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

Working Party on Financial Statistics

Summary Record: Meeting of the Working Party on Financial Statistics

**5 November 2018
OECD Conference Centre, Paris**

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SUMMARY RECORD OF THE MEETING OF THE WORKING PARTY ON FINANCIAL STATISTICS

5 November 2018, 09:30 am – 5:15 pm

Session 1: Opening statement

1. Peter van de Ven, Head of the National Accounts Division (OECD), gave a short opening address. He introduced himself, welcomed the participants to the meeting of the Working Party on Financial Statistics (WPFS), and thanked Delegates for their willingness to share their experiences and for their contributions to the various sessions. Subsequently, Peter handed over the meeting to the new chair of the WPFS Bureau, Amanda Seneviratne (Australian Bureau of Statistics) to open the meeting. Amanda chaired sessions 2 and 5, and Filipa Lima (Bank of Portugal) sessions 3 and 4.
2. Jorrit Zwijnenburg, Head of the Sectoral National Accounts section (OECD) and responsible for the Secretariat of the WPFS, welcomed the Delegates and thanked all those who contributed to this meeting. He then provided information on the organisation of the meeting.

Adoption of the agenda

3. Delegates adopted the draft agenda of the meeting of the WPFS [COM/SDD/DAF/A(2018)1].

Adoption of the minutes of the 2017 WPFS meeting

4. The minutes of the 2017 meeting of the Working Party on Financial Statistics [COM/SDD/DAF/M(2017)1] were approved without any further comments.

Session 2: Capturing relevant trends in the financial world

5. Amanda introduced the session on ‘capturing relevant trends in the financial world’ by explaining that the 2008-2010 economic and financial crisis showed the fragility of the global financial system. In the years after the crisis, the leaders of the G-20 warned about the legislative vacuum in many financial areas, which led to a number of initiatives to better capture and monitor new trends in the financial world. This session included presentations to address some of these new issues, including shadow banking, capturing more information on pension entitlements in an ageing society, the building up of new types of financial risks, and the increasing importance of cryptocurrencies.
6. The session opened with a presentation by Celestino Girón (ECB) on developing a medium term-strategy for the quarterly financial accounts of the euro area at the ECB. Taking into account both emerging user demands and current compilation challenges, he identified the following main areas of focus: the integration of financial accounts and balance of payments statistics; non-bank financial intermediation and shadow banking; interconnectedness; and distributional household accounts. He shared preliminary conclusions from the recent European System of Central Banks User’s Workshop that discussed these focus areas in more detail and delineated specific goals within each of them to move the work forward.
7. In response to questions by Emmanuel Manolikakis (Statistics Canada) and Filipa Lima (Bank of Portugal) about the prioritisation of the objectives, Celestino explained that this is something that will be further explored in the coming period, in follow-up to the user consultation. Steven Cappoen (Bank of Belgium) and Peter van de Ven (OECD) noted a possible contradiction in the fact that there seems to be an increasing demand for look-through matrices via investment funds, whereas at the same time users attach a low priority to increased granularity on non-bank financial intermediation. Celestino agreed that this looks contradictory, but explained that this may be due to the fact that users are not always fully aware of the links between different priorities. Sanjiv Mahajan (Office for National Statistics, U.K.) asked if any

research had been carried out on the trade-off between timeliness and accuracy. Celestino informed that in general, increased timeliness at t+94 does not seem to have an impact on the reliability of results, but this may become an issue when aiming for results at t+70. This trade-off should be further explored. Both Sanjiv and Peter were surprised by the demand for seasonally adjusted financial accounts. Celestino agreed that this may not be very useful, but that it was one of the outcomes of the workshop. Lastly, Peter noted that linking micro and macro data is essential for improving granularity. It would also allow for a more flexible production process. Celestino agreed with this and observed that increasing granularity underlies many of the objectives for the medium term strategy.

