BOPCOM-06/22B

Nineteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Frankfurt, October 23-26, 2006

Financial Instruments and Institutional Sector Classifications

Prepared by the Statistics Department
International Monetary Fund

1. AEG proposals on financial instruments and subsectors

The appendix includes the current paper sent to ISWGNA members on financial instruments and subsectors. (Some details, as noted in the footnotes to Table 1, were still being discussed at the time of writing.)

- *Does the Committee have comments on the proposed financial instrument classification?*

- *Does the Committee have comments on the proposed financial subsector classification?*

2. Proposal for *IAM* presentation on sectors

The following presentation is proposed:

(a) The full *SNA* classification of financial and nonfinancial subsectors will be elaborated in the *IAM*.

(b) The compilation of the complete or near-complete detail will be encouraged, with compilers taking into account both feasibility and the actual or potential user interest in linking international accounts data with other financial data (e.g., in the balance sheet approach).

(c) For reporting to the Fund and in the standard components, the following classification is proposed:

***IAM* Proposal**	***BPM5* equivalent**	**Comment**
Central bank	Monetary authorities	"However, in economies where some central banking functions are performed wholly or partly outside the central bank, consideration should be given to compiling data for the monetary authorities sector." (Draft *IAM* paragraph 4.61)
Other deposit-taking corporations	Banks	*SNA*/*MFS* define these corporations by function; some deposit-takers are not

		labeled as banks, such as credit unions and finance companies.
General government	General government	

Other sectors:
• Other financial corporations
  ○ Additional detail encouraged
• Nonfinancial corporations, households, and NPISH
  ○ Additional detail encouraged
	Other sectors	Proposal is designed to ensure backward compatibility, while recognizing the different role of the financial sector and the need for better linkages with financial statistics.

- *Does the Committee have comments on the proposed approach to sector classification in the standard components?*

APPENDIX

Classification of financial assets and liabilities

The ISWGNA basically accepted the outcome of the questionnaire on the classification of financial assets and liabilities. Further discussion within the IMF, particularly with the BOP and financial staff, suggested a number of minor modifications. The changes are itemised below.

It was noted that the listed/unlisted dichotomy could apply to debt securities and to investment funds as well as to shares.

It was preferred that the sixth item be described as “insurance, pension and standardised guarantee schemes” and the second sub-item to be described as “life insurance and annuity entitlements” in parallel to pension entitlements.

It was suggested that to keep in line with the proposed changes to the Benchmark definition on direct investment, two further memorandum items should be added, for debt securities and trade credit.

Table 1, attached, shows the proposed classification.

Classification of financial sub-sectors

The ISWGNA discussed a proposal to have nine sub-sectors of financial institutions with flexibility on aggregation. It was agreed that the discussion of the sub-sectors would continue to be in chapter 4 but the use of the sub-sectors would be in chapter 25.

The same group of IMF staff who discussed the classification of asset, described above, also discussed this proposal on sectoring. They had only one suggestion, though this was a very strong preference. This was to change the name of the second sub-sector from “other depository corporations” to “other deposit-taking corporations”.

Attached is a note on the proposed sub-sectoring with this amendment included.

With both of these agreed by the ISWGNA on September 27th, the revised note can go forward to both the OECD national accounts meeting and BOPCOM.

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Table 1: Proposed modified classification of financial assets and liabilities in the 1993 SNA Rev 1

