



ESA 2010 Changeover - Implications for monetary and financial statistics

Introduction

Economic policy making necessitates comparable, reliable and timely statistical information on economic developments. Thus, EU Member States compile important economic statistics, such as monetary, financial and balance of payments statistics, according to harmonised statistical standards. As from September 2014, the main statistical standard in the European Union is the European System of National and Regional Accounts 2010 (ESA 2010), which replaces the ESA 1995.

What is the ESA 2010?

The ESA 2010 is a regulation of the European Parliament and of the Council.¹ It defines the compulsory methodological standards, definitions, classifications and accounting rules for European national accounts statistics. The ESA 2010 is based on the System of National Accounts (SNA) 2008, which is the international statistical standard authored by the European Commission, the International Monetary Fund (IMF), the Organisation for Economic Co-Operation and Development, the United Nations and the World Bank and which harmonises statistical definitions to improve comparability at a global level. The ESA 2010 is being implemented in a co-ordinated manner in the European Union in 2014. It captures the latest advances in statistical methodology and changing user needs and adapts economic statistics to the current economic environment, which is marked by further globalisation and stronger financial integration.

The standards used for the statistics which provide important inputs into national accounts are also being aligned with the ESA 2010. They include, for example, the European Central Bank's (ECB) monetary and financial statistics, statistics on financial institutions and on securities issues and holdings. Moreover, the balance of payments and international investment position statistics, which are other important inputs, are also being revised to be aligned with the new standards set forth in the IMF Balance of Payments and International Investment Position Manual (BPM6).

In the context of financial statistics, the ESA 2010 introduces further details in terms of sectoral and financial instrument breakdowns. The new standard also enhances the categorisation of some institutional units, notably head offices, holding companies and special purpose entities and the different categorisation of certain transactions. The following section shall provide a summary of the most salient changes introduced by the ESA 2010 and contrasts the new requirements with those included in the ESA 1995.

(a) Special Purpose Entities

Special purpose entities (SPE) are legal entities which are established to fulfil specific and, generally, narrow objectives. The main characteristics of SPEs are very few employees, no non-financial assets and little physical presence. SPEs relate to another (often multinational) corporation, which is often resident in a different territory, and they are managed by employees of this related or another corporation. SPEs are in some cases created as a means of transferring specific risks to protect parent companies (e.g. securitisation vehicles). The ESA 2010 places greater emphasis on the

¹ Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union.



treatment of SPEs and explicitly specifies that such entities are to be treated as resident entities. The importance given to SPEs reflects the increasingly prominent role of such legal vehicles.

Henceforth, the Bank's statistics will include statistics on SPEs. The statistics that will be transmitted to the ECB and Eurostat for inclusion in euro area aggregates will also include SPE statistics. Back data spanning to at least 2010 will also be shown inclusive of SPEs, when applicable.

In line with ESA 2010 norms, SPEs will be included within the Other Financial Corporations sector, with the exception of captive insurance companies and professional investment funds, which will be classified in the insurance sector and investment funds categories, respectively.

Due to the lack of detailed statistics on SPEs, especially on their counterparty transactions, the Central Bank of Malta may be compelled to undertake estimates.

Following discussions and agreement with the National Statistics Office, it will be assumed that SPEs deal solely with non-residents.

(b) Head offices and holding companies

In accordance with the ESA 2010, holding corporations are to be classified within the financial sector as captive financial institutions. The adoption of the ESA 2010 in the domestic context is likely to be accompanied by a marked reclassification resulting in a substantial shift of financial assets and liabilities from the non-financial corporations sector to the financial corporations sector. In contrast, all head offices are to be allocated either as non-financial companies or financial auxiliaries according to the dominant activity of their subsidiaries. The reclassification of holding corporations and head offices adopted by the ESA 2010 reflect the terminology used in NACE Rev.2.²

In the ESA 2010 sector classification, captive financial institutions consist of all financial corporations and quasi-corporations, which are neither engaged in financial intermediation nor in providing financial auxiliary services. Most of either their assets or liabilities are not transacted on open markets. In practice, the sector includes such financial institutions that operate in a restricted environment, for instance, within a corporate group. The sector also includes units that lend exclusively their own funds or those of only one client. In practice, many units classified as captives will be only recognised as separate institutional units because their residence is in a different country from that of the parent. The ESA 2010 further highlights the distinction between insurance companies and pension funds, which partly reflects the increasing importance of these types of financial institutions. The new framework also disaggregates the previous "Other Financial Institutions" sector into two by identifying non-money market investment funds separately.