8. In the next presentation, Leonidas Akriditis (Office for National Statistics, U.K.) discussed the progress and findings of using Solvency II insurance data in the UK national accounts. The richness of the data source provides the possibility to bridge the relevant source data to SNA concepts and to obtain granular information on various topics of interest. He discussed the progress the ONS has made so far and identified some of the main challenges they encountered in the process. These include properly distinguishing fund managers of pension funds from life insurance companies in the data sources and the need for extensive data cleaning. He also explained how these challenges are being dealt with. The expectation is that the use of this new data set will be fully implemented by 2021.

9. Steven Cappoen (Bank of Belgium) noted that Solvency II data is also used in the compilation of financial accounts in Belgium. He asked whether there were any issues with reconciling this information with historical data to avoid breaks in time series. Leonidas responded that this was not an issue since the series derived on the basis of Solvency II did not present major deviations from the historical data. Emmanuel Manolikakis (Statistics Canada) asked how financial services are deflated to arrive at constant price measures and if the granularity of the data source allows for identification of intermediate and final use in the allocation of non-life insurance. Regarding the first issue, Leonidas informed that they currently only use this new data source to compile results in current prices. More research would be needed for the compilation of results in constant prices. He then explained how a decision tree is used to allocate results to final consumption of resident and non-resident sectors. The residual amounts are classified as intermediate consumption and allocated to industries by the use of supplementary data sources. Peter van de Ven (OECD) asked whether adjustments were made to non-life insurance claims in consideration of their general volatility and the possible impact on output measures. In that regard, it has to be borne in mind that negative value added may in some cases be possible, but not negative output. In that case, it is better to look at longer-term averages of claims or to correct for catastrophic losses. Leonidas agreed that negative output should not be possible, but currently they do not adjust the claims, since it is not possible to identify catastrophic losses and, because of the limited length of the time series, it is not possible to apply a moving average. Amanda Seneviratne (Australian Bureau of Statistics) asked about the relation with the regulatory body in charge of this dataset. Leonidas explained that there is a very good cooperation with the Bank of England and that in the context of this specific project, a team from ONS was seconded to the Bank of England to explore the administrative data.

10. Francisco Guillén Martín (INEGI, Mexico) presented how quarterly financial accounts can provide information on specific sectors involved in shadow banking and on possible spill-over effects to the rest of the economy. He explained that Mexico has incorporated procedures for the identification of shadow banking, in response to the data requests coming included in recommendations II.5 on Shadow Banking and II.8 on Sectoral Accounts of the G-20 Data Gaps Initiative. Recording information on shadow banking on a quarterly basis allows timely identification of systemic risks potentially coming from these activities. The results of their first approach showed that total financial assets related to shadow banking amount to around 40.1% of GDP in 2017 in Mexico.

11. Aycan Ozek (Central Bank of Turkey) asked about the delineation between unregulated and regulated entities in Mexico. Francisco explained that it is often a thin line as one entity can have both regulated and unregulated activities. INEGI decided to look at the main activity of the entity. If the latter

is regulated, the entity will be excluded from shadow banking. Christine Skistims (Bundesbank, Germany) was interested whether information was also available for the period before 2010, and in particular around the 2008 financial crisis. Francisco replied that this is not the case, but that probably the share of shadow banking increased during the financial crisis and afterwards, leading to increased risks. Sanjiv Mahajan (Office for National Statistics, U.K.) asked about the data sources used by INEGI to identify the relevant players. Francisco explained that they looked at micro data of regulated and unregulated entities in the Mexican system, using economic surveys, economic census as well as administrative records from the central bank and other national organisations. Peter van de Ven (OECD) asked whether INEGI had to revise some of the financial accounts' data, as it looked like the size of the shadow banking was larger than they expected. Francisco responded that this was not the case, but that it led to a re-classification from the regulated to the unregulated part. Finally, Peter and Claudia Dziobek (IMF) asked whether they are now able to identify the main risks as created by shadow banking. Francisco indicated that more information on the role of special purpose entities and financial leasing companies would be needed, as well as on some specific new private pension schemes and entities that provide loans to households.

