



Changes in the content and breakdown of  
the Financial corporations sector  
Methodological and practical issues in Hungary

Meeting of the Expert Group on National Accounts  
UNECE, Eurostat, OECD

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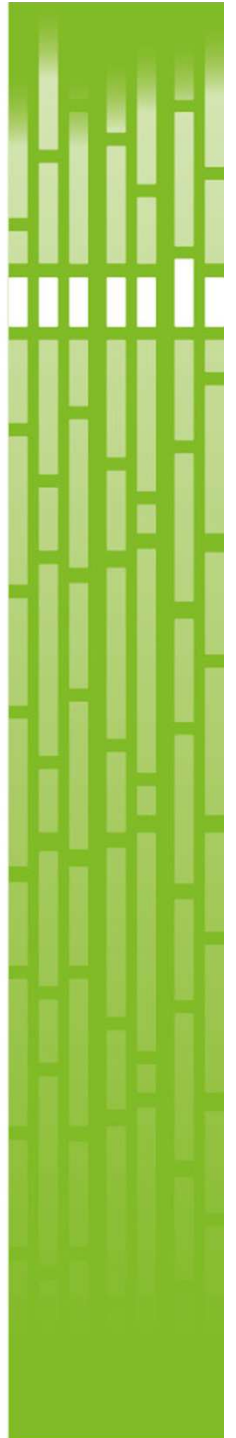
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# Content of the presentation

- Changes in the methodological rules relating to the financial corporations
  - Rationale of the new rules
  - Current practice of sector classification
  - Significance of special entities in Hungary
  - Definition and treatment of SPEs in Hungary
  - Definition and treatment of holding companies
  - Application of the new rules on financial corporations
  - Planned content of the new Captive financial institutions sub-sector
  - Size of the financial and non-financial corporations sector according to the new rules
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## Changes in methodological rules (SNA, ESA)

Extension and detail of the financial corporations sector

Old rules - SNA 1993, ESA 1995:

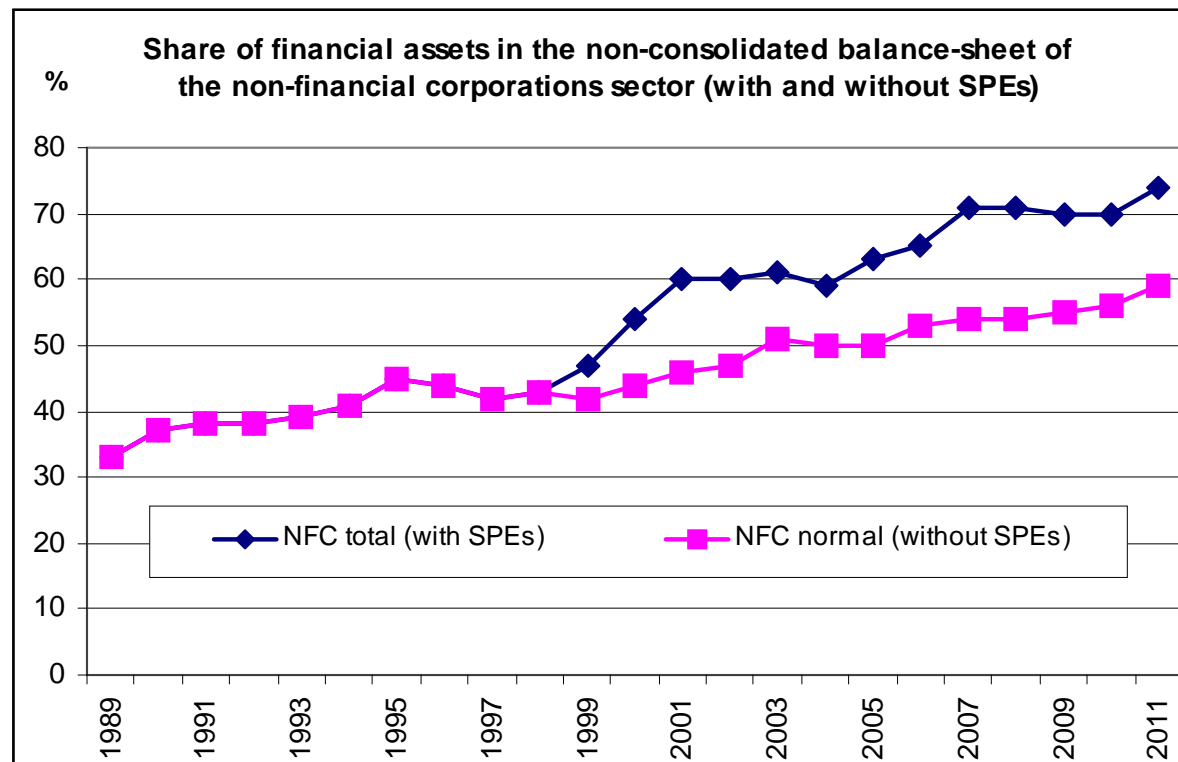
- Financial corporations sector (S.12) =  
Financial intermediaries + Financial auxiliaries
- Financial intermediation is a service for the public
- Breakdown: 5 sub-sectors

