reclassifications, exchange rate variations, other revaluations and any other changes that do not arise from transactions.

FISIM

Financial intermediation services indirectly measured (FISIM) is an indirect measure of the value of intermediation services provided by financial institutions on transactions involving deposits and loans and for which no explicit fee is charged.

flipping.

The market value of some financial derivatives may be positive or negative (an asset or a liability) in the balance sheet of a holder, depending on the relationship between the market price of the underlying financial instrument or commodity and its price in the contract. The position may ‘flip’ from asset to liability and back several times in the life of the contract.

from-whom-to-whom financial accounts

Accounts recording, for each relevant category of asset, the sector of the debtor and not only that of the creditor; similarly, for each relevant category of liability, the sector of the creditor as well as that of the debtor (sometimes also called detailed financial accounts).

functional categories (in the financial account of the balance of payments and the international investment position).

Categories reflecting the purpose or nature of transactions or positions (direct, portfolio and ‘other’ investment), or in the case of external reserves, the identity of the resident counterparty. Functional categories cut across instrument categories.

general government (S.13)

A sector defined in the European System of Accounts 1995 as comprising resident entities that are engaged primarily in the production of non-market goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. Included are central, regional and local government authorities, as well as social security funds. Excluded are government-owned entities that conduct commercial operations, such as public enterprises; these are classified as non-financial (S.11) or financial (S.12) corporations according to the nature of their business.

grossing-up

Enlarging data relating to part of the relevant population to provide an estimate for the population as a whole.

gross operating surplus

The surplus (or deficit) arising from production activities. It represents the value of output after the costs of intermediate consumption, compensation of employees and taxes less subsidies on production have been deducted, but before payments and receipts of income related to the borrowing/renting or owning of financial and non-produced assets have been taken into account.

guideline

A type of legal instrument adopted by the ECB's Governing Council. Guidelines are legally binding on central banks in the Eurosystem, including on the ECB itself. (See also regulation)

holding gain/loss

An increase/decrease in the value of an asset, or decrease/increase in the value of a liability, arising from a change in the market price of the relevant instrument. Holding gains/losses are not treated as transactions in the financial instrument concerned. (Certain changes in market value, e.g. of bills or zero/low coupon bonds, are however treated as accruing interest, giving rise to entries in the investment income and financial accounts.)

horizontal balancing (of economic and financial accounts)

The practice of constraining each line of the accounts to sum to zero (uses equal resources, or, in the financial accounts, assets equal liabilities). (See also vertical balancing)

households (S.14)

One of the institutional sectors in the European System of Accounts 1995 (ESA95). The household sector covers individuals or groups of individuals not only as consumers, but also as entrepreneurs (e.g. sole proprietorships and partnerships). Non-profit institutions serving households (NPISHs) are a separate institutional sector (S.15) according to the ESA95, although they are often reported together with households, as they are in the euro area integrated economic and financial accounts by institutional sector.

institutional sector (see sector)

institutional unit

The ESA95 defines institutional units as 'economic entities that are capable of owning goods and assets, of incurring liabilities, and of engaging in economic activities and transactions with other units in their own right'. All institutional units are allocated to an institutional sector; no unit is in more than one sector. The resident institutional sectors comprise units whose economic behaviour is likely to be similar. Non-resident institutional units form a single sector, the rest of the world.

insurance corporation (part of S.125)

Financial corporations or quasi-corporations which are principally engaged in financial intermediation as the consequence of pooling risks. See also pension funds.

integrated economic and financial accounts

In principle an exhaustive record of economic and financial transactions in an economy, compiled in accordance with agreed standards (see European System of Accounts 1995). Transactions accounts record each economic transaction during the reference period twice, as a 'use' for one party and as a 'resource' for the other party, or, in the case of financial transactions, as offsetting changes in financial assets or liabilities or as a change in assets held by one party with a matching change in liabilities held by the other. Financial balance sheets record outstanding financial assets and liabilities at some reference date. 'Other changes in assets' accounts explain that change in financial balance sheets between reference dates which does not arise from transactions in the intervening period, in terms of valuation changes in assets and liabilities and 'other' non-transactional changes. The accounts include summary statistics (balancing items) which lead into the next section of the accounts and which themselves are often important economic magnitudes (e.g. GDP, disposable income, saving, net lending/net borrowing).

