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Draft

COUNCIL REGULATION (EC)

on the allocation of the financial intermediation services
indirectly measured (FISIM) within the European system of national and
regional accounts (ESA)

(presented by the Commission)

EXPLANATORY MEMORANDUM

Article 2(3) of the ESA 1995 Regulation adopted by the Council on 25 June 1996 states that "in accordance with the relevant provisions of the Treaty, the Council shall, not later than 31 December 1997, take a decision on introducing the system for breaking down the financial intermediation services indirectly measured (FISIM) described in the annex to the methodology, and shall, if appropriate, adopt the necessary measures for the implementation thereof".

At its 22nd meeting on 23 September 1996, the Statistical Programme Committee (SPC) decided to forward the draft Regulation to the Council even if solutions still needed to be found to certain technical problems (availability of data, reference rates, calculation at constant prices). These problems would continue to be examined at the meetings of national accounts experts and the Committee on Monetary, Financial and Balance-of-Payments Statistics (CMFB). The text of the draft Regulation would then be modified in the course of the Council debates in the light of the results obtained by the Working Parties.

Breaking down FISIM makes it possible to show in GDP the services provided by financial intermediaries to households, the rest of the world, public administrations and non-profit-making institutions through their intermediate consumption.

1. The aim of the draft Regulation is to establish a methodology for breaking down FISIM which will permit a more accurate comparison of gross domestic product (GDP) within the European Union.
2. The Member States share some of the competency for this activity, which is aimed at incorporating the breakdown of FISIM into the European System of Accounts (ESA). Collection itself and the collection methods used are the responsibility of the Member States.
3. All the Member States are concerned. The Member States already collect some information on the breakdown of FISIM. The act will entail the collection of supplementary information (a fairly small number of items for the majority of Member States) and changes in the concepts and classifications used.
The draft Regulation takes account of the need to be able to adapt statistical definitions in the light of socio-economic and technical developments which affect the production system. It will determine the quality of the observation and analysis for purposes of economic policies.
4. Only a Community-level measure such as this will make it possible to define the reference framework for the accounting rules governing the breakdown of FISIM, the actual breakdown being subsequently carried out by the Member States according to the system established at Community level.

5. The implementation of this legal act will lead to a substantial improvement in the methodology of the European System of National and Regional Accounts in the European Community. The resulting increased comparability will make it possible to meet more effectively the requirements arising from the management of Economic and Monetary Union and the use of national accounts aggregates for Community administrative, and in particular budgetary, calculations. Without this legal act, the development, monitoring, verification and evaluation of Community economic and monetary policies could be based only on non-harmonised statistics, since the proportion of direct invoicing of users by financial intermediation services varies widely from one country to another. This would pose problems.
6. A legal act - in this case a Council Regulation - makes it possible to establish a reference framework for the accounting rules governing the breakdown of FISIM, without having to go into the details of how this breakdown should be organised and produced in practice.
7. A Council Regulation is necessary for establishing the reference framework, but the actual breakdown of FISIM remains a matter for the Member States, which will need to adapt their statistical systems.
8. The proposal in itself defines the standards and concepts to be implemented. It does not provide for any specific measures for any one category of enterprise.

Draft

COUNCIL REGULATION (EC)

on the allocation of the financial intermediation services indirectly measured (FISIM) within the European system of national and regional accounts (ESA)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 213 thereof,

Having regard to the draft Regulation submitted by the Commission¹,

Having regard to the opinion of the European Parliament²,

Having regard to the opinion of the European Monetary Institute³,

Whereas Council Regulation (EC) No.../96 of 25. June 1996 on the European System of National and Regional Accounts in the European Community (ESA)⁴ is the reference framework of common standards, definitions, classifications and accounting rules for drawing up the accounts of the Member States for the requirements of the European Community, so that results that are comparable between Member States can be obtained;

Whereas solving the problem of allocating financial intermediation services indirectly measured (FISIM) would be an important qualitative improvement to the methodology of the ESA;

Whereas the allocation of FISIM would lead to a more accurate intra-European Union comparison of Gross Domestic Product (GDP) levels;

