

### **C.30 Classification and terminology of financial corporations in the updated SNA. A comment on the February AEG-meeting 2006.**

There is an obvious need for an amendment of the current classification relating to financial corporations in the 1993 SNA. In principle we support the proposed classification of financial corporations in the new SNA. The clarification of the monetary nature of some financial corporations is supported as well as the splitting out investment funds to a separate sub-sector.

However we have the following comments on the proposed terminology and the ordering of the subsectors.

In our opinion there is a risk of the word "commercial" as proposed in subsector S. 1212 "commercial monetary financial intermediaries" could be understood in a too narrow sense as the subsector also intends to include all types of financial corporations which are engaged in financial intermediation and taking deposits, i.e. also including savings banks and cooperative banks and other mutual institutions and which are not commercial by nature.

We cannot see any advantages of the proposed terminology "Miscellaneous financial intermediaries" compared to the present one "Other financial intermediaries", which clearly indicates intermediaries and makes distinguishes between these institutions and auxiliaries. In most other classifications within the field of economic statistics the designation "Other", implicit "not elsewhere classified (n.e.c)", is used. We cannot see reasons strong enough to abandon a common established usage of this terminology in the revised SNA.

Finally we find it more logical to put the "Other financial intermediaries" subsector straight after the "Investment funds" subsector as these subsectors' behaviour characteristics are more of similar kind compared to insurance and pension funds.

#### **Defining and classification of Holding companies and other controlling companies**

As the differences between the present SNA and ESA 95 are mentioned in Clarification C. 30 we want to give the following comments.

The present SNA distinguishes two types of parent corporations:

- A. those with a significant production of their own which acquire control over corporations to strengthen their own position as producers,
- B. companies controlling and directing a group of subsidiaries – without having significant production of its own (HC)

Parent companies of type (A) above would be treated according to its main activity with regard to production of goods or services – but not treated according to its activity of controlling a group. For type (B) of Parent Companies the discussion is still ongoing. However, it is proposed to treat them as financial intermediaries, implying an important change compared to SNA93 where these companies are treated according to the main activity of the companies owned. We have problems with this proposal and would propose a less far-reaching change.

In our opinion holding corporations generally do not comply with the requirements of financial enterprises which in SNA 93 are defined as “enterprises that are principally engaged in financial intermediation or in auxiliary financial activities which are closely related to financial intermediation” (SNA, 4.79). If the case when all holding corporations will be treated as “other financial intermediaries” the concept “financial intermediation” needs an overhaul and a revised definition has to be elaborated

It is also of importance to keep the link of financial enterprises between SNA and ISIC as expressed in SNA 4.79 “Financial enterprises consist of all those enterprises (...) whose principal activity is classified under Divisions 65, 66 and 67 of the International Standard Industrial Classification of All Economic Activities (ISIC) Rev.3”

The new ISIC distinguishes between two types of Holding Companies; One group is companies that hold assets (owning controlling levels of equity) of a group of subsidiaries that and whose principal activity is to own the group. ISIC also recognizes Head Offices, performing activity of managing a group. Taking into account the classification made in ISIC, there are three types of parent or holding companies all holding controlling levels of equity).

- C. Companies engaged in significant production (below; Parent companies)
- D. Companies engaged in managing a daughter company or a group of companies (below; Head Offices)
- E. Companies that are engaged in controlling and owning but not directing or managing the group (below; Holding Companies)

By combining ISIC and SNA classification a suitable solution could be found. However, it is important that the two classifications are aligned and that it should be possible to adjust also the new ISIC classification. It seems odd that Head Offices would be classified as non- financial companies, irrespective of the activity of the group, if the ISIC classification is taken up in the revised SNA.

First, it is obvious that neither Parents Companies nor Head Offices are mainly functioning as financial intermediates. Instead, they are engaged in

own production (parent companies) or managing controlled enterprises (Head Offices) and should be classified according to this.

For Holding Companies controlling a group of enterprises the holding company often has no other function than owning and controlling the enterprises. In this case it is analytically useful to treat the Holding Company according to the main activity of the group it controls. Also for National Accounts this treatment gives the most meaningful output. We fear that the concept of financial intermediation will be severely expanded if Holding companies acting within the domestic non-financial corporations sector would be regarded as financial intermediaries and moved to the OFI sector.

In our view the treatment of holding corporations needs further attention and our proposals above may serve as an input to this.