



Other Financial Corporations Survey (OFCS): Framework, Policy Implications and Preliminary Groundwork

By Jean Christine A. Armas¹

Introduction

The recent global financial crisis has highlighted the importance of addressing information gaps in the financial sector especially in non-bank financial institutions or the other financial corporations (OFCs) sub-sector.² Following the crisis, there have been numerous studies conducted by experts in the field of financial economics to search for *ex post* explanations about the collapse of the financial system. Many of these studies point to what is referred to as the *shadow banking system* or unregulated banking system as the major cause of the financial crisis (Bhatia and Bayoumi, 2012).³

Shadow banking system refers mainly to a network of non-bank financial intermediaries that acts like banks but are not supervised as banks (Kodres, 2013).⁴ Unlike the banking or other depository corporations (ODCs) sub-sector where regulation is stronger and stricter, the OFCs sub-sector's financial activities are less regulated by the supervisory agencies and are mostly unregulated by the central bank. It is for this reason that OFCs became more prone to the build-up of risks and vulnerabilities to macroeconomic shocks (i.e., asset prices).

Against this background, the International Monetary Fund (IMF) developed and established in 2012 the third tier of the data standards initiatives—the *Special Data Dissemination Standard (SDDS) Plus*—to enhance the scope of economic and financial statistical database being disseminated and provided to the public by member countries.⁵ The main thrust of the expansion of the financial sector database is to include the reporting of Other Financial Corporations Survey (OFCS), which is one of the nine (9) prescribed data categories in the SDDS Plus.⁶ The OFCS is an analytical survey that when consolidated with the present Depository Corporations Survey (DCS)⁷ will complete the monetary statistics framework thus, providing a comprehensive measure of the claims (by debtor sector) and liabilities (by creditor sector) of the entire financial sector.⁸ The OFCS can be used to strengthen policy-making as it is reported by: (i) economic sector that presents the concentration of vulnerability according to sectors or sub-sectors; and (ii) type of currency that divulges information on potential currency mismatches of financial assets and liabilities.

¹ Ms. Armas is Senior Research Specialist of the Department of Economic Statistics.

² Non-bank financial institutions and OFCs are used interchangeably in this article. The OFCs sub-sector includes the private and public insurance companies, other financial institutions that are either affiliates or subsidiaries of the banks that are supervised by the BSP (i.e., investment houses, financing companies, credit card companies, securities dealer/broker and trust institutions), pawnshops, government financial institutions and the rest of private other financial institutions (not regulated by the BSP) that are supervised by the Securities and Exchange Commission (SEC).

³ The term “shadow banking system” was coined by financial economist Paul McCulley in a 2007 speech at the annual symposium hosted by the Kansas City Federal Reserve Bank in Jackson Hole, Wyoming.

⁴ A case in point is when these non-banks engage in maturity transformation in which a financial institution raises short-term funds in the money markets and use these funds to buy assets with longer-term maturities.

⁵ The SDDS Plus completes the three (3) tiers of the International Monetary Fund's (IMF) data standards initiatives. The first tier is

the SDDS and the second tier is the General Data Dissemination Standard (GDDS). The Philippines is already a subscriber to the SDDS, an indication that the country has met a “good statistical citizenship” status since its subscription in 1996.

⁶ The SDDS Plus requires the adherent countries to observe requirements for nine (9) data categories. These 9 data categories are the: (i) sectoral balance sheet; (ii) quarterly general government operations; (iii) general government total gross debt; (iv) other financial corporations survey; (v) financial soundness indicators; (vi) debt securities; (vii) Coordinated Portfolio Investment Survey; (viii) Coordinated Direct Investment Survey (CDIS); and (ix) Currency Composition of Official Foreign Exchange Reserves (COFER).

⁷ The DCS is the consolidated survey for the central bank and other depository corporations.

⁸ The economic or institutional sectors, based on the 2008 System of National Accounts are categorized into financial, non-financial, general government and household and non-profit institutions serving households and non-residents (rest of the world).



The article will proceed as follows. Section 2 explains the framework in the compilation and generation of OFCS. Section 3 concludes with the discussion on some of the policy implications of the OFCS as well as the preliminary groundwork that the Bangko Sentral ng Pilipinas (BSP) has initiated.

