



**STATISTICS DIRECTORATE
DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS**

**COM/STD/DAF(2006)1
For Official Use**

**CONSOLIDATION IN OF FINANCIAL ACCOUNT AND BALANCE SHEET ACCOUNT DATA IN
OECD DATABASES**

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WORKING PARTY ON FINANCIAL STATISTICS

To be held on 9-10 October 2006

*Tour Europe - Paris la Défense
Beginning at 9:30 a.m. on the first day*

JT03213916

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CONSOLIDATION IN OF FINANCIAL ACCOUNT AND BALANCE SHEET ACCOUNT DATA IN OECD DATABASES

Note by Canada for the OECD EDG on consolidation

Background

1. It is evident that substantial progress has been made in recent years at the OECD in the area of financial accounts. The re-instatement the **Financial Account (FA)** and **Balance Sheet Account (BSA)** program, since the move of the WPFS from the DAFFE Directorate to the Statistics Directorate, was a welcomed and major accomplishment. Some work continues to be done on the harmonization side, in particular with respect to SNA93 revisions as well as other issues related to the program. One of these topics has entailed understanding/articulating issues related to the consolidation of data in the financial accounts databases. Consolidation has been on the WPFS agenda for the last three years but, unlike other topics, progress has been limited.
2. The focus at the OECD Statistics Directorate over the last few years has been to try and understand what countries are doing with respect to consolidation and, in the process, to classify their accounts as either consolidated or non-consolidated. Currently two full sets of data on each of the **FA** and **BSA** from each country are requested by the OECD – covering both consolidated and unconsolidated data. This practice follows the Eurostat compilation guidelines, specifically the rules on consolidation developed in 2002.
3. This approach has been questioned by some WPFS members, where:
 - Their country practices entail producing and releasing one set of financial accounts to their respective user communities, typically accompanied by metadata and sources and methods documentation;
 - Their one set country FA and BSA are neither purely unconsolidated nor fully consolidated.
4. It was proposed in October of 2005 by the Chair of the WPFS, and accepted by the secretariat, that an OECD electronic discussion group (EDG) is set up on consolidation. The objectives of this EDG would be to address the issues of consolidation before the WPFS; and, to contribute to the SNA93 revisions' process as a clarification item on consolidation. The EDG will report its findings to the WPFS to the October 2006 meeting.
5. This paper is the second posting to the OECD EDG. There is inevitably a certain degree of overlap between this note and the accompanying note on Consolidation of Financial data in SNA.

Practical Issues in the Consolidation of FA and BSA

Summary Points on International Guidance/Manuals¹

6. SNA93 says very little on consolidation; however what it does say is quite clear. Specifically, as a general rule, the SNA entries are not consolidated. It does admit that there can be cases where consolidated data may be useful for certain types of analysis. However, it is interpreted that such consolidations are supplementary in nature, and therefore not part of the core SNA accounts. Closely-related to the macroeconomic definition of consolidation is that of netting. SNA93 does not recommend the netting of financial instruments as a practice. It can therefore be concluded that overall sub-sector and sector data are combined and not consolidated in the System.

7. Eurostat supports the SNA93 position, but has more recently taken a position (2002) in favour of compiling consolidated data in addition to non-consolidated data, as indicated in the *Sources and Methods for the Compilation of ESA95 Financial Accounts, 2002*. With respect to consolidation guidance is as follows: At the sector level, “all transactions and stock positions between institutional units within the boundaries of the sector are eliminated”. At the sub-sector level, “all transactions and stock positions between institutional units within the boundaries of the sub-sector are eliminated. The OECD FA and BSA databases have adopted the Eurostat process without debate.

8. The IMF renewed efforts at compiling more comprehensive monetary and financial statistics, following the *Monetary and Financial Statistics Manual (MFSM 2000)* refers to a need for consolidated data for financial sectors; and, it would reasonable that the countries’ data supporting the OECD FA and BSA would also form a major part of the countries’ inputs to the IMF MFS. In this respect, consolidation of FA and BSA data is very much a cross-cutting issue for compilers

9. Further, the IMF Government Statistics Manual (GFSM 2001) calls for consolidated government data. The recent efforts at harmonization of GFSM and SNA93, and existing demands for consolidated government data, underline the importance of evaluating this in SNA/OECD databases.

