EUROPEAN CENTRAL BANK

EUROSYSTEM

Securities issues statistics methodological notes

1. THE INFORMATIONAL CONTENT AND USE OF SECURITIES ISSUES STATISTICS

The provision of securities issues statistics is important for better monetary and financial analysis of the euro area. Debt and equity issuance constitutes an alternative to traditional bank loans.[1] Holders of financial assets view securities issued by "non-banks" as partial substitutes for bank deposits and negotiable instruments issued by banks. Securities issues statistics therefore complement monetary statistics. Over time, shifts between direct finance (through securities markets) and indirect finance (through the banking system) may affect the transmission mechanism of monetary policy, and as such shifts may change the euro area financial structure. A sectoral breakdown of issuing activity highlights the relative importance of public and private sector demand on capital markets and helps to account for movements in market interest rates, particularly in the case of medium to long-term maturities. Data on the outstanding amount of securities also indicate the depth of capital markets. Furthermore, information on securities issues in euro (by euro area residents and non-residents) is used to assess the role of the euro in international financial markets.

2. THE CONCEPTS BEHIND SECURITIES ISSUES STATISTICS

The national central banks (NCBs) of the Eurosystem collectively cover all issues by euro area residents.

Securities issues statistics are released monthly in the euro area securities issues statistics press release and in the ECB's Monthly Bulletin. Further detailed euro area statistics and the main national statistics, as well as historical statistics, seasonally adjusted series and growth rates are released in the ECB's Statistical Data Warehouse. The time series starts in December 1989 (January 1990 for flows).

The latest securities issues statistics are published six weeks after the end of the reference month.

Securities issues statistics are broken down into debt securities and equity securities.

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1 See the February 2001 issue of the ECB's Monthly Bulletin.

Debt securities issues are further broken down according to the currency denomination “euro denominations” or “other currencies”, their maturity (short and long-term) and by sector, of which there are eight. “Stocks” refers to outstanding amounts and “flows” to gross issuance, redemptions and net issuance. For long-term debt securities, statistics are available separately for fixed and variable coupon debt securities. Finally, statistics on all non-euro area residents’ debt securities issued in euro are reported by the Bank for International Settlements. The growth rates and seasonally adjusted statistics for debt securities are available for the individual breakdowns where relevant.

Quoted shares are broken down into stocks and flows statistics covering four sectors and the corresponding growth rates.

Chart 1: Overview of the statistics published

<table>
<tr><td colspan="4">Debt securities issues statistics by euro area residents
Stocks and Flows</td><td>Quoted shares issued by euro area residents - Stock & Flows</td></tr>
<tr><td>Breakdown
Currency</td><td>Sector</td><td>Maturity</td><td>Coupon type</td><td rowspan="4">4 sectors</td></tr>
<tr><td>In euro</td><td>8 sectors</td><td>2 bands</td><td>2 types</td></tr>
<tr><td>In other currencies</td><td>8 sectors</td><td>2 bands</td><td>2 types</td></tr>
<tr><td>Totals</td><td>8 sectors</td><td>2 bands</td><td>2 types</td></tr>
</table>

3. LEGAL FRAMEWORK

The Eurosystem NCBs report national securities issues data on a monthly basis in accordance with Part 12 of Annex III of ECB Guideline 2007/9, as amended.

Securities issues statistics conform to the European System of Accounts (ESA 95) whenever appropriate and possible.

4. GEOGRAPHICAL BREAKDOWN

The euro area securities issues statistics presented in the ECB publications relate to all current euro area countries for all reference months. This also includes historical periods prior to January 1999.

Issues by head offices located in the reporting country's economic territory which operate internationally are classified as issues by resident units. Issues by subsidiaries which operate in the reporting country's economic territory are classified as issues by the reporting country's resident units even when such subsidiaries are owned by non-residents of the reporting country. Issues by head offices or subsidiaries that are located outside the reporting country's economic territory but are owned by residents of the reporting country are considered as issues by non-residents.

5. CLASSIFICATION OF ISSUES

Securities are classified into two broad groupings: (i) debt securities, i.e. securities other than shares excluding financial derivatives;[2] and (ii) quoted shares excluding investment fund shares/units.

Debt securities comprise financial assets which are in principle negotiable and may be traded on secondary markets. Debt securities do not grant the holder any ownership rights in the issuing entity. Money market paper and, in principle, private placements are included in the debt securities statistics.

Quoted shares comprise all financial assets which represent property rights in corporations or quasi-corporations. These financial assets generally entitle the holder to a share in the profits of the corporations or quasi-corporations and to a share in their net assets in the event of liquidation. Quoted shares include all shares with prices quoted on a recognised stock exchange or other form of regulated market.

6. SECTORAL BREAKDOWN

Issues are classified according to the sector of the issuer. The sectoral classification and related aggregations are shown in Chart 2 below.

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2 ESA 95 category F.33.

