The financial crisis of 2008 revealed the risks posed by credit intermediation involving entities outside the regular banking system (also known as “shadow banks”). In response, the leaders of the G20 agreed to measure and monitor this non-bank financial intermediation (as part of recommendation II.5 of the G-20 Data Gaps Initiative), and to further break down the financial corporations’ sector in SNA-based sectoral accounts, and to approximate shadow banking from a macro perspective. In the summer of 2018, G-20 countries endorsed the templates for capturing the relevant information (as part of the more advanced ambitions) and the additional data series will be included in the international data collection templates as of 2020. As this concerns new subsectors and instruments that are not covered in the 2008 SNA, this paper proposes some definitions.

Contact: Isabelle Ynesta (Isabelle.ynestat@oecd.org), Jorrit Zwijnenburg (Jorrit.zwijnenburg@oecd.org) and Matthew de Queljoe (Matthew.dequeljoe@oecd.org)
1. Introduction

1. The financial crisis of 2008 revealed the fragile regulation of the global financial system, and highlighted that the increase of credit intermediation involving entities outside the regular banking system (initially called “shadow banking”, but now referred to as ‘non-bank financial intermediation’) was a source of risk to financial stability when it involved liquidity, maturity and credit transformation as well as the built up of leverage. Because of the importance of this phenomenon, the leaders of the G20 agreed on the need to measure and monitor this non-bank financial intermediation (as part of recommendation II.5 of the G20 Data Gaps Initiative), and to approximate the non-bank financial intermediation from a macro perspective by further breaking down the financial corporations’ sector in the System of National Accounts.

2. In response to this recommendation, in 2017, the OECD Secretariat developed a proposal for capturing relevant trends in the financial world by collecting information on additional sector and instrument breakdowns to get a more granular overview of the financial sector. This will provide more insight in relevant trends in non-bank financial intermediation and in the financial world more in general. These proposals were incorporated in the templates for institutional sector accounts as “more advanced ambitions” focusing on annual and quarterly stock data on non-bank financial intermediation.

3. After two consultations in 2017, and discussions at two thematic workshops on institutional sector accounts (in April 2017 and February 2018), G20 countries endorsed the general templates for institutional sector accounts (relating to recommendation II.8) and the more advanced ambition templates (relating to non-bank financial intermediation (as part of recommendations II.5) and from-whom-to-whom matrices (as part of recommendation II.8)) by the 31st of July 2018, and committed to the target requirements by 2021. For the more advanced ambitions, no formal engagement is requested by 2021, although countries are encouraged to deliver what is available at the national level, and to consider these requests, if they make plans for further development of their statistics.

4. This paper focuses on the template for non-bank financial intermediation, which presents more granular sector breakdowns for the financial corporations’ sector as well as additional instruments, as compared to the current templates of financial balance sheets by sector. Whereas the 2008 SNA already includes definitions and guidelines for the main subsectors within the financial corporations’ sector and for the main financial instruments, these further breakdowns require additional guidance.

5. This paper presents first proposals for definitions for the more granular subsectors and instruments requested in the non-bank financial intermediation template. In deriving these definitions, the following approach has been applied: the first step was the study of

---

2 Please note that the general collection templates for institutional sector accounts data include “target” and “encouraged” items, for which G20 countries committed to provide at least the target items by 2021. The ‘more advanced ambition’ templates include “encouraged” items only, with two levels of priority (“tier 1” and “tier 2”), for which G20 countries are not obliged but encouraged to provide data by 2021.
3 The general templates collect information on annual and quarterly non-financial transactions and financial transactions and stocks, as well as on annual stocks of non-financial assets. https://community.oecd.org/docs/DOK-161682.
4 Please note that the guidelines do not provide any guidance for the subsectors of the financial corporations that are already requested in the G20 general templates.
the financial corporations’ sector classifications and the definitions provided by international standards (e.g. 2008 SNA, ESA 2010). The objective was to see whether the standards already covered some of the more granular sectors and instruments requested in the template, and whether the definitions they provided were harmonised and sufficiently specific for compilers. For subsectors and instruments that were not covered or only described very briefly in international standards, a second step was implemented and consisted in the research of additional sources to find relevant information in order to suggest a clearer and more comprehensive definition, that converges towards the standards at the aggregated level. This second step relied, for instance, on the work carried out by the Financial Stability Board on non-bank financial intermediation, ECB regulations with regard to collection of more granular financial corporations’ data, guidelines for monetary financial statistics and explanatory notes, the IMF Handbook on Securities Statistics, the IMF Monetary and Financial Statistics Manual and Compilation Guide, Investopedia and Wikipedia.

6. This paper presents a first proposal and the Secretariat would very much like to receive feedback with regard to the proposed definitions, the interpretation of the sources that have been used to derive these definitions, and the terminology as proposed for the new subsectors and instruments. Based on the feedback, also consulting other relevant bodies, the Secretariat will update this paper with the aim of having harmonised terminology and definitions in June 2020 to accompany the first data collection of these more advanced ambitions.

7. This paper is organised as follows. Section 2 proposes definitions for the new categories as included in the various financial corporations’ subsectors. Section 3 concentrates on the guidance for additional instruments requested in the template. Lastly, Section 4 concludes and opens the discussion.

2. Additional sector breakdowns for the financial corporations’ sector

8. Financial corporations consist of all resident corporations that are principally engaged in providing financial services, including insurance and pension funding services, to other institutional units. The financial corporations’ sector can be divided into nine subsectors according to its activity in the market and the liquidity of its liabilities (2008 SNA, §4.102).

- Central Bank
- Deposit-taking corporations except the Central Bank
- Money market funds (MMF)
- Non-MMF investment funds
- Other financial intermediaries except insurance corporations and pension funds (ICPF)
- Financial auxiliaries
- Captive financial institutions and money lenders
- Insurance corporations (IC)
- Pension funds (PF)

9. In the non-bank financial intermediation template, some of these groupings are further broken down by type of funds or entities. This concerns i) Money-market funds
(S123), ii) Non-money market investment funds (S124), iii) Other financial intermediaries (S125), iv) Captive financial institutions (S127), Insurance companies (S128) and Pension funds (S129).

2.1. Money market funds

10. Money market funds (MMFs) are collective investment schemes that raise funds by issuing shares or units to the public of which the proceeds are invested primarily in the following instruments: 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 (2008 SNA, §4.107). This subsector covers investment trusts,\(^5\) unit trusts\(^6\) and other collective investment schemes whose shares or units are close substitutes for deposits (ESA 2010, §2.80).\(^7\) ECB regulations provide further precisions, noting that the term “primarily” as it regards a given investment portfolio means at least 85% (ECB/2001/13). As these funds are characterised by high liquidity and investments in short term assets, they may be liable to runs as well as leverage problems giving rise to systemic risk.

11. The Shadow Banking template requests the following breakdown of MMFs:\(^8\)

- Sub-sectors of Money Market Funds (S123):
  - S123A: Stable Net Asset Value (NAV) MMFs;
  - S123B: Floating NAV MMFs.

12. The net asset value (NAV) of an investment fund is the value of its assets minus its liabilities (the latter excluding investment fund shares) (ECB/2014/15). Stable NAV MMFs, also referred to as constant NAV MMFs, aim to maintain a stable share price (typically $1) at which investors may redeem or purchase shares. This stability can be achieved by valuing the fund’s investments at amortized cost rather than at market value (if the two valuations do not significantly diverge from each other) and to distribute extra interest earnings that are generated via the fund’s holdings to investors via dividend payments. On the other hand, the incurrence of investment losses or increased operating expenses may result in the fund losing its $1 share price (referred to as ‘breaking the buck’), although this only rarely occurs (see ‘Money Market Fund’ on Investopedia). Floating NAV MMFs, also referred to as variable NAV MMF, offer redemptions and acquisitions

\(^5\) An investment trust is a form of investment fund bound by a trust deed that invests the funds of shareholders and issues a fixed number of shares. For that reason, all investment trusts are closed-end funds (see ‘investment trust’ on Wikipedia). Please note that a trust is a legal construction in which three parties are involved, i.e. the trustor, the trustee and the beneficiary. The relationship between these three is setup in a way that the trustor transfers a property upon the trustee for the benefit of the beneficiary (see ‘trust law’ on Wikipedia). Whereas many of these legal constructions are included in the captive financial institutions as they are only transacting on behalf of a specific trustor for the benefit of a specific beneficiary, they can also be setup in flexible ways to act as an investment vehicle where both assets and liabilities may be transacted on the open market.

\(^6\) Unit trusts refer to collective investment entities constituted under a trust deed (see ‘unit trust’ on Wikipedia and Investopedia). In a unit trust, the unit holder is not a shareholder and a unit is not a share but it represents the investor’s interest in the unit trust’s investment portfolio (see ‘investment trust’ on BusinessDictionary.com).

\(^7\) Please note that different terminology may be used across countries. In that regard, it is important to focus on the specific characteristics of financial entities to decide upon their classification instead of focusing on the term that is used to describe them.

