OVERVIEW OF MAIN CHANGES IN 2008 SNA FINANCIAL

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Moorashin Javan

Statistic centre of Iran

Outline of Presentation

- Changes from 1993 SNA

- 2008 SNA Changes affecting GDP

Changes from 1993 SNA

Grouped as follows:

1. Further specifications of statistical units and revisions in institutional sectoring
2. Further specifications of scope of transactions including the production boundary
3. Further refinement of treatment and definition of financial instruments and assets

1. Further specifications of statistical units and revisions in institutional sectoring

Holding company (para 4.54)

Holds the assets of subsidiary corporations but does not undertake any management activities (Section K class 6420 of the ISIC Rev. 4)

Therefore, produces only a financial service

2008 SNA recommendation

- Always allocated to the financial corporations sector and treated as a captive financial/institutions even if all of their subsidiary corporations are non financial corporation.

1993 SNA recommendation

- Allocated to the institutional sector in which the main activity of the group of subsidiaries is concentrated
- Consequently they were classified as financial corporation only when the main activity of the group of corporations they controlled was financial.

1. Further specifications of statistical units and revisions in institutional sectoring

Head office (para 4.53)

Sometimes “head office” is more correct than “holding company”.

Activities, as defined in section M class 7010 of the ISIC Rev. 4, include

- Overseeing and managing of other units of enterprise
- Undertaking the strategic or organizational planning and decision making role of the enterprise
- Exercising operational control and manage the day-to-day operations of their related units

Therefore, produces non-financial or financial services depending upon the nature of production of its subsidiaries

2008 SNA recommendation

- Allocated to non-financial corporations sector unless
- all or most of its subsidiaries are financial corporations, in which case it is treated by convention as a financial auxiliary in the financial corporations sector

No explicit guidance for treatment in the 1993 SNA

1. Further specifications of statistical units and revisions in institutional sectoring

Sub-sectoring of the financial corporations sector revised

(para 4.98-4.116)

9 sub-sectors to reflect new developments in financial services, markets and instrument

i. Central Bank (S121)
ii. Deposit-taking corporations except the central bank (S122)
iii. Money market funds (MMFs) (S123)
iv. Non-MMF investment funds (S124)
v. Other financial intermediaries except insurance corporations and pension funds (ICPFs) (S125)
vi. Financial auxiliaries (S126)
vii. Captive financial institutions and money lenders (S127)
viii. Insurance corporations (ICs) (S128)
ix. Pension funds (PFs) (S129)

Subsectors in SNA 1993			Subsectors in SNA 2008	
Central bank	S.121	→	S.121	Central Bank
Other depository corporations	S.122	→	S.122	Deposit-taking corporations except the Central Bank
		↘	S.123	Money market funds (MMF)
Other financial intermediaries, other than insurance corporations and pension funds	S.123	→	S.124	Non-MMF investment funds
		↘	S.125	Other financial intermediaries except insurance corporations and pension funds (ICPF)
Financial auxiliaries	S.124	→	S.126	Financial auxiliaries
		↘	S.127	Captive financial institutions and money lenders
Insurance corporations and pension funds	S.125	→	S.128	Insurance corporations
		↘	S.129	Pension funds

Holding companies (from S.11)

Central Bank

National financial institution that control over key aspects of the financial system.

The following are classified in this subsector:

A. the national CB, including where it is part of a system of central banks.

B. currency boards or independent currency authorities that issue national currency that is fully backed by foreign exchange reserves.

C. central monetary agencies of essentially public origin(e.g. agencies managing foreign exchange or issuing bank notes and coin) that keep a complete set of account but are not classified as part of central government.

- As long as the CB is a separate institutional unit, it is always allocated to the financial corporation sector even if it is primarily a non-market producer.

Deposit-taking corporations except the central bank

Principal activity is financial intermediation. They have liabilities in the form of deposits or financial instrument.

The following are included in this subsector:

A. commercial banks, universal bank, all purpose bank.

B. saving banks.

C. post office giro institution, post banks, giro banks.

D. rural credit banks, agricultural credit banks.

E. cooperative credit banks, credit union.

F. specialized banks or other financial corporations if they take deposits or issue close substitutes for deposits.

Money market funds(MMFs)

Are collective investment scheme that raise funds by issuing share or units to the public. The proceeds are invested primarily in money market instruments, MMF shares or units, transferable debt instruments with a residual maturity of not more than one year, bank deposits and instruments that pursue a rate of return that approaches the interest rates of money market instruments.