Whereas Article 2, paragraph 3, of the Regulation (EC) No.../96 states that the decision on implementing the allocation of FISIM, the principles of which are described in Annex 3 of the Regulation, shall be taken no later than 31. December 1997;

Whereas, in accordance with the principle of subsidiarity, the objectives of the measures to be taken can only be achieved via a Community legal act because only the Commission can coordinate the necessary harmonisation of the statistical methods for calculating and allocating FISIM at Community level, although the calculation and allocation proper as well as the infrastructure required to monitor application of the methods, can be organised by the Member States;

Whereas the Statistical Program Committee established by Council Decision 89/382/EEC, Euratom⁵, consulted by the Commission in accordance with Article 3 of the aforesaid Decision and the Committee on Monetary, Financial and Balance of Payments Statistics established by Council

¹ OJ No. C .../.. 1996, p.

² OJ No. C .../.. 1996, p.

³ OJ No. C .../.. 1996, p.

⁴ OJ No. L .../.. 1996, p.

⁵ OJ No. L 181, 28.6.1989 p.1

Decision 91/115/EEC⁶, consulted by the Commission in accordance with Article 3 of the aforesaid Decision, have declared themselves in favour of the draft of this Regulation;

HAS ADOPTED THIS REGULATION:

Article 1
General provisions

For the purpose of introducing the system for breaking down the financial intermediation services directly measured (FISIM), Annex I and II of Annex A of Regulation (EC) No.../96 are amended in accordance with Annexes 1 and 2 of the present Regulation.

Member States shall base themselves on the provisions set out in Annex 3 of the present Regulation in order to implement the system of FISIM allocation.

Article 2
Tables

The figures contained in the tables affected by the allocation of FISIM in Annex A of Regulation (EC) No.../96 are to be amended in accordance with the procedure set out in Article 5 of this Regulation.

The tables affected by implementation of the allocation of FISIM contained in Annex B of Regulation (EC) No.../96 are to be amended in accordance with the procedure set out in Article 5 of this Regulation.

Article 3
Reports

Member States shall transmit to the Commission, at its request, any information, necessary for the application of the present Regulation.

Article 4
Committee

The necessary measures for the application of the present Regulation, including measures to clarify and improve the methodology for calculating and allocating FISIM, shall be adopted by the Commission in accordance with Article 2(2) of Regulation (EC) No.../96.

Article 5
Procedure

1. The Commission shall be assisted by the Statistical Programme Committee, hereinafter referred to as "the Committee".
2. The representative of the Commission shall submit to the committee a draft of the measures to be taken. The committee shall deliver its opinion on the draft within a time limit which the Chairman may set in the light of the urgency of the matter in hand. The opinion shall be

⁶ OJ No. L 59, 6.3.1991 p.1

delivered by the majority laid down in Article 148(2) of the Treaty establishing the European Community for decisions which the Council is required to adopt on a proposal from the Commission. The votes of the representatives of the Member States within the committee shall be weighted in the manner set out in the above mentioned Article. The Chairman shall not vote.

3. The Commission shall adopt measures which shall apply immediately. However, if these measures are not in accordance with the opinion of the Committee, they shall be communicated by the Commission to the Council forthwith. In that event:
 - a) The Commission shall defer application of the measures which it has decided for a period of three months from the date of communication.
 - b) The Council, acting by a qualified majority, may take a different decision within the time limit referred to in point a).

Article 6

Data transmission

The Member States shall apply the provisions of this Regulation within the context of transmitting to the Commission the tables specified in Article 3 of Regulation (EC) No.../96.

Article 7

Final provisions

This Regulation shall enter into force on the twentieth day following its publication in the *Official Journal of the European Communities*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Brussels, ... 19;;

For the Council,
The President

Annex 1 Financial intermediation services indirectly measured (FISIM)

Pursuant to Council Regulation (EC) No.../97, of ...1997, on the allocation of financial intermediation services indirectly measured (FISIM) within the framework of the European system of national and regional accounts (ESA) (...), the following amendments are made to the ESA chapters set out hereafter:

Chapter 1.