\(^8\) This breakdown is requested at the Tier 2 level.
at a price equal to the given fund’s NAV per share. Therefore, the share price of such a fund can fluctuate according to changes in the prices of the fund’s investments among other market factors. Floating NAVs are calculated using the market value of the underlying holdings.

13. This leads to the proposal for the following definitions:

- **Stable NAV MMFs** are MMFs that aim to maintain a stable share price (typically $1).
- **Floating NAV MMFs** are MMFs that do not aim to maintain a stable share price and consequently have share prices that may fluctuate.

### 2.2. Non-money market investment funds

14. Non-MMF investment funds are collective investment schemes that raise funds by issuing shares or units to the public and that invest the proceeds mainly in financial assets other than short-term assets, and in non-financial assets (usually real estate). Non-MMF investment funds cover investment trusts, unit trusts and other collective investment schemes whose investment fund shares or units are not seen as close substitutes for deposits. They are not transferable by means of cheque or direct third-party payments (2008 SNA, §4.108; ESA 2010, §2.83). Non-MMF investment funds can be distinguished as either open-ended or closed-ended.

- **Sub-sectors of Non-Money Market Funds (S124)**
  - S124A: Open end funds
  - S124B: Closed end funds

15. An open-end non-MMF is a non-money market fund whose investment fund shares or units are, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking’s assets (ESA 2010, §2.84a). This means that when an investor sells their shares, these shares are taken out of circulation rather than exchanged with a corresponding buyer. In some cases, certain restrictions regarding the issuance or redemption of shares or units may exist. Open-end non-MMFs may allow investors to buy new shares or sell their shares above a certain minimum amount. Likewise, investment funds shares or units could be issued or redeemed only at predetermined points in time. Moreover, issues of new shares may be temporarily suspended due to market conditions or in light of very high amounts of funds’ total assets. In these cases, the non-MMF should still be classified as an open-end non-MMF as, despite some restrictions, investors have the possibility to buy/sell investment fund shares directly from/to the fund.

16. A closed-end investment fund, on the other hand, is a collective investment scheme which, unlike an open-end investment fund, raises a fixed share capital, where investors entering or leaving the fund must buy or sell existing shares (ESA 2010, §2.84b).

17. This leads to the proposal for the following definitions:

---

9 This breakdown is requested at the Tier 1 level.

Open-end non-MMFs are non-MMFs whose investment fund shares or units are, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking’s assets.

Closed end non-MMFs are non-MMFs that raises a fixed share capital, where investors entering or leaving the fund must buy or sell existing shares.

18. Following on this distinction between open and closed end funds, the shadow banking questionnaire requests breakdowns of these funds into main type of investment:

- Sub-sectors of Non-Money Market Funds Open end funds (S124A):
  - S124A1: Non-MMFs Open end funds - Real estate funds:
  - S124A2: Non-MMFs Open end funds - Equity funds,
  - S124A3: Non-MMFs Open end funds - Bond funds,
  - S124A4: Non-MMFs Open end funds - Mixed or balanced funds
  - S124A5: Non-MMFs Open end funds - Hedge funds,
  - S124A9: Other Non-MMFs Open end funds

- Sub-sectors of Non-Money Market Funds Closed end funds (S124B):
  - S124B1: Non-MMFs Closed end funds - Real estate funds:
  - S124B2: Non-MMFs Closed end funds - Equity funds,
  - S124B3: Non-MMFs Closed end funds - Bond funds,
  - S124B4: Non-MMFs Closed end funds - Mixed or balanced funds
  - S124B5: Non-MMFs Closed end funds - Hedge funds,
  - S124B9: Other Non-MMFs Closed end funds

19. The definitions that follow generally characterise both open and closed end funds. The criteria for determining the classification of a given fund may be “derived from the public prospectus, fund rules, instruments of incorporation, established statutes or by-laws, subscription documents or investment contracts, marketing documents, or any other statement with similar effect” (ECB/2014/15). Generally, a fund can be classified according to its prevailing investment allocation policy when this information is present in a given fund’s prospectus. If such a policy is absent, the fund may be classified as a mixed fund, if it meets the criteria therewith (see the section on mixed funds below). The ECB guides that a 50% investment rule should be implemented, whereby if a fund invests at least 50% in a given type of asset, then it should be considered under that category (ECB, 2017). Investment funds that primarily invest in other investment funds’ shares or units (referred to as funds of funds) should be categorised according to the type of fund they invest in. For instance, funds that mainly invest in hedge funds should be considered as a hedge fund.

---

51 As open-end funds are more common than closed end funds, the breakdown for the former is requested at the Tier 1 level whilst for the latter it is requested at the Tier 2 level.
Real Estate Funds

20. Real estate funds are those funds that primarily invest in real estate investment undertakings.

Equity Funds

21. Equity funds are those funds that primarily invest in equity securities or stocks.

Bond Funds

22. Bond funds (also referred to as fixed income funds) are those funds that primarily invest in longer-term (more than one year) debt instruments such as government, municipal and corporate bonds.

Mixed or balanced Funds

23. Mixed or balanced funds (or sometimes referred to as hybrid funds) are those funds investing in a mixture of different asset class categories with no prevailing policy in favour of one specific instrument. These funds can be distinguished from the other fund types based on the given asset allocation as stated in the funds’ prospectuses. As previously mentioned, when a fund invests more than 50% in a given instrument, then the fund should be classified under the according category rather than as a mixed fund. On the other hand, if the fund defines investment strategies such that no given instrument always has more than 50% of the fund’s allocation and additionally no explicit preference for a certain instrument is stated, then this should be considered as a mixed fund.

Hedge funds

24. The ECB defines hedge funds as “any collective investment undertakings […] which apply relatively unconstrained investment strategies to achieve positive absolute returns, and whose managers, in addition to management fees, are remunerated in relation to the fund’s performance. For that purpose, hedge funds have few restrictions on the type of financial instruments in which they may invest and may therefore flexibly employ a wide variety of financial techniques, involving leverage, short-selling or any other techniques.” (ECB/2007/09). As such, hedge funds encompass a heterogeneous range of collective investment schemes that can employ a wide set of different investment strategies in order to maximise absolute returns (which often requires taking higher risk positions). They typically require high minimum investments and although generally open-ended, redemptions may be restricted to pre-determined time intervals (Lemke et al.). Therefore, while other funds can be defined by their investment allocations, this is not the case for hedge funds. The ECB report states that “criteria to identify hedge funds must be assessed against the public prospectus as well as fund rules, statutes or by-laws, subscription documents or investment contracts, marketing documents or any other statement with similar effect of the fund.” (ECB/2007/09).

Other funds

25. Other funds represent a residual category to include those investment funds other than bond funds, equity funds, mixed funds, real estate funds or hedge funds. For instance, this may include funds that primarily invest in commodities.

26. This leads to the proposal for the following definitions:
• **Real estate funds** are non-MMFs that primarily invest in real estate investment undertakings.

• **Equity funds** are non-MMFs that primarily invest in equity securities or stocks.

• **Bond funds** are non-MMFs that primarily invest in longer-term debt instruments.

• **Mixed funds** are non-MMFs that invest in a mixture of different asset class categories with no prevailing policy in favour of one specific instrument.

• **Hedge funds** are non-MMFs that apply relatively unconstrained investment strategies in order to maximise absolute returns.

• **Other non-MMFs** include those non-MMFs that are not covered in one of the above categories.

2.3. **Other financial intermediaries (OFIs) sector breakdown**

27. Other financial intermediaries, except insurance corporations and pension funds (S125) are financial corporations that are engaged in providing financial services by incurring liabilities, in forms other than currency, deposits or close substitutes for deposits, on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market (2008 SNA, §4.109). These financial corporations carry out transactions (on both sides of the balance sheet) on open markets. They generally raise funds on wholesale financial markets, and usually not in the form of deposits, and use the funds to extend loans and acquire other financial assets.

28. These financial corporations are involved in various kinds of credit intermediation that may qualify as non-bank financial intermediation. Entities within this subsector may be involved in loan provision that is dependent on short-term funding, in securitisation-based credit intermediation, and funding of financial entities. Looking at the need for having more insight into the developments of financial markets and in particular the developments in the non-bank financial intermediation world, it would be important to collect information on the various types of entities that are included in this specific subsector.

29. In the non-bank financial intermediation template, the OFI sector is divided into five subsectors:  

   - Financial vehicle corporations engaged in securitisation transactions (FVCs) (S125A);  
   - Financial corporations engaged in lending (FCLs) (S125B);  
   - Security and derivative dealers (S125C);  

---

12 This is in line with the breakdowns as included in 2008 SNA and ESA 2010, except that in 2008 SNA standards, central clearing counterparties (CCPs) form a separate subsector (as in the Financial Stability Board sector classification), whereas they are included in specialised financial corporations in this proposal.

