
III. INSTITUTIONAL UNITS AND SECTORS

INTRODUCTION

46. Chapter 3 is concerned with the definition of institutional units and their grouping into sectors. The sectorization of transactors—first to distinguish between residents and nonresidents and then to delineate the various resident sectors and subsectors—is basic to all macrostatistical systems. This manual follows the sectorization principles of the *1993 SNA* which, in turn, follow the recommendations of the *BPM5* with respect to the definition of nonresidents.

47. An institutional unit is classified as a resident unit if it has a center of economic interest in the economic territory of the country in question. The next section of this chapter describes the residency criteria.

48. In sectorizing the domestic economy, this manual uses the concept of an *institutional unit* as defined in the *1993 SNA*. An institutional unit is an economic entity that is capable of owning assets, incurring liabilities, and engaging in the full range of economic transactions. Examples are households, corporations, government units that have their own budgetary responsibility, and nonprofit institutions. The third section of this chapter covers the definition and characteristics of institutional units.

49. The concluding section of this chapter describes how institutional units are grouped into sectors based on their economic objectives, functions, and behavior. Although the section emphasizes the financial corporations sector and its subsectors, it also describes the principles for allocating institutional units to other domestic sectors. This sectorization is key to the analytical aggregates on credit and broad money that form the basis of the surveys of the financial

corporations sector, described in Chapter 7, and the financial statistics described in Chapter 8.

RESIDENCY

50. The delineation between resident institutional units and nonresident units is a key feature of the monetary and financial statistics recommended in this manual. The concept and coverage of residence in this manual are identical to those in the *1993 SNA* and in the *BPM5*.

51. The concept of residence in this manual is not based on nationality or legal criteria. Moreover, the boundaries of a country that may be recognized for political purposes may not always be appropriate for economic purposes, and it is necessary to introduce the concept of the *economic territory* of a country as the relevant geographical area to which to apply the concept of residency. An institutional unit is then said to be a resident unit when it has a *center of economic interest* in the economic territory of the country in question. The following explains *economic territory* and *center of economic interest*.

ECONOMIC TERRITORY

52. *A country's economic territory consists of the geographic territory administered by a government within which persons, goods, and capital circulate freely.* The economic borders of a country are not always based strictly on physical or political borders, although there is usually a close correspondence. A country's economic territory includes the following:

- Airspace, territorial waters, and any continental shelf lying in international waters over which the country enjoys exclusive

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rights or over which it has, or claims to have, jurisdiction with respect to the right to exploit natural resources such as fish, minerals, or fuels.

- Clearly demarcated territorial enclaves that are located in the rest of the world and are established by formal agreements with the governments of the countries in which the enclaves are physically located. Such enclaves are used for military, diplomatic, or other special purposes.
- Free trade zones, entrepôts, bonded warehouses or factories that are physically located within a country's boundaries. These are considered to be under the control and supervision of the country in which the warehouses, and so on, are located, even though foreign entities may operate the zones or customs formalities may exist for goods and persons moving between the zones and the rest of the national economy.

53. The economic territory of an international organization consists of clearly demarcated enclaves or structures owned or rented by the organization. The country in which the enclaves are physically located formally recognizes them and excludes them from the definition of that country's economic territory. Thus, enclaves of international organizations will always be resident in the rest of the world. Employees of international organizations are residents of the local economies in which they live and not of the enclaves in which they work. An enterprise owned by two or more governments is not an international organization and is considered a resident of the country in which it operates.

CENTER OF ECONOMIC INTEREST

54. *An institutional unit is said to have a center of economic interest within a country when there exists some location—dwelling, place of production, or other premises—within the*

*economic territory of the country on, or from, which it engages, and intends to continue to engage, in a significant amount of economic activity.*⁵ The location need not be fixed so long as it remains within the economic territory.

55. In most cases, it is reasonable to assume that an institutional unit has a center of economic interest in a country if it has already engaged in economic activities and transactions on a significant scale in the country for one year or more, or it intends to do so. Engaging in economic activities and transactions over a period of one year normally implies a center of interest, but the choice of a specific period of time is somewhat arbitrary, and one year is suggested only as a guideline and not as an inflexible rule.

56. The ownership of land and structures within the economic territory of a country is not deemed to be sufficient in itself for the owner to have a center of economic interest in that country. Land and buildings can obviously only be used for purposes of production in the country in which they are located, and their owners, in their capacity as owners, are subject to the laws and regulations of that country. It may happen, however, that an owner is resident in another country and does not have any economic interest in the country in which he owns the land or buildings other than the land or buildings themselves. In that case, the owner is treated as if he transferred his ownership to a notional institutional unit that is actually resident in the country. The notional unit is treated as being entirely owned and controlled by the nonresident actual owner, in much the same way as a quasi-corporation is owned and controlled by its owner. In this way, the rents and rentals paid by the tenants of the land or buildings are deemed to be paid to the notional resident unit, which in turn makes a transfer of property income to the actual nonresident owner.

⁵“Significant amount” means that the enterprise maintains at least one production establishment in the country and plans to operate that establishment indefinitely or over a long period of time (i.e., one year or more).

