(1) Topic: **Sector and Industry Classification of Holding Companies**

(2) Issues – see BOPTEG Issues Paper # 9B (Netherlands), Background Paper 9B (ECB), IMF Task Force for Coordination of Methodological Issues. See also Issues Papers 9 and 9A from the June 2004 BOPTEG Meeting.

(3) Recommendations:

(i) If a company undertakes holding company functions as well as production in its own right, it should be classified to institutional sector on the basis of the predominant function.

(ii) If a holding company has the sole function of controlling and directing subsidiaries, a majority concluded that the company should be classified to sector and industry on the basis of the owning or managing function, not on the basis of the activities carried out by its subsidiaries.\(^1\)

(iii) A majority supported classifying holding companies to the institutional subsector “other financial intermediaries” (OFIs). The Fund will advise of possible amendments of the definition of OFIs that may be needed if holding companies are to be classified under OFIs. (See Attachment.)

(iv) It was agreed that if holding companies were analytically significant, they should be shown as a subgroup of OFIs.

(v) It was recognized that many users would prefer data on the basis of the sector/industry of ultimate owner or destination, in order to see through a holding company in all cases.

(4) Rejected Alternatives:

None.

---

\(^1\) Note: In contrast, DITEG concluded that holding companies should be classified on the basis of the activities of its subsidiaries in the same territory. See DITEG Outcome Paper #9.
(5) Questions for WIIS and the Committee:

(i) Does the Committee agree that companies undertaking production in addition to holding functions should be classified on the basis of the predominant function?

(ii) Does the Committee agree that holding companies should be classified on the basis of their own economic function as a holding company, rather than on the function of the subsidiaries?

(iii) For sector classification of holding companies, see Attachment.
Additional Note on Institutional Sector Classification

From the 1993 SNA:

Other financial intermediaries except insurance corporations and pension funds (S.123)

4.95. This sub-sector consists of all resident corporations and quasi-corporations primarily engaged in financial intermediation except depository corporations, insurance corporations and pension funds. Financial corporations included under the present heading are those which raise funds on financial markets, but not in the form of deposits, and use them to acquire other kinds of financial assets. The types of corporations which may be included under this heading are those engaged in financing investment or capital formation; for example, investment corporations, corporations engaged in financial leasing, hire purchase corporations and other corporations engaged in the provision of personal finance or consumer credit.

Financial auxiliaries (S.124)

4.96. This sub-sector consists of all resident corporations and quasi-corporations engaged primarily in activities closely related to financial intermediation but which do not themselves perform an intermediation role. They consist of corporations such as securities brokers, loan brokers, flotation corporations, insurance brokers, etc. They also include corporations whose principal function is to guarantee, by endorsement, bills or similar instruments intended for discounting or refinancing by financial corporations, and also corporations which arrange hedging instruments such as swaps, options, and futures or other instruments which are continually being developed as a result of wide-ranging financial innovation.

Many holding companies only pass funds among a small number of affiliated companies; in the clearest case, the holding company’s balance sheet consists entirely of equity of one owner and one subsidiary. Such cases may fall short of the definitions of “financial intermediation” and “raising funds in financial markets.” The OECD Task Force on Financial Services is currently discussing whether the scope of financial intermediation services should include holding equity.

Given the doubts about the extent of financial intermediation and the keeping intermediation as normally understood separate from holding companies, it is proposed that holding companies be identified separately. The item could appear under OFIs, auxiliaries, or in its own right under financial corporations.
Questions for WIIS and the Committee:

(i) If the Committee agrees that holding companies should be classified on their own function, rather than that of the subsidiary, how does the Committee consider that holding companies should be classified?
   (a) Included with other OFIs?
   (b) Separate heading under OFIs
   (c) Included with other financial auxiliaries?
   (d) Separate heading under other financial auxiliaries?
   (e) Separate heading outside both OFIs and financial auxiliaries?

(Note: The OECD Task Force on Financial Services will meet on May 9-10, 2005 to decide on its proposals to be presented to the AEG. The Committee will be advised of the results of the meeting and may wish to take them into account.)