Framework underlying the OFCS Compilation

The OFCS covers the accounts of all resident OFCs. The OFCs consist of diverse group of financial institutions whose main function is to intermediate financial assets or engage in activities closely related to financial intermediation.⁹ The compilation of OFCS follows a relatively exhaustive process that begins with the construction of the balance sheets for the OFCs sub-sector. These balance sheets, which are organized into asset and liability categories that are consistent with the categories of financial instruments in the 2008 System of National Accounts (SNA), constitute the underlying framework in the construction of the OFCS. The major categories of financial instruments based on the 2008 SNA are: (i) monetary gold and special drawing rights (SDRs); (ii) currency and deposits; (iii) debt securities; (iv) loans; (v) equity and investment fund shares; (vi) insurance, pension, and standardized guarantee schemes; (vii) financial derivatives and employee stock options; and (viii) other accounts receivable/payable.

The assets or claims of the OFCs are presented by sector of debtor while the liabilities are shown by sector of creditor. This is presented in this format to provide flexibility of use of the data and for broader range of analyses. In addition, the OFCs' balance sheets should be compiled as *aggregated* data in which all the stock data are to be summed up within a particular sector or sub-sector and, for a given sub-sector, all the stock data are to be summed up within a particular asset or liability category. In addition, the OFCS reflects

the financial positions (in stock) of the OFCs vis-à-vis the resident¹⁰ and non-resident sectors.

In the OFCS, the asset side focuses on credit extended to non-residents and to the different domestic sectors in the economy. All claims on and liabilities to resident and non-resident sectors are categorized by type of financial instruments. The three (3) major components of the OFCS are: (i) net foreign assets (NFA); (ii) domestic assets; and (iii) liabilities excluded from broad money.¹¹ The NFA are distinguished from the domestic accounts following the residency criteria of the 6th edition of the IMF's Balance of Payments Manual and International Investment Position. The NFA provide an indication of the direct domestic monetary impact of the subsectors' transactions with the rest of the world. Meanwhile, the domestic claims component of the OFCS refers to the sum of net claims on central government and claims on other sectors. The presentation of the claims on central government on a net basis facilitates the analysis in the determination of the OFCs' financing of central government operations. The third component of the OFCS, which is the liabilities excluded from broad money covers all the domestic borrowings obtained by the OFCs from the rest of domestic or resident sectors in the economy and from the non-resident sectors for the purpose of financing their operational needs and requirements.

OFCS: Policy Implications and Preliminary Groundwork

Policy implications

The OFCS completes the *monetary statistics framework* as it provides a more comprehensive and appropriate measure of all the claims on and liabilities to the other sectors by consolidating the other financial corporations with the depository corporations.¹² At present, the DCS serves as the main database of monetary data in

⁹ The financial sector is categorized into two sub-sectors: the depository corporations sub-sector and the other financial corporations sub-sector.

¹⁰ The resident sectors (other than the OFCs) are the depository corporations (include BSP, universal/commercial, thrift and rural banks and other deposit-taking institutions), private and public non-financial corporations, general government (consists of national government, local government units and social security

agencies like Social Security System and Government Service Insurance System) and household and non-profit institutions serving households.

¹¹ Broad money is composed of currency in circulation, transferable deposits, savings and time deposits.

¹² The depository corporations include the Bangko Sentral ng Pilipinas (BSP), universal/commercial, thrift and rural banks and

determining the components of broad money and liquidity aggregates¹³, which are important economic indicators that are used mainly to assess the amount of liquidity in the economy. Hence, the broad money and liquidity aggregates are among the key indicators considered in the formulation and conduct of monetary policy.

One of the purposes of the OFCS is to have an accurate representation of the credit aggregates¹⁴ or measures of the *entire financial sector*. Without the OFCS statistics, credit or claims are underestimated. Credit measures involve the specification of the financial assets included, the issuing sectors (lenders, particularly, credit issued by OFCs or depository corporations) and the holding sectors (borrowers). Credit reflects the interplay between funding and market liquidity that refers to the availability of liquidity in funding markets as well as the ease of converting financial assets into liquidity by selling it in the financial markets (Eickmeier, Gambacorta, and Hofmann, 2013). More recently, following the global financial crisis, credit has been proposed as an alternative and more suitable measure of global liquidity conditions from a financial stability standpoint. This view is supported by the results of studies made by Borio and Lowe (2004) and Schularick and Taylor (2012) in which they argued that credit aggregates are very useful in predicting imminent financial crises as well as the possible build-up of pre-crisis financial imbalances. That said, it is crucial to account for the contribution of the OFCs sub-sector in measuring the credit aggregates of the entire economy as the sub-sector's assets account for a significant share, which as of end-2013 was 39 percent of the total financial sector's assets.