57. Corporations or quasi-corporations have a center of economic interest and are residents of a country when they intend to engage in significant amounts of production of goods or services or own land and structures (including at least one production establishment) there for an indefinite or long period of time. Additional criteria for establishing an enterprise's center of economic interest consist of maintenance of a set of accounts covering local productive activities, proof of income taxes paid to the local government, or the existence of a substantial physical presence. On the basis of these criteria, many site offices of major construction projects are residents in the economies in which the site offices are located. However, if an enterprise performs—in a foreign country—productive activities that fail to meet these criteria, the result of these activities is considered to be an export of a good or service from the enterprise's home economy to the foreign economy and, therefore, to involve international transactions in goods and services. These principles apply to financial as well as other activities.

58. Offshore units engaged in manufacturing (including assembly of components manufactured elsewhere) are residents of the economies in which the offshore enterprises are located. This treatment applies even if the units are located in special zones of exemption from customs duties or regulations, or concessions. It also applies to offshore units engaged in trade and financial operations.

59. A household is resident in the country in which its members maintain regular residence. The location in which the members of a household work is not a criterion for determining residency. Individual household members who cross international borders to work remain residents of their original countries unless they engage in substantial and sustained economic activity abroad (according to the one-year rule); earn income, consume, and maintain regular residence abroad; and return only briefly or infrequently to the original households.

60. The situation differs for military personnel and civil servants (including diplomats) employed abroad in government enclaves such as military bases and embassies. These enclaves form part of the economic territory of the employing government, and the government employees continue to have centers of economic interest in their home countries while, and however long, they work in the enclaves. They continue to be residents of their home countries even if they live in dwellings outside the enclaves.

61. The situation also differs for students and medical patients abroad. However long they study abroad, students should be treated as residents of their countries of origin, as long as they remain members of households in their home countries. Similarly, medical patients are treated as residents of their countries of origin, as long as they remain members of households in their countries of origin.

INSTITUTIONAL UNITS

DEFINITION

62. *An institutional unit is an economic entity capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities.* The 1993 SNA lists the following four main attributes of institutional units:

- An institutional unit is entitled to own goods or assets in its own right; it is therefore able to exchange ownership of goods and assets through transactions with other institutional units.
- It is able to make economic decisions and engage in economic activities for which it is held responsible and accountable by law.
- It is able to incur liabilities on its own behalf, to take on other obligations or future commitments, and to enter into contracts.

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- Either a complete set of accounts, including a balance sheet, exists for the unit, or it would be possible and meaningful, from both an economic and legal viewpoint, to compile a complete set of accounts if they were to be required.

63. There are two main types of institutional units:

- *Households* consisting of individuals, families, or other groups of persons who share the same living accommodation, pool some or all of their income and wealth, and consume some goods and services collectively. Households may engage in economic production.
- *Legal or social entities* engaged in their own right in economic activities and recognized legally or by society as existing independently of the units that own or control them.

HOUSEHOLDS

64. *A household may consist of an individual or more than one person. Assets may be held and liabilities incurred on behalf of an entire household, and the income of individuals may be pooled for the benefit of all household members. Many expenditure decisions, particularly with respect to consumption and housing, may also be made collectively for the benefit of an entire household. Therefore, it generally is only meaningful to compile transaction accounts or balance sheets for the entire household unit, and not for individuals belonging to the same household. The production activities undertaken by those households that produce and sell goods and services are treated as integral parts of the households themselves and not as separate entities—unless legal entities are created or the size of operations warrants treatment as quasi-corporations.*

LEGAL OR SOCIAL ENTITIES

65. *Legal or social entities include corporations, quasi-corporations, government units, and nonprofit institutions.*

Corporations

66. *A corporation is a legal entity created for the purpose of producing goods or services for the market. A corporation may be a source of profit or other financial gain to its owners. It is collectively owned by shareholders who have authority to appoint directors responsible for the corporation's general management. Most corporations can be identified by the following general characteristics:*

- The law considers a corporation to have permanence and an existence independent of the units that hold its equity. A corporation is an institutional unit separate from its owner.
- A corporation is legally responsible and liable for its actions. The owners often have limited liability.
- A corporation engages in market activity and creates an operating surplus that may be distributed to its owners. The market value of owners' equity claims on a corporation may fluctuate and result in holding gains or losses for the owners.
- A corporation may retain part of its earnings for use as working capital and for other corporate purposes.

67. *Corporations frequently own shares of, and can exercise full or partial control over, other corporations. Control is always deemed to exist when a corporation owns more than half of the voting rights or can appoint more than half of the directors of another corporation. In these*

circumstances, the controlled corporation is a subsidiary. Effective control may also be exercised with less than 50 percent ownership, depending on the corporation's structure and the diffusion of ownership. As it can be difficult to identify effective control by a minority of voting rights, the use of majority share ownership as a practical guideline is recommended. Exceptions are permitted on the basis of additional evidence. (See paragraph 4.30 of the 1993 SNA.)

68. Groups of corporations (*conglomerates*) may develop through a chain of effective control. Control is transitive. If Corporation *A* controls Corporation *B*, and *B* controls Corporation *C*, then *A* controls *C*. Control is also additive. If *A* controls *C*, if *A* and *C* each have minority ownership interests in Corporation *D*, and if the ownership shares of *A* and *C* sum to a controlling interest in *D*, then *D* is effectively a subsidiary of *A*.