13 With regard to financial vehicle corporations engaged in securitisation, while both ESA 2010 and the G20 template on shadow banking adopt the same label, in the 2008 SNA, it slightly differs as it uses “Financial corporations” instead of “Financial vehicle corporations”. It is proposed to keep the label for the sector S125A as it is covered in the G20 template.
• Specialised financial corporations (S125D); and
  o of which central clearing counterparties\(^\text{14}\) (S125D1);
• Other OFIs (S125E).

Financial vehicle corporations (FVCs) engaged in securitisation transactions (S125A)

30. Many financial corporations are involved in the securitisation process, securitising loans or other assets. If they engage in this kind of financial intermediation fully on their own account, they are part of the sector ‘other financial intermediaries, except insurance corporations and pension funds’. Securitisation entities play an important role in the non-bank financial intermediation system and may incur large leverage. The FSB, in its Policy Framework,\(^\text{15}\) classifies these entities in the economic function number 5 named “Securitisation-based credit intermediation and funding of financial entities”. Such entities create maturity/liquidity transformation and leverage in the system, as well as increasing interconnectedness between the banking system and non-bank financial entities. It is important to distinguish them as a separate subsector within the other financial intermediaries. Currently several terms are used to describe these types of entities (such as Special Purpose Vehicles, Financial Vehicle Corporations, Specialised Financial Corporations) and for that reason it is important to come up with a clear definition for these entities, which are to be recorded under this heading.\(^\text{16}\)

31. ESA 2010 explains that financial vehicle corporations engaged in securitisation “are undertakings carrying out securitisation transactions” (§2.90). To have a better understanding of the types of entities that this concerns, the Handbook on Securities Statistics (IMF, §6.2 to 6.8) provides a useful definition of securitisation. It explains that securitisation processes consist of the issuance of debt securities for which coupon and principal payments are backed by payments on specified assets or future income streams.\(^\text{17}\)

A variety of assets and income streams may be securitised, including, among others, residential and commercial mortgage loans, consumer loans, corporate loans, government loans, credit derivatives, and future revenue. For corporations, the securitisation process enables them to reduce funding costs and regulatory capital requirement, to diversify funding sources and to transfer risks related to a pool of assets.

32. The IMF Handbook on Securities Statistics distinguishes three types of securitisation process:

• Type 1: Transactions where the original asset owner, also called “originator” creates new debt securities that are backed by income streams generated by the assets. The assets remain on the balance sheet of the debt securities’ issuer (the

\(^{14}\) Please note that a different terminology may be used by official standards to identify a same subsector. In the case of clearing houses, the 2008 SNA and ESA 2010 refer to “Central Clearing Counterparties” while in the FSB template, it is referred to as “Central Counterparties”, and in the G20 template as “Clearing houses”. The OECD Secretariat suggests to change the label of the sector S125D1 from “Clearing houses” to “Central clearing counterparties” to comply with official standards.


\(^{16}\) As mentioned before, as different terminology may be used within and across countries, it is important to focus on the specific characteristics of financial entities to decide upon their classification instead of focusing on the term that is used to describe them.

original asset owner), typically as a separate portfolio. The issue of debt securities provides the original asset owner with additional funds. This type of securitisation scheme does not involve a securitisation corporation, and there is no transfer of assets.

- **Type 2**: Transactions involving a securitisation corporation and a transfer of assets from the original asset owner. This type of securitisation scheme, typically referred to as true sale securitisation, involves debt securities issued by a securitisation corporation where the underlying assets have been transferred from the original asset owner’s balance sheet. The proceeds received from selling the debt securities to investors fund the purchase of the assets. The income stream from the pool of assets (typically, interest payments and principal repayments on the loans) is used to make the coupon payments and principal repayments on the debt securities.

- **Type 3**: Transactions involving the transfer of credit risk only, but not the transfer of assets, either through a securitisation corporation or through the direct issue of debt securities by the original asset owner. This type of securitisation scheme, often referred to as synthetic securitisation, involves transfer of the credit risk related to a pool of assets without transfer of the assets themselves. The original asset owner buys protection against possible default losses on the pool of assets using credit default swaps.

33. Only financial corporations that are involved in securitisation processes according to types 2 and 3 (when it involves a securitisation corporation) are to be considered as financial vehicle corporations engaged in securitisation transactions.

34. The ECB regulation No. 1075/2013 of October 18, 2013 also provides a detailed and clear definition of the securitisation process, in line with the Handbook on Securities Statistics. It explains that the principal activity of the relevant FVC is securitisation transactions, issuance of debt securities, debt instruments, securitisation fund units, and/or financial derivatives, and owns assets underlying the issue of these financing instruments that are offered for sale to the public or sold based on private placements. The most typical form of securitisation is the purchase of loans from a credit institution or another financial intermediary. However, if the entity is acting as a first lender, originating new loans, this entity could not be qualified as a FVC since no assets and credit risk is transferred (in line with type 1 as described above). Another characteristic of FVCs engaged in securitisation that is underlined in the ECB regulation is that the structure of the FVC is intended to isolate the payment obligations of the undertaking from those of the originator. This means that the FVC’s rights over the assets, which are the object of securitisation, are protected from any claims against the originator.

35. The asset side of the FVCs’ financial balance sheet is usually mainly composed of loans originated by other financial institutions, and to a lesser extent of debt securities and equity. The liability side is often composed of debt securities with a maturity mainly over 2 years, and to a lesser extent of deposits, loans received and equity.

36. In light of the definitions provided by ESA 2010, the Handbook on Securities Statistics and the ECB regulation on FVCs, the OECD Secretariat proposes the following definition:

---

Financial vehicle corporations engaged in securitisation transactions are institutional units that carry out securitisation transactions, i.e. issue debt securities for which coupon and principal payments are backed by payments on specified assets or future income streams on assets, which have not been originated by the unit. If the unit acts as a first lender, originating new loans, it would not qualify as a FVC engaged in securitisation.

Financial corporations engaged in lending (FCLs) (S125B)

37. The 2008 SNA and ESA 2010 do not explicitly define financial corporations engaged in lending (FCLs). They simply describe entities that can be classified in this subsector according to their activities such as financial leasing, and the provision of personal or commercial finance.19

38. The European Central Bank in its explanatory notes20 defines FCLs as follows: FCLs, classified as OFIs, are financial corporations principally specialised in asset financing for households and non-financial corporations. These corporations grant credit or loans or enter into agreements of a similar nature such as financial leasing, factoring,21 mortgage lending, consumer lending and hire purchase.22

39. Financial leasing companies are companies that pass the economic ownership of an asset to a lessee in return for a compensation (2008 SNA, §17.304). Financial leasing companies can be banks, bank-owned subsidiaries, independent firms or the financing arms of manufacturing companies, which are known as captive lessors. However, only financial leasing23 companies that are separate institutional units and as such classified in the OFI sector should be included in the FCLs subsector.

40. The IMF Monetary and Financial Statistics Manual and Compilation Guide – chapter 3)24 also considers “Finance companies” as part of the OFIs sector, and defines them as financial corporations that extend credit mainly to households and non-financial corporations. They offer such services as consumer loans, credit cards, small business loans, mortgage loans, economic development loans, and purchases of bankers’

---

19 Please note that the ESA 2010 also refers to factoring, whereas this is referred to in the category of specialised financial corporations in the 2008 SNA. It will depend on the specific characteristics for distinguishing between financial corporations engaged in lending and specialised financial corporations how to classify factoring companies (see later on), but for now it has been decided to follow the 2008 SNA classification.


21 Please note that factoring is included in the specialised financial corporations subsector in the 2008 SNA.

22 The FSB, in its Policy Framework, focuses on FCLs that are dependent on short-term funding and classifies these entities in economic function number 2, named “Loan provision that is dependent on short-term funding”. This economic function captures lending or credit provision activity conducted outside of the banking system that is funded with short-term liabilities. Such activity may give rise to maturity/liquidity transformation risks and/or excessive leverage.

23 In a financial lease agreement, ownership of the asset is transferred to the lessee at the end of the lease term. However, in operating lease agreement, the ownership of the asset is retained during and after the lease term by the lessor (2008 SNA, § 17.301). Operating lease are treated as expenses (i.e. off balance sheet items) where as a financial lease is included as an asset for the lessee.

acceptances and trade receivables. Looking at this definition, it seems that finance companies are entities that should also be classified in the FCLs sector.

41. The assets of FCLs are mainly loans, equity, debt securities and financial derivatives, and their liabilities are made of deposits, loans taken, and capital reserves.

42. A difficulty in coming up with a clear definition and delineation for the group of financial corporations engaged in lending, is that some of entities that may also be engaged in lending are, according to the 2008 SNA and ESA 2010, classified as specialised financial corporations (see later on). This for example relates to corporations that provide short-term financing for corporate mergers and takeovers, export/import finance, factoring services, and possibly to venture capital and development capital firms. The question then arises what the main underlying reason is for separating out these specific types of corporations and, possibly based on that, come up with clear criteria for distinguishing between these two categories. The main distinction seems to be that the specialised financial corporations have a very dedicated scope, whereas the (other) financial corporations engaged in lending seem to have a broader scope, covering different types of lending that may be provided to a wider range of clients. For that reason, this has been taken as starting point for the proposed definitions of the two categories, but the Secretariat would very much like to receive feedback on this interpretation.

