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**Forthcoming Statistics On The Assets And Liabilities
of Euro Area Investment Funds Including Hedge Funds**

Prepared by the European Central Bank

**FORTHCOMING STATISTICS ON THE ASSETS AND LIABILITIES
OF EURO AREA INVESTMENT FUNDS INCLUDING HEDGE FUNDS**

Introduction

1. On 27 July 2007, the Governing Council of the European Central Bank (ECB) adopted Regulation ECB/2007/8 concerning statistics on the assets and liabilities of investment funds (hereinafter 'the Regulation'). The Regulation was published in the Official Journal of the European Union on 11 August 2007[1]. It defines the statistical standards for collecting and compiling investment funds (IFs) statistics in the euro area. The Regulation is binding on the euro area Member States.

2. The Regulation will directly address reporting requirements to all IFs[2] resident in the euro area that comply with the statistical definition provided by the Regulation. The definition is broad and comprises all types of IFs (except those classified as pension funds and those included in the monetary financial institutions (MFI) sector, i.e. money market funds). The IFs have different legal structures (contractual, corporate and unit trusts) and are open or closed-ended. Furthermore, in addition to the IFs available to retail investors, the definition also covers those which are accessible only by certain types of investors (e.g. institutional investors).

3. Furthermore, on 1 August 2007, the Governing Council of the ECB adopted Guideline ECB/2007/9 on monetary, financial institutions and markets statistics (hereinafter 'the Guideline'). The Guideline entered into force on 3 September 2007[3]. In Article 18, the Guideline includes provisions regarding the reporting by the national central banks (NCBs) to the ECB of statistics on the assets and liabilities of IFs.

4. This endeavour followed an in-depth merits and costs procedure, which involved a comprehensive assessment of the feasibility of meeting user needs for monetary and other relevant analyses and an estimation of the set-up and running costs of the new statistics by NCBs and reporting agents. It appeared that, owing to the numerous breakdowns required at a high frequency, security-by-security (s-b-s) reporting would enable to meet most user requirements at a reasonable cost.

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[1]   OJ L 211, 11.8.2007, p. 8.

[2]   The ECB is empowered to collect statistical information from IFs under EU Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the ECB (cf. recital 7 and Art. 2.2.(a)).

[3]   The Guideline will be published in the Official Journal of the European Union in all EU languages. Its English version can already be found on the ECB website (www.ecb.europa.eu/ecb/legal/pdf/en_gui_2007_9_f_signed_ecb_website.pdf).

5. As set out in the Regulation, the reporting of data will begin in early 2009 with monthly and quarterly data for December 2008. The first euro area aggregates are expected to be published in the course of 2009. This note presents these forthcoming new euro area statistics and summarises some of its most relevant features.

What can be expected from the forthcoming statistics on euro area IFs?

6. The Regulation and the Guideline will allow to regularly compile harmonised euro area statistics on the assets and liabilities of IFs, and thereby tackle the main shortcomings of the euro area IF statistics currently produced by the ECB which are based on un-harmonised and incomplete national data. The new statistics will, thus, better serve the purposes of monetary and financial analyses.

7. The ECB will receive from each NCB of the euro area detailed quarterly information, as shown by the shaded cells in Table 1, on the assets and liabilities of the respective country's IF sector, based on the data collected from the reporting population. As can be seen from Table 1, detailed breakdowns by geographical counterpart area, sector, maturity and currency, similar to the current MFI balance sheet statistics, will thereby become available.

Table 1: quarterly stocks, revaluation adjustments and reclassification adjustments

8. NCBs will also provide key statistics on a monthly basis, as shown by the shaded cells in Table 2, based partly on collected data (IF shares/units issued) and national estimations, if needed[4].

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4   In accordance with the Regulation, NCBs also have the possibility to collect all the data on a monthly basis.

Table 2: Monthly stocks, revaluation adjustments and reclassification adjustments	A. Domestic and B. Other participating Member States			C. RoW	D. Not allocated
	Total	MFIs	Non-MFIs		
ASSETS					
1 Deposit and loan claims					
2 Securities other than shares					
2e. Euro					
up to 1 year					
over 1 and up to 2 years					
over 2 years					
2x. Foreign currencies					
up to 1 year					
over 1 and up to 2 years					
over 2 years					
3 Shares and other equity					
of which: IF and MMF shares/units					
4 Financial derivatives					
5 Non-financial assets (incl. fixed assets)					
6 Remaining assets					
LIABILITIES					
7 Loans and deposits received					
9 IF shares/units					#
10 Financial derivatives					
11 Remaining liabilities					
#	Minimum data to be provided by the reporting agents to the NCBs on a monthly basis				

9. National data and subsequently also euro area aggregates will be available as end-of period stocks and transactions (derived from the provision of data from the NCBs to the ECB on stocks, revaluation adjustments due to price and exchange rate changes as well as reclassification adjustments). The national data will be made available to the ECB 28 working days after the reference period[5]. It will therefore be possible to produce euro area aggregates in the second month following the reference period.