69. Conglomerates owning subsidiaries or branches in several countries are called multinational or transnational corporations. Each corporation within a conglomerate should be treated as a separate unit, because each has a balance sheet and retains legal responsibility for corporate actions. This treatment permits a more precise classification and minimizes problems caused by mergers and other changes in the structure and composition of conglomerates. It is also recommended that financial subsidiaries be separated from nonfinancial subsidiaries whenever possible because of the inherent differences between financial and nonfinancial activities.

70. *Holding corporations are corporations that control groups of subsidiary corporations and whose principal activities are owning and directing the groups.* They are deemed to be units separate from the subsidiary corporations if they maintain separate and complete sets of accounts. A holding corporation is classified as financial if the preponderant type of activity of the group of corporations as a whole is financial. In the absence of information on the relative sizes of the corporations in the group, a holding company

should be classified as financial if a simple majority of the corporations it controls are financial. Similarly, financial holding corporations should be allocated to subsectors according to the type of financial activity mainly carried out by the group they control.⁶

71. *An ancillary corporation is a subsidiary wholly owned by a parent corporation, whose productive activities are ancillary in nature—that is, activities strictly confined to providing services to the parent corporation, or other ancillary corporations owned by the same parent corporation.* Examples are transportation, sales and marketing, computing, maintenance, and cleaning. Domestic ancillaries are treated as integral parts of the parent corporation, rather than as separate institutional units. An ancillary corporation that has its center of economic interest in a foreign country is treated as a separate, nonresident unit.

72. Various trusts, special purpose vehicles, and other arrangements are treated in the same way as ancillary corporations if these entities merely hold financial assets or liabilities for parent corporations and do not act as financial intermediaries or provide other market-oriented services to units outside the parent corporation. Similarly, financial offices that passively serve as conduits for financial flows are considered ancillary to other functions of the parent corporation and should be treated as part of the parent. In contrast, financial subsidiaries that are owned by corporations and that transact with the public or other units are not ancillaries; these are classified as financial corporations.

Quasi-Corporations

73. *Quasi-corporations are unincorporated enterprises that function as corporations.* For a

⁶A holding company is classified as resident or nonresident on the basis of the center of economic interest from which it controls the corporations in the group.

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quasi-corporation to exist, it must be possible to develop a full set of accounts, including balance sheets, to distinguish the quasi-corporation from its owners. The business-related assets and liabilities of the quasi-corporation must be separate from the personal assets and liabilities of owners. Moreover, it must be possible to identify flows of capital and income occurring between the quasi-corporation and the owners. A quasi-corporation is treated as an institutional unit that is separate from the unit that legally controls the quasi-corporation. Quasi-corporations include the following:

- Unincorporated government enterprises engaged in market production and operating as private corporations.
- Unincorporated units operated by households, engaged in market production, and operating as private corporations.
- Resident unincorporated operations owned entirely or partly by nonresident units (including joint ventures, branches, offices, agencies, and ancillaries) that engage in significant activity within the country over long or indefinite periods.

Government Units

74. *Government units are unique types of legal entities that are established by political processes and have legislative, judicial, or executive authority over other institutional units within a specific area. The principal functions of governmental units are*

- to provide goods and services to the entire community or to households by engaging in nonmarket production or through transfers in kind and by financing their provision out of taxes or other incomes, and
- to redistribute income and wealth by means of transfers.

Government units, like households, may own unincorporated enterprises mainly engaged in the production of market goods and services. These enterprises should be treated as quasi-corporations if they are managed in a manner similar to a corporation and have a complete set of accounts that allow operating surpluses, saving, assets, and liabilities to be separately identified. Enterprises that do not meet these requirements are not treated as separate institutional units and remain part of the parent government unit.

Nonprofit Institutions

75. *Nonprofit institutions (NPIs) are legal or social entities, created for the purpose of producing goods and services, whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control, or finance them.*

76. The motives leading other institutional units—whether persons, corporations, or government—to create NPIs are varied. For example, other institutional units may create NPIs

- to provide services for the benefit of the persons or corporations that control or finance them;
- to provide goods or services to other persons in need for charitable, philanthropic, or welfare reasons;
- to provide health or education services for a fee, but not for profit;
- to promote the interests of pressure groups in business or politics, and so forth.

Although they may provide services to groups of persons or institutional units, by convention they are deemed to produce only individual services and not collective services.

77. It is important to distinguish between NPIs engaged in market production and NPIs engaged in nonmarket production because this distinction is used in determining the sector of the economy to which an NPI belongs. The majority of NPIs in most countries are nonmarket producers that provide most of their output free or at prices that are not economically significant (i.e., at prices that do not significantly influence amounts supplied or amounts purchased). NPIs engaged mainly in nonmarket production fall into two main groups: those NPIs controlled and mainly financed by government, and those NPIs providing nonmarket goods and services to households and financed mainly by transfers from nongovernment sources—households, corporations, or nonresidents. The latter group are the NPISHs, which constitute a separate sector of the economy.

