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Delineating Financial Corporations within the Canadian System of National Accounts

UNECE – Group of Experts on
National Accounts

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Financial Corporations Sector in the CSNA

- ✓ Statistics Canada has been publishing quarterly Financial Flow Accounts since 1969 and quarterly National Balance Sheet Accounts since 2003.
- ✓ The Financial Flow Accounts and National Balance Sheet Accounts present detail for over 30 sectors and 25 instruments.
- ✓ Currently publish detail for 12 financial sectors within the Financial Flow Accounts and National Balance Sheet Accounts.
- ✓ Financial Flow Accounts are available approximately 60 days following the reference period and the Balance Sheet Accounts approximately 75 days following the reference period.
- ✓ A historically revised set of data will be released in October 2012, with sector detail changed slightly and a larger change to instrument detail.



CSNA 2012 vs. 2008 SNA

CSNA financial corporation sub-sector detail	SNA 2008
Total monetary authorities	Central bank
Chartered banks	Deposit-taking corporations except the central bank
Quasi-banks	
Life insurance business	Insurance corporations
Property and casualty insurance companies	
Segregated funds of life insurance companies	
Trusteed pension plans	Pension funds
Money-market funds	Money-market funds
Other mutual funds	Non money-market funds investment funds
Sales, finance and consumer loan companies, other private financial institutions, Issues of asset-backed securities	Other financial intermediaries except insurance corporations and pension funds, financial auxiliaries, captive financial institutions and money lenders
Financial government business enterprises	

Sources of Information

- Quarterly Financial Survey (QFS) conducted by Statistics Canada
 - Stratified sample based on revenue and assets
 - Sample is selected to ensure proper industry coverage
 - Take-none portion is estimated by taking the most recent annual tax estimate and applying the quarterly movement of the surveyed units
- Canadian Office of the Superintendent of Financial Institutions (OFSI)
- Private sector databases

Delineating Financial Corporations

Financial Sector	Number of Industries	Number of Enterprises	Total Assets
Chartered banks and quasi-banks	5	164	3,178,895
Financial government business enterprises	1	21	266,275
Issuers of asset backed securities	1	56	310,662
Life insurance business	3	60	289,866
Money-market funds	1		
Other mutual funds	9	2,110	759,496
Other private financial institutions	19	187,495	1,267,531
Property and casualty insurance companies	10	101	134,768
Sales, finance and consumer loan companies	3	918	86,951
Segregated funds of life insurance companies	1	33	200,619
Total monetary authorities	1	3	135,852
Trusteed pension funds	2	7,870	1,016,998
Total	56	198,831	7,647,913

- Main method to delineate financial sectors is by concurring industry-based estimates directly to the CSNA sectors.

The Enterprise as the Unit of Measure in the Sector Accounts

- Given that the majority of information for the financial corporations' sub-sectors originate from enterprise-based surveys or regulatory information which classifies units more as enterprises than legal entities there are a number of implications for the CSNA:
 - Most of the financial corporations are complex enterprises as opposed to simple enterprises (legal entities).
 - The data reported to Statistics Canada generally reflects the domestically-consolidated operations of the enterprise.
 - In many cases, the large financial institutions in Canada operate a number of different lines of business. Separate sub-enterprises are broken out for significant lines of business.



Maintaining Private Financial Enterprises

- Four main processes are used to maintain the frame of private financial corporations:
 - The Canadian regulator of financial institutions maintains a list of federally regulated banks, trust and mortgage companies, life insurance companies and property and casualty reinsurers and insurers.
 - A frame of investment funds is maintained by the Investment Funds Institute of Canada (IFIC). IFIC is a trade association that supports the Canadian investment funds industry. Participation in this association is voluntary—posing coverage issues.
 - Asset-backed securities (ABS) are identified using the Dominion Bond Rating Service, which tracks the issues of Canadian securities. The trust that issued the security is also identified in this data source.
 - The delineation and update of other financial corporations' sub-sectors is accomplished through a variety of mechanisms and sources, such as updates from administrative sources, feedback received during collection of survey information, feedback from subject matter experts and periodic profiling of larger enterprises.