10. In accordance with the Guideline, NCBs will break down the investment fund sector into 12 sub-sectors. The investment fund sector will be broken down into equity funds, bond funds, mixed funds, real estate funds, hedge funds and other funds (i.e. by nature of investment), each of which will be further broken down into closed-end and open-end funds (i.e. by type of fund). As further described in the section below, no harmonised definitions exist in the case of IFs broken down by nature of investment and the sub-sectors will thus not be harmonised at a euro area level. In the case of hedge funds, a statistical definition was agreed upon for the pure purpose of this data collection.

What are the main features of these new statistics?

(i) Security-by-security (s-b-s) reporting

11. From the point of view of the reporting agents and the compilers of the statistics, one of the main features of these new statistics is the possibility to compile IF statistics using a combination of aggregated and s-b-s reporting. The concept of s-b-s reporting represents perhaps the most promising approach to reducing the statistical burden for reporters while simultaneously improving the quality and level of detail of the statistical data. This approach entails a need for a comprehensive reference database of individual securities. The European System of Central Banks (ESCB) has developed the Centralised Securities Database (CSDB) for the provision of securities reference information. Having

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[5]   For example end-December data would become available in early February.

a common reference database on securities issued will ensure a fully consistent approach for the production of Eurosystem statistics.

12. The combination of aggregated and s-b-s reporting consists in reporting agents providing to the NCBs the IFs' debt and equity positions on an s-b-s basis and other assets and liabilities positions on an aggregated basis. NCBs then derive the aggregated quarterly assets and liabilities of the IF sub-categories in line with Table 1.

13. In general, reporting agents are required to report for each s-b-s position two out of the following three variables[6]: (1) number of units (equity) or aggregated nominal amount (debt); (2) security price; (3) total amount. The production of stock statistics regarding securities held by IFs, in line with Table 1, relies entirely on the s-b-s data reported by the IFs. These data are reported without any further information by instrument category, currency, issuer sector or issuer residency, which reporting agents usually deem rather difficult to provide. Instead NCBs combine the s-b-s information received from reporting agents on their holdings of securities with data stored in the CSDB on securities issued and their corresponding attributes (like issuer's residency, ESA sector, or maturity). Other (non-securities) balance sheet components (e.g. deposits and loans) and information on the holders of IF shares/units issued, have to be reported with the required breakdowns.

14. The stock data form the basis for the derivation of transaction and investment income data for securities following an s-b-s approach. Transactions which occurred during a period will be derived using information on the changes in the number of shares, or the changes in the nominal amount in the case of debt securities, and the average price of the securities during the period. In order to derive investment income, information on dividends and accruals will be drawn from the CSDB.

(ii) Data on the residency and economic sector of the holders of IF shares/units

15. In line with Table 1, reporting agents will have to provide the NCBs with information on the residency of the holders of IF shares/units in accordance with the euro area domestic/other participating Member States/rest of the world breakdown. The reporting agents will break down the domestic and other participating Member States counterparties further by institutional sector. The standard for sector classification is provided by the European system of national and regional accounts in the Community (the ESA 95). Furthermore, counterparties located in the euro area are identified according to their sector in accordance with the list of IFs and MFIs for statistical purposes established

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[6]   For more details regarding the reporting requirements, including exceptions to the general "2 out of 3" rule, please refer to Table 2 of Annex I to the Regulation.

under the respective statistical regulations[7] and the guidance for the statistical classification of counterparties provided in the ECB's sector manual[8].

16. Given the difficulties in identifying the holders of IF shares/units for which a record identifying the holder is not kept or a record is kept which does not contain information on the residency and sector of the holder ('IF bearer shares/units'), the Regulation allows the collection of these data from entities other than IFs. The Regulation therefore specifies that the reporting population shall include MFIs and other financial intermediaries (OFIs) that are not IFs for the purpose of collecting information on the holders of bearer shares/units issued by IFs. For example, MFIs and OFIs acting as custodians of IF shares/units could potentially report data on the residency and sector breakdown of the holders of shares/units issued by IFs.

17. The Guideline further provides flexibility regarding the reporting of information from the NCBs to the ECB by allowing NCBs to provide the geographical and sectoral breakdown for bearer shares on a best estimate basis when the data reported by the reporting agents are incomplete or not yet available.