Sub-sectors of the financial corporations sector

The ESA 2010 also introduces a more detailed breakdown of the financial corporations sector, which enables a more detailed analysis. The five sub-sectors in ESA 95 are being expanded to nine sub-sectors in the ESA 2010, as shown in Table 1. The Bank will be adopting such sectoral classifications when presenting statistics; however, it may in certain instances be compelled to show only a limited number of sectors due, for instance, to confidentiality issues.

² NACE Rev.2 is the statistical classification of economic activities adopted by Eurostat.



Table 1 - New sector classification

ESA 95 Financial corporations sub-sectors	ESA 2010 Financial corporations sub-sectors
Central Bank	Central Bank
Other Monetary and Financial Institutions	Other Monetary and Financial Institutions
	Money market funds
Other financial intermediaries	Non-Money-Market Investment Funds
	Other financial intermediaries
Financial auxiliaries	Financial auxiliaries
	Captive financial institutions
Insurance corporations and pension funds	Insurance corporations
	Pension Funds

(c) Other conceptual changes

There are various other conceptual changes brought about by the ESA 2010. Some of the most notable changes include the treatment of:

- (a) Special Drawing Rights;
- (b) goods sent abroad for processing;
- (c) merchanting services.³

Implications on the statistical tables shown in the Bank's publications

"Aggregated statement of assets and liabilities – investment funds" and "Aggregated statement of assets and liabilities - insurance corporations" will henceforth include statistics on professional investor funds and captive insurance corporations, respectively. "Debt securities, by sector of resident issuers" will include statistics on issues by SPEs. Moreover, statistics on the financial corporations sector in "Non-consolidated financial accounts of the Maltese economy" will reflect the inclusion of statistics on SPEs, professional investor funds and captive insurance corporations. Similarly, "Balance of payments – current, capital and financial accounts", "International Investment Position", and statistics on gross/net external debt by sector, maturity and instrument will also include statistics on SPEs.

Benchmark changes

Apart from the impact brought about by the introduction of ESA 2010, the Bank also carried out two benchmark changes to its monetary statistics. To introduce consistency in the definition of loans in

³ For a complete list of conceptual changes one can refer to the information provided by Eurostat by accessing the following link:
http://epp.eurostat.ec.europa.eu/portal/page/portal/esa_2010/introduction.



all Tables, loans now exclude any interbank repos and interbank deposits. Moreover, due to confidentiality issues, the Other Financial Institutions (OFI) sector was amalgamated with the Other Monetary Financial Institutions (OMFI) sector and termed as the Financial Corporations sector. The latter is applicable mainly in the case of “Deposits held with OMFI by sector”, and “OMFI Loans by sector”.

Concluding remarks

Statistics form the basis of formal economic analysis and are essential inputs for policy formulation. The intrinsic importance of financial statistics demands adequate and comprehensive classifications and methodological standards. Moreover, cross-country comparisons necessitate a common application of such definitions and methodologies. These issues are addressed at an EU level by the ESA. The updates in the ESA 2010 reflect efforts to improve statistical compilation through new definitions and methodological approaches to ensure the relevance of economic statistics in analysis and decision making. The ESA 2010 obliges Member States to treat SPEs as resident corporations. The Bank is thus legally obliged to publish national monetary and financial statistics inclusive of SPEs.

The first ESA 2010-based statistics refer to data for the third quarter of 2014 and are accompanied by comparable back data spanning to, at least, 2010 compiled in accordance with the ESA 2010 standards.