43. In light of the information collected from international standards, the ECB, and the IMF on FCLs, the OECD Secretariat proposes the following definition:

- **Financial corporations engaged in lending (FCLs)** are institutional units that grant credit or loans for the purpose of financial leasing, mortgage lending, consumer lending, hire purchase and other more generic purpose types.

**Security and derivative dealers (S125C)**

44. Neither the 2008 SNA nor ESA 2010 provide a definition for security and derivative dealers. Other sources have been explored to find specific information on security and derivative dealers (SDDs) to come up with a clear definition for this subsector. The European Systemic Risk Board\(^\text{25}\) defines SDDs as follows: SDDs are investment firms or individuals specialised in securities trading, which are authorised to provide investment services to third parties. These investment companies trade on their own account and at their own risk in financial instruments with the aim of making benefits from the margin between the purchase and the sale price. This type of trading is part of their market-making activities. The ECB provides a similar definition of SDDs in the Guideline on monetary and financial statistics.\(^\text{26}\)

45. The difference between a dealer and a broker is that a dealer acts as a principal in trading for its own account, as opposed to a broker who acts as an agent, who executes orders on behalf of its clients. Some security broker-dealers may also use client assets to finance their own business.


46. The FSB, in its Policy Framework, classifies these entities in the economic function number 3, named “Intermediation of market activities that is dependent on short-term funding or on secured funding of client assets”.

47. The IMF Monetary and Financial Statistics Manual and Compilation Guide includes in the OFI sector a type of entities called “Underwriters and dealers specialised in securities market activities”, which assist firms in issuing securities through the underwriting and market placement of new securities issues. These entities may trade in new or outstanding securities on their own account. Looking at the definition, it seems that this category is similar to security dealers and can be classified under the security and derivative dealers subsector. In addition, the Guide also specifies that only entities that organise transactions between securities buyers and sellers, and purchase and hold securities on their own account can be classified as other financial intermediaries. If they do not purchase and hold securities on their own account, they are classified under the subsector financial auxiliaries (S126).

48. Broker-dealers may also be involved in securitisation processes but this is not their principal activity as is the case for financial vehicle corporations engaged in securitisation. In the securitisation chain, they are usually involved in the structuring of the loans and selling them to securitisation vehicles.

49. As the main activity of SDDs is trading securities and financial derivatives for their own account, the asset side of their financial balance sheet mainly consists of securities, loans and financial derivatives, and the liability side of equity, securities and financial derivatives.

50. In light of the information collected from the ESRB, the ECB Guideline on monetary and financial statistics, Investopedia, and the IMF Monetary and Financial Statistics Manual and Compilation Guide on security and derivative dealers, the OECD Secretariat proposes the following definition:

- **Security and derivative dealers (SDDs)** are institutional units that buy and sell securities or financial derivatives on their own account and at their own risk, providing investment services to third parties and being involved in market-making activities, with the aim of making benefits from the margin between the purchase and the sale price.

---

**Specialised financial corporations – S125D**

51. According to the SNA, the category “Specialised financial corporations” includes corporations that provide short-term financing for corporate mergers and takeovers, export/import finance, factoring services, and venture capital and development capital firms (2008 SNA, §4.110e). These financial intermediaries also cover central clearing counterparties (CCPs) carrying out inter-monetary financial institutions repurchase agreement transactions (ESA 2010, §2.93). The IMF Monetary and Financial Statistics Manual and Compilation Guide specifies the services provided by entities classified under this subsector as follows: export/import finance companies offer a broad range of financial and documentary services associated with international trade; venture capital firms pool funds of third-party investors in start-up companies; mezzanine companies provide short-term financing for corporate mergers and acquisitions. Please note that the IMF Guide and
the UN/ECB Handbook of National Accounting, Financial Production, Flows and Stocks in the System of National Accounts (Chapter 2)\textsuperscript{27} provide similar definitions.

52. To complement the definitions provided by international standards, other sources have been reviewed to find specific characteristics of specialised financial corporations. According to Investopedia, a venture capital firm is a corporation that provides capital to firms with high potential of growth in exchange for equity or an ownership stake. Generally, these corporations fund emerging and small companies that wish to expand. They expect high return on their investments if these companies are a success. This is a quite risky activity due to the uncertainty related to a new company, which only starts commercialising its idea. Development capital corporations fund the expansion of established and profitable companies. They differ from venture capital firms, which mainly fund emerging companies. This is an activity less risky and more rewarding than funding new firms.

53. According to Trade Finance Global, import/export finance companies help a firm to grow and increase trade. They fund the finance gap between the reception of the goods and the payment to the seller (import finance), or between the delivery of the goods and the payment received from the buyer (export finance). This enables to limit non-payment risk once a company delivers the product or ships the goods. It also increases trusts between the buyer and the seller. Import finance may involve off-balance sheet financial instruments as well such as standby letter of credit or bank guarantees. The benefits for importer is that they can grow without taking on equity, thus losing a share of the business.

54. Factoring is a financial transaction and a type of debtor finance in which an undertaking sells its accounts receivable (i.e. invoices) to a third party (called a factor or a factoring company) at a discount. Factoring is commonly referred to as accounts receivable factoring, invoice factoring, and sometimes accounts receivable financing (Wikipedia). The ECB distinguishes two main aspects that are particularly specific to factoring transactions:

- A factoring transaction always involves three parties: a factoring company (purchaser of receivables), a factoring client (seller of receivables), and a debtor.
- The sale/purchase/assignment of the receivable is used as a means to finance the factoring client.

55. Factoring is a method used by some firms to obtain cash: certain companies factor accounts when the available cash balance held by the firm is insufficient to meet current obligations and accommodate its other cash needs. Accounts receivable financing also transfers the default risk associated with the accounts receivables to the factoring company. The factoring company pursues payments from the original company's customers and collects the debts. It then pays the original company any remaining amount received beyond the financing percentage, minus a factoring fee (Investopedia).

56. As mentioned before, it is not always clear where to draw the line between financial corporations engaged in lending (S125B) and specialised financial corporations. The main distinction seems to be that the specialised financial corporations have a very dedicated scope, whereas the (other) financial corporations engaged in lending seem to have a broader scope, covering different types of lending that may be provided to a wider range of clients. For that reason, this has been taken as starting point for the proposed definitions of the two categories. A further solution may be to explicitly define the specific activities to be included in the specialised financial corporations’ category. Depending on the differences

in the characteristics of these activities, this may also call for a further breakdown of this subsector, but all of this is open for discussion. In that regard, the Secretariat would very much like to receive feedback on this issue.

57. In light of all this information, the OECD Secretariat proposes the following definition:

- **Specialised financial corporations** are OFIs (except insurance corporations and pension funds) that have a dedicated scope targeting a specific set of clients, including providing short-term finance for corporate mergers and takeovers, export/import finance, factoring services, clearing and settlement of security and derivative transactions, and providing venture and development capital.

**Central clearing counterparties (S125D1)**

58. Central clearing counterparties (CCPs) 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 (2008 SNA, §4.110d). CCPs take the financial risk of the transaction between the counterparties on their own account. In other words, CCPs become the counterparty of the original buyer and seller and as such, they guarantee the terms of a trade even if one party defaults on the agreement. Deposits that CCPs collect to mitigate the financial risks they assume, are restricted and held as collateral, and are not included in the broad money (money supply M3).

59. As international standards (SNA, and IMF MFSMCG) clearly define central clearing counterparties, the OECD proposes to stick to this definition for this subsector:

- **Central clearing counterparties (CCPs)** are OFIs (except insurance corporations and pension funds) that provide clearing and settlement transactions in securities and derivatives, taking the financial risk of the transaction between counterparties on its own account, and becoming the counterparty of the original buyer and seller.

**Other financial intermediaries (S125E)**

60. This subsector captures the other types of financial intermediaries that have not been covered by the categories stated above. The IMF Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG) identifies a number of other types of OFIs in this regard, such as investment banks and asset management agencies, as follows:

61. **Investment banks** are financial intermediaries that perform a variety of services (see Investopedia). They usually specialise in large and complex financial transactions, and in that role may raise funds for their clients in equity and debt markets, provide strategic advisory services for mergers and acquisitions and other types of financial transactions, and act as a broker or financial adviser for their clients.

62. **Asset management companies** (AMCs) invest pooled funds on behalf of clients into a variety of assets. Investopedia explains that, “because they have a larger pool of resources than an individual investor could access on their own, asset management companies provide investors with more diversification and investing options. Buying for so many clients allows AMCs to practice economies of scale, often getting a price discount on their
purchases. Pooling assets and paying out proportional returns also allow investors to avoid
the minimum investment often required when purchasing securities on their own, as well
as the ability to invest in a larger assortment of securities with a smaller amount of
investment funds.” The asset management company mainly helps clients to buy
investments, but do not become the owners of the assets themselves. In the latter case, they
would act as investment funds. In this respect, it is important to distinguish between the
intermediation services provided by these types of companies and any pooled-fund
structures (e.g. mutual funds or equity index funds) that may be under their management.