78. Nonmarket NPIs that are controlled and mainly financed by the government are classified in the general government sector. NPIs controlled by the government must be properly constituted legal entities that exist separately from government. Control by government means that government units have the ability to determine the general policy of the entity through appointment of officers. NPIs are considered to be mainly financed by government when government provides funds or in-kind contributions equivalent to 50 percent or more of their operating expenses. Such NPIs may be engaged in research and development, for example, for the benefit of producers such as farmers. They may also be concerned with the setting or maintenance of standards for health, safety, the environment, accounting, finance, education, etc. These NPIs are allocated to the general government sector, regardless of the types of institutional units that mainly benefit from their activities. Certain legal entities created by government units may be formally designated as *corporations*, even though they have the characteristics of NPIs controlled and mainly financed by government. Such entities should be treated as NPIs whatever their names.

79. NPIs engaged in market production are classified as corporations. Those predominantly engaged in the production of financial services (such as credit unions operated by members) are classified as financial corporations. Some of these NPIs are schools, colleges, universities, clinics, hospitals, and other units that charge fees for their services that are based on production costs. Because of their status as “nonprofit institutions,” these units may also be able to raise additional funds by soliciting donations from persons, corporations, or government. Other market NPIs serve businesses and are usually created by associations of the businesses whose interests they are designed to promote. They include chambers of commerce, agricultural, manufacturing, or trade associations, employers’ organizations, research and testing laboratories, or other organizations or institutes engaged in activities that are of mutual interest or benefit to the group of businesses that control and finance them. When chambers of commerce or similar organizations established for the benefit of businesses are controlled and financed by government units, they are classified as nonmarket NPIs in the general government sector.

CLASSIFICATION OF INSTITUTIONAL UNITS INTO SECTORS

80. Sectorization of domestic institutional units is a key element in the compilation and presentation of monetary and financial statistics. In the monetary statistics described in Chapter 7, it is necessary to delineate the financial corporations sector and its subsectors, to identify money-holding sectors, and to identify financial corporations’ claims on each of the other resident sectors. Sectorization is also key to constructing the financial statistics described in Chapter 8 and, in particular, the flow of funds, which deals with intersectoral financial stocks and flows.

81. The sectorization recommended in this

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manual, shown in Box 3.1, is consistent with the *1993 SNA*, which groups similar kinds of institutional units. Corporations, government units, households, and nonprofit institutions serving households differ with respect to their economic objectives, functions, and behavior. The economic behavior of units in the corporations sector is clearly different from that of units in the general government sector. Corporations are created for the purpose of producing goods and services for the market, whereas government units provide nonmarket goods and services to the community or to individual households and redistribute income and wealth. Corporations are distinguished from households, which also may engage in production for the market, because households are motivated by different economic objectives, including final consumption. Financial corporations are distinguished from nonfinancial corporations at the first level of sectoring, because facilitating the channeling of funds from lenders to borrowers by intermediating between them (financial intermediation) is inherently different from other types of productive activity.

THE FINANCIAL CORPORATIONS SECTOR

SCOPE

82. *The financial corporations sector consists of all resident corporations or quasi-corporations principally engaged in financial intermediation or in related auxiliary financial activities.* Financial intermediation may be defined as a productive activity in which an institutional unit raises funds by incurring liabilities on its own account for the purpose of channeling these funds to other institutional units by way of lending or otherwise acquiring financial assets. The provision of services that are auxiliary to financial intermediation may be carried out as secondary activities of financial intermediaries or may be provided by specialized agencies or brokers. There are other agencies whose principal function is to

guarantee bills or similar instruments intended for discounting or refinancing by financial enterprises. These enterprises provide services that border very closely on financial intermediation but do not represent true intermediation because these agencies do not put themselves at risk by acquiring liabilities on their own account. The financial corporations sector also includes those nonprofit institutions that (a) are mainly engaged in the production of financial services (such as insurance), or (b) are financed by subscriptions from financial enterprises and have the objective of promoting or otherwise serving the interest of those enterprises.

83. Some corporations or quasi-corporations engage only to a limited extent in the production of financial services. For instance, certain manufacturers or retailers provide consumer credit directly to their customers. Such units are classified as belonging in their entirety to the nonfinancial corporations sector provided they engage mainly in the production of nonfinancial goods and services.

84. Individuals or households may engage in financial activities such as money lending or buying and selling foreign currency. Unincorporated financial enterprises of this kind are included in the financial sector only if they qualify as financial intermediaries or auxiliaries that are quasi-corporations. To qualify as quasi-corporations, they must have complete sets of accounts that are separable from the personal accounts of owners.

SUBSECTORS OF THE FINANCIAL CORPORATIONS SECTOR

85. Box 3.1 shows the subsectors of the financial corporations sector, namely, the central bank, other depository corporations, and other financial corporations. In this manual, *depository corporations* refers collectively to the central bank and other depository corporations.

Box 3.1. Main Sectors and Subsectors

Financial corporations
Central bank
Other depository corporations
Other financial corporations
Insurance corporations and pension funds
Other financial intermediaries, except insurance corporations and pension funds
Financial auxiliaries
Nonfinancial corporations
Public nonfinancial corporations
Other nonfinancial corporations
General government
Central government
State government
Local government
Social security funds*
Households
Nonprofit institutions serving households

*Alternatively, social security funds can be allocated to the other subsectors of general government on the basis of the level at which they are organized.