(iii) Sub-categories of IFs, including hedge funds

18. The IF sector will be broken down by NCBs into several sub-sectors, one of which is hedge funds. For the purpose of these statistics, hedge funds are defined in the Guideline as "*any collective investment undertakings regardless of its legal structure under national laws, which apply relatively unconstrained investment strategies to achieve positive absolute returns, and whose managers, in addition to management fees, are remunerated in relation to the fund's performance. For that purpose, hedge funds have few restrictions on the type of financial instruments in which they may invest and may therefore flexibly employ a wide variety of financial techniques, involving leverage, short-selling or any other techniques. This definition also covers funds that invest, in full or in part, in other hedge funds provided that they otherwise meet the definition. These criteria to identify hedge funds must be assessed against the public prospectus as well as fund rules, statutes or by-laws, subscription documents or investment contracts, marketing documents or any other statement with similar effect of the fund*".

19. Since a generally accepted definition for hedge funds does not exist, it proved difficult to determine the key characteristics to be included in the definition of hedge funds for statistical purposes. Moreover, given the rapidly evolving business, some predominant criteria today may not be so relevant in a few years' time. The idea was therefore to define key characteristics which allow

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[7]   Regulation ECB/2007/8 in the case of IFs and Regulation (EC) No 2423/2001 of the European Central Bank of 22 November 2001 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2001/13) in the case of MFIs.

[8]   Monetary Financial Institutions and Markets Statistics Sector Manual, Guidance for the statistical classification of customers, March 2007.

identifying hedge funds and differentiating them from other IFs, while at the same time discussing hedge fund characteristics in more detail in an accompanying non-legally binding document[9].

20. Regarding the other sub-categories of IFs broken down by nature of investment, no harmonised definitions have been adopted and the sub-categories are defined in very general terms. "Bond funds", "equity funds" and "real estate funds" are defined as IFs primarily investing in "securities other than shares", "shares and other equity" and "real estate" respectively. "Mixed funds" are defined as IFs investing in both equity and bonds with no prevalent policy in favour of one or the other instrument and "other funds" represent the residual category (i.e. IFs other than bond funds, equity funds, mixed funds, real estate funds or hedge funds). The Guideline further specifies that the criteria for classifying IFs by sub-sector are derived from the public prospectus, fund rules, instruments of incorporation, established statutes or by-laws, subscription documents or investment contracts, marketing documents, or any other statement with similar effect. For the purpose of IFs broken down by nature of investment, funds of funds shall be classified under the category of funds in which they primarily invest.

21. The identification of IFs by nature of investment may differ across countries. In certain countries, the investment policy may be backed by specific regulatory provisions that allow an ex-ante identification of IFs by nature of investment. In these countries, the classification of IFs by nature of investment should therefore be based on these national provisions[10].

22. In those countries, where national regulatory provisions do not allow identifying IFs by nature of investment, the classification should in principle also be undertaken on an ex-ante basis and be determined, as specified in the Guideline, from the IFs' prospectus or other relevant documents. The ex-ante approach consists in assessing the investment policy, on the basis of what has been declared by the IF (or the fund manager) and not on the actual investments made.

23. A pan-European classification of IFs broken down by investment policy is being developed by the European Fund Categorisation Forum (EFCF). For the time being, the IF classification will be mainly based on national regulatory provisions, whereby classes and related criteria will be applied in Member States[11]. In particular for those countries where these provisions do not exist, the

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[9]   For this purpose an IF Manual is currently being drafted.

[10]   The content of these provisions may of course differ across countries. Therefore it may occur that while in one country IFs have to invest only 50% in a certain asset category in order to be classified into the respective IF sub-sector, in another country the threshold may be higher (for example 75% or even 90%).

[11]   The European System of Central Banks is composed of the European Central Bank and National Central Banks of all 27 European Union countries. The Eurosystem is composed of the ECB and the current 13 National Central Banks of the countries that adopted the euro (on 1 January 2008, Cyprus and Malta will join the euro area, and their Central Banks will become part of the Eurosystem). The ECB and the euro area monetary policy are ruled by the ECB Governing Council, formed of the ECB's 6 Executive Board members and of the Governors of the Eurosystem National Central Banks. In the statistical field, the governance structure is the Statistics Committee (STC), which reports to the Governing Council on all relevant statistical issues. The STC is assisted by some sub-structures and, in the case of the IFs, by its Working Group on Monetary, Financial Institutions and Markets Statistics (WG MFM). The STC and WG MFM, in their respective competence, receive requests from the ECB Governing Council and other users in the Eurosystem analysing the economic and financial developments, design

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classification could potentially be based on the rules defined by the EFCF. However, for the time being the developments in this area are only being monitored and consideration will be given to applying this approach once the EFCF classification is broadly used by the industry.

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relevant statistics, set common rules for the data reporting, and monitor the data quality of the euro area aggregates. In case of specific difficulties, or of poor data quality, rules may be reviewed.