EUROPEAN CENTRAL BANK

EUROSYSTEM

MAJOR CHANGES TO THE EURO AREA ACCOUNTS RESULTING FROM THE ESA 2010

CLASSIFICATION OF THE ECONOMY BY INSTITUTIONAL SECTOR

Changes to the sectoral breakdown of the economy are due to an amended delineation between the financial corporations sector and the non-financial corporations sector, a more detailed breakdown of the financial sector and the new requirement for a breakdown between households and non-profit institutions in the financial accounts.

The most important methodological change to the sectoral classification of the economy is the wider definition of the financial sector.

The ESA 1995 defined the financial sector as financial intermediaries and the (much smaller) financial auxiliaries subsector. **Financial intermediaries** raise funds from the public (e.g. through deposits, investment fund shares, life insurance policies, etc.) and lend them to the public or invest them in financial markets. Similarly, **financial auxiliaries** facilitate financial transactions between large group of creditors and debtors (e.g. security brokers).

This definition raised difficulties concerning the classification of entities that only provide financial services to an enterprise group, such as so-called special-purpose entities (SPEs). Such entities did not precisely meet the definition of financial intermediaries (or auxiliaries); however, nor did they fit into the non-financial sector.

The ESA 2010 expands the definition of the financial corporations sector to include a new sub-sector of so-called captive financial institutions and money lenders (S.127) consisting of all "financial corporations and quasi-corporations which are neither engaged in financial intermediation nor in providing financial auxiliary services, and where most of either their assets or their liabilities are not transacted on open markets". This subsector includes, for example:

a. legal entities, such as trusts, estates or "brass plate" companies;
b. holding companies that hold controlling positions in the equity of a group of subsidiary corporations and whose principal activity is owning the group without providing any other service to the businesses;
c. SPEs that qualify as institutional entities and raise funds in open markets to be used by their parent entity;

d entities that provide financial services exclusively with their own funds or with funds provided by a sponsor to a range of clients and incur the financial risk of the debtor defaulting. Examples are money lenders, corporations engaged in lending to students or for foreign trade from funds received from a sponsor, such as a government entity or a non-profit institution, and pawnshops that predominantly engage in lending;

e special-purpose government funds, usually called sovereign wealth funds, if they are classified as financial corporations.

This new, precise guidance on the recording of specialised financial institutions and, as a result, the clearer separation between financial and non-financial corporations, allows for a better analysis of the financing and investment of these sectors. This implies, for example, that debt financing raised by SPEs or holding companies is allocated to the financial sector, and only debt funding granted by SPEs to non-financial corporations is recorded as debt of non-financial corporations.

For an overview of the changes to the sectoral classification, see the following table.

Classification of the economy by institutional sector

ESA 95		ESA 2010		
Sector code	**Sector name**	**Sector code**	**Sector name**	**Comments**
S.11	Non-financial corporations	S.11	Non-financial corporations	Excludes holding companies (not engaged in management) and similar captive financial institutions (see S.127)
S.12	Financial corporations	S.12	Financial corporations	Includes captive financial institutions (see S.127)
S.121	Central bank	S.121	Central bank	Additional subsector splits, no immediate change to the EAA
S.122	Other monetary financial institutions	S.122	Deposit-taking corporations excluding the central bank	
		S.123	Money market funds (MMFs)	
S.123	Other financial intermediaries, except insurance corporations and pension funds (OFIs)	S.124	Non-MMF investment funds	New subsector split also available in the EAA
		S.125	Other financial intermediaries, except insurance corporations and pension funds (OFIs)	The sector now excludes non-MMF investment funds. Data on this sector published in the EAA together with S.126 and S.127
S.124	Financial auxiliaries	S.126	Financial auxiliaries	
Holding companies (not engaged in management) and similar captive financial institutions were previously classified as part of the non-financial corporations sector, although, practices varied across countries		**S.127**	**Captive financial institutions and money lenders**	This new subsector includes holding companies and other institutions that only provide financial services to an enterprise (group), thereby also expanding the coverage of S.12
S.125	Insurance corporations and pension funds (ICPFs)	S.128	Insurance corporations	New subsector split also available in the EAA
		S.129	Pension funds	
S.13	General government	S.13	General government	Change to the sector boundary that reclassifies some public corporations into S.13[1]
S.14/ S.15	Households and non-profit institutions serving households	S.14	Households	New split in some financial accounts source data, no immediate change to the EAA
		S.15	Non-profit institutions serving households	

[1] Corporations controlled by government are classified as part of the general government sector if they are non-market producers and do not engage in financial intermediation. The ESA 2010 emphasises the qualitative properties of non-market producers. The 50% threshold for the sales-to-costs criterion is only considered after issues of independence and motivation are taken into account. It is expected that slightly more public corporations will be classified as part of the general government sector (see also Eurostat's Manual on the Changes between ESA 95 and ESA 2010).