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IMPLEMENTATION OF 2008 SNA IN THE FINANCIAL ACCOUNTS: THE AUSTRALIAN EXPERIENCE

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IMPLEMENTATION OF 2008 SNA IN THE FINANCIAL ACCOUNTS: THE AUSTRALIAN EXPERIENCE

Paper Prepared by Tom Lay
Presented by Amanda Seneviratne (Director, Financial Balance Sheets and Improvements)

Introduction

1. In 2009 the Australian Bureau of Statistics (ABS) implemented the System of National Accounts 2008 (2008 SNA) into its core national accounts. There were a whole range of changes recommended under the new standards, impacting on a number of aspects of the National Accounts. The purpose of this paper is to describe the Australian experience in implementing the 2008 SNA changes into the Financial Accounts. In particular the paper will describe the main changes associated with the Financial Accounts including some of the conceptual and practical issues faced by the ABS in implementing the changes. The paper will also outline the planning process undertaken by the ABS including discussion of the issues around data collection as well as specification of systems.

Background

2. The ABS has published Financial Accounts and flow of funds statistics since 1989 - prior to which the Reserve Bank of Australia (RBA) compiled these statistics. The ABS disseminates these statistics under two separate statistical products. The first is the annual Australian System of National Accounts (ABS 5204.0) while the second is the quarterly Australian Financial Accounts (ABS 5232.0). In terms of the timing of the implementation of the new standards, the ABS made the decision that the 2008/2009 edition of the Australian System of National Accounts released on 8th of December 2009 would be the first to incorporate the new standards, while the various quarterly releases would incorporate the new standards in the September 2009 reference periods. For the Australian Financial Accounts, the September quarter edition was released on the 24th of December 2009.

3. Along with implementation of the 2008 SNA, at the same time the ABS implemented other revised statistical standards and classifications:

> Balance of Payments and International Investment Position Manual sixth edition (BPM6)
>
> Standard Economic Sector Classifications of Australia 2008 (SESCA08)
>
> Australian and New Zealand Standard Industrial Classification 2006 (ANZSIC06), equivalent to the International Standard Industrial Classification (ISIC) Rev. 4

The ABS does not publish Financial Accounts by industry and therefore the changes under ANZSIC06 had no impact on the financial accounts.

4. In general the revised standards are not radical departures from their former editions. They represent an incremental change in the development of national and international accounting to reflect changing economic behaviour and new policy concerns, as well as an improved understanding of the accounts, their international comparability and harmonisation with other international statistical standards. There have been incremental changes to concepts, classifications and definitions. For the Financial Accounts there are two key changes:

- Expanding the detail of financial corporations sector used in the National
- Accounts Inclusion of reinvested earnings of in Financial Corporations sector

Financial Corporations Sector

5. Modifications were made to the financial corporations classifications so that the BPM6 classifications would be more aligned with SNA08 classifications

6. Following the changes to 2008 SNA, the ABS subsequently revised the SESCA08 to reflect the changes in its sector classification. While SESCA08 and the sector classification from international standards are comparable, more detailed institutional sector classifications differ due to the Australian economic environment and terminology.

Investment funds

7. One of the key changes introduced under the revised sectoral classifications was the separate identification of money market funds and other investment funds within the financial corporations sector. The definition of investment funds under 2008 SNA lacks some detail and given the importance of this sector in the Australian economy, the ABS adapted this definition to suit the Australian context.

8. The ABS defines investment funds as institutions which exhibit the following characteristics:

Pooling of investors' monies to purchase assets;

Assets are owned by a separate legal entity such as a trust or company, which issues shares/units to investors on a proportional ownership basis;

The fund/company must be open to the public, either via a prospectus or a distribution channel (e.g. a platform); and

The investors are able to dispose of their units and/or shares within a reasonable period of time, on a well developed secondary market, such as a stock exchange or through readily accessible redemption facilities offered in association with the fund.

9. Funds displaying the above characteristics are classified as being either money-market funds, non-money market investment funds, or non-financial investment funds. Several institutions that pool investor funds are not classified as investment funds because they are either not open to the public (e.g. property syndicates) or do not have a sufficiently active secondary market for their units and/or shares (e.g. agricultural, film and timeshare trusts and venture capital development funds).