MMF shares can be transferred by cheque or other means of direct third-party payment. Because of the nature of the instruments the schemes invest in, their shares or units may be regarded as close substitutes for deposits.

Non-MMF investment funds

Are collective investment scheme that raise funds by issuing shares or unites to the public.

The proceeds are invested predominantly in finance assets, other than short term assets, and in non-financial asset (usually real estate).

Investment fund shares or units are generally not close substitutes for deposits.

They are not transferable by cheque or other means of direct third-party payment

Other financial intermediaries, except insurance corporations and pension funds(ICPFs)

Providing financial services by incurring liabilities in forms other than currency, deposits or close substitute for deposits, on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market.

The following are classified in this subsector:

A. financial corporation engaged in the securitization of assets

B. security and derivative dealers (operating on own account)

C. financial corporations engaged in lending, including the finance associates of retailers, who may be responsible for financial leasing and both personal or commercial finance.

Other financial intermediaries, except insurance corporations and pension funds(ICPFs)

D. central clearing counterparties. These organizations provide clearing and settlement transactions in securities and derivatives. Clearing relates to identifying the obligations of both parties to the transaction, while settlement is the exchange of the securities or derivatives and the corresponding payment. The central clearing counterparties involve themselves in the transaction and mitigate counterparty risk,

E. specialized financial corporations that provide:

Short-term financing for corporate mergers and takeovers

Export/import services

Factoring services

Venture capital and development capital firms

Financial auxiliaries

Engaged in activities associated with transactions in financial assets and liabilities or with providing the regulatory context for these transactions but in circumstances that do not involve the auxiliary taking ownership of the financial assets and liabilities being transacted.

The following are classified in this subsector:

A. insurance broker, salvage and claims adjusters(whether employed by the insurance company, an independent adjuster or a public adjuster employed by the policyholder), insurance and pension consultant

B. loan brokers, securities brokers, investment advisers, etc

C. flotation corporation that manage the issue of securities

D. corporation whose principal function is to guarantee, by endorsement, bills and similar instruments

Financial auxiliaries

E. corporations that arrange derivative and hedging instruments, such as swaps, options and futures (without issuing them)

F. corporations providing infrastructure for financial markets

G. managers of pension funds, mutual funds, etc (but not the funds they manage)

H. corporations providing stock exchange and insurance exchange

I. foreign exchange bureau

J. non-profit institutions recognized as independent legal entities serving financial corporations

Financial auxiliaries

K. head offices of financial corporations that are principally engaged in controlling financial corporations but that do not themselves conduct the business of financial corporations

L. central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units

Captive financial institutions and money lenders

Consist of institutional units providing financial services, where most of either assets or liabilities are not transacted on open financial markets. It includes entities transacting within only limited group of units(such as with subsidiaries) or subsidiaries of the same holding corporation or entities that provide loan from own funds provided only one sponsor.

The following are classified in this subsector:

A.legal entities such as trusts, estates, agencies accounts for brass plate companies

B. holding corporations that hold only the assets of a group of subsidiary corporations and whose principal activity is owning the group without providing any other service to the enterprises in which the equity is held, that is, they do not administer or manage other units.

Captive financial institutions and money lenders

C. SPEs or conduits that qualify as institutional units and raise funds in open markets to be used by their parent corporation.

D. units in which provide financial services exclusively with own funds, or funds provided by a sponsor to a range of clients and incur the financial risk of the debtor defaulting, including

- Moneylenders
- Corporations engaged in lending (e.g. providing student loans, import/import loan) from funds received from a sponsor such as government unit or non-profit institution.
- Pawnshops that predominantly engaged in lending.

Insurance corporations (ICs)

ICs Consist of:

incorporated, mutual and other entities whose principal function is to provide life, accident, sickness, fire or other forms of insurance to individual institutional units or groups of nits or reinsurance services to other insurance corporations.

Captive insurance is included (an insurance company that serves only its owner)

Deposit insurers, issuers of standardized guarantees that are separate entities and act like insurers by charging premiums and have reserves, are classified as insurance corporations.

Pension funds (PFs)

Pension liabilities arise when an employer or government obliges or encourages members of households to participate in a social insurance scheme that will provide income in retirement. The social insurance schemes may be organized by insurance corporations on behalf of employees or separate institutional units may be established to hold and manage the assets to be used to meet the pensions and to distribute the pensions.