Table 2: Securities issues statistics sectors (ESA 95 classifications in brackets)

<table>
<tr><th colspan="3">Securities issues statistics sector aggregations</th></tr>
<tr><td rowspan="9">Total economy</td><td rowspan="2">Monetary financial institutions</td><td>ECB/NCBs (S.121)</td></tr>
<tr><td>Other monetary financial institutions (S.122)</td></tr>
<tr><td rowspan="3">Non-monetary financial institution corporations</td><td>Non-financial corporations (S.11)</td></tr>
<tr><td>Other financial intermediaries (S.123) and financial auxiliaries (S.124)</td></tr>
<tr><td>Insurance corporations and pension funds (S.125)</td></tr>
<tr><td rowspan="3">General government</td><td>Central government (S.1311)</td></tr>
<tr><td>State government (S.1312)
and Local government (S.1313)</td></tr>
<tr><td>Social security funds (S.1314)</td></tr>
<tr><td colspan="3">International organisations (S.2000)</td></tr>
</table>

Government sector (ESA 95 classification in brackets)

The government sector refers to the “general government” (S.13), as defined in the ESA 95. It refers to all institutional units which are other non-market producers whose output is intended for individual and collective consumption and which are mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth.

The general government sector consists of the following ESA 95 sectors:

a) Central government (S.1311) refers to all administrative departments of the state and other central agencies whose competence extends normally over the whole economic territory, except for the administration of social security funds.

b) State government (S.1312) refers to separate institutional units exercising some of the functions of government at a level below that of central government and above that of the governmental institutional units existing at local level, except for the administration of social security funds.

c) Local government (S.1313) refers to those types of public administration whose competence extends to only a local part of the economic territory, apart from local agencies of social security funds.

d) Social security funds (S.1314) refer to all central, state and local institutional units whose principal activity is to provide social benefits and which fulfil each of the following two criteria:

1. by law or by regulation certain groups of the population are obliged to participate in the scheme or to pay contributions;
2. general government is responsible for the management of the institution in respect of the settlement or approval of the contributions and benefits independently from its role as supervisory body or employer.

There is usually no direct link between the amount of the contribution paid by an individual and the risk to which that individual is exposed.

Monetary financial institutions (ESA 95 codes in brackets)

Monetary financial institutions (MFIs) refer to central banks (S.121) and other monetary financial institutions (OMFIs, S.122).

- Central banks (S.121) are financial corporations and quasi-corporations whose principal function is to issue currency, to maintain the internal and external value of the currency and to hold all or part of the international reserves of the country. The sector “central banks” also includes the European Central Bank.
- Other monetary financial institutions (OMFIs) (S.122) comprise resident credit institutions as defined in Community law and all other resident financial institutions whose business is to receive deposits or close substitutes for deposits from entities other than MFIs, and, for their own account (at least in economic terms), to grant credits and/or to make investment in securities.

Financial corporations other than MFIs and non-financial corporations (ESA 95 codes in brackets)

Financial corporations other than MFIs consist of:

- Other financial intermediaries (OFIs) (S.123) comprise financial corporations other than MFIs and quasi-corporations (excluding insurance corporations and pension funds) principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from institutional units other than MFIs. They include investment funds, hedge funds and special purpose vehicles. Financial auxiliaries (S.124), which are engaged in activities closely related to financial intermediation but not financial intermediation itself, are also included in the OFI sector.

- Insurance corporations and pension funds (S.125) comprise financial corporations other than MFIs and quasi-corporations principally engaged in financial intermediation as a consequence of pooling risks.
- Non-financial corporations (S.11) comprise corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services. This includes non-financial corporations owned by the government.

7. CURRENCY BREAKDOWN

The currency of issuance is defined as the currency denomination of the security. Euro area securities issues statistics cover securities denominated in euro as well as securities denominated in other currencies.

Euro-denominated issues cover issues originally denominated in the national currencies of those EU Member States which subsequently adopted the single currency, as well as items expressed in ECU; thereafter they refer to euro-denominated issues or to any remaining issues expressed in the national denominations of the euro area Member States.

Securities denominated in other currencies refer to all other issues which do not fall under the euro-denominated issues category.

Dual currency bonds, where the principal of the bond and/or the coupon may be paid in different currencies, are classified according to the denomination of the bond. If a global bond is issued in more than one currency, each portion is reported as a separate issue, according to its currency of issue. Where issues are denominated in two currencies, for example 70% in euro and 30% in US dollars, in principle the relevant components of the issue are reported separately according to the currency denomination. Hence 70% of the issue is reported as issues in euro/national denominations and 30% as issues in other currencies.

Quoted shares are euro-denominated as they are issued in the currency of the country of residence of the corporation; issues of shares in other currencies are negligible or non-existent. Hence, the data on quoted shares refer to all issues by euro area residents.

8. MATURITY BREAKDOWN

Debt securities are broken down into short-term securities and long-term securities.

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.[3] All other issues, including those with optional or indefinite maturity dates, are classified as long-term.