1.13. d)

Delete after "The ESA also contains many specific conventions, e.g.:"

"recording the use of financial services indirectly measured as the intermediate consumption of a nominal sector or a nominal industry."

Replace by:

"allocating the use of financial intermediation services indirectly measured (FISIM) to user sectors/industries."

1.25.

Add after "Some of the major differences in concepts are:"

"i) the use of financial intermediation services indirectly measured (FISIM) is now allocated to user sectors/industries instead of to a nominal sector (industry). As a consequence, the use of FISIM is not anymore by convention recorded entirely as intermediate consumption, but can also be final consumption and exports. This implies then that imports of FISIM can also occur."

Chapter 3.

3.63.

Delete all the text from the beginning until "... is valued on the basis of the fees of commissions charged" included.

Replace by:

"J. Financial intermediation services (this includes insurance services and pension funds services)

Financial intermediation services (excluded insurance services and pension funding services) consist in:

a) financial intermediation services directly charged by financial intermediaries to their clients and measured as the sum of fees and commission charged.

Financial intermediaries can charge explicitly for the intermediation services which they provide. The output of such services is valued on the basis of fees and commissions charged;

	<p>b) financial intermediation services indirectly charged and indirectly measured (FISIM).</p> <p>Financial intermediaries provide services for which they do not charge explicitly fees and commissions. They pay lower rates of interest than would otherwise be the case to those who lend them money and charge higher rates of interest to those who borrow from them.</p> <p>Consequently, FISIM output is generated by the management by financial intermediaries of loans and deposits whose rates they control; in contrast, there is no intermediation service for securities other than shares.</p> <p>The output of the subsectors S122 (other financial institutions) and S123 (other financial intermediaries excluding insurance corporations and pension funds), except investment funds is valued on the basis of the difference between the actual rates of interest payable and receivable and a "reference" rate of interest. For those to whom the intermediaries lend funds, both resident and non-resident, it is measured by the difference between the effective interest charged on loans and the amount that would be paid if a reference rate were used. For those from whom the intermediaries borrow funds, both resident and non-resident, it is measured by the difference between the interest they would receive if a reference rate were used and the effective interest they actually receive;</p> <p>c) financial intermediation services provided by the central bank.</p> <p>The central bank must not be included in the calculation of FISIM: its output is measured as the sum of costs."</p>
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3.70. j)	<p><i>Delete:</i></p> <p>"only for the total economy: all financial intermediation services indirectly measured (FISIM) provided by resident producers."</p>	<p><i>Replace by:</i></p> <p>"the use of financial intermediation services indirectly measured by resident producers."</p>
3.70.		<p><i>Add:</i></p> <p>"k) By convention, the central bank output should be entirely allocated to the intermediate consumption of other financial intermediaries (sub-sectors S122 - S123)."</p>

3.76. e)

Add to "financial services directly charged;":

"and the part of financial intermediation services indirectly measured used for final consumption purposes by households;"

3.142. h)

Add immediately after "financial services by the amount of the explicit commissions and fees;":

"h) the part of financial intermediation services indirectly measured used by non-residents;"

Chapter 4.

4.51.

Delete:

"The value of the services provided by financial intermediaries not being allocated among different customers, the actual payments or receipts of interest to or from financial intermediaries are not adjusted to eliminate the margins that represent the implicit charges made by financial intermediaries. An adjustment item is needed in the allocation of primary income account of financial intermediaries and of a nominal industry to which, by convention, the whole output of financial intermediaries is allocated as intermediate consumption."

Replace by:

"The value of the services provided by financial intermediaries being allocated among different customers, the actual payments or receipts of interest to or from financial intermediaries need to be adjusted to eliminate the margins that represent the implicit charges made by financial intermediaries. The amounts of interest paid by borrowers to financial intermediaries must be reduced by the estimated values of the charges payable, while the amounts of interest receivable by depositors must be similarly increased. The values of the charges are treated as payments for services rendered by financial intermediaries to their customers and not as payments of interest."

Chapter 8.

8.09.

Add on figures presented:

Tables 1.1 and 1.2, to show the consequences of allocation of FISIM on figures presented in the chapter 8., "Sequence of accounts and balancing items" (numerical example).