10. International guidance on consolidation does not discuss the financial accounting concept of consolidation in the case of complex enterprises, which figures closely in the elimination of intra-sector transactions (positions) and reflects data collection realities in many countries. It seems evident that the issue of complex corporations should be addressed.

Relevance Issues

11. It is conceded that consolidated data may be useful for certain types of analysis, but for many types of macroeconomic and macro-financial analysis, largely unconsolidated data are adequate. This seems to be the position in SNA93.

12. Financial transactions’ data are primarily used for analysis of financial activity (both on organized markets and otherwise), to articulate how funds flow between surplus to deficit sectors, and as a supplement to the total (gross) incomes and total (gross) outlays of each of the sectors in the economy. Balance sheet accounts show the total holdings of assets and liabilities (by category type) among the institutional sectors, the financial positions of each of these sectors, and tie into the sector income-outlay

1 See the note *Consolidation of Financial Data in SNA* (note by Canada for the OECD EDG on consolidation for a fuller discussion on international guidance. The author apologizes if there are any misinterpretations of Eurostat and IMF recommendations and in this section, and welcomes any clarifications.

and financial transactions accounts. It can be argued that unconsolidated data² are either preferable and/or generally sufficient for these purposes.

13. However, it has also been argued in different forums that consolidated data are required to better understand the activities of a sub-sector or sector with economic units outside of their universe. Two examples of this come to mind: governments and depository corporations, for which consolidated data are often compiled.

14. In terms of relevance, there is a long-established need in most countries, as well as at the IMF and OECD, for consolidated government sector data. While the (partially) consolidated deposit-taking sector of the MFSM can be rationalized for monetary analysis purposes, the specific policy/analytic needs for consolidated data for other financial corporations or of a fully consolidated financial sector do not appear to be adequately explained in the MFSM. The need to take consolidation of **FA** and **BSA** data beyond the government and financial sectors, following Eurostat compilation guidelines, seems to be established in the European community but perhaps not elsewhere.

15. This makes it difficult for some statistical agencies (whether central banks or national statistical offices) to justify the additional respondent burden and cost involved to collect the required increased detail to produce consolidated **FA** and **BSA**, especially in an environment of competing demands for resources. Many countries rely heavily on the criterion of relevance in the development and extension of their statistical systems.

Compilation Issues

16. To a large extent, consolidated data as required by GFSM can be produced in many countries. A consolidated government sector relies on the significant extent of the specific types of transactions (e.g., transfers) that different levels of governments have with each other. This makes the production of consolidated government sector data feasible in most countries.

17. Going beyond the government sector, it is essential to recognize as a starting point that statistical agencies in the OECD countries typically produce one set of **FA** and **BSA**, and that established **FA** and **BSA** data sources in those countries cannot easily be modified. Concerning the Eurostat and IMF-MFSM guidelines on consolidation, feasibility is likely an issue for a number of countries³, given the significant objectives of eliminating all intra and inter-sector transactions and positions.

18. The Eurostat and IMF-MFSM compilation frameworks rely on a detailed “to whom from whom” breakdown for the standard SNA93 financial assets and liabilities. While some of this information is generally available as part of the source data for most countries **FA** and **BSA**⁴, the extensive level of detail required to estimate fully consolidated data is likely not currently available in many OECD countries⁵. This would make it necessary to rely on second-best methods, such as netting, to approximate consolidated data. This, in turn, can have an impact on accuracy and reliability of consolidated data estimates. Many countries may not be able to rationalize the production and release of lower quality estimates of fully consolidated **FA** and **BSA**.

2 Notably, the main net aggregates (net lending/borrowing, net debt and net worth) always reflect consolidated balances.

3 This may be true, especially for non-European countries. While special efforts may be undertaken in the European community to achieve the Eurostat consolidation objectives (say, with a unified approach to collecting detailed to-whom from-whom detail), this may not be the case for other OECD countries.

4 In most countries only a very limited amount of this type information is available through the data collection system, often related to specific types of institutions (e.g., deposit-taking and lending institutions).