inter-MFI difference

The difference between what MFIs in the euro area report as claims on other MFIs resident in the euro area, and the corresponding reporting of liabilities.

international investment position

The value and composition of an economy's outstanding financial claims on and liabilities to the rest of the world.

international reserves

Liquid assets representing claims on the rest of the world held or controlled by monetary authorities and available for intervention in exchange markets. The international reserves of the euro area comprise the Eurosystem's holdings of claims on non-residents of the euro area denominated in currencies other than the euro, and of gold, Special Drawing Rights (SDRs) and reserve positions in the IMF.

investment funds (except money market funds)

Financial institutions that pool capital raised from the public and invest it in financial and non-financial assets. (See also money market funds.)

leasing

Under an operational lease, the lessor hires out equipment, etc. while retaining responsibility for its maintenance and replacement in the event that it proves faulty. Under a financial lease, although the lessor is legal owner of the equipment, the lessee is responsible for maintenance and in general assumes the rights and obligations of ownership. A financial lease is treated statistically as a loan.

loans for house purchase

Credit extended to households for the purpose of investment in housing, including building and home improvements. Included are loans secured by residential property (i.e. mortgage loans) that are used for house purchase and, where identifiable, other loans for house purchase provided on a personal basis or secured by other types of asset.

local government (S.1313)

A sector defined in the ESA95 as comprising public authorities and/or bodies, excluding local agencies of social security funds, whose competence extends only to a local area of the country's economic territory.

margin payments

Money placed in an account in connection with financial derivatives transactions. An initial margin is placed as a surety, and remains the property of the transactor; a variable margin is in effect a part settlement under the contract.

market price

Market price valuation refers to the actual price agreed upon by transactors (i.e. the amount that a willing buyer pays to acquire something from a willing seller when the exchange is one between independent parties and one into which nothing but commercial considerations enter).

maturity

The period to redemption of a financial instrument. Original (or initial) maturity is the term of the instrument when issued; residual maturity is the remaining period to redemption at any point in its life.

MFI credit to euro area residents

Loans granted by MFIs to non-MFI euro area residents (including general government), and in addition MFI holdings of securities (shares and other equity and debt securities) issued by non-MFI euro area residents.

monetary aggregate (for the euro area)

Currency in circulation plus outstanding amounts of certain liabilities of (mainly) monetary financial institutions (MFIs) resident in the euro area that have a relatively high degree of liquidity and are held by euro area residents other than MFIs and central government.

monetary financial institutions (MFIs) (S.121 and S.122)

Financial institutions which together form the money-issuing sector of the euro area. These are (i) central banks (the Eurosystem in the euro area); (ii) credit institutions (as defined in Community law); (iii) other MFIs i.e. (1) other financial institutions whose business is (i) to receive deposits and/or close substitutes for deposits from entities other than MFIs, and (ii) for their own account (at least in economic terms), to grant credit and/or make investments, or (2) such electronic money institutions that are principally engaged in financial intermediation in the form of issuing electronic money; (iv) money market funds.

monetisation/demonetisation (of gold)

Gold is classified as a financial asset only if held by a monetary authority (in the euro area, by the Eurosystem). If a monetary authority acquires gold from some other entity, the gold is said to be monetised; similarly, the sale of gold by a monetary authority to some other entity constitutes demonetisation. The consequent creation or disappearance of a financial asset is accompanied by a reclassification.

money-creating/money-holding/money-neutral sectors

Respectively, the institutional sector certain of whose liabilities constitute the monetary aggregates; the sectors whose holdings of monetary instruments are included in the monetary aggregates; and the sectors falling into neither of the first two categories. In the euro area, MFIs form the money-creating sector; other resident sectors except central government are the money-holding sectors; and central government (except that in some Member States some central government liabilities form part of money) and the rest of the world are money-neutral.