New rules - SNA 2008, ESA 2010:

- Financial corporations sector (S.12) =  
Financial intermediaries + Financial auxiliaries + other (captive)  
financial corporations
- Corporations with passive holding or financing functions  
become part of the financial sector
- Breakdown: 9 sub-sectors

## Rationale of the new rules (1)

Clearing and simplification of the non-financial corporations sector  
(Currently financial assets amount to 59% of the balance-sheet of normal corporations and 74% including SPEs in Hungary. Many non-financial corporations have exclusively financial assets.)



## Rationale of the new rules (2)

More precise classification of financial corporations due to the detailed definition and breakdown of the sector

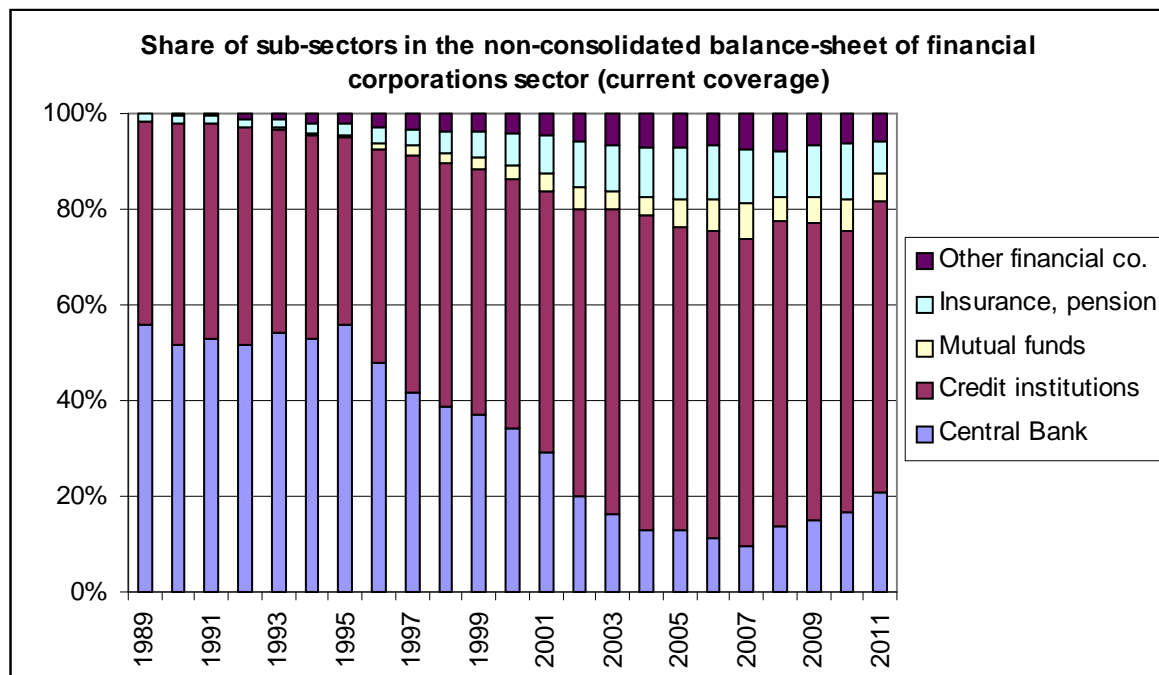
Main steps forward:

- Separation of investment funds, pension funds and other units
- Description of special purpose entities (SPEs)
- Separation of holding companies and head offices

SNA 1993/ESA 1995		SNA 2008/ESA 2010	
S.121	Central bank	S.121	Central bank
S.122	Other monetary financial institutions	S.122	Other deposit-taking corporations
		S.123	Money market funds (MMF)
S.123	Other financial intermediaries	S.124	Non-MMF investment funds
		S.125	Other financial intermediaries
S.124	Financial auxiliaries	S.126	Financial auxiliaries
		S.127	Captive financial institutions and money lenders
S.125	Insurance corporations and pension funds	S.128	Insurance corporations
		S.129	Pension funds

## Rationale of the new rules (3)

Detailed presentation of the financial corporations sector  
(Non-monetary financial sub-sectors are of growing importance.  
However, non-monetary financial institutions have different weight inside the financial corporations sector of the countries.  
In Hungary, the share of these sub-sectors is less than 20%)



## Current practice of sector classification

Complete list of financial corporations compiled and published by the CB promotes the classification and grouping of units.

Financial corporations sector consists of 5 sub-sectors (ESA 95) but data sources and register information enable a more detailed sectoral breakdown as well (close to SNA 2008/ESA 2010).