12. The session continued with a presentation by Gary Dunnet (Statistics New Zealand) on the potential financial risks via trusts. He explained that, although shadow banking is a minor issue in New Zealand, the high prevalence of trusts could have a similar effect of obscuring financial risks. They are often established by households to hold property assets, which may hide financial risks related to a potential drop in asset values. This may create solvency risks for the financial sector and may have large spill-over effects to the household sector. Gary indicated that there is no register of trusts and that their best data source on trusts is tax registrations. Furthermore, they only have data on assets and liabilities for trusts undertaking business activity and classified under the quasi-corporate sector. However, no data is available on private and family trusts classified in the household sector, which represented half of estimated trusts in New Zealand in 2016.

13. Emmanuel Manolikakis (Statistics Canada) asked whether Statistics New Zealand looked into the possibility of obtaining information via counterparty data, e.g. on the basis of custodian information from financial institutions. In Canada, this type of information is very relevant for this purpose. Gary responded that, whereas the central bank has a very detailed questionnaire for financial institutions that provides Statistics New Zealand with a lot of relevant information, many trusts are administered by accountants, which are not subject to this survey. Sanjiv Mahajan (Office for National Statistics, U.K.) asked how Statistics New Zealand estimated the number of trusts for which no regulations, no taxable income, and no balance sheet data exist. Gary explained that they calculate this as a residual. In this regard, Peter van de Ven (OECD) wondered, also in relation to the question by Emmanuel, whether it would be possible to break out the residual sector into households, trusts and NPISHs based on some available counterpart information. Gary acknowledged that this would be a good idea to look into. In that regard, Sanjiv also mentioned the possibility of a one-off property type census. In response to a question by Sanjiv, Gary explained that they have not yet published any results, but that they are currently exploring the possibilities for a publication with the central bank. Claudia Dziobek (IMF) asked if they know more about the motivation of the trusts as this may provide more insight in the possible risks. Gary responded that part of it relates to taxation, as tax rates are lower for trusts than for corporations (39%), but the main reason for the prevalence of trusts in New Zealand is a legislative one, related to gift duties and marital split up.

14. Sixto Muriel de la Riva (INE, Spain) presented the paper "The ESA 2010 Pension table: An integrated view on the functioning of pension systems in Spain" [COM/SDD/DAF(2018)2], which deals with the compilation of data on accrued-to-date social insurance pension liabilities, as requested for supplementary Table 29 of the EU delivery programme (Table 17.10 of the 2008 SNA). He showed the sources and methods used in the compilation process, and showed some of the results. He also explained that, as this table provides some conceptual challenges and requires a high level of expertise in financial, insurance and actuarial fields, INE worked closely together with external agencies to compile high quality data for this table. They also developed highly flexible and adaptable SAS software for the actuarial estimation of accrued-to-date pension obligations in public defined benefit schemes.

15. Sheldon Warton-Woods (Eurostat) asked whether INE experienced any issues in distinguishing social insurance from individual pension schemes. Sixto explained that they had an issue with a specific type of pension scheme where the statistical office was of the opinion that it is not part of social insurance (as it is not linked to employment), whereas the central bank was in favour of including it in the table (as participation is encouraged by general government). This issue has been discussed in various groups at European level, but probably needs further deliberation. Sanjiv Mahajan (Office for National Statistics, U.K.) informed that the UK published results for 2014 and 2015 (recommending an annual compilation of this table) and underlined the importance of good communication of the results. In response to his question whether INE received any feedback from users, Sixto replied that this has not yet been the case, probably because of the fact that the results have not been included in a specific press release. Leonidas Akritidis (Office for National Statistics, U.K.) asked a question on the availability of data on insurance corporations providing pension schemes in Spain. Sixto responded that thanks to the collaboration with the insurance supervisor in Spain, they could get all the necessary information. Claudia Dziobek (IMF) was interested to know why INE is reluctant to use this table for analysing or predicting the sustainability of pension systems. In that respect, Peter van de Ven (OECD) mentioned that Canada is making fiscal sustainability analyses, using information on accrued-to-date pension liabilities (as included in Table 29), but also looking at forecasts of benefits and contributions. He wondered whether INE made a similar type of analysis. Sixto replied that, as the calculations are based on a closed group approach without future accruals, Table 29 itself does not provide sufficient information for a sustainability analysis. They have not yet looked into combining this information with forecasts.

