

## NEW STATISTICS ON EURO AREA INVESTMENT FUNDS

For the first time, this issue of the Monthly Bulletin includes harmonised statistics on the assets and liabilities of investment funds resident in the euro area. These are available for the period from December 2008 onwards.<sup>1</sup> Investment funds are the most important category in the financial corporation sub-sector entitled “other financial intermediaries, except insurance corporations and pension funds” (OFIs) in the ESA 95, accounting for nearly half of total OFI assets. Alongside insurance corporations and pension funds, investment funds play an important role in financial intermediation in the euro area and the interpretation of developments in money and credit.<sup>2</sup> Against this background, this box indicates the main features of the new euro area investment fund statistics,<sup>3</sup> looks at the potential use of these statistics for monetary and financial analysis and highlights a number of characteristics observed in the new data.<sup>4</sup>

### Main features of the new euro area investment fund data

The data on euro area investment funds published on a quarterly basis by the ECB between 2003 and October 2009 were not harmonised and were partly estimated. By contrast, the statistics now available have the following features: (i) harmonised concepts that comply with international statistical standards such as the ESA 95 and ensure a high degree of comparability; (ii) full coverage across the euro area countries; (iii) data on transactions during the reference period (in addition to the data available previously on outstanding amounts at the end of the period); (iv) more detailed breakdowns of assets and liabilities (e.g. breakdowns by geographical location and sector for issuers of debt securities and shares held by euro area investment funds, and a breakdown by geographical location for holders of shares issued by euro area investment funds); (v) new breakdowns for the investment fund sector, now also providing details of hedge funds and open/closed-end funds; (vi) the publication of key information on a monthly basis and more detailed information on a quarterly basis; and (vii) the release of data in a more timely manner (i.e. seven weeks after the reference period, instead of fifteen).

### Use of investment fund statistics for monetary and financial analysis

Detailed and timely data on investment funds can enhance the ECB’s monetary and financial analysis in several respects.

First, investment funds are financial intermediaries that manage funds on behalf of other investors. As a result, the liability side of investment funds’ balance sheet statistics provides important information on the behaviour of resident and non-resident sectors holding investment fund shares/units. For instance, a breakdown of purchases of investment fund shares/units by investment policy can provide indications regarding changes in investors’ confidence and risk appetite. In particular, it may help to identify and quantify portfolio shifts between monetary

1 See Sections 2.9 and 2.10 of the “Euro area statistics” section.

2 See “The role of other financial intermediaries in money and credit developments in the euro area”, ECB Occasional Paper No 75, October 2007.

3 The ECB’s monthly press release on investment fund statistics also includes new information on euro area money market funds, which are analysed in the context of MFI balance sheet statistics in view of their monetary character and are not discussed further in this box.

4 The latest data on investment funds can be downloaded from the ECB’s Statistical Data Warehouse (<http://sdw.ecb.europa.eu/browse.do?node=17066>). More details regarding the latest investment fund data, together with explanatory notes, are available in the “Statistics” section of the ECB’s website (<http://www.ecb.europa.eu/stats/money/funds/html/index.en.html>).

assets and other asset classes that are driven by factors over and above changes in the relative returns on those assets. Moreover, changes in the value of the assets held by investment funds are transmitted through the valuation of their shares/units to the net worth of households, non-financial corporations, insurance corporations and pension funds and may then have implications for the level of economic and financial activity. In addition, the structure of the financial assets held by investment funds provides information regarding the financial risks borne indirectly by investors via their holdings of investment fund shares/units.

Second, investment funds are large institutional investors and thus influence capital market developments, which can be seen from the asset side of their aggregated balance sheet. They do so: (a) by channelling funding to other sectors – mainly MFIs, non-financial corporations and general government – through the purchase of shares and debt securities issued by these sectors, thereby having an impact on the quantity of financing available; and (b) by influencing prices in capital markets. Thus, investment funds play an important role in helping various institutional sectors to finance their activities and spending, while also influencing the price that these sectors have to pay for external financing.