10. The ABS believes that the ability to liquefy investment fund units/shares readily is a crucial conceptual justification for treating the undistributed earnings of these funds, as if they are distributed and re-invested. An investor who holds units/shares in a fund which have these facilities has a choice as to whether to maintain the investment into the next period, or withdraw the funds. If the investor chooses to maintain the investment, then it is only through having this choice that a re-invested earnings flow is assumed to have taken place.

11. The ABS had some difficulty applying the 'open to the public' criteria to the case of wholesale trusts. In Australia, wholesale trusts exhibit most of the characteristics of an investment fund, but due to the fact they invest in wholesale amounts, they are technically not considered open to ordinary investors

according to criteria laid out by the industry regulator. However, in the last 10 years the use of platforms has become increasingly popular. Platforms are a distribution channel used extensively by financial planners and provide investors with a menu of investment options, many of which provide the ability to invest directly into wholesale trusts. Through the use of platforms, the ABS deemed that wholesale trusts satisfy the 'open to the public' criterion and should be classified as an investment fund.

12. Another complication relating to wholesale trust also required interpretation of the 'open to the public' criteria. Given the significance of the superannuation sector in Australia, there are a number of wholesale trusts which are established to invest funds on behalf of superannuation clients only, while there are other wholesale trusts which invest on behalf of a range of clients. The ABS adopted a set of principles to establish the sectoral classification of these. The principles adopted were:

Any trust which sources all of its funds from one institutional sector (e.g. Superannuation) should be classified to that institutional sector

Any trust which sources all of its funds from investors belonging to a range of institutional sectors should be classified to the investment funds sector

13. In Australia, only those investment funds investing predominantly in financial assets are treated as financial corporations. Those investing in non-financial assets, such as property, are treated as non-financial corporations. This is a minor departure from the 2008 SNA which recommends that investment funds which invest in real estate (REIT's) should be classified to financial corporations. The ABS has deemed that a unit which derives the majority of its income through property rentals should not be classified to financial corporations but instead should be classified as a non-financial corporation.

Securitisers

14. The 2008 SNA recommends financial corporations engaged in the securitisation of assets should be classified to the subsector “Other financial intermediaries, except insurance corporations and pension funds”. However as part of changes to the financial corporations sector classifications, the ABS now separately identifies securitisers. This followed extensive consultation with major users as well as consideration of the role played by securitisers in the global financial crisis in 2008.

15. In 2008, Australia's Central Bank, the Reserve Bank of Australia (RBA), widened the criteria for securities accepted in repurchase agreements (repos) to include residential mortgage backed securities (RMBS). This led to the creation of "internal" or "self" securitisation by Australian banks. This is a process in which an originator sells a pool of assets to a related special purpose vehicle (SPV), and the SPV in turn issues debt securities, which are held entirely by the originator. The ABS considers self-securitisation as part of the securitisers sector classification.

16. For full details of the ABS securitisation collection, refer to the following paper:

http://www.oecd.org/dataoecd/4/6/45210480.pdf

The table below summarises the financial sector classification adopted by the ABS:

2 FINANCIAL SECTOR CLASSIFICATION FOR NATIONAL ACCOUNTS

Current SNA93 classification used in the ASNA	*SNA08 classification*	*Classification to be used*
Central bank	Central bank	Reserve Bank
Banks	Deposit-taking corporations except the Central Bank	Depository corporations
Other depository corporations	Money market funds (MMF)	Banks
Life insurance corporations	Non-MMF investment funds	Other depository corporations
Pension funds	Other financial intermediaries except insurance corporations and pension funds	Pension fund and insurance corporations
Other insurance corporations	Financial auxiliaries	Pension funds
Central borrowing authorities	Captive financial institutions and money lenders	Life insurance corporations
Financial Intermediaries n.e.c.	Insurance companies	Non-life insurance corporations
	Pension funds	Financial investment funds
		Money market funds (MMF)
		Non-MMF financial investment funds
		Central Borrowing Authorities
		Securitisers
		Other financial corporations

