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**OECD EDG SUMMARY: CONSOLIDATION IN OECD DATABASES**

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## OECD EDG SUMMARY: CONSOLIDATION IN OECD DATABASES

### Introduction

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) be set up on consolidation. One objective of this EDG was to address the issues of consolidation before the WPFS. The EDG will report its findings to the WPFS to the October 2006 meeting. This note is part of that process.

The summary is organized around the proposed recommendations contained in the EDG paper *Consolidation of Financial data in SNA* by Canada.

### Recommendation 1

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.

There was support for this recommendation in the EDG. In particular, that the development of comprehensive methodological notes (on consolidation and other topics) should have high priority. In this sense, this supports the general views of the OECD WPFS. On the other hand, the EDG provided a clear indication that consolidation issues in the OECD databases went beyond the need for documentation.

There was a general consensus that more work had to be done in this area. In particular, there was a suggestion that it would be useful to have one or two countries who do present both unconsolidated and consolidated data put together a case study for consideration by the group.

### Recommendation 2

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

EDG respondents clearly recognized the difficult issues surrounding complex enterprises and intra-sector consolidation. EDG participants noted that financial accounts' source data are collected for domestic group of companies (legal entities), or noted data problems with consolidated corporations' source data. This strongly suggests that the treatment of complex enterprises should figure into our understanding and documentation of consolidated and non-consolidated data.

### Recommendation 3

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.

There was strong support for an emphasis on user needs (relevance) when it comes to data in OECD databases. EDG participants generally confirmed that (outside of government and depository corporations) that there was little or no demand for consolidated data in their respective user communities.

There was concern over the relationships among the OECD databases and related databases elsewhere, in particular at the IMF. The re-designed IMF Monetary and Financial Statistics are basically SNA93 based, but is it not always clear that financial data between the two agencies are comparable. Inconsistencies are problematic for users. In addition, the IMF-MFS program request consolidated financial sectors in a similar fashion to the existing OECD databases requirements. Beyond this, it was noted that the IMF Financial Soundness program is also focused on consolidated data, but from different perspectives than the OECD databases and the IMF-MFS. In short, consolidation is a cross-cutting issue, on which more work needed to be undertaken.

#### **Recommendation 4**

a) That the current OECD requirement for both unconsolidated and consolidated **FA** and **BSA** data be reconsidered 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.

There were clear concerns expressed by EDG participants over what can be produced, what is produced and what is being requested and used in respect of OECD (and other) financial accounts’ databases (see also recommendation 3). On the one hand there was a clear message that countries can neither present fully unconsolidated or fully consolidated data – that financial data, by its nature often reflected a mixture of consolidation, especially at the sub-sector level. This seems to seriously bring into question the analytical usefulness (relevance, accuracy) of presenting both unconsolidated and consolidated financial data in OECD databases.

There were a general concern expressed that financial statisticians are coming under increasing pressure to deliver data for purposes other than the original uses of financial accounts. As a result, we may be reaching a point where we run the risk of developing and proposing concepts which in practice we stand little of no chance of being able to produce. This relates to both the reporting burden on the respondent OECD countries, as well as the constraints that those same countries face in modifying their statistical systems to meet new demands.

b) 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 voluntary. Most countries would likely 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. 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.

There was generally support in the EDG for a return to a one OECD database submission linked to the core financial accounts produced in each of the countries. Supporting metadata would be essential to facilitate

international comparisons. It was generally felt that the main OECD databases should be SNA93 based (that is, unconsolidated). However, there was strong support for providing consolidated sector data for 2 key sectors: Government and depository corporations. In both of these cases, there is a clear user demand, and sufficient detail with which to produce consolidated estimates. There was a sense that a certain degree of estimation would be acceptable in producing consolidated data, but that going too far, would potentially reduce the quality and analytical usefulness of the data.

There was a suggestion that OECD databases could be expanded to include counter-party information, where it exists. This would likely first require an understanding of the detail that exists in each country, which returns us to recommendation 1.

### **Recommendation 5**

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

There was general support in the EDG for this recommendation, in particular towards ensuring that the WPFS is more engaged in the next round of SNA revisions.