The PF subsector consists of only those social insurance pension funds that are institutional units separate from the units that create them.

1. Further specifications of statistical units and revisions in institutional sectoring

Definition of financial services enlarged (para 4.98, 6.158, 6.165)

1993 SNA recognised only financial intermediation services

2008 SNA enlarges definition of financial services to give due weight to the increase in financial services other than the financial intermediation, specifically financial risk management and liquidity transformation

Financial services provided by money lenders recognised

- Include services provided by unincorporated enterprises

2. Further specifications of scope of transactions including the production boundary

Method for calculating financial intermediation services indirectly measured (FISIM) is refined (para 6.163-6.165)

By convention the 2008 SNA recommends that

- FISIM applies only to loans and deposits and
- only when those loans and deposits are provided by, or deposited with, financial institutions

The 2008 SNA calculates the output of FISIM on loans (V_L) and deposits (V_D) only, using a reference rate (rr)

Assuming that these loans and deposits attract interest rates of r_L and r_D respectively, the output of FISIM should be calculated as $(r_L - rr)\ V_L + (rr - r_D)\ V_D$

2. Further specifications of scope of transactions including the production boundary

Method for calculating financial intermediation services indirectly measured (FISIM) is refined (para 6.163-6.165)

For financial intermediaries, all loans and deposits are included, not just those made from intermediated funds.

The reference rate should contain no service element and reflect the risk and maturity structure of deposits and loans.

The rate prevailing for inter-bank borrowing and lending may be needed for each currency in which loans and deposits are denominated, especially when a non-resident financial institution is involved.

2. Further specifications of scope of transactions including the production boundary

Method for calculating financial intermediation services indirectly measured (FISIM) is refined (para 6.163-6.165)

The 2008 SNA recommends that output of FISIM should be allocated between users (lenders and borrowers) treating the allocated amount either as intermediate consumption or final consumption or exports

The 1993 SNA

- Calculated FISIM as the difference between property income receivable and interest payable
- Excluded from property income receivable that part which was earned using investment of own funds
- Gave countries choice to continue to use the convention to allocate whole of FISIM to intermediate consumption of a notional industry

2. Further specifications of scope of transactions including the production boundary

Output of central bank clarified (para 6.151-6.156)

Services produced by the central bank
- Financial intermediation
- Monetary policy services
- Supervisory services - overseeing financial corporations

Separate establishments should be identified

Financial intermediation services represent market production

Monetary policy services represent non-market production

Supervisory services
- Borderline case
- Market or non-market services depending on whether explicit fees are charged that are sufficient to cover the costs of providing such services

1993 SNA recommended that the services of central bank be measured on basis of receipts from fees, commissions, and FISIM
- Resulted in unusually large positive or negative output

2. Further specifications of scope of transactions including the production boundary

Improved method for calculating output of non-life insurance services (para 6.184-6.190, 17.13-17.42)

Catastrophic events generate massive claims on non-life insurance corporations

In such cases the output of the insurance activity estimated using the basic algorithm of the 1993 SNA anchored on the balance of premiums and claims (on accrual basis) could be extremely volatile (even negative)

The 2008 SNA recommendation

- Output of non-life insurance activity should be calculated using adjusted claims and adjusted premiums supplements
- Net premiums receivable and actual claims may no longer be equal for each period

2. Further specifications of scope of transactions including the production boundary

Improved method for calculating output of non-life insurance services (para 6.184-6.190, 17.13-17.42)

3 methods to compute non-life insurance output

- Expectations approach
- Accounting approach
- Cost approach

Expectations approach

- Ex-ante model
- Insurers consider expectation of claims and premium supplements in setting premiums
- Expected margin (premiums earned + expected premium supplements – expected claims) provides better measure of output than 1993 SNA ex-post formula

2. Further specifications of scope of transactions including the production boundary

Improved method for calculating output of non-life insurance services (para 6.184-6.190, 17.13-17.42)

Accounting approach

- Output = premiums earned + premium supplements – adjusted claims incurred
- Adjusted claims incurred determined by using claims incurred plus changes in equalization provisions and, if necessary, changes to own funds

Cost approach

- Use if data are not available to apply the expectations and accounting approaches
- Output is estimated as sum of costs (including intermediate costs, labour and capital inputs) plus allowance for "normal profit"
- Change the terminology from "claim due" to "claim incurred"