16. Susan McIntosh (U.S. Federal Reserve) asked about plans of the OECD to collect this information for non-European countries. Jorrit Zwijnenburg (OECD) informed the Group that in June 2018, the OECD launched a data collection for non-European countries on social insurance pension schemes based on a similar table as the ESA 2010 Table 29. The Secretariat also provided guidelines on how to compile these data. However, as it appeared that not all WPFS representatives had received the relevant data request, he ensured that the relevant information would be distributed to all relevant contact persons shortly after the meeting.

17. Finally, Matthew de Queljoe (OECD) presented a paper entitled “How to deal with Bitcoin and other cryptocurrencies in the System of National Accounts” [COM/SDD/DAF(2018)1]. The paper provides a definition of cryptocurrencies and a general overview of their different applications, the parties involved and their main characteristics. It also includes a discussion on their possible recording in the System of National Accounts (SNA), analysing whether they meet the SNA asset boundary, and if so, what type of assets they reflect (i.e. financial or non-financial, produced or non-produced). Furthermore, it discusses the possible production value in relation to the creation of these assets. In his presentation, Matthew also summarised the key measurement challenges including the identification of relevant data sources.

18. Peter van de Ven (OECD) emphasised the difficulties in deriving clear guidance for the recording of these digital assets, as it goes into fundamental aspects of the SNA. He mentioned that the IMF recently also drafted a paper on this subject and he invited delegates to read both papers, and to provide feedback to the OECD after the meeting. Claudia Dziobek (IMF) mentioned that for that purpose, it would be useful to highlight the main differences. Peter explained that the topic will also return on the agenda of the upcoming meeting of the Advisory Expert Group on National Accounts (Luxembourg, November 27 – 29, 2018).

19. Sanjiv Mahajan (Office for National Statistics, U.K.) explained that in his view cryptocurrencies should not be considered as “currency” (as they are not issued by a central bank or recognised by a government) and do not meet the definition of financial assets (as they do not represent a liability). The benefit of treating them as contract leases would be that production would not be affected. However, he emphasised that there is a need for further discussions on this issue with both national accounts and balance

of payments experts. Celestino Girón (European Central Bank) explained that from his point of view, cryptocurrencies can be treated as financial assets similar to monetary gold (i.e. having no counterpart liability), or as a currency if there is a universal acceptance. He has difficulties with considering cryptocurrencies as non-financial assets because they are actually used for payments. In that regard, he wondered how purchases with crypto-assets would be accounted for in the accounts in case these would be recorded as non-financial assets (as barter trade?). Michael Wolff (Statistics Sweden) explained that according to him cryptocurrencies are not necessarily assets. They have characteristics of consumer durables, as there is an ownership right and they can be used to move value from one period to another. However, he feels that they should be categorized as non-produced non-financial assets. He also had the impression that ‘mining’ could be regarded as a service provided to the community (increasing the trust in the currency) and as output in the SNA sense. Mauricio Ribeiro (Central Bank of Brazil) was interested to know whether a counterpart liability had to be considered for official cryptocurrencies issued by a central bank. Matthew replied that in the case of state issued cryptocurrencies, there is indeed a counterpart liability at the level of the central bank or the government sector. Furthermore, he acknowledged the importance of the various comments made and explained that these will be incorporated in a next version of the paper.