<u>Reinvested earnings of investment funds</u>

17. Under the Balance of Payments Manual fifth edition (BPM5) and System of National Accounts 1993 (SNA93) retained earnings from foreign direct investment are deemed to be distributed and reinvested in the corporation on the grounds that direct investors have control of the corporation and can therefore influence distribution decisions. Under the 2008 SNA and BPM6, the scope of collection of reinvested earnings data has been widened to include undistributed earnings of investment funds with respect to both foreign and domestic investors on the grounds that investors are able to withdraw and reinvest the equity from the investment funds equity. Reinvested Earnings of investment funds are earnings that are not distributed to unit holders and are kept by the fund instead. The 2008 SNA recommend that retained earnings should be treated as if distributed and reinvested. The ABS has implemented this change which has impacts in the income and financial accounts.

18. In Australia, the methodology used to calculate reinvested earnings of investment funds is:

Reinvested earnings = Earnings (net of capital gains/losses) – Distributions

19. There were some practical issues with the measurement of reinvested earnings. The measurement of the reinvested earnings payable by domestic investment funds to domestic and foreign unit holders (i.e. Liabilities of investment funds) was relatively straightforward. This information is sourced from the domestic investment funds and the ABS was able to leverage off existing data to derive reinvested earnings. However there are issues with capturing reinvested earnings payable by non-resident investment funds to domestic unit holders. The ABS attempted to add this requirement to its foreign investment survey but forms testing found that providers were unable to differentiate income sourced from dividends

and returns from capital gains. Providers were also unable to report earnings on investment other than dividends.

20. Given the difficulties in measuring the foreign asset flows of reinvested earnings, the ABS estimates the reinvested earnings on portfolio investment. To do this, investment earnings are derived by applying an appropriate stock index to the existing reported levels of portfolio equity investment. Reported dividend income is then subtracted from the derived earnings to give reinvested earnings.

21. There are a number of instances of large negative reinvested earnings occurring in periods when distributions include proceeds from holding gains, as the calculation of investment fund earnings and derived reinvested earnings will not include proceeds from holding gains. As earnings accrue continuously, it is important to record the imputed distribution of retained earnings continuously; the size of the imputed reinvested earnings is influenced by the actual distribution pattern. Actual distributions occur infrequently, once or twice per year.

22. The following graphs show the impacts to foreign assets and liabilities as a result of including reinvested earnings of investment funds:

