BACKGROUND PAPER ISSUE #30

RETAINED EARNINGS OF MUTUAL FUNDS, AND REROUTING OF INVESTMENT INCOME OF TECHNICAL RESERVES OF LIFE INSURANCE ENTERPRISES AND PENSION FUNDS

European Central Bank1

October 2004

---

1 These definitions have been approved by the European System of Central Banks in the framework of defining the coverage of statistics on other financial intermediaries.
Definitions of institutional units belonging to sub-sector S.123

Investment funds (IF)

“Investment funds shall mean all collective investment undertakings (CIU) investing in financial and non-financial assets to the extent that their sole objective is the investment of capital raised from the public.” For the purpose of this definition, CIU shall include those undertakings the units/shares of which are, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking’s assets and those undertakings, the shares of which are fixed, and the holders entering or leaving the fund have to buy or sell existing shares. CIU within the meaning of this definition shall be constituted either: (i) under the law of contract (as common funds managed by management companies, or (ii) trust law (as unit trusts), or (iii) under a statute (as investment companies), or (iv) according to any other statement with similar effects.

This definition shall exclude pension funds. This definition shall also exclude investment funds issuing highly liquid liabilities of a monetary nature. The latter institutions, known as money market funds, would be classified in the sub-sector ‘other depository corporations’ (S.122).

Financial vehicle corporations created to be the holders of securitised assets (FVC)

“Financial Vehicle Corporations created to be the holder of securitised assets” (FVC) shall mean an undertaking that predominantly carries out one or more securitisations, the structure of which serves to isolate the FVC and the credit risk of the originator from each other.

FVC within the meaning of this definition shall be constituted either: (i) under the law of contract (as common funds managed by management companies), or (ii) under trust law, or (iii) under a statute (as a public limited company), or (iv) according to any other arrangement with similar effects.

Within and for the purposes of this definition, securitisation means a financial transaction or scheme involving the transfer of assets or of risks underlying assets to a FVC created to hold securitised assets and to issue securities. In case of transferring government assets, these have to exist in the government’s balance sheet before the arrangement starts and the transfer has to cover all risks contained in these assets. In case of a transfer of future receipts or in case when a full risk transfer does not take place, the respective securitisation vehicle would remain classified within the government sector.

Securities issues by FVC shall be open to the public or the securities are sold on the basis of a private placement.

This definition shall exclude depository corporations

Financial holding corporations (FHC)

“Financial holding corporations (FHC) shall mean entities principally engaged in controlling financial corporations or groups of subsidiary financial corporations that are not conducting business of such financial corporations themselves. For the purpose of this definition, an FHC secures control over a corporation by owning more than half of the voting shares, or by controlling more than half of the shareholders’ voting power, or by otherwise being able to determine the general corporate policy, or by controlling entities which control financial corporations or groups of subsidiary financial corporations. The criteria applied in order to identify FHC shall be derived from the instruments of incorporation, established statutes or by-laws, contracts, statutory financial reports or any other statement with similar effect of the FHC according to national regulatory provisions.”

Security and derivative dealers (SDD)

“Security and derivative dealers”, classified as OFI, shall consist of all investment firms which provide investment services for third parties by investing in securities on own account as their main business. For the purpose of this definition, investment services are defined as follows:

Trading of new or outstanding financial instruments through the acquisition and sale of those financial instruments for the account and/or risk of the “Security and derivative dealer” for the exclusive purpose

---

2 Investment funds can be set up as “funds” and as “companies”.
3 The term public applies here in the meaning of commercial law, different from the statistical concept of public sector.
of benefiting from the margin between the acquisition and selling price; this also includes market making activities;
These Security and Derivative Dealers shall be constituted according to national regulatory provisions\(^4\)."

**Financial corporations engaged in lending (FLC)**

“Financial corporations engaged in lending (FCL) shall mean entities specialised in lending. For the purpose of this definition, lending activity comprises financial leasing\(^5\), factoring, mortgage lending, mutual guarantee, consumer lending and other type of lending as defined according to national regulatory provisions. FCL may be constituted under the legal form of a joint-stock company or limited liabilities company subject to a specialised legal national framework. Alternatively, the criteria applied in order to identify FCL shall be derived from the instruments of incorporation, established statutes or by-laws, contracts, statutory financial reports or any other statement with similar effect of the FCL.

This definition shall exclude intermediaries classified as depository corporations.”

---

\(^4\) This definition shall exclude depository corporations

\(^5\) For statistical purposes, leasing is defined as financial leasing when the leasing period covers all or most of the economic lifetime of the durable good. At the end of the leasing period, the lessee often has the option to buy the good at a nominal price (ESA 95, Annex II).