Another important feature of the OFCS that will aid policy-makers and economic managers in their decision-making is the anatomy of the OFCS' analytical presentations. The OFCS

shows the sectorization of economic units in all the financial transactions of the OFCs. This presentation by economic sectors allows policy-makers to identify the concentration of financial vulnerabilities according to sectors and/or sub-sectors thus, providing the policy-makers a baseline scenario in formulating policy decisions.

The OFCS also presents the disaggregation of financial assets and liabilities by type of currency. This analytical format divulges information on potential currency mismatches of financial assets and liabilities. Currency mismatch is caused by a disparity in the currencies in which assets and liabilities are denominated. A case in point is when liabilities are denominated in foreign currency while assets are denominated in domestic currency. Research shows that emerging economies are more susceptible to currency mismatch risk than the advanced economies as the former usually obtain external financing to fund their investments. The risk of a currency mismatch increases in the event of a devaluation (or currency depreciation) when borrowings or liabilities are denominated in foreign currency. Hence, net foreign currency debtors often hedge themselves against currency risk (i.e., further depreciation) by purchasing foreign currency assets (Roubini, et al., 2002).

Preliminary groundwork and conclusions

The urgency of generating the OFCS to address the information gaps highlighted by the recent financial crisis is indispensable as the scale and magnitude of the collapse of the financial system made the crisis global. It is in this light that the IMF urges and encourages member countries to improve data dissemination by including in their existing database on financial sector the reporting and generation of the OFCS.¹⁵

other deposit-taking institutions like the non-stock savings and loan associations.

¹³ Liquidity aggregates are broader than broad money with respect to the types of liabilities included. In addition to broad money liabilities, liquidity aggregates include other liabilities that are viewed as somewhat liquid but not sufficiently liquid to be included in broad money like deposit substitutes (or securities other than shares) and transferable and other deposits in foreign currency denominated units (FCDUs) by residents.

¹⁴ Credit aggregates cover the claims of all financial corporations sector (depository corporations + other financial corporations) from the rest of domestic economic sectors and non-resident (rest of the world) sectors.

¹⁵ The IMF's Statistics (STA) Department has provided the BSP a technical assistance last 11-22 August 2014 to facilitate the generation and compilation of the OFCS, which is set for implementation by 2019.



The BSP, through the Department of Economic Statistics (DES), has initiated the groundwork on the OFCS in preparation for the country's official adherence to the SDDS Plus. Some of the major activities that are needed in the generation and compilation process of the OFCS are still underway. First is the identification of the data sources in the generation of OFCS. One of the major challenges of the OFCS compilation arises from the relatively large number of OFCs with different reporting formats that are not *tailored fit* to the analytical requirements of the monetary statistics. Second is the adoption of a four (4)-stage work program¹⁶ to ensure that the project implementation activities are carried out to deliver the expected output, which is the generation of the OFCS. This work plan requires the collaboration and coordination of the BSP with other supervisory/regulating agencies. An inter-agency technical working group will coordinate and facilitate the development and generation of OFCS. Finally, a standard report form for all OFCs will be crafted in order to meet the analytical requirements of the survey. This report form will facilitate the consolidation and analysis of the OFCS.

References

- Bhatia, A.V. and Bayoumi, T. (2012, June). Leverage? What Leverage? A Deep Dive into the U.S. Flow of Funds in Search of Clues to the Global Crisis. *IMF Working Paper*, p. 29.
- Borio, C. and Lowe, P. (2004). Securing Sustainable Price Stability: Should Credit Come Back from the Wilderness? *BIS Working Papers*, 157.
- Eickmeier, S., Gambacorta, L. and Hofmann, B. (2013, February). Understanding Global Liquidity. *Bank for International Settlements Working Paper*.
- European Commission, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank. (2009). *The 2008 System of National Accounts*. New York.
- International Monetary Fund. (2000). *Monetary and Financial Statistics Manual*. Washington, D.C.
- Kondres, L. (2013, June). What is Shadow Banking? *International Monetary Fund's Publications: Finance and Development*.
- Roubini, N., Allen, M., Keller, C., Rosenberg, C., and Setser, B. (2002). A Balance Sheet Approach to Financial Crisis. *IMF Working Paper*.
- Schularick, M. and Taylor, A. (2012). Credit Booms Gone Bust: Monetary Policy, Leverage Cycles and Financial Crises. *American Economic Review*, 102 (2), pp. 1029-1061.

¹⁶ The work plan consists of data inventory, data gap analysis, filling in the data gaps and data collection strategies.