Central Bank

86. *The central bank is the national financial institution (or institutions) that exercises control over key aspects of the financial system and carries out such activities as issuing currency, managing international reserves, transacting with the IMF, and providing credit to other depository corporations.* Central banks in some countries also accept deposits from nonfinancial corporations or provide credit to nonfinancial corporations. A few countries that rely on other depository corporations to handle currency and reserve operations do not have central banks. Typical central banking activities that are performed by general government and cannot be separated into specific institutional units are treated as part of general government and are not allocated to the central bank subsector.

87. The central bank subsector includes the following:

- Central banks, which in most countries are separately identifiable institutions that, across countries, are subject to varying degrees of government control, engage in differing sets of activities, and are designated by various names (e.g., central bank, reserve bank, national bank, or state bank).
- Currency boards or independent currency authorities that issue national currency that is fully backed by foreign exchange reserves.
- Government-affiliated agencies that are separate institutional units and primarily perform central bank activities.

88. If an institutional unit is mainly engaged in central banking activities, the entire unit is classified in the central bank subsector. Many central banks regulate or supervise other depository and other financial corporations, and central bank activities in these areas are also included in the central bank subsector. However, units that are affiliated with the government or with other sectors and are mainly engaged in regulating or supervising financial units are classified as financial auxiliaries rather than as units in the central bank subsector. Private units that perform activities such as check clearing operations are assigned to other financial corporations subsectors depending on their activities, rather than to the central bank subsector.

89. This manual recommends that the headquarters office of a *regional central bank* (RCB), which is a financial institution that acts as a common central bank for the member countries of a currency union, be classified as a separate nonresident unit holding its own assets and liabilities.

90. In one form of currency union, there is a national central bank in each member country,

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and it is therefore possible to compile accounts for the central bank subsector for each member country. In these accounts, the national central banks' claims on the RCB headquarters are treated as claims on nonresidents. In the other form of currency union, there are no national central banks, and all central banking functions are carried out by the RCB on behalf of the member countries. In a situation where there are no national central banks, the treatment recommended in the *1993 SNA* should be followed. Under this treatment, the headquarters office of the RCB is not classified as a separate institutional unit, and the stocks and flows for the assets and liabilities of the RCB headquarters are allocated to the individual member countries on the basis of each member's claims on and liabilities to the RCB.

91. This manual also recommends that the sectoral balance sheets and surveys, described in Chapter 7, for countries in a currency union make a two-way distinction in claims on and liabilities to nonresidents. This distinction is between claims on and liabilities to nonresidents in other union countries and claims on and liabilities to other nonresidents. Claims on and liabilities to the headquarters office of the RCB, when such an office exists, should also be separately identified in the sectoral balance sheets and surveys.

Other Depository Corporations

92. *The other depository corporations subsector consists of all resident financial corporations (except the central bank) and quasi-corporations that are mainly engaged in financial intermediation and that issue liabilities included in the national definition of broad money.* Examples of the designations given to institutional units in the other depository corporations subsector are

- commercial banks,

- merchant banks,
- savings banks, savings and loan associations, building societies, and mortgage banks,
- credit unions and credit cooperatives,
- rural and agricultural banks, and
- travelers' check companies that mainly engage in financial corporation activities.

93. The above list is neither exhaustive nor prescriptive; other names are given to some institutions that issue broad money liabilities. Conversely, in some countries, a number of the types of institutions in the preceding list may not issue liabilities included in national definitions of broad money, and would therefore not be classified as other depository corporations.

94. Some resident financial corporations engage exclusively (or almost exclusively) in transactions with nonresidents. These institutions, which usually have special regulatory or legal characteristics, are often called *offshore banks*. In many cases, these offshore banks do not issue liabilities that are included in broad money and therefore should be classified as other financial intermediaries. However, if they issue liabilities included in broad money, they should be classified as other depository corporations.

95. The other depository corporations subsector may include corporations operating under the control of receivers or regulators or that are no longer dealing with the public. Technically, bankrupt institutions that continue to operate may retain the legal status of operating banks, or a special status may be imposed. Chapters 6 and 7 describe the statistical treatment of the assets and liabilities of such depository corporations.

Other Financial Corporations

96. *The monetary and financial statistics recommended in this manual call for the separate identification of other financial corporations, which comprise the 1993 SNA subsectors relating to insurance corporations and pension funds, other financial intermediaries, and financial auxiliaries.*

Insurance Corporations and Pension Funds

97. *This subsector includes resident insurance corporations and quasi-corporations and autonomous pension funds. Insurance corporations consist of incorporated mutual and other entities whose principal function is to provide life, accident, health, fire, or other forms of insurance to individual institutional units or groups of units.*

98. *The pension funds included in this subsector are those that are constituted as separate from the units that have created them. They are established for purposes of providing retirement benefits for specific groups of employees. They have their own assets and liabilities, and they engage in financial transactions on their own account. These funds are organized, and directed, by individual private or government employers, or jointly by individual employers and their employees, and the employees and/or employers make regular contributions. They do not cover pension arrangements for the employees of private or government entities that do not maintain a separately organized fund, nor do they cover arrangements organized by nongovernment employers and for which the reserves of the fund are simply added to that employer's own reserves or invested in securities issued by that employer.*

Other Financial Intermediaries

99. *The subsector of other financial intermediaries covers a diverse group of units constituting all financial corporations other than depository corporations, insurance corporations,*

pension funds, and financial auxiliaries. Units in the other financial intermediaries subsector generally raise funds by accepting long-term or specialized types of deposits and by issuing securities and equity. These intermediaries often specialize in lending to particular types of borrowers and in using specialized financial arrangements such as financial leasing, securitized lending, and financial derivative operations.