FIGURE 1 - FOREIGN ASSETS, Income on a BPM5 and BPM6 basis—1997–98 to 2007–08

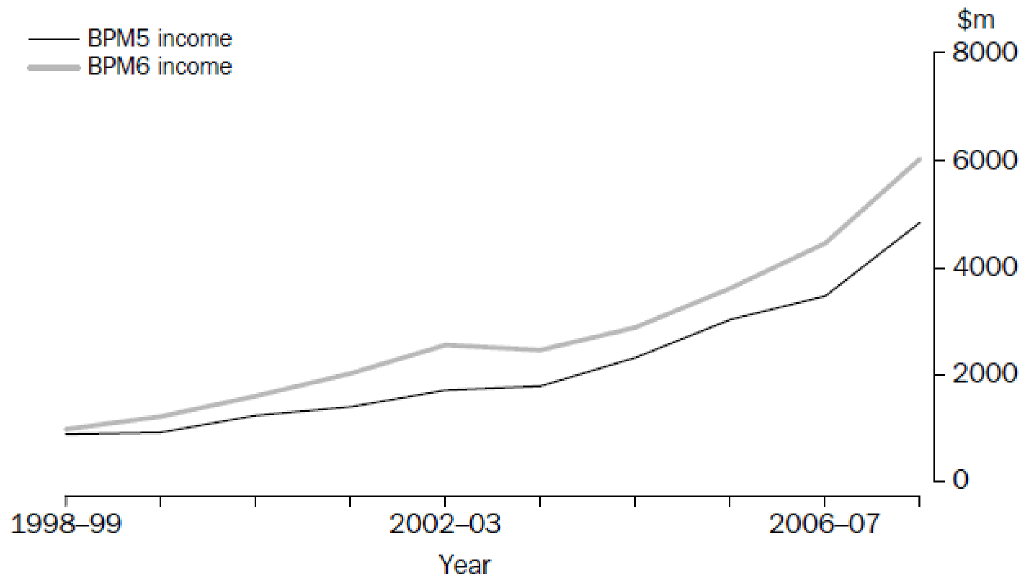
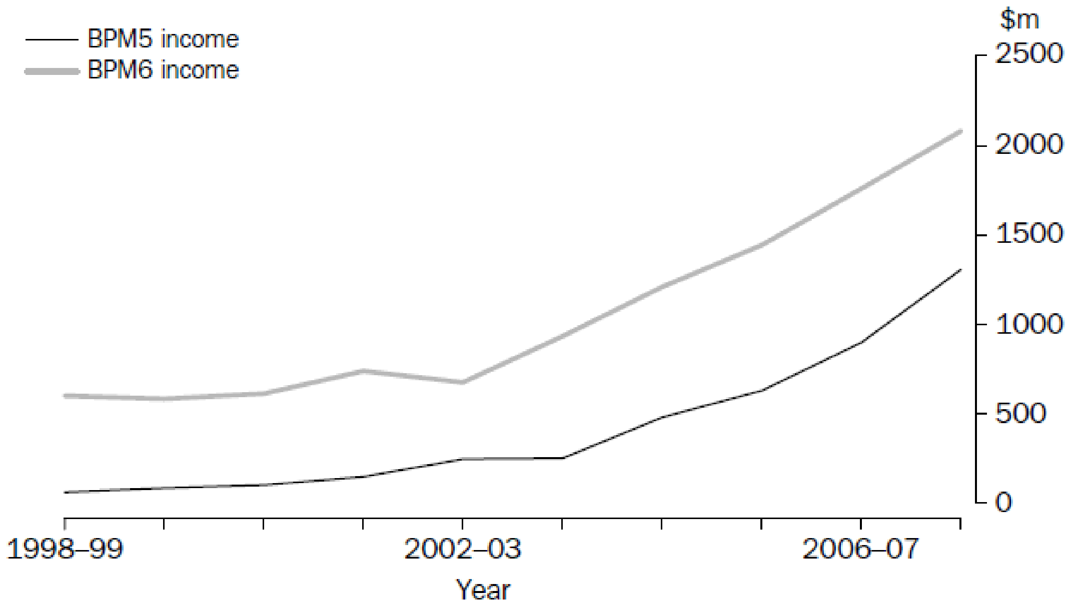


FIGURE 2 - FOREIGN LIABILITIES, income on a BPM5 and BPM6 basis—1998–99 to 2007–08



Other changes implemented

23. As part of the implementation of the new standards, the ABS also took the opportunity to implement a number of other changes into the financial accounts. These are mainly associated with changes under the SNA93 which the ABS did not implement, and will bring the Australian financial accounts into compliance with international standards:

- Separate identification of currency and deposits

- Disaggregation of deposits into Transferable deposits and Other deposits

- Disaggregation of loans into short term and long term

- 'Fair' valuation of non-performing loans

Planning

24. Given the fact that the ABS was concurrently implementing changes under ANZSIC06 along with 2008 SNA and BPM6 changes, it became clear that this would become a significant task to manage and coordinate from an organisation point of view. Details of how the ABS managed this change in the broader context are described in the following paper:

http://www.bis.org/ifc/publ/ifcb33a.pdf?frames=0

25. While the ABS successfully implemented all the changes at the end of 2009, the planning process for this actually began in 2007. The ABS established a number of review boards to manage various aspects of

the implementation; the Macroeconomic Steering Committee (MESC) was established to consider methodological changes in the national and international accounts; the Macroeconomic Methods Board (MAMB) was established to support the implementation of changes in methods and data sources in macroeconomic accounts. These committees included both senior and operational staff to ensure that the full implications of changes were understood.