5 This level of detail in the source data and is not likely to increase in the short to medium-term.

19. Consolidation experiences/practices in OECD member countries seem varied, at least by the partial results of the OECD survey on consolidation methods conducted in 2005. One possible reason for this is that consolidation in national accounts is not a black and white issue, and that the **FA** and **BSA** estimates produced in many countries likely reflect a mixture of consolidated and unconsolidated data. Therefore, it seems to be the case that a number of countries may not be able to provide pure unconsolidated data submissions⁶ for **FA** and **BSA**; and it also seems to be the case that a number of countries cannot supply data on a fully consolidated (elimination of all intra/inter-sector transactions and positions) basis. This brings into question the ability of the OECD to effectively provide meaningful estimates of both unconsolidated and consolidated **FA** and **BSA** data for the member countries.

20. Not surprisingly, the current OECD request for unconsolidated and consolidated **FA** and **BSA** data has had somewhat mixed results and, as a consequence, country data may be difficult to interpret. It is assumed that one of the reasons to seek to provide both unconsolidated and consolidated data is to improve data comparability across OECD countries. It may well be that we have to accept that **FA** and **BSA** data are not fully comparable across jurisdictions and settle for the fact that the main net indicators of sector financial position (e.g., net worth, net debt, net lending/borrowing) can be compared, to the extent that they are unaffected by consolidation practices. This comment does not imply that WPFS and international standards abandon efforts at improving international comparability.

Experience at Statistics Canada

21. National accounts' data at Statistics Canada (including the **FA** and **BSA**) are generally not consolidated. This follows SNA93.

22. Pre-dating the recent OECD request⁷, we have not previously been asked to provide data in which all intra/inter-sector transactions and positions are eliminated. Outside of consolidated sector data for government and partial consolidation in the deposit-taking sector we would not be in a position to provide further consolidated **FA** and **BSA** detail to the OECD⁸. The survey system is not designed to provide for the level of detail required to accurately produce fully consolidated financial accounts estimates, and the cost of expanding/modifying the data collection process to produce such consolidated data is considered prohibitive in the face of competing priorities.

23. From the supply perspective, the increased burden on respondents of supplying detailed "to-whom from whom" information is of significant concern at Statistics Canada. In any case, it is doubtful that all types of respondents could accurately provide these data if there were asked to do so. The limited exception here is with selected major financial institutions (e.g., chartered banks) where financial regulators have requested certain counter-part detail. Such counter-part entry detail would only allow for a limited amount of (largely inter-sector) eliminations. However, these counter-part data are primarily used in **FA** and **BSA** to improve the quality of sector detail.

24. Further, there is no domestic user demand for fully consolidated **FA** and **BSA**, and it is therefore not considered to be relevant enough to justify further investment in this direction. Rather, we have focused our efforts towards expanding and improving the **FA** and **BSA** in other ways, including new financial instruments, improved estimates of market value, enhanced detail on pension assets and liabilities, etc.

6 Say, or if some degree of consolidation is embedded in the financial statistics source data of many statistical agencies (i.e., with respect to the treatment of complex enterprises)

7 Two full sets of data on each of the **FA** and **BSA** from each respondent country are requested by the OECD – covering both consolidated and unconsolidated data.

8 In conjunction with this point, we will not be able to provide consolidated MFS to the IMF, outside of partial consolidation in the monetary sector, despite considerable asset and institutional sector survey and other detail on financial institutions.

Intra-sector consolidation

25. There is an integrated collection process for corporations at Statistics Canada, respecting that there are 2 basic levels of units to deal with – establishments and enterprises. The lowest level is the establishment⁹, which is typically not an institutional unit except in the case of a simple corporation with one establishment. Any corporation can be comprised of one or more establishments in different industries. A simple corporation is an institutional unit. The legal entity corporation, or company, is the statistical enterprise for simple corporations. However, for complex corporations, a higher level statistical entity is the institutional unit. The statistical enterprise in this case represents a domestic consolidation¹⁰ of majority-owned subsidiaries¹¹. These subsidiaries, along with their establishments, can cross several industries.

26. The domestic consolidation of complex enterprises is considered a statistically superior and economically more meaningful way to process, compile and present enterprise data. Behind this process is a profiling of complex corporations, so as to be able to link down through to the establishment level for coherence analysis purposes. The statistical enterprise for complex corporations, however, typically excludes subsidiary companies whose main activities are financial in nature. This distinction is made, so as to be able to produce meaningful estimates of financial sectors and sub-sector for **FA** and **BSA** purposes.