100. Examples of the designations given to units that are classified as other financial intermediaries are as follows:

- *Finance companies* are institutional units primarily engaged in the extension of credit to nonfinancial corporations and households. Many finance companies are captive subsidiaries that raise funds to be used by the parent corporations. Captive finance companies that are separate institutional units and that do not issue liabilities included in broad money should be classified as other financial intermediaries. Finance companies that are not separate should be included as part of the parent corporations in the appropriate subsector.
- *Financial leasing companies* engage in financing the purchase of tangible assets. The leasing company is the legal owner of the goods, but ownership is effectively conveyed to the lessee, who incurs all benefits, costs, and risks associated with ownership of the assets.
- *Investment pools* are institutional units that are organized financial arrangements, excluding pension funds, that consolidate investor funds for the purpose of acquiring financial assets. Examples are mutual funds, investment trusts, unit trusts, and other collective investment units. Investors usually purchase shares representing fixed proportions of the fund. The liquidity of investment pools can vary considerably. In

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many countries, investment pools are illiquid or have limited liquidity. In others, shares issued by investment pools are as (or nearly as) liquid as deposits and other liabilities issued by depository corporations. If the liabilities of liquid investment pools are included in broad money, they should be classified as other depository corporations.

- *Securities underwriters and dealers* include individuals or firms that specialize in security market transactions by (1) assisting firms in issuing new securities through the underwriting and market placement of new security issues and (2) trading in new or outstanding securities on their own account. Only underwriters and dealers that act as financial intermediaries are classified in this category. Security brokers and other units that arrange trades between security buyers and sellers but do not purchase and hold securities on their own account are classified as financial auxiliaries.

- *Vehicle companies* are financial entities created to be holders of securitized assets or assets that have been removed from the balance sheets of corporations or government units as part of the restructuring of these units. Many are organized as trusts or special purpose vehicles created solely to hold specific portfolios of assets or liabilities. Extensive use has been made of vehicle companies in conjunction with the securitization of assets. For example, an intermediary such as a mortgage lender could sell a portfolio of assets to a specially organized vehicle company that repackages the portfolio and sells investment interests in the portfolio to institutional or other investors. While the portfolio is usually sold irrevocably to the vehicle company, the intermediary that created the vehicle company often receives fee income for its administrative role. However, the vehicle company is the legal owner of the asset portfolio and thus may operate as a financial

intermediary. If the vehicle company in the previous example sells a new financial asset (which could be a debt security, equity shares, or partnership interests) that represents an interest in the portfolio, the company is acting as a financial intermediary and—as long as a full set of accounts is available for the company—it is deemed to be a separate institutional unit. If the vehicle company does not sell a new financial asset representing an interest in the portfolio, the company has not effectively transformed or intermediated the portfolio and thus is not deemed to be a financial intermediary. Buyers of the portfolio would be treated as direct owners of the assets, rather than as investors in a portfolio controlled by the vehicle company. In such a case, the vehicle company would be considered a trust that passively holds assets. Issuance of depository receipts or trust receipts serving only as claims on instruments held in trust does not constitute issuance of a new financial asset.

- *Financial derivative intermediaries* consist of units that engage primarily in issuing or taking positions in financial derivatives recognized as financial assets.

- *Specialized financial intermediaries* include holding corporations, companies that provide short-term financing for corporate mergers and takeovers, export/import finance firms, factors or factoring companies, venture capital and development capital firms, and pawnshops that predominantly engage in lending rather than retailing.

Financial Auxiliaries

101. The financial auxiliaries subsector includes financial corporations that engage in activities closely related to financial intermediation but do not act as intermediaries. The 1993 SNA expanded coverage of the financial corporations

sector to include the many units extensively engaged in activities that (except for the incurrence of liabilities or the extension of credit) closely relate to intermediation. Activities that are auxiliary to intermediation may be performed, on a secondary basis, by traditional financial intermediaries or by separate, specialized financial auxiliaries that do not, as a main business activity, raise funds or extend credit on their own account. The most common designations for financial corporations classified as financial auxiliaries are as follows:

- *Public exchanges and securities markets* are organized exchanges and entities such as security depository companies, accounting and clearing offices, and other companies providing exchange-related services. Depositories and electronic clearing systems operated by financial corporations fall into this subsector, as do national self-regulatory organizations that regulate or supervise exchanges and related units.
- *Brokers and agents* are individuals or firms that arrange, execute, or otherwise facilitate client transactions in financial assets. Included are brokers and agents handling the purchase and sale of securities or other financial contracts for clients, and financial advisory services that provide specialized services to brokers and their customers. Because many brokerage firms also trade in financial securities or financial derivatives on the firm's own account, it can be difficult to distinguish the brokers and agents from the underwriters and dealers classified as financial intermediaries. By convention, this grouping should include only brokers and agents that clearly specialize in brokerage and related activities rather than the intermediation activities that are generally accomplished by underwriters and dealers.
- *Foreign exchange companies* comprise units that buy and sell foreign exchange in retail or wholesale markets.