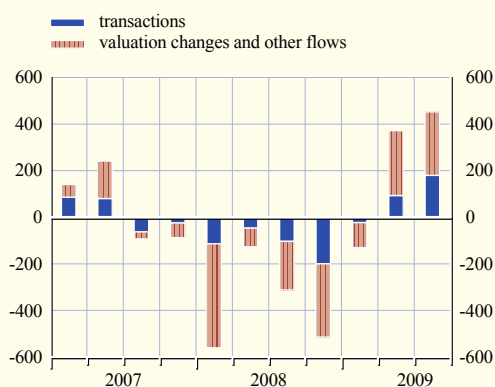
### Some characteristics of the euro area investment fund industry

The value of euro area investment funds' total outstanding assets stood at €5,150 billion at the end of the third quarter of 2009. On the basis of the euro area accounts and the new investment fund statistics, investment funds accounted for around 10% of the assets held by the euro area financial corporation sector in the second quarter of that year (the most recent period for which the euro area accounts data are available). By comparison, euro area MFIs' aggregated (non-consolidated) balance sheet accounted for 68% of such assets at the same point in time.

In the case of euro area investment funds, changes in outstanding shares/units issued have, in the past three years, been driven more by changes in prices than by transactions (see Chart A). This is in contrast to the MFI sector, where changes in stocks are due mainly to transactions. This difference can be explained mainly by the fact that MFIs' asset portfolios are dominated by loans (which are measured at nominal value), while those of investment funds are dominated by securities (which are measured at market value). At the same time, the significant net issuance observed for shares/units in the second and third quarters of 2009 – the proceeds of which were mainly invested in debt securities (in the second quarter of 2009) and shares and other equity (in the third quarter of 2009) – suggests a recovery in the investment fund industry (a suggestion which is further supported by monthly data up to and including October 2009). This recovery follows a prolonged period of contraction in investment fund shares/units between the second quarter of 2007 and the second quarter of 2009. This is consistent with the improved market

Chart A Changes in outstanding shares/units issued by euro area investment funds

(EUR billions; quarterly data; not adjusted for seasonal effects)



Source: ECB.

sentiment and steep yield curve observed over recent quarters, which have fostered shifts from safer and more liquid monetary assets into riskier and longer-term assets.<sup>5</sup>

Breaking down the issuance of euro area investment fund shares/units by investment policy shows that bond, equity and mixed funds accounted for a total of 85% of investment fund shares/units in the third quarter of 2009 (see Chart B).<sup>6</sup> Bond funds were the most important, followed closely by equity funds, with both accounting for around 30% of total investment fund shares/units. Mixed funds accounted for around 25%, while hedge funds accounted for a mere 2% of total investment fund shares/units. It is worth noting that even if a hedge fund manager operates from within the euro area, the fund is not covered by the ECB's statistics if it is domiciled outside the

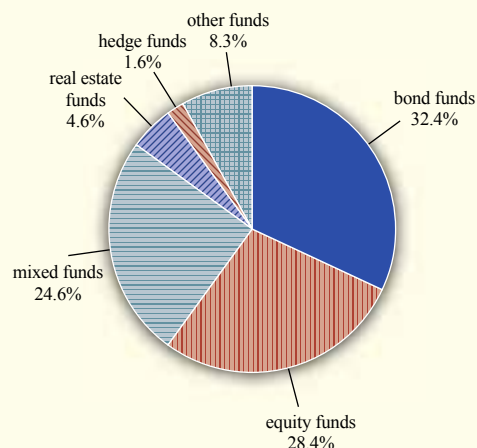
euro area, which tends to be the case in this industry. Overall, this suggests that investment in euro area investment funds was split equally between the main types of fund in the third quarter of 2009. However, these relative shares can change over time, given that they depend heavily on asset price developments and investors' demand for different types of investment fund. For instance, in the third quarter of 2009 equity funds' share of total investment fund shares/units was 5 percentage points higher than it had been in the first quarter of that year.