63. This leads to the following proposal:

- **Other OFIs** include all types of OFIs (except insurance corporations and pension
  funds) that have not been covered in the other subsectors.
- Investment banks and asset management companies are included in this subsector.

### 2.4. Captive financial institutions sector breakdown

64. Captive financial institutions and money lenders consist of “institutional units
providing financial services, where most of either their assets or liabilities are not transacted
on open financial markets. It includes entities transacting with only a limited group of units
(such as with subsidiaries) or subsidiaries of the same holding corporation or entities that
provide loans from own funds, or funds provided by only one sponsor” (2008 SNA §4.113).
It includes trusts, estates, agencies accounts, brass plate companies, holding companies,
special purpose entities (SPEs) or conduits that qualify as institutional units and raise funds
in open markets to be used by their parent corporation, and units which provide financial
services exclusively with own funds or funds provided by a sponsor to a range of clients.
As most of either their assets or liabilities are not transacted on the open market, these
entities are not regarded as being engaged in financial intermediation. Furthermore, as they
may take ownership of the financial assets and liabilities being transacted, they are not
regarded as financial auxiliary.

*Trusts, estate and agency accounts (S1271)*

65. Neither the 2008 SNA nor ESA 2010 provide specific definitions or guidance for
trusts, estate and agency accounts. They only note that these should be classified under
captive financial institutions (see 2008 SNA, §4.114a and ESA 2010, §2.99). However, the
Balance of Payment and International Investment Position Manual, Sixth Edition (§4.48),
define a trust as “a legal device by which property is held in the name of one party or parties
(administrator or trustee) who is under a fiduciary obligation to hold financial assets and
liabilities for the benefit of another party or parties (beneficiary or beneficiaries). A trust
also specifies the use of the portfolio holdings and the income generated thereby”. Estate
and agency accounts act in a similar way, but under a different legal form. The IMF
MFSMCG adds that in general, trusts are not recognised as separate institutional units but
are consolidated within the units that control or benefit from them, except under two
circumstances: (i) the trust is constituted in a different economy to that of any of the
beneficiaries, or (ii) it satisfies the definition of a quasi-corporation meaning that it is

---

28 The trusts considered under this section differ from investment trusts classified under money market funds. Please
see footnote 6 and 7 for more information on the distinction between various types of trusts.
operated as a separate corporation.\textsuperscript{29} This means that under sector S1271 only those trusts are covered that qualify as a separate institutional unit. In addition, trusts that are created for investment pooling (e.g. investment trusts or units trusts) are also not included in this subsector, as they do not qualify the criteria for captive financial institutions, because in their role as investment vehicle both assets and liabilities may be transacted on the open market (see also Section 2.1). Companies holding/managing wealth and real estate for individuals and families (family trusts) may be included in this sector if they are separate institutional units and satisfy the definition of captives.

66. Considering the definitions provided by both the BPM6 and the IMF MFSMCG, the Secretariat proposes the following definition:

- **Trusts, estate and agency accounts** are captive financial institutions (i.e. not created for investment pooling) that hold financial assets and liabilities on behalf of a party and for the benefit of another party than itself (beneficiary).

**Brass plate companies (S1272)**

67. There is no standard international definition for brass plate companies. The BPM6 indicates that brass plate companies are labels that are applied to flexible legal structures in particular jurisdictions, which offer various benefits that may include any or all of low or concessional tax rates, speedy and low-cost incorporation, limited regulatory burdens, and confidentiality. These entities are treated as separate institutional units as their owners are not residents of the territory in which they are incorporated (according to the definition of an institutional unit in the 2008 SNA, §4.61-4.62). Typical features of these entities are that parts of their balance sheets are claims on or liabilities to non-residents, they have few or no employees, and they have little or no physical presence (BPM6, §4.50). These entities have to be distinguished from other types of SPEs, as their tangible existence in their jurisdiction of incorporation is mainly the brass plate attached to the wall outside its registered office.\textsuperscript{30} The 2008 SNA and the ESA 2010 also clarify within the definition of SPEs that these entities “have little physical presence beyond a brass plate”. This confirms that the structure of the brass plate company is more limited and should be distinguished as a specific type of SPE. The purpose of these entities is often to optimise the taxation of its parent company and prevent the company to reveal the name of its shareholders.

68. The term ‘brass plate companies’ should be distinguished from the term ‘shell companies’. Shell companies can be incorporated in the full “home base” of the main parent company, in other words they don't have to be located in a foreign location; their key feature is that they have no assets (other than cash), they are passing-through funds between non-residents with no operations in the economic territory of incorporation. A company can be a brass plate shell company (foreign base, no assets), or just a brass plate company (foreign base, many assets), or just a shell company (home base, no assets) (Wikipedia). In practice, many shell companies are often brass plate companies when the aim of creating a shell

\textsuperscript{29}A trust owned by a resident institutional unit can be qualified as a quasi-corporation if it has sufficient information to compile a complete set of accounts and if is operated as if it was a separate corporation and whose de facto relationship to its owner is that of a corporation to its shareholders. Please refer to the definition of a quasi-corporation (2008 SNA, §4.42).

\textsuperscript{30}Wikipedia definition: a brass plate company or brass plate trust is a legally constituted company whose only tangible existence in its jurisdiction of incorporation is the nameplate (the term "brass plate" originates as such nameplates are often made of brass) attached to the wall outside its registered office.
company is to legally move a business activity to a different location from the “home base” for tax evasion for instance.

69. At this stage, it is important to highlight that the term SPE is a term that is currently used in many different ways. In some cases it is used to refer to brass plate companies as discussed above (defining SPEs in a narrow way to capture these specific entities), but in other instances the term is used in a more generic way to refer to any type of financial entity that is created for a special purpose (as implied by the term).\textsuperscript{31} In the latter case, brass plate companies are just a specific type of SPE, whereas other types of SPEs could be involved in other specialised activities such as factoring, leasing or securitisation. As the different use of this term across various statistics may create a lot of confusion for both users and compilers, it is recommended to re-assess its use and to properly define the term in a way that makes sense to both compilers and users. When looking at the information obtained as input for this paper, the Secretariat would have a preference to use the term in a broad way, capturing all financial entities that have been created for a specific purpose, with adding a specific additional term to highlight this purpose when zooming in on a specific subcategory of SPEs. However, the Secretariat would very much like to obtain feedback from other compilers and users how they look upon this issue.

70. In conclusion, the OECD Secretariat suggests the following definition:

- A brass plate company is a statistical unit, which is owned (directly or indirectly) by a non-resident unit, for which a large part of the balance sheet consists of claims and liabilities towards non-resident units, and that has few or no employees and little or no physical presence in the jurisdiction of incorporation.

Special Purpose Entities or conduits (S1273)

71. As explained above, the term Special Purpose Entities (SPEs) is a general term that can cover many different entities classified not only in the captive financial institutions (CFIs) sector but also in other institutional sectors. This is the case for financial vehicle corporations for instance, which are a type of SPEs, acting as a financial intermediary carrying out securitisation transactions, and transacting on open markets. The latter are classified in the OFI sector; see Section 2.3. The IMF Task Force on SPEs’ final report,\textsuperscript{32} which has been endorsed in October 2018 by the Committee on Balance of Payment (BOPCOM), presents a definition of SPEs, which covers all types of SPEs, and develops a typology of SPEs with the aim of delineating them according to their economic functions, and linking them to their relevant institutional sector. Only the first category (out of six) of this IMF typology, entitled “captive entities created by a financial or a non-financial non-resident corporation to fulfil specific financial activities, other than insurance, for the sponsor”, includes types of SPEs that may fall under the subsector S1273:

- Financing conduits

\textsuperscript{31} Please note that the general government may also set up SPEs, with characteristics and functions similar to the captive financial institutions and artificial subsidiaries of corporations. However, such units do not have the power to act independently and are restricted in the range of transactions they can engage in. They do not carry the risks and rewards associated with the assets and liabilities they hold. Such units, if they are resident, are treated as an integral part of general government and not as separate units. If they are non-resident they are treated as separate units (2008 SNA, §4.67).

• Holding companies
• Intra group lending

72. In this section, only SPEs and conduits corresponding to the international standards’ definition of captive financial institutions will be considered. In that regard, following the preference of the secretariat to apply a broad definition of SPEs, it would be relevant to update term as used here to ‘captive SPEs or conduits’. The 2008 SNA and ESA 2010 classify SPEs or financing conduits in the CFIs sector if these entities are institutional units, providing financial services and raising funds in open markets to be used by their parent corporations (2008 SNA, §4.113 & 4.114c, ESA 2010 §2.99c; BPM6, §4.83d).