- *Financial guarantee corporations* insure customers against losses to specified financial corporations or against financial loss on specific contracts. Guarantors must establish financial capability for fulfilling potential obligations, and they must agree—usually for a fee—to insure that investors receive payment on securities or other financial contracts. In addition, the financial guarantee corporations grouping includes specialized corporations that protect depositors and investors against the failure of individual financial corporations. Distinguishing precisely between financial guarantee corporations and insurance corporations is difficult. Guarantee corporations

- (1) do not have a definable pool of assets constituting insurance technical reserves,
- (2) do not carry positions off balance sheet,
- (3) may not be regulated as insurance corporations, and
- (4) may be limited to specific types of financial transactions.

In borderline cases, these units should be classified as insurance corporations.

- *Insurance and pension auxiliaries* include agents, adjusters, and salvage administrators. The unique nature and, in some countries, the large scale of activity justify the separate identification of these units.
- *Other financial auxiliaries* comprise all other auxiliaries not classified elsewhere. The grouping includes independent units affiliated with the government and established to regulate financial institutions. The 1993 SNA recommends classifying these units as part of the central bank subsector. However, these units are not intermediaries,

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and the activities of some units (such as securities commissioners or insurance regulators) have little relationship to well recognized central bank activities. Therefore, this manual recommends classification of these units in the financial auxiliaries subsector. Also classified in this subsector are financial units that facilitate issuance and trading in financial derivatives but do not actually issue derivatives, and representative offices of foreign depository corporations that do not accept deposits or extend credit, even though they promote and facilitate transactions of the nonresident parent company.

CLASSIFICATION OF TRUSTS

102. *Trusts are arrangements that provide for legal control of portfolios of assets and liabilities and specify the use of the portfolio holdings and the income generated thereby.* Personal trusts control portfolios of assets owned by individuals. Assets within personal trusts are treated as part of the direct holdings of the households that control the trusts. Many pension funds are organized as trusts. The pension fund portion of a trust is recognized as an institutional unit, whereas the trust is not separately identified for statistical purposes because its existence is irrelevant to the economic function being performed by the pension fund.

103. In general, trusts will not be recognized as separate institutional units and will be consolidated within the units that control or benefit from the trusts. However, it can be difficult to determine the institutional unit into which a trust should be consolidated. Trusts may be assigned to units on the basis of the following two alternative criteria (1) *Control*, as exercised by the unit that established or legally administers the trust, or (2) *Beneficial status*, as indicated by the unit that benefits from the income or services provided by the trust.

104. The criterion chosen for assigning the trust is important when the sector of the unit that establishes a trust differs from the sector of the beneficiary or when the trust is established in a foreign country. For example, a corporation could establish a trust to provide compensation to individuals in a product liability case, or governments could establish trusts to aid certain social groups or to promote research and development in an industry. Classification of a trust could be based on the legal language used in the trust charter to specify the beneficiary, the type of control exercised, national legal standards, or any residual claim held by the organizer of the trust. The originator's right to revoke the trust and residual claims on the trust should be given special consideration, because these factors provide evidence that the trust remains under the control of the unit that originally established the trust. Because compilers rarely have access to detailed information on all but the largest trusts, classification of trusts by sector may have to be based on the practical considerations of data compilation. In particular, only aggregate data on trusts administered by depository corporations may be reported; therefore, it becomes necessary for all trusts to be classified in the household sector, which usually accounts for the largest share of the trusts.

105. However, two important exceptions are permitted. The first exception is that trusts used for some types of financial intermediation (securitization, collateralized security issuance, and investment pooling) may be recognized as separate units if no other unit can reasonably be considered to control the portfolio, and if serious discrepancies would occur in the financial accounts if these financial trusts were ignored. The second exception is that trusts organized in foreign countries may be treated as foreign quasi-corporations, although such trusts probably should be so treated only in exceptional cases or when the trust evinces the characteristics of foreign direct investment.

THE NONFINANCIAL CORPORATIONS SECTOR

106. *The nonfinancial corporations sector encompasses corporations and quasi-corporations engaging primarily in the production of goods and nonfinancial services.* The nonfinancial corporations sector is divided, on the basis of the types of institutional units exercising control, into two mutually exclusive subsectors. *Public nonfinancial corporations* are resident nonfinancial corporations and quasi-corporations controlled by government units. Control may be exercised through ownership of more than half the voting shares, legislation, decree, or regulations that establish specific corporate policy or allow the government to appoint the directors. *Other nonfinancial corporations* comprise foreign-controlled and national private nonfinancial corporations. *Foreign-controlled nonfinancial corporations* are resident nonfinancial corporations and quasi-corporations controlled by nonresidents. The classification of foreign-controlled corporations is based on majority control; thus, this is not identical with the balance of payments concept of direct investment enterprises, which include associated firms (those with 10–50 percent ownership by nonresidents). Classified under this heading are all resident subsidiaries (but not associates) controlled by nonresidents and all resident quasi-corporations, including branches, joint ventures, and unincorporated entities deemed to be separate institutional units, controlled by nonresidents. *National private nonfinancial corporations* are resident nonfinancial corporations and quasi-corporations that are not controlled by government or nonresident units.