26. Consultation and communication with users was an important aspect in terms of guiding the implementation.

In 2007 users were given the opportunity to consider the proposed changes and provide feedback to the ABS. This was released as an information paper:

> Introduction of revised international standards in ABS economic statistics in 2009 (ABS 5310.0.55.001)

In October 2009, the ABS released two further information papers detailing the impacts of the changes on the ABS National and International accounts, as a result of implementing the new standards. The first of which describes the key changes and impact on selected key aggregates:

> Information paper: Implementation of new international statistical standards in ABS national and international accounts (ABS 5310.0.55.002)

The second consisted of several papers describing the impacts on statistical products in terms of presentation of statistics and structural changes to time series spreadsheets. For the financial accounts product these were released under:

> Information paper: Product changes to financial accounts following revisions to international standards (ABS 5232.0.55.003)

Changes to data collection

27. The ABS did not make substantial changes to its statistical collections in order to implement the 2008 SNA changes for the financial accounts. The ABS has benefited from having set up detailed and sophisticated collection arrangements in the late 1990's and early 2000's and as a result was able to leverage off existing data sources. For the financial accounts the major data sources are:

ABS Survey of financial information (SFI)

ABS Survey of international investment (SII)

Australian Prudential and Regulatory Authority (APRA)

28. The ABS did make significant changes to survey forms, but worked towards streamlining data collection arrangements through the introduction of electronic reporting. These changes also brought about consistency in reporting for units belonging to the same institutional sector.

Survey of Financial Information (SFI)

29. The ABS has collected balance sheet and income and expenditure data from domestic investment funds since the early 1990's. Since that time the survey form has evolved and is quite detailed. It asks for

asset and liability positions of financial instruments broken down by the institutional sector of the counterparty.

30. For investment funds the SFI is sent to public unit trusts such as equity, property and other trusts – this captures the retail investment funds. For wholesale investment funds, the ABS administers a survey of investment managers who are able to provide information on the investments of wholesale trusts.

31. Some minor changes were made to the SFI in respect of ensuring that investment funds could be identified in counterparty reporting such as those for private non-financial corporations, public financial corporations and general government.

Survey of International Investment (SII)

32. Since 1988, the SII has covered all units including investment funds, which have foreign investment greater than $50m. The SII is also supplemented with a security by security (SBS) collection reported by custodians who hold securities on behalf of foreign investors. No changes were made to the SII collection in order to meet the additional requirements under 2008 SNA. As mentioned earlier though, the ABS attempted to include a question to capture the reinvested earnings flows for foreign assets and liabilities, but this proved difficult for providers to report. There were some minor changes to the SII collection to meet the BPM6 requirements.

Australian Prudential and Regulatory Authority (APRA)

33. In 1998 the APRA was established as the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and medium to large superannuation funds. In 2002, under the statistics modernisation program, the ABS incorporated new data from APRA on banks and other depository corporations (credit unions and building societies) to compile the financial accounts. Over time the ABS has expanded its use of APRA data, and now includes other institutions including superannuation funds, general insurance and registered financial corporations (RFC's).

34. When APRA was in the early stages of setting up data collections, the ABS was in a fortunate position to be able to work intensively with APRA and ensure the collections would meet both prudential and statistical requirements, this was particularly true for depository corporations. For the most part the ABS was able implement the new standards for these institutions with the existing information.

35. The ABS attempted to incorporate additional reporting requirements for superannuation funds and RFC's, in order to bring these in line with detail collected for depository corporations However a number of factors emerged which meant that the changes would not be incorporated in time to meet the implementation of the new standards. These factors include cost, lead time required to add in the new requirements, and finally a Government review on the superannuation system which had potential to result in a duplication of change processes to include new reporting requirements for superannuation funds.

Systems specification

36. The 2008 SNA changes to the financial accounts required significant re-engineering of systems in order to implement. The financial accounts system is built around metadata to describe data sourced through the various data collections. The metadata itself is based on SNA financial instrument and sector classifications, every data item is described according to these classifications. Aggregation and storage of time series is built around the Forecasting Analysis and Modelling Environment (FAME) system.

37. The time and resources allocated to the re-engineering of systems centered around:

Integrating the 2008 SNA classification into the metadata

Describing every data item according to the new classifications

Updating the FAME system to ensure compatibility with the revised metadata

Streamlining of processes to free up time in compilation

Testing and acceptance of new system

Conclusion

38. Australia is one of the first countries to implement the revised international standards into its national accounts including the financial accounts. As such the ABS did not have the benefit of sharing other countries' experience. It is hoped that the Australian experience will be useful for other countries as they prepare to implement these changes.