As regards the main assets held by investment funds, euro area investment funds held €2,224 billion worth of shares and other equity (including shares/units issued by investment funds and money market funds) and €1,998 billion worth of debt securities at the end of the third quarter of 2009. This suggests that, broadly speaking, holders of shares/units issued by euro area investment funds are as exposed to changes in stock prices as they are to variations in bond yields.

The majority of the debt securities (around 70%) and shares and other equity (around 60%) held by investment funds were issued in the euro area. Of the holdings of debt securities issued by euro area residents, almost half were government bonds and almost a third were bank bonds, while bonds issued by OFIs and non-financial corporations accounted for around 10% each (see Chart C). Of the holdings of shares and other equity issued by euro area residents, the majority were issued by other euro area investment funds or non-financial corporations, with both accounting for around 40% (see Chart D). The remainder were mainly MFI shares (which accounted for 14%).

**Chart B Shares/units issued by euro area investment funds, broken down by investment policy**

(data for the end of the third quarter of 2009; outstanding amounts)



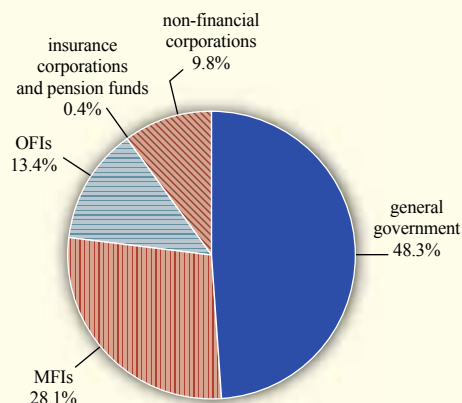
Source: ECB.

<sup>5</sup> It should, however, be noted that these large net inflows include sizeable purchases of investment fund shares by two Dutch pension funds. Purchases with a value of around €70 billion were made in June 2009, and purchases with a value in excess of €97 billion were made in July 2009. These accounted for three-quarters and half of the euro area's net inflows in the second and third quarters of 2009 respectively.

<sup>6</sup> Definitions of different investment fund types can be found in the glossary in Guideline ECB/2007/9 on monetary, financial institutions and markets statistics (recast).

**Chart C Securities other than shares issued by euro area residents and held by investment funds, broken down by sector**

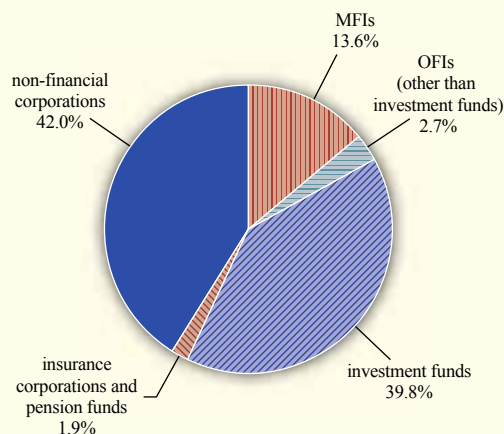
(data for the end of the third quarter of 2009; outstanding amounts)



Source: ECB.

**Chart D Shares and other equity issued by euro area residents and held by investment funds, broken down by sector**

(data for the end of the third quarter of 2009; outstanding amounts)



Source: ECB.

On the basis of the euro area accounts and the new investment fund statistics, investment funds held around 10% and 15% of the total outstanding debt securities issued by MFIs and non-financial corporations respectively in the second quarter of 2009. They also held some 15% of the total quoted shares issued by each of these sectors. This shows that investment funds play a relatively important role in the provision of financing to banks and firms.

Overall, these new data significantly improve the euro area's statistical framework with regard to financial intermediaries other than MFIs and act as an important complement to MFI statistics. They enable, in particular, more detailed analysis of changes in investors' behaviour and the allocation of investment funds' portfolios. Statistical enhancements are also under way with regard to both financial vehicle corporations engaged in securitisation transactions (which are also part of the OFI sector) and the insurance corporation and pension fund sector.