20. Peter van de Ven (OECD) concluded that national accountants have to look at this issue in a flexible and open way. The SNA is definitely the starting point but one has to be careful not to force it into the current SNA definition of what constitutes a financial asset, particularly as this is a new phenomenon that didn’t exist at the time of drafting the last SNA. There is a need to come up with a recommendation relatively soon and this should perhaps leave open the possibility for future reconsideration based on new thinking and practices in the future. He did not know whether a consensus could be found at the next Advisory Expert Group meeting. Most probably it will require a written consultation. Peter informed the Group that after the WPFS meeting the OECD Secretariat will send the OECD and the IMF papers to the participants to get further feedback on this issue as input for the discussion at the AEG meeting.

21. Amanda Seneviratne summarized the main points of this session, highlighting the importance to keep monitoring relevant trends in the financial world. The session also highlighted the importance of micro-macro linking, collaboration between agencies involved in the collection of relevant information, and the proper communication of the results to make sure that users fully understand the ins and outs of the results.

Session 3: Equity valuation and the definition and measurement of net worth

22. Filipa Lima (Bank of Portugal) introduced the session by explaining the importance of a proper calculation of net worth. It is the balancing item of assets and liabilities, and is, consequently, directly affected by the recording and valuation of components, such as non-financial assets and equity. Issues with their valuation and differences across countries may hamper international comparability. In addition, countries may define alternative balancing items to monitor and analyse the developments in net worth, own funds, stock market prices of equity, etc. The session includes some national experiences in dealing with these issues.

23. Begoña Gutiérrez del Olmo (Bank of Spain) presented the method followed by the Bank of Spain to value shares and other equity at market value. She explained that the market value of unquoted shares of private companies (with the exception of banks) is based on discounted values of future profits rather than on the capitalisation to own fund ratios. The main reason is that unquoted firms are not well represented by quoted firms. Except for banks, they usually have quite different balance sheet structures, as a consequence of which the number of comparable quoted firms is sometimes only very small. Furthermore, institutional differences between countries prevents the use of multi-country ratios. However, as deriving results on the basis of discounted profits is also very challenging, particularly with regard to estimating future profits, they still use results on the basis of quoted shares to cross-check the plausibility of the results and every year they analyse the main underlying reasons for any differences. In her

presentation, Begoña also presented how the Bank of Spain derives the market value of tangible fixed assets on the basis of accounting data.

24. In response to a question by Peter van de Ven (OECD), Begoña explained that they estimate the future profits of unquoted companies on the basis of (five) years' moving averages. Celestino Girón (ECB) emphasized the contradiction that, despite the unrepresentativeness of quoted companies, these are nevertheless used as reference. This was acknowledged by Begoña, but she explained that there are no real alternatives and that it still provides useful information to cross-check the results. Celestino also asked how often discount rates are updated and whether the method allows correcting for dividend payments, as these will usually lower the value of the relevant companies. Begoña explained that the discount factors are updated once a year and that dividend payments are not taken into account when assessing future profits. Emmanuel Manolikakis (Statistics Canada) asked if the stock measures they derive for tangible fixed assets are consistent with the flows (i.e. gross fixed capital formation), to which Begoña responded that they only compile the stock measures which then feed into the compilation of the national accounts. In response to a question by Massimo Coletta (Bank of Italy), Begoña explained that they have not yet looked at applying a similar approach to intangible assets.

25. Vladimir Kermiet (Czech Statistical Office) made a presentation on the calculation of net worth in the Czech Republic and its distribution across sectors [COM/SDD/DAF(2018)3]. He explained that valuation of other equity is a particular challenge and that the current practice seems to lead to an overestimation of the net worth of the corporations' sector and an underestimation of the net worth of the owners of these corporations. In this regard, he explained that estimating the value of other equity on the basis of own funds, as recommended in the manuals, would for example not take into account the negative impact of revaluation of some fixed assets that are not (well) represented on the balance sheets. Furthermore, there may be an issue with R&D, which is treated as creation of a fixed asset in the non-financial accounts, but may not show up in a change in net worth, if it is not accounted for on the balance sheets. This may also create an issue in relation to foreign direct investment. For that reason, they propose a different way to derive the value of other equity, more closely linked to net disposable income as derived from the non-financial accounts. This would hopefully ensure more consistency between financial and non-financial accounts and improve the measurement of other equity and net worth.

