Working Party on Financial Statistics

INVESTMENT FUNDS IN THE U.S.

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This document has been prepared by Matthew Hoops – United States Federal Reserve and will be presented under item 12 of the draft agenda

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Investment Funds in the U.S.

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Note: The analysis and conclusions set forth are those of the author and do not indicate concurrence by the Board of Governors.
1. What are investment funds?

2. Importance of investment funds in the United States

3. Recent enhancements in investment fund data in the “Financial Accounts of the United States”
What are Investment Funds?

• “Investment funds are collective investment undertakings through which investors pool funds for investment in financial or non-financial assets.” (SNA 2008)

• SNA 2008 splits investment funds into 2 categories:
  – Money Market Fund Shares (MMFs)
  – Non-Money Market Fund Shares (Non-MMFs)
Money Market Funds

– Invest in short term, highly liquid assets

– Close substitute for deposits, but *not* insured

– Can be redeemed daily

– Experienced a run in the U.S. during the recent financial crisis

– Institutional investors hold 65% of MMF assets
Non-Money Market Funds

1. **Mutual funds (MF):** Open-ended; Can issue and redeem shares on a continuous daily basis at the NAV price.

2. **Closed-end funds (CEF):** Open for subscription only during the initial launch; Afterwards, shares are traded on the secondary market

3. **Exchange-traded funds (ETF):** Traded intra-daily on secondary market in narrow range close to NAV price; Large market participants can redeem ETF shares for a basket of underlying assets or create new shares

4. **Real estate investment funds (REIT):** Shares in companies that manage and hold real estate or mortgages; Traded on the secondary market

5. **Hedge funds (HF) and private equity funds (PEF):** Less regulated; Data currently not available, Fund holdings shown as direct holdings in the household sector; New SEC form PF estimates $3.5 trillion in HF net assets and $1.9 in PEF net assets as of 2015:Q4
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Assets of Investment Fund Subsectors

- Closed-end funds
- REITs
- Exchange-traded funds
- Money market funds
- Mutual funds

Financial Assets of Domestic Financial Sectors

Banking institutions include private depository institutions, bank holding co., and monetary authority. Retirement sectors include pension funds and life insurance separate accounts.
Financial Assets of Non-MMF Investment Fund Sectors

Trillions of dollars

United States
Non-U.S. OECD countries*

2007 2008 2009 2010 2011 2012 2013 2014


*Australia data on consolidated basis. Excludes Chile, Japan, New Zealand, Turkey, and United Kingdom.
Holders of Mutual Fund Shares

Retirement sectors include pension funds and life insurance separate accounts.
U.S. Investment Funds Growth

- Market gains and favorable economic conditions
- Changes in U.S. retirement system structure
  - Tax preferred retirement saving plans
  - Shift from traditional defined benefit plans (institutions bear risk) to defined contribution plans (individuals bear risk)
  - Individual Retirement Accounts (IRA)
  - Variable annuity mutual funds
- Diversification, ease of entry, lowering of costs
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Enhancements to Investment Fund Data

• Debt securities now reported at market value
  • MFs, ETFs, and CEFs
  • MMFs already at market value due to short term holdings

• Investment objective memo item detail
  • Domestic equity funds, world equity funds, hybrid funds, taxable bond funds, and municipal bond funds
  • MFs, ETFs, and CEFs

• Variable annuity mutual funds (VAMFs) treatment
  • Included in mutual fund sector; life insurance sector holds VAMFs
  • Previously, underlying assets of VAMFs were shown as holdings of the life insurance sector.
Mutual Fund Sector Debt Securities

- Book value
- Market value

Investment Funds by Investment Objective

Annual

- Hybrid funds
- Bond funds
- World equity funds
- Domestic equity funds

*Available for mutual funds, exchange-traded funds, and closed-end funds.