27. Unconsolidated related companies are typically accounted for using the equity method¹². There are no adjustments made to the data to account for transactions and positions between unrelated corporations. This is the case, as the required data are not available to a very large extent, and netting is not considered an option.

28. As a result there is inevitably some degree of intra-sector consolidation embedded in the Canadian **FA** and **BSA** estimates, based on the way in which complex corporations are collected and compiled. Other than that, units within a sector are aggregated (not consolidated) to produce sector totals.

Inter-sector consolidation

29. Inter-sector consolidations do not take place in the **FA** and **BSA** data. Sub-sectors are combined to produce sector totals in the official estimates. However, government sector data are the exception here. Supplementary calculations of a consolidated government sector are compiled from national accounts data. These data are used primarily to for submission to the OECD *Economic Outlook*. As well, GFS-based consolidated public sector data are available separately.

Summary

30. Canadian **FA** and **BSA** sub-sector estimates are considered to be partially consolidated. Fully consolidated estimates and pure unconsolidated estimates are not available. Full intra and inter sector consolidation, is not viewed as a realistic goal in the Canadian context, and netting is not supported as an

9 The establishment is sometimes referred to as the production unit.

10 This is the case in order to compile GDP, **FA** and **BSA** as well as the international accounts. This implies special tabulations for complex multi-national enterprises.

11 Financial accounting has clear guidelines for consolidation, and accounting reports in the form of collected surveys of corporations form the basis of data industry/sector financial data in the national accounts.

12 This is most appropriate for the **FA** and **BSA** as well as the international accounts.

approximation to consolidation. Statistics Canada's focus is to continue to supply and improve one core set of **FA** and **BSA** data, following SNA93.

Recommendations for discussion/debate

Recommendation 1

31. That the current OECD initiative with respect to understanding consolidation practices in OECD countries continue, as a means to assess the feasibility of submitting both unconsolidated and consolidated **FA** and **BSA** data to the OECD. The results of this exercise could also serve as an important part of the OECD countries' methodological notes related to the OECD **FA** and **BSA** databases.

Recommendation 2

32. That the discussion on intra-sector consolidation be extended to include the treatment of complex enterprises in the various countries' **FA** and **BSA** databases.

Recommendation 3

33. That the effort to understand consolidation practices in **FA** and **BSA** be extended incorporate the consolidated data requirements of related datasets – especially the financial accounts at Eurostat and the IMF-MFS data. In particular, it may be useful to develop a better understanding of the policy/analytic need for fully consolidated **FA** and **BSA** data.

Recommendation 4

34. That the current OECD requirement for both unconsolidated and consolidated **FA** and **BSA** data be re-considered by the WPFS, given that some countries may find it difficult, burdensome or impossible to meet the current OECD demands; and, given that the labels “unconsolidated” and “consolidated” may not be accurate/useful in the case(s) of partially consolidated sub-sector data for some countries. In addition, some countries may have concerns about the perception of lack of compliance with the OECD requirements, especially if these same countries are largely consistent with SNA93.

35. One compromise proposal is that the burden of reporting to the OECD be reduced by returning to a one database submission for both **FA** and **BSA**, consistent with the published data of most countries. Sub-sector data would largely be unconsolidated, but would specifically reflect the data collection practices in the various countries. Sector data would be submitted on both a combined and on a consolidated basis, with the latter being voluntary¹³. The level of country consolidated **FA** and **BSA** detail would vary, with likely more consistency across the European member countries. European countries, adhering to the Eurostat compilation practices, could continue to submit both non-consolidated and consolidated data. For non-European countries, the non-consolidated consolidated distinction would largely become reference for generally classifying their **FA** and **BSA** data.

Recommendation 5

36. That the WPFS plan to make a substantial contribution to the next round of revisions to SNA, where aspects income (including consolidation and complex enterprises) will be a major review item.

¹³ Most countries would be in a position to submit total government sector data on both a combined and consolidated basis, and many countries could submit at least partially consolidated depository corporations' sector.