73. As explained in the previous section, SPEs or conduits that are resident in an economy different from that of its parent and have few or no employees and little or no physical presence are treated as a separate type of SPE, i.e. brass plate companies. It could be considered to record them as a separate subcategory of ‘captive SPEs or conduits’.

74. The 2008 SNA also indicates specific characteristics that may apply to SPEs (§4.56 & 4.57) under the sector S1273. The latter have been further elaborated by the joint ECB/Eurostat/OECD Task Force on Head Offices, Holding Companies and Special Purpose Entities:33

• The entity is a legal entity formally registered with a national authority and is subject to fiscal and other legal obligations of the economy in which it is resident;
• The entity is ultimately controlled by a non-resident parent, directly or indirectly;
• The entity is always related to another non-resident corporation (as a subsidiary);
• The entity has no or few employees;
• The entity has little or no production;
• The entity have a limited or no physical presence in the economy in which it is created by its parent, which is typically located in another country;
• Almost all its assets and liabilities represent investment in or from other countries;
• Its core business consists of group financing and holding activities.

75. International standards have a similar definition for financing conduits. They raise or borrow funds often from unrelated enterprises, and remitting those funds to its parent or to another related corporation. These entities do not transact on the open markets on the asset side. Often, the conduit’s liabilities are guaranteed by a parent company (ESA 2010 §2.99c; 2008 SNA §4.114c; BPM6, §4.83 & 4.86). Intra-group lending companies should also be considered as financing conduits as they are institutional units, and take and grant inter-company loans (ESA 2010, §2.99c; BPM6, §4.83c).

76. International standards define holding companies as institutional units that hold only the assets (owning controlling levels of equity) of a group of subsidiaries without actively directing them (passive holding corporations). Their principal activity is owning the group without providing any other service to the enterprises in which the equity is held. They do not administer or manage other units (ESA 2010, §2.99b; 2008 SNA, §4.114b; BPM6, §4.51d & 4.84). These companies are also described in the International Standard

Industrial Classification of All Economic Activities (ISIC), Rev. 4, in section K class 6420.34

77. The OECD/Eurostat/ECB Task Force on Head Offices, Holding Companies and Special Purpose Entities brought additional clarity on two issues: the institutional independence of the entity as well as the distinction between holding companies (HCs) and head offices (HOs). On the first issue, as holding companies may have resident parent corporations, their institutional independence should be determined. To this end, the standard SNA criteria for an institutional unit should be applied. If a non-resident owns the holding company, it is always considered as an institutional unit. On the second issue relating to the distinction between HCs and HOs, the Task Force clearly states that if an entity has at least 50% of its assets consisting of equity vis-à-vis its subsidiaries, it can be considered as a holding company. An employment threshold, taking into account national legislative requirements for the number of employees, may also be helpful. The Task Force indicates that employment of three or more persons may be applied as a first indicator for an entity being a head office. In addition, head offices exercise managerial control over its subsidiaries and are actively engaged in production. These types of activities are described in ISIC, Rev. 4, in section M class 7010.35

78. In the light of the above, the Secretariat proposes the following definition:

- **Captive SPEs or conduits** are captive financial institutions created by a financial or a non-financial corporation to fulfil specific financial activities, other than insurance, for the sponsor. This includes financing conduits, captives involved in intragroup lending, and holding companies.

- **Financing conduits** are captive SPEs that raise or borrow funds often from unrelated enterprises, and remitting those funds to its parent or to another related corporation. These entities do not transact on open markets on the asset side, and their liabilities are guaranteed by a parent company.

- Captives involved in **intragroup lending** are entities, which take and grant inter-company loans, and could thus also be considered as a type of financing conduits.

- **Holding companies** are captive SPEs that hold assets of subsidiary corporations on behalf of its parent without taking any management activities. It provides accounting, fiscal and administrative services only.

**Other captive finance companies and money lenders (S1274)**

79. This subsector includes entities, 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 (2008 SNA, §4.114d; ESA 2010, §2.99d). These units include money lenders (persons or group), and corporations which grant loans to students (or loans for foreign trade), whose funds come from a sponsor such as a government unit or a non-

34 This class includes the activities of holding companies, i.e. units that hold the assets (owning controlling-levels of equity) of a group of subsidiary corporations, and whose principal activity is owning the group. The holding companies in this class do not provide any other service to the businesses in which the equity is held, i.e. they do not administer or manage other units.

35 This class includes the overseeing and managing of other units of the company or enterprise; undertaking the strategic or organizational planning and decision making role of the company or enterprise; exercising operational control and managing the day-to-day operations of their related units.
profit institution. These units should be distinguished from FCLs (classified in the OFI sector) as they are not financial intermediaries, carrying out transactions on open financial markets.

80. Pawnshops that are mainly engaged in lending are also included in the S1274 sector according to SNA, ESA and BPM6 standards. A pawnshop is an individual or a business that offers secured loans to people, with items of personal property used as collateral (Wikipedia).

81. Captive factoring and invoicing companies may also be part of this subsector. These entities provide factoring and invoicing services within a group. If they deal with counterparties on the open markets, they should rather be classified under the OFI sector – S125 (IMF Task Force on SPEs’ final report). Finally, other captive financial companies, which deal with financial needs of a group such as financing particular projects, can also be part of this sector S1274.

82. In the light of the above, the Secretariat proposes the following definition:

- **Other captive finance companies and money lenders** include all types of captive financial institutions that have not been covered in the other subsectors. It includes units 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.

2.5. Insurance corporations sector breakdown

83. The SNA and the IMF MFSMCG define insurance corporations as follows: insurance corporations 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 units or reinsurance services to other insurance corporations. Captive insurance is included, that is, an insurance company that serves only its owners. Deposit insurers, issuers of deposit guarantees and other issuers of standardized guarantees that are separate entities and act like insurers by charging premiums and have reserves, are also classified as insurance corporations (2008 SNA, §4.115; IMF MFSMC §3.190). The FSB includes insurance companies in the narrow measure of the non-bank financial intermediation to the extent that they are involved in the facilitation of credit creation (Economic Function 4 of the FSB’s Policy Framework).

84. ESA 2010 and the ECB regulation on statistical reporting requirements for insurance corporations provide a similar definition for the insurance corporations sector: it consists of all financial corporations and quasi-corporations, which are principally engaged in financial intermediation as a consequence of the pooling of risks mainly in the form of direct insurance or reinsurance (ESA 2010 §2.100; ECB 2014/50 article 1).

85. The sector breakdown of insurance corporations presented in the G20 questionnaire on non-bank financial intermediation distinguishes life and non-life insurance corporations. The former subsector includes entities whose principal function is to provide life insurance to individual institutional units or groups of units, while the latter subsector includes entities

---

which provide accident, sickness, fire or other forms of insurance to individual institutional units or groups of units or reinsurance services to other insurance corporations.

86. The most common form of insurance is called direct insurance whereby the policy is issued by an insurance corporation to another type of institutional unit. However, an important form of insurance is provided by one insurance corporation to another insurance corporation. This sort of insurance is called reinsurance (2008 SNA, §17.2). An insurance corporation may buy an insurance to protect himself against an unexpectedly large number of claims or exceptionally heavy claims. Pure reinsurance corporations are to be considered as non-life insurance corporations.

Non-life insurance corporations (S1281)

87. The 2008 SNA stipulates that an insurance corporation is classified as non-life insurance corporation whenever its principal activity is to cover all non-life risks, such as accidents, sickness, fire, etc. (§ 17.6). The ECB regulation on insurance corporations indicates that non-life insurance corporations provide financial benefits to policyholders in the event of accidents, fire, property loss, health-related expenses, etc., spreading current risk or expenses among clients. ESA 2010 clearly states services provided by non-life insurance corporations in the form of insurance against the following: fire (e.g. commercial and private property); liability (casualty); motor (own damage and third party liability); marine, aviation and transport (including energy risks); accident and health; or financial insurance (provision of guarantees or surety bonds).

88. The IMF MFSMCG recommends to include in this subsector captive insurance subsidiaries that are created by corporations to handle their insurance needs, if these units are separate from their parents. Captives collect premiums from their parent corporation, then reinsure themselves, or invest their assets to build up reserves against future claims of the parent corporation. SNA and the IMF MFSMCG also considers deposit insurers, issuers of deposit guarantees, and other issuers of standardized guarantees as non-life insurance corporations if they are separate institutional units and function like insurers by constituting reserves and charging premiums proportional to the cost of the service provided.

89. As aforementioned, the 2008 SNA classifies pure reinsurance corporations in the non-life insurance corporations sector. Reinsurance corporations insure the insurance policies written by other insurance corporations in exchange for insurance premiums. Insurance corporations purchase reinsurance to offset policy risk, thereby capping the net loss incurred if the insured event occurs.