107. Because it is difficult to determine the degree of effective control in a corporation that has minority ownership shares, the general rule is that owners should exercise majority control in the form of greater than 50 percent ownership. Thus, except when there is clear evidence of control, associated corporations in which governments or nonresidents have minority ownership are not

classified as public corporations or as foreign-controlled corporations but rather as national private nonfinancial corporations.

THE GENERAL GOVERNMENT SECTOR

108. *General government units exercise legislative, judicial, or executive authority over other institutional units within a specified area.* Governments have authority to impose taxes, to borrow, to allocate goods and services to the community at large or to individuals, and to redistribute income. The general government sector consists of departments, branches, agencies, foundations, institutes, nonmarket NPIs controlled and mainly financed by government, and other publicly controlled organizations engaging in nonmarket activities. Various units of general government may operate at the state, local, or other levels of control.

109. Government units are involved in the production of goods and services that may be provided free of charge or sold at prices that are not economically significant. Government-owned, unincorporated enterprises that (1) produce market output, (2) are operated or managed as corporations, (3) charge prices that are economically significant, and (4) have complete sets of accounts should be classified within the nonfinancial corporations sector. The requirement that prices be economically significant means that prices must be high enough to have an impact on the demand for, and supply of, a good or service. Government enterprises that engage in market activities but cannot be treated as corporations or quasi-corporations are classified within the general government sector.

110. The *1993 SNA* describes two alternatives for dividing the general government sector into subsectors. The first method defines the subsectors as central government, state government, local government, and social security funds. The second method includes social security funds in the subsectors of general government in which they operate.

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THE HOUSEHOLD SECTOR

111. *A household is defined as a small group of persons who share the same living accommodation, pool some or all of their income and wealth, and consume certain types of goods and services (mainly housing and food) collectively.* Unattached individuals are also considered households. Other groups, such as persons in monasteries, hospitals, asylums, prisons, and retirement homes, may constitute households if the inhabitants share resources and consumption for extended periods. Servants or other paid domestic employees who live on the premises but do not have claims on the collective resources are treated as separate households. Individuals who work in other countries are considered part of their home country households unless and until they establish centers of economic interest in foreign economies.

112. Households may engage in the production of goods and services for sale in the market, for consumption by the household itself, for construction of housing, and for accumulating other physical capital for the household's own use. Unincorporated enterprises owned by households and engaged in market production are classified in the nonfinancial corporations sector if the enterprises can be treated as quasi-corporations. Otherwise, these unincorporated enterprises are classified in the household sector.

113. The activities of unincorporated enterprises owned by households correspond closely to informal economic activity, which exists in all countries. The informal economy is not identical with hidden or illegal activities. *Informal economic activity* typically consists of small-scale production that provides employment and income for individuals or small family or kinship units but is not integrated into a formal system of registration or legal recognition. In many developing countries, the informal economy is extensive, and statistics on the extent of production and income generated through informal activities are clearly necessary. In economies with large informal sectors, many financial flows may

be channeled through informal markets, and it may be necessary to develop statistics on informal financial activity in order to measure the behavioral relationships between monetary and financial activity and nonfinancial activity.

THE NONPROFIT INSTITUTIONS SERVING HOUSEHOLDS SECTOR

114. *The NPISH sector comprises a subset of nonprofit institutions.* NPISHs are mainly engaged in providing goods and services to households or the community at large free of charge or at prices that are not economically significant (and thus are classified as nonmarket producers), except those that are controlled and mainly financed by government units. NPISHs are mainly financed from contributions, subscriptions from members, or earnings on holdings of real or financial assets. NPISHs consist mainly of associations such as trade unions; professional or learned societies; consumers' associations; political parties (except in single-party states in which the political party is included in general government); churches and religious societies (including those financed by government); social, cultural, recreational, and sports clubs; and organizations that provide goods and services for philanthropic purposes rather than for the units that control them.

INSTITUTIONAL AND FUNCTIONAL STATISTICS

115. This manual follows the sectorization principles of the 1993 SNA and recommends compiling monetary and financial statistics on an institutional basis, showing stocks and flows as being attributed to statistical units. However, functional-based statistics, which group stocks and flows according to the functions or objectives they serve, may provide useful supplementary information. In the context of monetary statistics, functional statistics have particular relevance in two specific situations. First, in some countries, the central government (or, less frequently, a unit in some other sector) rather than the central bank

carries out certain central banking functions.

Chapter 7 of this manual recommends that, in such situations, consideration be given to compiling a monetary authorities account that consolidates the accounts of the central bank with those accounts of the central government relating to central-banking functions. The second situation concerns deposit-taking activities of the central government, or of

public institutions such as post office checking and savings units that are not organized as separate institutional units. While such deposit-taking activities are outside the scope of the monetary statistics described in Chapter 7, Chapter 6 recognizes that national definitions of broad money often include such deposits, along with the monetary liabilities of depository corporations.