Financial asset (transaction)	SNA code (transaction)
Monetary gold and special drawing rights (SDRs)	**F.1**
Monetary gold	
Special drawing rights	
Currency and deposits	**F.2**
Currency	
Transferable deposits	
Interbank positions♦	
Other transferable deposits	
Other deposits	
Debt securities *	**F.3**
Short-term	
Long-term	
Loans	**F.4**
Short-term	
Long-term	
Equity and investment fund shares **	**F.5**
Equity	
Listed shares♦♦	
Unlisted shares♦♦	
Other equity	
Investment fund shares/units*	
Money market fund shares/units	
Other investment fund shares/units	
Insurance, pension and standardised guarantee schemes♦♦	**F.6**
Non-life insurance technical provisions	
Life insurance and annuity entitlements♦♦	
Pension entitlements	
Provisions for calls under standardised guarantees	
Financial derivatives and employee stock options	**F.7**
Financial derivatives	
Options	
Forwards***	
Employee stock options	
Other accounts receivable / payable	**F.8**
Trade credit and advances	
Other	
Memorandum item:	
Direct foreign investment	
Equity and investment fund shares	
Loans	
Debt securities	
Trade credit and advances	
Other accounts receivable/payable—other	

* The listed/unlisted split is relevant for debt securities and investment funds also.

** Reinvested earnings can exist under any of these.

*** Credit default swaps to cover for guarantees are included within this item.

♦ Still subject to discussion over separate identification.

♦♦ Still subject to discussion over precise terminology.

Sub-sectoring the Financial Corporations sector

The ISWGNA accepted that sub-sectoring the financial sector by type of financial institutions is only needed for disaggregated balance sheets and flow of fund (FOF) type analyses and this application should be described in a chapter making the link to monetary and financial statistics (chapter 25 of the updated *SNA*) and not in the main chapter (11) on the financial account. Within chapter 25, a degree of flexibility over how much detail to show should be allowed. What needs to be agreed are the common building blocks from which aggregates can be formed.

In all, up to nine sub-sectors could be specified, as detailed below. However, these nine plus the other full sectors of the SNA plus the ROW would give a total of 14 sectors and sub-sectors so due to/due from tables would require 196 cells for each type of instrument which is generally held to be too resource intensive to compile and too confusing to analyse. The MFSM advises that fewer categories are needed for FOF analysis than SNA shows.

By specifying the full nine sub-sectors but suggesting that some aggregation would be useful, flexibility is provided for country specific depending on local conditions. In particular, there would be freedom over whether to include money market funds with depository corporations or with investment funds. The nine sub-sectors are as follows:

1. Central bank, as now

2. Deposit-taking corporations other than Central bank. This corresponds to "other depository corporations" as now and is a change of terminology only. The change is proposed so that the existing term "depository corporation" can be used in an enlarged sense as explained below.. The present split between deposit money corporations and other other depository corporations now seems unnecessary and could be dropped.

3. Money market funds (MMF)

4. Investment funds, other than MMF

5. Other financial intermediaries except insurance corporations and pension funds (ICPF) Same title as now but excludes investment funds

6. Financial auxiliaries

7. Other financial institutions, except ICPF. This is a new heading. It would include corporate or quasi-corporate money lenders and may include some SPVs and holding companies.

8. Insurance companies (IC)

9 Pension funds (PF)

Suggested possible combinations are as follows

1 +2: Depository corporations

To this could be added some or all of 3. An MMF is organised in a way similar to other investment funds in that both represent a way of offering shares in a basket of financial instruments. However, the instruments differ between MMFs and other investment funds; the instruments held are exclusively short-term securities in the former case and primarily equity (and possibly real estate) in the second. This in turn means that MMF shares may be treated as broad money and when this is so, it makes sense to include them with the central bank and depository corporations so that all units offering instruments include din broad money were grouped together. If MMF shares are not treated as broad money, there is no case to include these with depository corporations

3 +4 could be combined if 3 is not merged with 1 and 2.

5+6+7 could be combined to show all other financial institutions.

1+2+3+4+5 could be combined to show all financial intermediaries

6+7 could be combined

8+9 could be combined.

Whatever the chosen combination of sub-sectors, probably three (or four if the central bank is treated as a sub-sector on its own) should be sufficient. At the same time, it is probable that household and NPISHs may be combined or also possibly combined with non-financial corporations only so that instead of 14 sectors and sub-sectors there may be only 6 or 7 featuring in the disaggregated balance sheets and FOF.