90. As international standards (SNA, ESA and IMF MFSMCG) and the ECB Regulation on statistical reporting requirements for insurance companies clearly define non-life insurance corporations, the OECD proposes to stick to the following definition for this subsector:
Non-life insurance corporations are financial corporations or quasi corporations that cover all non-life risks, such as fire (e.g. commercial and private property); liability (casualty); motor (own damage and third party liability); marine, aviation and transport (including energy risks); accident and health; or financial insurance (provision of guarantees or surety bonds).

Deposit insurers, issuers of deposit guarantees, and other issuers of standardized guarantees are also classified in this subsector if they are separate institutional units and function as insurers by constituting reserves and charging premiums proportional to the cost of the service provided.

Pure reinsurance corporations are also included in this subsector.

Life insurance corporations (S1282)

91. Life insurance corporations are insurance undertakings, which principal activity is to cover life risks; this is, to provide the policyholder (or a nominated person) with an agreed sum, or an annuity, at a given date or earlier if the policyholder dies beforehand. In this regard, the ECB regulation on insurance corporations defines life insurance corporations as follows: financial corporations or quasi corporations that provide life insurance services, where policyholders make regular or one-off payments to the insurer in return for which the insurer guarantees to provide the policyholders with an agreed sum, or an annuity, at a given date or earlier. According to SNA standards, the holder of a life insurance policy is always an individual. If a company takes out an insurance policy on the life of an employee, this should be treated as “term insurance” and therefore as non-life insurance in the SNA. Consequently, life insurance transactions always take place between insurance corporations and households, resident and non-resident (2008 SNA, § 17.52).

92. The IMF MFSMCG adds that life insurance corporations invest premiums to build up portfolios of financial assets to be used to meet future claims of policyholders, spreading risks of the policyholders over time (§ 3.191).

93. As international standards (SNA, ESA and IMF MFSMCG) and the ECB Regulation on statistical reporting requirements for insurance companies clearly define life insurance corporations, the OECD proposes to stick to the following definition for this subsector:

Life insurance corporations are financial corporations or quasi corporations that provide individual life insurance services, where policyholders make regular or one-off payments to the insurer in return for which the insurer guarantees to provide the policyholders with an agreed sum, or an annuity, at a given date or earlier.

37 A policy that provides a benefit in the case of death within a given period but in no other circumstances, usually called term insurance, is regarded as non-life insurance because, as with other non-life insurance, a claim is payable only if a specified contingency occurs and not otherwise. In practice, because of the way in which insurance corporations keep their accounts, it may not always be possible to separate term insurance from other life insurance. In these circumstances, term insurance may have to be treated in the same way as life insurance for purely practical reasons (2008 SNA, § 17.6).
2.6. Pension funds sector breakdown

94. Pension funds are financial corporations and quasi-corporations, which are principally engaged in financial intermediation as the consequence of the pooling of social risks and needs of the insured persons (social insurance). Pension funds as social insurance schemes provide income in retirement, and often benefits in case of death and disability. They are institutional units separate from the units that create them, and they hold and manage the assets to be used to meet the future pension obligations and to distribute the pension benefits (2008 SNA, § 4.116; ESA 2010, § 2.105). Such funds have autonomy of decision and keep a complete set of accounts. Non-autonomous pension funds are not institutional units and remain part of the institutional unit that set them up. In some countries, social risks may be insured by life insurance corporations as well as through pension funds. In contrast to life insurance corporations, pension funds are restricted by law to specified groups of employees and self-employed. It has to be noted that only autonomous pension funds are to be considered as part of this sector. Insurance corporations, which manage a pension scheme, are to be classified under the insurance corporation sector.

95. There is a considerable interest in data on pensions, especially related to concerns about the solvency of pension systems and policy issues regarding generational equity in ageing societies. There is a need for more granular data to better capture and measure pension funds’ activities. These entities are normally not regarded as part of the shadow banking, as they usually combine long-term liabilities with long-term investment. However, they may be involved in some of the five economic functions distinguished by the FSB in its Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities.

96. The 2008 SNA introduced a supplementary table on social insurance pension schemes (2008 SNA, Table 17.10), to provide a comprehensive overview of liabilities of all social insurance pension schemes in an economy: both those which are recognised in the central framework of the national accounts (employment-related pension schemes), and those which are not recognised in the central framework (social security schemes). Both Eurostat and the OECD have started to collect pension data from its member countries based on a supplementary table (Table 2900), which is consistent with SNA Table 17.10. Eurostat produced a Technical Compilation Guide for Pension Data in National Accounts, which provides European member countries operational guidance to compile data of the table 29 on social insurance pension schemes. The OECD also provides its non-European constituents with guidelines for completing this table. In this methodological document, definitions of the various type of social insurance pension schemes are provided, including defined contribution (DC) schemes and defined benefit (DB) schemes, and the main criteria for classifying the relevant pension schemes are discussed. A breakdown of pension funds into DC and DB schemes is deemed relevant to provide more insight in who is bearing the risk of any shortfall in the funds. As the setup of these schemes differ, the risks they are liable to, also differ, so do the vulnerabilities to the policyholders.

---

38 2008 SNA § 17.88.
97. For all these reasons, the pension funds sector (S129) is further broken down into defined contributions funds and defined benefit funds in the G20 more advanced ambition template on non-bank financial intermediation.

**Defined benefit pension funds (S129A)**

98. In a defined benefit (DB) scheme, the benefits payable to an employee on retirement are determined by the use of a formula, either independently or in combination with a guaranteed minimum amount payable. In this case, the risk of the scheme to provide an adequate income in retirement is borne either by the employer or is shared between the employer and the employee (2008 SNA, §17.129). Generally, the factors considered to estimate the defined benefits are the years of service, the salary over a defined period of time, the age at retirement and the indexation rule. Actuarial estimations methods, based on the concept of net present value, are used to calculate positions in pension entitlements for these pension schemes.

99. The sector S129A should include autonomous pension funds that mainly administer DB schemes. Regarding DB schemes for general government employees, if they are administered by an autonomous pension fund they will be included in this sector. DB schemes for general government employees that are managed and administered by the general government are not included in this sector as they are classified in the general government sector. A similar line of reasoning applies to pension schemes for other employers. Social security schemes, which can also be considered as defined benefit schemes, are not classified in DB pension funds, as they are managed and administered by government units, and they do not qualify as pension entitlements in the central framework of the national accounts.

100. In both the Eurostat and OECD Guidelines for the compilation of the Table 29, hybrid schemes, which combine the characteristics of DC and DB schemes, are treated as DB schemes, as in these schemes, the risk of providing an adequate retirement income is shared between the pension manager and the beneficiary of the scheme. The most important forms of such hybrid schemes are notional defined contribution (NDC) schemes, which are similar to DC schemes but, usually, include a guaranteed minimum amount payable. In NDC schemes, contributions from both employees and employers are credited to and accumulated on individual accounts. These individual accounts are notional in the sense that the contributions to the schemes are used to pay pension benefits of current pensioners (pay as you go). If these schemes are administered by autonomous pension funds, they will be recorded under DB funds.

101. The OECD proposes the following definition for this subsector:

- **Defined benefit pension funds** are pension funds that mainly administer employment-related defined benefit (DB) plans or hybrid schemes (e.g. notional defined contribution schemes). In a DB scheme, the benefits payable to an employee on retirement are determined by the use of a formula, either independently or in combination with a guaranteed minimum amount payable.

---

41 In Table 29 on social insurance pension schemes, DB schemes classified in the pension fund sector are recorded in columns B and E.
Defined contribution pension funds (S129B)

102. In a defined contribution (DC) scheme,\(^{42}\) the benefits payable to an employee on retirement are defined exclusively in terms of the level of the funds built up from the contributions made over the employee’s working life and the increases in value that result from the investment of these funds by the administrator of the scheme. The entire risk of the scheme to provide an adequate income in retirement is thus borne by the employee (2008 SNA, §17.128). DC schemes are always organised in the form of a pension fund that accumulates assets based on the contributions paid and the income earned on the accumulated assets. Measuring pension obligations of DC schemes is relatively straightforward; the entitlements depend on the performance of the financial assets that are acquired with the pension contributions, as a consequence of which the value of the entitlements is equal to market value of the financial assets held by the pension fund. A defined contribution is therefore fully funded by definition.

103. The subsector S129B should include autonomous pension funds that mainly administer DC schemes recorded in the central framework of the national accounts. The distinction between the pension administrator and the pension manager is important as in the central framework of the national accounts, pension liabilities are recorded according to the sector classification of the pension administrator. The latter is responsible for the day-to-day administration of the pension scheme. The pension manager is responsible for managing the scheme, i.e. determining the terms of the scheme and bearing the ultimate responsibility for the entitlements. The pension manager is also often referred to as ‘pension sponsor’. In case of employment-related schemes, the pension manager or sponsor will usually be the employer. In some cases, the same unit may carry out both functions of pension manager and pension administrator, but in some cases, this may be performed by two different units.