26. Peter van de Ven (OECD) was surprised by the relatively large share of government in total net worth in the Czech Republic, as usually the household sector records the largest share. In that regard, he was wondering about the size of government debt. Furthermore, with regard to the proposal, Peter commented that this looks rather revolutionary and that he would need to have a closer look at the proposal to give more detailed comments. As a first reaction, he explained that it would not be sufficient to look at net disposable income to explain the change in net worth, but that you should also look at revaluations, other changes in volume of assets, as well as at the impact of capital transfers. As these are often difficult to measure, it is not clear whether the proposed approach would lead to an easier, more straightforward measure. In response, Vladimir explained that the results of the current method were in any case not satisfactory in the Czech case. The weakest point in that regard is that other equity often does not take into account any revaluation of fixed assets, as these do not appear on the balance sheets.

27. Filipa Lima closed the session noting that the group had discussed two complex issues in areas where international manuals provide alternative methods where countries can select the most appropriate one. One of the main takeaways is the need to further invest in bridging tables between business accounting and national accounts, and the need to re-assess the accuracy of current guidance for the valuation of other equity and net worth.

Session 4: Other items for discussion

28. The last session opened with a presentation by Amanda Seneviratne (Australian Bureau of Statistics) on collecting data on financial derivatives. She discussed the work carried out by the ABS over the past three years in constructing a derivatives' data collection for banks and she shared the current status of this collection program. She explained some of the main reporting issues and how the ABS has sought to address them.

29. In response to a question by Susan McIntosh (U.S. Federal Reserve), Amanda responded that the data collection currently covers 50 banks, also including subsidiaries of foreign banks. Emmanuel Manolikakis (Statistics Canada) asked whether there are plans to extend this strategy to other institutional sectors. Amanda informed that they do indeed also collect this type of information from pension funds, but the focus has remained on the banking sector since these are the most relevant players in this area. Jorrit Zwijnenburg (OECD) noted the importance of obtaining detailed information on financial derivatives to better assess risks to the banking sector and recalled that the DGI-2 template on shadow banking included a question on potential risks linked to financial derivatives. In this regard, he asked whether the ABS has plans to obtain more detailed information, for example on the underlying notional values of the derivative contracts. Amanda informed that this is indeed an area they have looked into, but noted that obtaining more granular information is rather difficult as banks are reluctant to disclose this information.

30. Pramesti Puspitasari (Bank of Indonesia) made a presentation on the harmonization of external statistics, as included in the national accounts and the balance of payments statistics, as well as between the non-financial accounts and the financial accounts. She shared the main challenges and explained how they resolved most of the inconsistencies by identifying the main sources of differences and coordinating efforts amongst the national compilers to reconcile data sources.

31. Sanjiv Mahajan (Office for National Statistics, U.K.) and Amanda Seneviratne (Australian Bureau of Statistics) commended the efforts and progress made by the Bank of Indonesia in harmonizing the accounts. Sanjiv also explained that consistency would not always imply having exactly the same numbers, providing an example with regard to foreign trade data, where balance of payments and national accounts apply a slightly different, but still consistent recording. Pramesti confirmed this and emphasised that the importance lies in being able to explain any differences in the figures to users. Catherine van Rompaey (Statistics Canada) and Luis Giussani (INDEC, Argentina) asked how the Bank of Indonesia deals with the valuation of oil and gas, noting the complexities that arise when applying different pricing methods or when taking into account different modes of export. Pramesti informed that considerable discussion has taken place within the bank on how to address these issues and that they have focused on looking at the real import and export values for oil and gas by using detailed invoice data reported by companies.

Session 5: Closing remarks

32. Amanda Seneviratne, chair of the WPFS, thanked the OECD Secretariat, all people involved in the organisation of the WPFS meeting, and all delegates who made presentations and contributed to the discussions. She also announced that next year's WPFS, joint meeting, and WPNA will be held in the week of November 4 – 8, 2019.