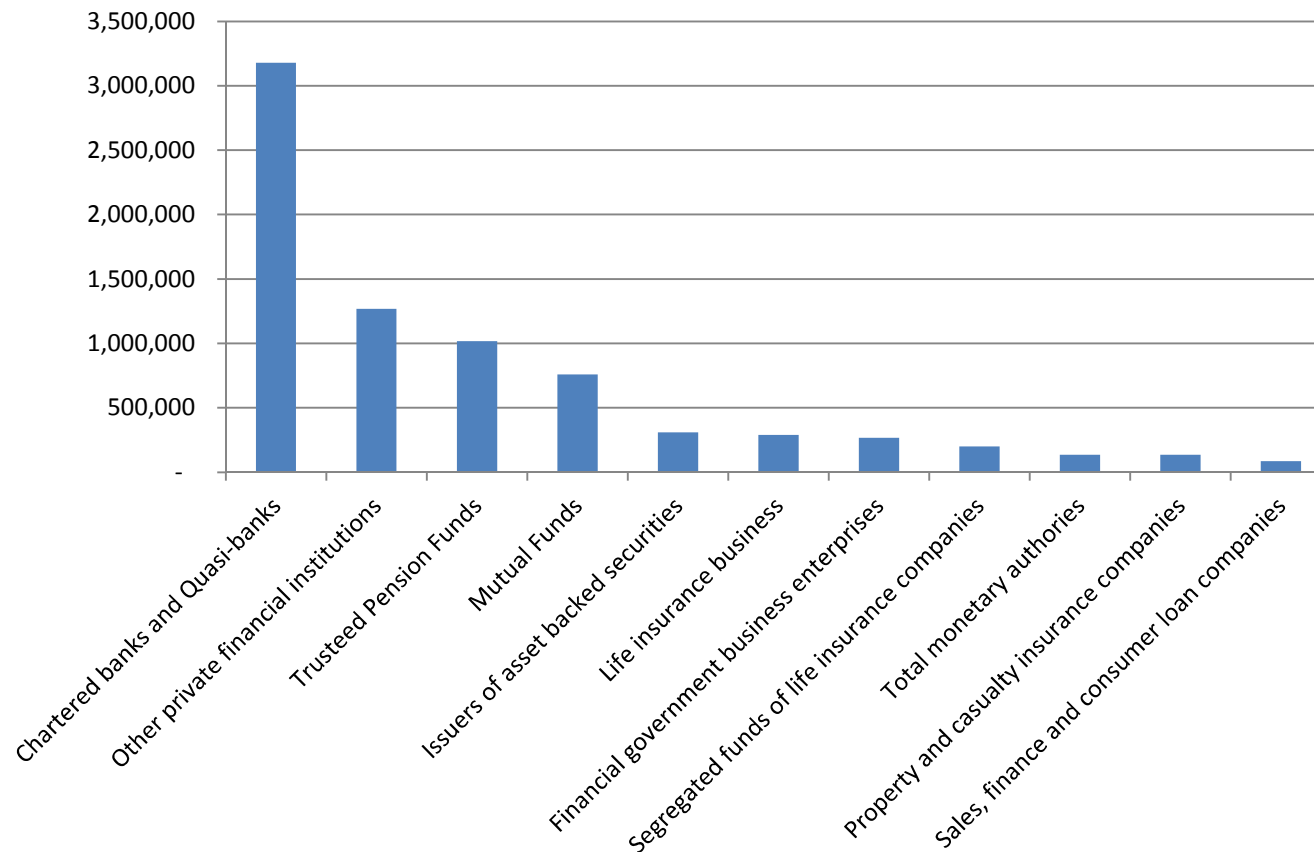
Maintaining Public Sector Financial Enterprises

- Public enterprises are maintained through:
 - A classification team that works through a set of criteria to determine whether or not a unit is in the public sector by looking at (i) who controls the unit and, if deemed a public sector entity, (ii) whether the unit meets conditions to delineate it from government (that is, classify it as a public enterprise).
 - Once a unit is deemed part of the public sector enterprise universe it is assigned both an industry (NAICS) code and a sector code.
 - The unit is then either birthed (if it did not already exist) or updated with the latest profile information in Statistics Canada's business register.



Specific Challenges Mutual Funds Sector

Total assets - financial sectors (2010)





Specific Challenges

Mutual Fund Sector

1. Listing of funds

- Current source of list (IFIC) is a voluntary association list—missing approximately 700+ funds and \$108 billion in assets.