104. The OECD proposes the following definition for this subsector:

- **Defined contributions pension funds** are pension funds that mainly administer employment-related defined contribution (DC) plans. In a DC scheme the benefits payable to an employee on retirement are defined exclusively in terms of the level of the funds built up from the contributions made over the employee’s working life and the increases in value that result from the investment of these funds by the administrator of the scheme.

### 3. Additional financial instruments requested in the template

#### 3.1. Repurchase agreement, securities lending, and margin lending

105. The 2008 SNA defines a securities repurchase agreement as “an arrangement involving the provision of securities in exchange for cash with a commitment to repurchase the same or similar securities at a fixed price either on a specified future date (often one or a few days hence, but also further in the future) or with an “open” maturity” (2008 SNA, §11.74), and notes that this is economically equivalent to securities lending with cash collateral and sale/buy-backs as all involve the provision of securities in exchange for a loan or deposit. It further specifies that a repo is a securities repurchase agreement where

---

\(^{42}\) In Table 29, DC schemes are covered under columns A and D. For detailed information on transactions recorded for a DC pension scheme, please see the 2008 SNA, §17.133-143.
“securities are provided for cash with a commitment to repurchase the same or similar securities for cash at a fixed price on a specified future date. (It is called a repo from the perspective of the security provider and a reverse repo from the perspective of the security taker.)” (2008 SNA, §11.74).

106. Regarding classification, the 2008 SNA notes that “the supply and receipt of funds under a securities repurchase agreement may be treated as a loan or deposit. It is generally a loan, but is classified as a deposit if it involves liabilities of a deposit-taking corporation and is included in national measures of broad money. If a securities repurchase agreement does not involve the supply of cash (that is, there is an exchange of one security for another, or one party supplies a security without collateral), there is no loan or deposit. However, margin calls in cash under a repo are classified as loans.” (2008 SNA, §11.75). The Australian Bureau of Statistics notes that this approach requires the recording of negative security assets to maintain equality between total assets and liabilities of securities (ABS, 2009). It is further noted that the securities provided as collateral under securities lending are to be considered as not having changed economic ownership since the cash receiver is still subject to the risks or benefits of any change in the price of the security (2008 SNA, §11.76).

107. The 2008 SNA does not provide an explicit definition of margin lending. The Securities Financing Transactions Regulation of the European Commission defines margin lending as “a transaction in which a counterparty extends credit in connection with the purchase, sale, carrying or trading of securities, but not other loans that are secured by collateral in the form of securities”. The European Securities and Markets Authority notes that the key difference between margin lending and securities lending is that the former does not require the pledge of any additional collateral beyond the portfolio of securities used to collateralise the loan (ESMA 2016).

108. The OECD proposes the following definitions:

- **A securities repurchase agreement** is an arrangement whereby securities are provided in exchange for cash with a commitment to repurchase the same securities at a fixed price at a specified future date.
- Securities lending with cash as collateral and buy-backs are equivalent to the above definition.
- **Margin lending** is the provision of credit for the purposes of a purchase, sale, carrying or trading of securities without the requirement of any additional collateral beyond the given portfolio of securities.

### 3.2. Possible exposure with regard to financial derivatives (options and forwards)

109. The Shadow banking questionnaires requests information on possible exposures to options and forwards. This memorandum item may be considered as still under development in terms of the actual information to be requested in this case. The Secretariat envisages to develop guidance on what can be reported here in the near future based on consultations with member countries and other international organisations. Starting from the baseline definitions, the 2008 SNA defines options as “contracts that give the purchaser of the option the right, but not the obligation, to buy (a “call” option) or to sell (a “put” option) a particular financial instrument or commodity at a predetermined price (the “strike” price) within a given time span (American option) or on a given date (European option)” (2008 SNA, §11.117). It defines forward contracts as “unconditional financial
contract that represents an obligation for settlement on a specified date. Futures and other forward contracts are typically, but not always, settled by the payment of cash or the provision of some other financial instrument rather than the actual delivery of the underlying item and therefore are valued and traded separately from the underlying item.” (2008 SNA, §11.120).

110. In assessing exposures created by financial derivative positions, one starting point could be to assess their gross notional exposure. This metric converts a financial derivative position into the market value of an equivalent position in the underlying asset. This provides an indication of the total exposure due from the underlying asset. Regarding options, this can generally be calculated as the number of contracts multiplied by the notional contract size, which is then multiplied by the market price of the underlying asset, times the delta. For forward contracts, the notional value of the contract can be used (CESR, 2010).

111. Regarding over-the-counter derivatives, it could be important to also assess counterparty credit risk, which is the risk that the counterparty could default before the final settlement of the contract. This can be measured by calculating the gross credit exposure, which is equivalent to the gross market value minus amounts netted with the same counterparty across all risk categories under legally enforceable bilateral netting agreements. This measure does not take into account collateral, which reduces counterparty risk although information on this may not always be available (BIS 2012).

3.3. Possible exposure with regard to other contingent liabilities (financial guarantees, credit risk insurance)

112. The Shadow Banking questionnaire also requests information regarding possible exposure with regard to financial guarantees and credit risk insurance. As mentioned in the previous section, the item may also be considered as under development. Contingent liabilities refer to those liabilities where a legal contract specifies that one party is obliged to provide a payment or series of payments to the counterparty only if certain specified conditions are realised (2008 SNA, §3.40). As such, there is an uncertainty as to whether a payment will be required by the relevant party. Additionally, the size of the given payment or payments may not be known with a certainty at the outset of the contract (2008 SNA, §11.23). Since no unconditional obligations are present, contingent liabilities do not meet the definition of a liability as defined in the SNA. It is further noted that country practices vary in determining which instruments are considered as contingent and therefore it is recognised that there is some flexibility in the application of the international recommendations (2008 SNA, §11.25).

113. The Shadow Banking questionnaire requests information for two types of contingent liabilities, financial guarantees and credit risk insurance. The 2008 SNA does not provide a definition for either type.

114. Financial guarantees refer to contractual financial arrangements whereby a third party agrees to pay a specified amount to a creditor in the case that the borrower defaults. In general, in order for this to be considered as contingent would require that the guarantee be ad-hoc in nature (due to the particular nature of the loan or security making it impossible to accurately calculate the associated risk) (UNSD and ECB, page 238). This would differ from guarantees that meet the definition of financial derivatives as well as standardised guarantees. Along the same lines, credit risk insurance refers to a legal contract that covers the risk of non-payment by the borrower for a given credit. This transfers the risk from the creditor to a third party. When the contract is structured in such a way that it leads to an
existence of a financial liability then this would not be considered as a contingent liability (e.g. credit derivatives).

3.4. Non-performing loans

115. In order to provide more insight into credit risk for loans, the Shadow Banking questionnaires requests information for non-performing loans as an ‘of-which’ item under loans. The 2008 SNA defines a loan as non-performing when “when payments of interest 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” (2008 SNA, §13.66). A loan should remain classified as non-performing until payments are made or if the principal is written off. It notes that there is some degree of flexibility in the application of this definition in order to take into account national conventions on lending regulations.

116. The 2008 SNA recommends recording both the nominal value of non-performing loans (including any accrued interest and service charges) and the fair value of such loans. This is “the value that approximates the value that would arise from a market transaction between two parties” and can be established by using transactions in comparable loans or by using the discounted present value of the cash flows (2008 SNA, §13.67). For the purposes of the non-bank financial intermediation questionnaire, it is requested to use the valuation that is consistent with the parent item loans (AF4).

4. Conclusion

117. This paper is a first attempt to provide compilers with clear and comprehensive definitions for the more granular subsectors and instruments requested in the non-bank financial intermediation template.

118. As this paper presents a first proposal, the Secretariat would very much like to receive feedback with regard to the suggested definitions, the interpretation of the sources that have been used to derive these definitions, and the terminology proposed for the new subsectors and instruments. Based on the feedback, also consulting other relevant bodies, the Secretariat will update this paper with the aim of having harmonised terminology and definitions by June 2020 to accompany the first data collection of these more advanced ambitions.

119. Delegates are invited to provide comments and suggestions on the following main points:

- Do you agree with the proposed definitions for the various new subsectors and instruments?
- Do you agree with the proposal to change the label of the sector S125D1 from “Clearing houses” to “Central clearing counterparties” to comply with official standards?
- What are your thoughts on specific criteria to distinguish between financial corporations engaged in lending and specialised financial corporations?
- Do you agree with the inclusion of factoring companies in the specialised financial corporations to comply with 2008 SNA standards?
- What are your views on the use of the term SPE in the sector classification of the SNA? Do you think it should only be used to refer to those entities that have been created by a
non-resident parent (i.e. a narrow approach), or do you prefer it to be used in a broader context, thus also capturing other financial entities that have been created for a specific purpose? Moreover, in the latter case, would you agree that brass plate companies have to be categorised as a specific type of SPE?

- Do you agree with the proposal to change the label of the sector S1273 from ‘Special Purpose Entities or conduits’ to ‘Captive Special Purpose Entities or conduits’?

- Do you have any other questions or comments with regard to the content as discussed in this paper?
References


Trade Global Finance website.