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. Long-term debt securities issues are divided into:

- Fixed rate issues; bonds whose nominal coupon payment does not change during the life of the issue.
- Variable rate issues; bonds where the coupon rate or underlying principal is linked to an interest rate or some other index resulting in a variable nominal coupon payment over the life of the issue.
- Zero coupon issues; bonds that do not pay any periodic coupon payments. Usually such bonds are issued at a discount and redeemed at par. Most of the discount represents the equivalent of the interest accrued during the life of the bond.

9. STOCKS AND FLOWS

Outstanding amounts cover all outstanding securities which have been issued, i.e. newly created, for cash by the reporting entity. The outstanding amount also includes issues that may have been issued by another reporting entity in the past for cash but assumed or taken over as liabilities thereafter by the reporting entity.

The outstanding amounts of quoted shares cover the market value of all the quoted shares of resident entities. The outstanding amounts of quoted shares reported by a euro area country may therefore increase or decrease following relocation of a listed entity. This also applies in the event of a takeover or merger where no instruments are created and issued against cash and/or redeemed against cash and cancelled.

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

3 According to the ESA 95, paragraph 5.22, some flexibility with respect to the maturity breakdown is permitted, i.e. in exceptional cases short-term securities have an original maturity of two years, such as for treasury bills with an original maturity period of 366 days.

Gross issues include all issues of debt securities and quoted shares where the issuer sells newly created securities for cash. Gross issues cover the newly created shares which are issued for cash by corporations quoted on a stock exchange for the first time. Such shares may be issued in conjunction with a stock market listing when newly created companies or private companies become publicly traded companies.

Gross issues also cover newly created shares which are issued against cash during the privatisation of public corporations when the corporation's shares are quoted on a stock exchange. The issue of bonus shares is excluded. Gross issues are not reported in the event of a sole listing of a corporation on a stock exchange where no new capital is raised for cash.

In addition, gross issues also cover secondary/seasoned public offerings of additional newly created shares where the issued capital is funding the issuing company.

The exchange or transfer of already existing securities during a takeover or merger is not covered[4] within the reported gross issues or redemptions, except if new instruments are created and issued against cash by a euro area resident entity.

An issue is considered to have occurred when the issuer receives payment (payment date), and not when the issuer counterparty or syndicate takes up the commitment (trade date).

Redemptions cover all repurchases of debt securities and quoted shares by the issuer where the investor receives cash for the securities. Redemptions concern the regular deletion of instruments. They cover all debt securities reaching their maturity date, as well as early redemptions. Company share buy-backs are covered if the company repurchases all shares against cash prior to a change in its legal form or part of its shares against cash which are cancelled, leading to a reduction in capital. Company share buy-backs are not covered if they are investments in own shares. Redemptions are not reported in the event of a sole delisting from a stock exchange.

Net issues are the balance of all gross issues minus all redemptions that have occurred during the reporting period.

Securities which can later be converted into other instruments are recorded as gross issues in their original instrument category; on conversion they are considered as redeemed from this instrument category with an identical amount, then treated as gross issues in a new category.[5] This treatment applies to convertible debt securities upon conversion to quoted shares.

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4 Transactions on a secondary market involving a change of holder are not covered by these statistics.

5 Considered as two financial transactions; see the ESA 95, paragraphs 5.62 and 6.54, and Section 7 of the Part 12 of Annex III of ECB Guideline 2007/9.

10. VALUATION METHOD

The value of securities issues comprises a price component and, where issues are denominated in currencies other than the reporting currency, an exchange rate component.

Debt securities are reported at nominal value and quoted shares are reported at market 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 issues are recorded at the effective amount paid, i.e. the discounted price at the time of purchase, and the redemptions at maturity at nominal value.

11. INDEX AND GROWTH RATES

Growth rates are calculated from transactions and outstanding amounts from which an index of adjusted outstanding amounts (e.g. notional stocks) is calculated. Further details concerning the calculation of growth rates are available in the Technical Notes of the ECB's Monthly Bulletin.

12. SEASONAL ADJUSTMENT

Seasonal adjustment is the process of estimating and removing seasonal effects from a time series. Seasonally adjusted data therefore facilitate the analysis of short-term dynamics and the identification of changes in trends. The general principles followed by the ECB in the seasonal adjustment of time series are laid down in the ECB's publication "Seasonal adjustment of monetary aggregates and HICP for the euro area".

The approach to seasonally adjust securities issues statistics is a multiplicative decomposition using the Census X-12-ARIMA method, Version 0.2.10. Outliers are taken into consideration in order to minimise distortions to the estimated seasonal components.

The seasonally adjusted data for outstanding amounts, net issues and growth rates of securities issues are based on seasonal adjustments of indexes which reflect the changes in outstanding amounts caused by transactions (i.e. the net issues). This approach is consistent with the current procedures for seasonally adjusting monetary aggregates.

To ensure the additivity of the seasonally adjusted components to the seasonally adjusted aggregates, the seasonally adjusted series for the total securities issues are derived indirectly from the breakdowns by sector and maturity. A direct adjustment of the total is regularly carried out for monitoring purposes. The difference between direct and indirect estimates is generally negligible. The seasonal factors are re-estimated annually.

No seasonal adjustment for quoted shares data are undertaken as no significant seasonal variation exists for these series.