2. Fund of funds

- Fund of funds are investment funds that invest in other investment funds.
- Excluded from the survey in the past, so as to avoid double counting mutual fund assets.
- Fund of funds invest in mutual funds as well as stocks, bonds and other securities. These funds should therefore form part of the universe of funds.
- Their inclusion is in line with Flow of Funds and Balance Sheet national accounting, which articulates all the transactions of the sector.

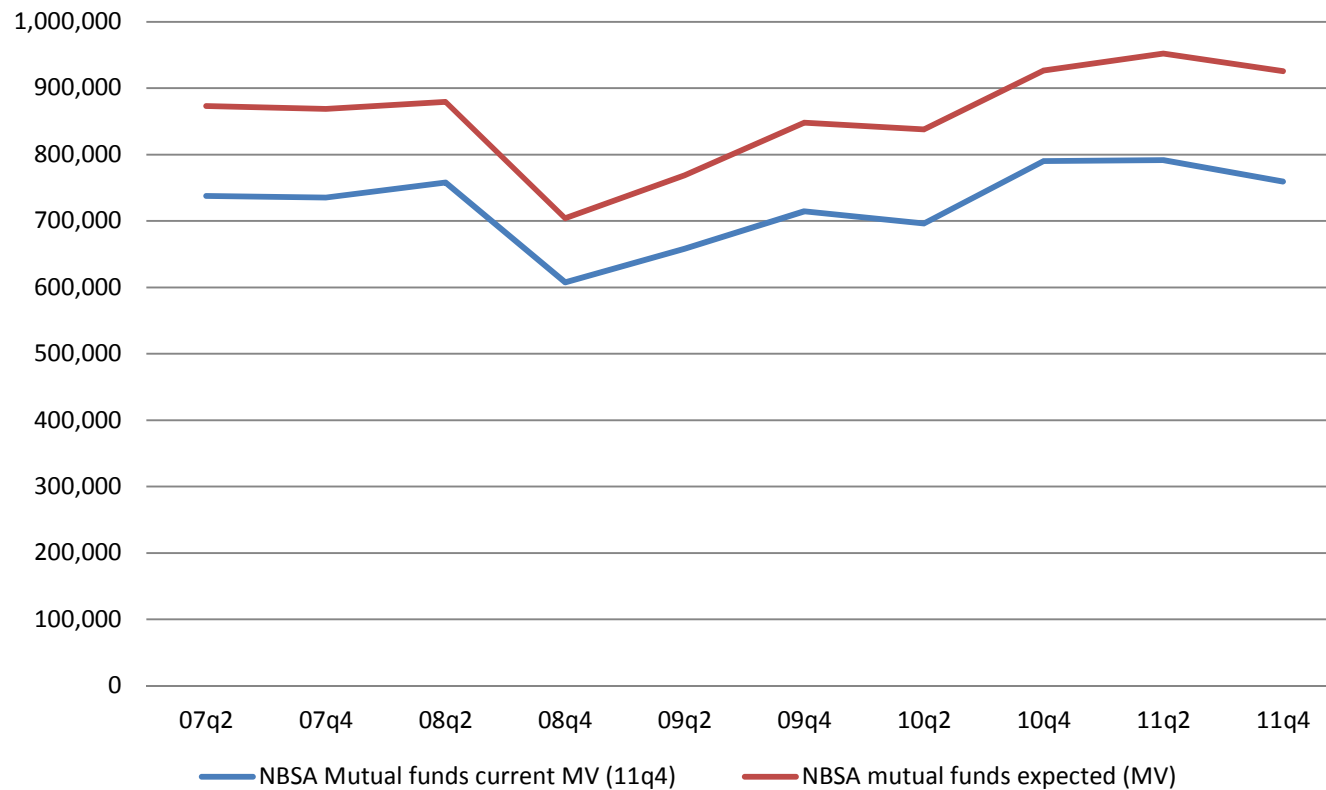
3. Exchange traded funds

- Fastest growing type of mutual fund.