Corporate sectors and subsectors	Number of entities	Total assets (GDP %)
<b>Non-financial corporations (S.11)</b>	<b>ca. 400000</b>	<b>400</b>
o/w foreign controlled SPEs	500	124
o/w holding and group financing companies	2000	15
<b>Financial corporations total (S.12)</b>	<b>3198</b>	<b>214</b>
Central bank	1	36
Other monetary financial institutions	238	130
o/w credit institutions	182	125
o/w money market funds	56	5
Other financial intermediaries	776	22
o/w other mutual funds	431	9
o/w other institutions	345	13
Financial auxiliaries	2000	1
Insurance corporations and pension funds	183	25
o/w insurance corporations	72	10
o/w pension funds	111	15

## Significance of special entities in Hungary

Currently the financial corporations sector is relatively small in Hungary because:

- according to the strict application of the old rules (ESA 95), holding and group financing companies are treated as non-financial corporations,
- there are no holding companies mainly managing financial corporations (which should be financial corporations),
- there are no FVCs or other units engaged in securitization,
- all special purpose entities (SPEs) are classified as non-financial corporations.

Foreign controlled SPEs represent nearly one third of the total balance-sheet and half of the financial assets of the non-financial corporations sector. Because of their significance in the Hungarian economy, they are separately presented in our financial accounts and balance of payments statistics.



## Definition and treatment of SPEs in Hungary

In Hungarian statistical practice, SPEs are foreign controlled resident corporations with passive holding or group financing activities carried out exclusively for non-resident partners. They are identified and separated in the statistics on the basis of business accounting or statistical indicators, using the criteria established by the statistical authorities.

Statistical Office and Central Bank maintain a common list on SPEs

Criteria for identification of (large) SPEs:

Non-financial assets are negligible in the balance-sheet

Financial assets are mainly composed of loans and equity

Assets and liabilities are related exclusively to non-residents

Number of employees is very low (0-3 persons)

Turnover does not exceed HUF 500 million annually

Material cost is negligible

Name of the company refers to the off-shore nature of the activity



## Definition and treatment of holding companies

Currently holding companies are not treated separately in our statistics. The preparation for the new sector classification according to the SNA 2008/ESA 2010 just started.

In the case of holding companies the Manuals explicitly refer to the revised ISIC (rev. 4) and NACE (rev. 2) classifications. In Hungary, NACE (rev. 2) was introduced in 2010 but ESA 2010 will be applied only from 2014. It causes difficulties in practice.

The new definition of holding companies (owning controlling-levels of equity of a group of subsidiary corporations without providing any other service) generates several questions:

What about holding companies owning only one single subsidiary?

How to classify companies owning a minority share of equity?

How to distinguish between providing and not providing services?

What is the difference between SPEs and holding companies?

What about institutional independence of holding companies?

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## Application of the new rules on financial corporat.

In Hungary, the new rules on the content and breakdown of the financial corporations sector will be applied from 2014 with a backward effect on the statistical time-series.

The financial corporations sector will be subdivided into 9 sub-sectors. 8 sub-sectors out of these will be created by further splitting of the existing 5 sub-sectors without any big problems.

However, the newly created Captive financial institutions sub-sector will contain units currently classified as non-financial corporations in Hungarian statistics.

Description of changes in classification	Understanding of the new rules	Application of the new rules	Effect on the Financial Accounts
Delineation of credit institutions and money market funds (MMF)	Easy	Easy	Not significant (split of sub-sectors)
Delineation of non-MMF investment funds and other financial intermediaries	Easy	Easy	Not significant (split of sub-sectors)
Delineation of insurance corporations (IC) and pension funds (PF)	Easy	Partially difficult	Not significant (split of sub-sectors)
Collection of captive financial institutions into a newly created financial sub-sector	Problematic	Difficult	Significant

## Content of the new Captive financial sub-sector

The newly created ninth sub-sector named Captive financial institutions and money lenders (S.127) will consist of units currently recorded as non-financial corporations.

Two main groups of special corporations have been identified for reclassification into the new financial sub-sector:

- SPEs having financial links exclusively to non-residents (until now classified as SPEs among non-financial corporations)
- SPE-type units having financial links with resident partners as well (holding and group financing companies until now classified as normal non-financial corporations)

Criteria for identification of holding companies and other group financing corporations should be established, similarly to the criteria applied for SPEs in Hungary.

New data-collection should be introduced for covering this group of units as financial corporations.

## Size of the new financial and non-financial sectors

The reclassification of SPEs having financial links exclusively to non-residents will reduce the balance-sheet of the non-financial corporations sector (and increase the balance-sheet of the financial corporations) by more than 120% of the GDP.

Other SPE-type units (holding and group financing companies with financial links to residents as well) form a small group inside the non-financial corporations sector. The reclassification of these units will rise the balance-sheet of the captive financial corporations sub-sector by about 10-15% of the GDP only.

Practical decisions made:

Holding companies with one subsidiary or without institutional independence will remain in the non-financial corporations sector.

Thank you for the attention!