money market funds

In brief, collective investment undertakings that primarily invest in money market instruments and/or other transferable debt instruments with a residual maturity of up to one year, and/or in bank deposits, and/or that pursue a rate of return that approaches the interest rates on money market instruments. Money market funds resident in the euro area are part of the MFI sector. Regulation ECB/2011/12 contains a fuller definition (See also investment funds.)

money purchase scheme

A pension scheme in which each future beneficiary accumulates a fund from which the future pension will be paid. (See also defined benefit scheme)

Net (or netting)

The term is used in the context of financial accounts and balance sheets to denote, for example, the subtraction of liabilities from financial assets to derive net financial assets. (See also consolidation)

net lending/net borrowing (B.9)
Net lending is the net amount a unit or a sector has available to finance, directly or indirectly, other units or other sectors. It is the balancing item in the capital account and is defined as: (net saving plus capital transfers receivable minus capital transfers payable) minus (the value of acquisitions less disposals of non-financial assets, less consumption of fixed capital). Negative net lending is termed “net borrowing".
net worth
Total assets (financial and non-financial) held by an institutional unit/sector/economy minus its liabilities. Financial net worth is the difference between financial assets only and liabilities.
non-financial corporations (S.11)
Corporations or quasi-corporations that are not engaged in financial intermediation but are active primarily in the production of market goods and non-financial services.
non-profit institutions
Non-profit institutions (NPIs) are legal or social entities created for the purpose of producing goods and services whose status does not permit them to be a source of income, profit or other financial gain for the units that establish, control or finance them.
non-profit institutions serving households (NPISH) (S.15)
Non-profit institutions serving households (NPISHs) consist of NPIs which are not predominantly financed and controlled by government and which provide goods or services to households free or at prices that are not economically significant.

“other” changes
Differences between the opening and closing balance sheets that do not arise from transactions, that is from interactions between institutional sectors by mutual agreement. These differences arise from valuation changes in financial assets and liabilities, and changes in the volume of financial assets and liabilities that are not due to financial transactions.
other financial intermediary (OFI) (S.123)
A corporation or quasi-corporation that is engaged mainly in financial intermediation but is not a monetary financial institution nor an insurance corporation or pension fund. OFIs include investment funds (other than money market funds), corporations engaged primarily in activities such as financial leasing and securitisation operations, financial holding companies, own account dealers in securities and derivatives, and entities providing venture capital and development capital.
own funds
The ESA95 defines own funds as the sum of net worth and shares and other equity issued by an enterprise.

participating Member States
The EU Member States which have adopted the euro as their currency in accordance with the Treaty. (See also euro area)
pension funds (part of S.125)
Autonomous pension funds are pension funds which have autonomy of decision and keep a complete set of accounts. Pension funds can be described as institutions which insure group risks relating to social risks and needs of the insured persons. In contrast to life insurance corporations, pension funds are restricted (by law) to specified groups of employees and self-employed (see ESA95, 2.64-2.67)

portfolio investment
In the balance of payments and international investment position, transactions or positions in securities where there is no direct investment relationship between the resident and non-resident creditor and debtor (that is, where neither holds 10% or more of the ordinary shares or voting power in the other, and they are not otherwise affiliated). Portfolio investment includes equity and debt securities (bonds and notes, and money market instruments). Portfolio investment transactions in the balance of payments are recorded at the effective price paid or received, less commissions and expenses; positions in the international investment position are recorded at market prices. **premium supplement**
Amount corresponding to the income accruing from the investment of earlier premiums attributed to the holder of a life insurance or pension fund policy.
quasi-corporation
An entity which keeps a complete set of accounts separate from its owner's and behaves like a corporation but has no independent legal status.