Specific Challenges Mutual Funds Sector

Current vs proposed historical mutual fund assets



Specific Challenges

Issuers of Asset-Backed Securities

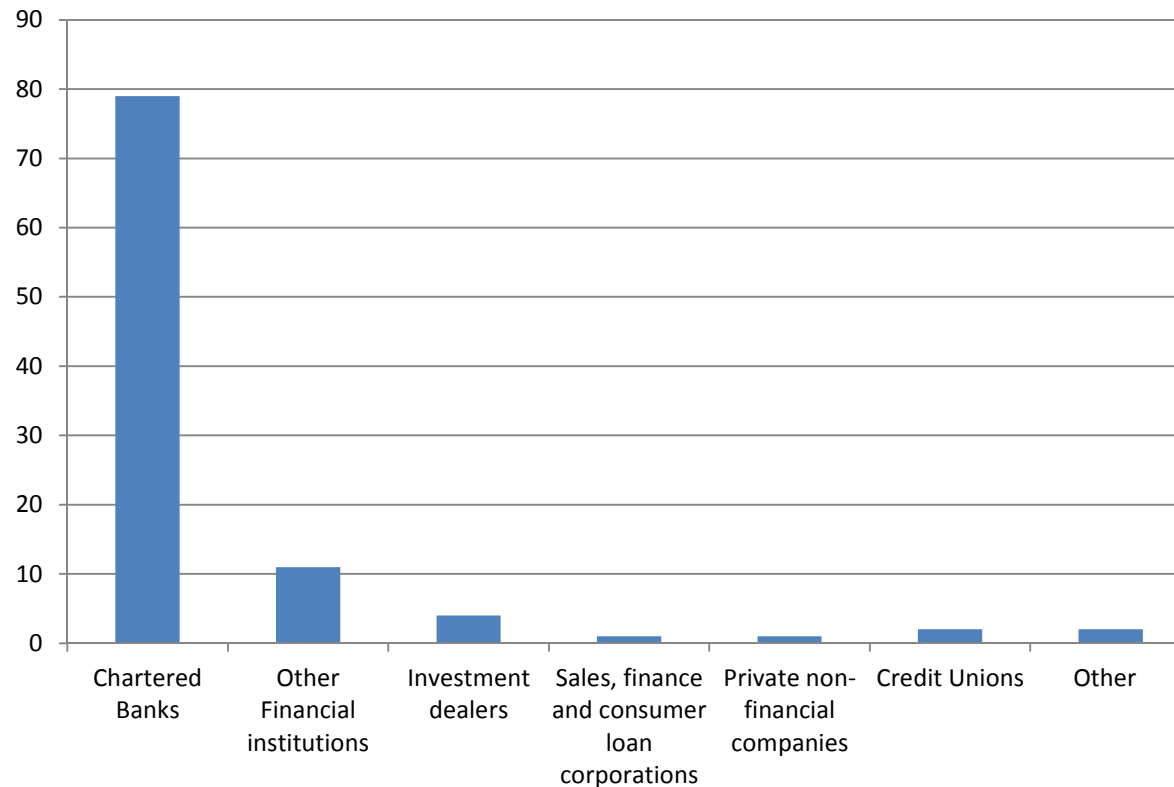
- IFRS implemented in Canada in 2011 (Q4 for most major chartered banks).
- Some securitized assets are moving back to the originators balance sheet.
- Two types of ABS sellers:
 - Single sellers (securitized the assets from a single institution into a single trust)
 - Multiple sellers (securitized the assets from multiple institutions into a single trust).
- The decision to move the assets back to the originators balance sheet is determined by the degree of risk transfer.
- The challenge is not so much the delineation of the financial corporations in the sector but rather the relationship between the financial corporations in different sectors.



Specific Challenges

Issues of Asset-Backed Securities

Originator's % share of asset-backed securities





Specific Challenges

Issuers of Asset-Backed Securities, Fourth Quarter - 2011

Chartered banks	Q4 - 2010	Q1 - 2011	Q2 - 2011	Q3 - 2011	Q4 - 2011	Change Q3 to Q4
Mortgages - Assets	509,054	536,695	560,211	568,882	832,935	264,053
Bond - Liabilities	53,343	74,822	75,723	76,894	345,577	268,683
Issues of ABS						
Mortgages - Assets	354,528	297,259	293,765	302,628	53,032	- 249,596
Bonds - Liabilities	584,737	526,242	533,223	537,224	275,855	- 261,369

- The major Canadian chartered banks adopted the IFRS in the fourth quarter of 2011.
- Resulted in large changes in the assets and liabilities in the chartered banks and ABS sector.
- Major task was to distinguish between the transactions and other economic flows.



The Canadian Context

- The approach taken encompasses:
 - Changing structure of the financial sector
 - Concentration within the financial sector
 - Data sources available to the compiler
 - Materiality