3. Further refinement of treatment and definition of financial instruments and assets

To reflect the innovations in the financial market and also maintain its relevance in a time of rapid economic and institutional change the financial asset classification has been changed in the 2008 SNA (Chapter 11)

- Monetary gold and Special Drawing Rights (SDRs)
  - Monetary gold
  - SDRs
- Currency and deposits
  - Currency
  - Transferable deposits
  - Other deposits
- Debt securities
  - Short-term
  - Long-term
- Loans
  - Short-term
  - Long-term
- Equity and investment fund shares
  - Equity (listed/unlisted/other shares)
  - Investment fund shares/units
- Insurance, pension and standardized guarantee schemes
  - Non-life insurance technical reserves
  - Life insurance and annuity entitlements
  - Pension entitlements
- Financial derivatives and employee stock options
  - Financial derivatives
  - Employee stock options
- Other accounts receivable/payable
  - Trade credits and advances
  - Other accounts receivable/payable

3. Further refinement of treatment and definition of financial instruments and assets

Treatment of non-performing loans elaborated (para 11.130, 13.66-13.68)

Despite the fact that loans are to be recorded in the balance sheet at nominal values, certain loan that have not been serviced for some time should be identified and memorandum items concerning them should be included in the balance sheet of the creditor.

These loans are termed non-performing loans.

Non-performing loan – loan on which payments of interest and/or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons (such as a debtor filing for bankruptcy) to doubt that payments will be made in full

3. Further refinement of treatment and definition of financial instruments and assets

Treatment of non-performing loans elaborated (para 11.130, 13.66-13.68)

2008 SNA recommendation

- Non-performing loans should continue to be recorded at nominal value in main accounts
- Interest should be shown accruing until a loan is repaid or principal is written off by mutual agreement

2 memorandum items is recommended

- Nominal value of loans deemed to be non-performing
- Market equivalent value of these loans

Interest receivable on non-performing loans should be shown as “of which” item

1993 SNA did not provide criteria for recording of non-performing loans

3. Further refinement of treatment and definition of financial instruments and assets

Distinction between financial and operating leasing (para 17.301-17.309)

2008 SNA
- Distinction according to whether the lessee should be regarded as the economic owner of the asset or not

1993 SNA
- Distinction was interpreted to be based on the length of the time of lease

3. Further refinement of treatment and definition of financial instruments and assets

Changes in recording pension entitlements (para 17.116-17.206)

2008 SNA

- Recognizes that employment-related pension entitlements are contractual engagements, in that they are expected or likely to be enforceable
- Therefore, they should be recognized as households' assets, irrespective of the fact that segregated schemes' assets exist or not, and of the fact that the employer may have recorded an associated liability entry in his balance sheet or not
- Consequently recommends recording of the liabilities of employment-related pension schemes, regardless of whether funding to meet them exists or not

Pensions provided by government via social security

- Division between which pensions are provided by social security and which by other employment-related schemes varies considerably from country to country
- Countries have some flexibility to deviate from this rule in the set of standard tables

However, the full range of information required for a comprehensive analysis of pensions is recommended to be provided in a supplementary table that shows the liabilities and associated flows of all private and government pension schemes, whether funded or unfunded and including social security

2008 SNA Changes affecting GDP

New way of measuring FISIM

Measurement

Measurement relies only on interest receivable on loans and interest payable on deposits, ignoring all other investment incomes

Loans made from own funds are also treated as generating output

FISIM to be allocated between users

Impact

Depending on the structure of financial instruments, output of FISIM could increase

For example, loans made from own funds will increase FISIM

Money lenders output recognized

FISIM allocated to final demand and exports will increase GDP

New way of measuring FISIM

$$(r_I - rr)V_I + (rr - r_D)V_D$$
$$= r_I V_I - r_D V_D + rr(V_D - V_I)$$

If $V_D = V_I$, then this formula in 1993 SNA and 2008 SNA are the same.

If $V_D > V_I$, then FISIM based on 2008 SNA are more than FISIM based on 1993 SNA.

If $V_D < V_I$, then FISIM based on 2008 SNA are less than FISIM based on 1993 SNA.

Unfundedpension funds

Imputation

There is a cost to administering pension schemes, including non-autonomous and unfunded ones

Output to be determined using sum of costs, consumed by employees holding the pension entitlements

Impact

Increases household consumption and possibly exports

Increases GDP

Thank You