Regulation (as adopted by the ECB)
A type of legal instrument adopted by the ECB's Governing Council. Regulations are legally binding on entities to which they are addressed (for example, monetary financial institutions). Their scope is limited to entities resident in the euro area, and within that to the reference reporting population for purposes of ECB statistics specified in (EU) Council Regulation No 2533/98 as amended by No 951/2009 (see Appendix I).
reinsurance
The practice in which insurance companies writing policies pass on some of the risk to other insurers.
rent
The charge for the use of a non-produced non-financial asset (e.g. land).
rental
The charge for the use of a produced non-financial asset (e.g. transport equipment, a building).
rest of the world (S.2)
This 'sector' records the counterpart of transactions of the euro area economy with euro area non-residents.
reversible transactions
Reversible transactions are repurchase agreements, bond lending against cash collateral and certain similar operations where the parties are obliged to reverse the transaction at a stipulated time. Reversible transactions are not treated statistically as transactions in the underlying instrument but as a form of collateralised lending.

sector
In the integrated economic and financial accounts, institutional units are allocated to sectors comprising entities likely to display similar economic behaviour. The main sectors (with their ESA95 codes) are non-financial corporations (S.11), financial corporations (S.12), general government (S.13), households (S.14) and non-profit institutions serving households (S.15). S.12 and S.13 are further subdivided. Non-resident entities form the Rest of the World (S.2).
securities
Securities are financial instruments such as debt securities or equities which are normally traded or potentially tradable in organised or other financial markets.

security-by-security reporting
An arrangement in which entities report their holdings of (or liabilities in the form of) individual securities rather than in aggregate. The reported data are processed using a securities database. (see centralised securities database)
securitisation
An operation in which a lending institution (the originator) bundles together loans and sells or transfers them ('traditional' securitisation), or the credit risk attached to them ('synthetic' securitisation, the risk being transferred by the use of credit derivatives or similar devices), to another entity.
sequence of accounts
The ordered sequence of accounts describes the economic cycle from the generation of income, through its distribution and redistribution finally to its accumulation in the form of assets.
short-term approach
In ECB statistics, reliance on existing data sources, even if they are not complete or fully comparable. The ECB's requirement is then usually set out in a guideline, requiring central banks to meet it as best they can from the available sources (see also steady-state approach)
social security funds (S.1314)
A sector defined in the ESA95 as comprising all central, state and local institutional units, the principal activity of which is to provide social security benefits and which fulfil both of the following two criteria: (i) certain groups of the population are required by law or by regulation to participate in the scheme or to pay contributions; and (ii) general government is responsible for the management of the scheme.
Special Drawing Rights (SDRs)
An international reserve asset created by the IMF to supplement other reserve assets. SDRs are periodically allocated to IMF members in proportion to their respective quotas. SDRs are not considered liabilities of the Fund, and IMF members to whom SDRs are allocated do not incur actual (unconditional) liabilities to repay SDRs allocated.
Stability and Growth Pact
The Stability and Growth Pact is intended to maintain sound government finances in the euro area. To this end, the Pact requires euro area Member States to specify medium-term budgetary objectives. (See also excessive deficit procedure.)
state government (S.1312)
A sector defined in the ESA95 as comprising separate institutional units exercising some of the functions of government (excluding the administration of social security funds) at a level below that of the central government and above that of local government.
steady-state approach
In ECB statistics, a statement of requirements in the form of a regulation addressed to and legally binding on reporting entities in the euro area. (See also short-term approach)
strips
A bond offering coupon interest may be split into a number of zero coupon bonds, one for the amount of each interest payment and redeemable on each future date on which coupon interest on the original bond is payable, and one for the principal amount of the original bond redeemable on its maturity date. These zero coupon bonds are called strips.
subordinated debt

A claim on the issuer that can be exercised only after all claims with a higher status have been satisfied; subordinated debt therefore has some of the characteristics of equity.

suspense item

In the balance sheet of a financial institution, an amount receivable or payable which is not booked in the name of a customer but which nevertheless relates to customers' funds, e.g. funds awaiting investment, transfer or settlement.

Treaty

The Treaty on the Functioning of the European Union is the current form of a Treaty which has gone through several versions, one of which, the Treaty on European Union signed at Maastricht in February 1992, laid the foundations for economic and monetary union and contained the Statute of the ESCB and the ECB.

vertical balancing (of economic and financial accounts)

The practice of constraining each column of the accounts (for a particular sector or sub-sector) to sum to zero. (See also horizontal balancing.)

write-down

A reduction in the balance sheet value of loans which are considered to have become partly irrecoverable.

write-off

The removal from the balance sheet of loans which are considered to have become totally irrecoverable.