8.14.

Delete:

"As financial intermediation services indirectly measured (FISIM) are not allocated to user sectors, the whole of the value of the output of FISIM is treated as the intermediate consumption of a nominal sector with zero output and negative value added equal in size but opposite in sign to intermediate consumption. In this way, the value added of all sectors and industries together is reduced in total by this amount. To lighten the presentation of accounts, it is possible not to insert a supplementary column for the nominal sector, but instead to take into account the corresponding figure in the column total economy."

Replace by:

"As financial intermediation services indirectly measured (FISIM) are allocated to user sectors, certain parts of interest payments are reclassified as payments of services. This reclassification has consequences for the values of output and intermediate consumption (as well as for the values of imports, exports and final consumption)."

8.24.

Delete:

"As financial intermediation services indirectly measured (FISIM) are not allocated to user sectors, the entries shown for interest are those for actual interest payable and receivable. An adjustment is made to resources in the column financial corporations (with a negative sign) and in the column nominal sector (with a positive sign). To lighten the presentation of accounts, it is possible not to insert a supplementary column for the nominal sector, but instead to present the corresponding figure in the column total economy."

Replace by:

"As financial intermediation services (FISIM) are allocated to user sectors, the item "interest" in the allocation of primary income account corresponds to interest payable and receivable after FISIM has been deducted from actual payables by borrowers and added to actual receivables by lenders."

Chapter 9.

9.25. a)

Delete:

"the intermediate consumption by industry includes the use of financial intermediation services indirectly measured that are recorded in a nominal industry (see paragraph 9.33.)"

9.25. b)

Delete:

"minus the use of financial intermediation services indirectly measured (recorded in a nominal industry, see paragraph 9.33.)"

9.33.

Delete:

"Throughout the supply and use tables, the NACE rev. 1 industry classification is extended with a nominal industry for the use of financial intermediation services indirectly measured. In the supply table, no transactions are recorded at all for this industry. In the use table, the total use of financial intermediation services indirectly measured is recorded as the intermediate consumption of this nominal industry. As this nominal industry does not have any other transactions, its net operating surplus is negative by the amount of its intermediate consumption; all other components of its value added are zero. As a consequence, its total gross value added is equal to its (negative) net operating surplus."

Table 1.1 Effect of allocating FISIM to institutional sectors, including changes for non-market producers

Uses										Resources										
Accounts	Total	Goods and services (res.)	S.2	S.1	S.15	S.14	S.13	S.12	S.11	Transactions and balancing items	S.11	S.12	S.13	S.14	S.15	S.1	S.2	Total	Accounts	
			Rest of the world	Total economy	NPISHs	Households	General government	Financial corporations	Non-financial corporations											Non-financial corporations
I. Production account/external account	2 4	2								P.72 Imports of services P.62 Exports of services								2	2	I. Production account/external account
	27		4							P.1 Output		48	6		3	57		4	57	
	30		-2	30	3	0	6	0	18	P.2 Intermediate consumption										
								48	-18	B.1 Value added/external balance	-18	48				30			30	II.1.1. Generation of income account
II.1.1. Generation of income account	30			30				48	-18	B.2 Operating surplus	-18	48				30			30	II.1.2. Allocation of primary income account
II.1.2. Allocation of primary income account	230		13	217	6	14	35	106	56	D.41 Interest	33	106	14	49	7	209	21	230	230	II.2. Secondary distribution of income account
II.2. Secondary distribution of income account	22			22	1	35	-21	48	-41	B.5 Balance of primary incomes	-41	48	-21	35	1	22			22	II.4. Use of income account
II.4. Use of income account	28			28	3	19	6	48	-41	B.6 Disposable income	-41	48	-21	35	1	22			22	
			6	-6	-2	16	-27	48	-41	P.3 Final consumption expenditure										
										B.8n Saving, net/external balance										

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Table 1.2 Effect of allocating FISIM to nominal sector only

Uses										Resources													
Accounts	Total	S.2 Goods and services (res.)	S.1 Rest of the world	S.15 Total economy	S.14 PISHs	S.13 households	S.12 General government	S.11 Financial corporations	S.11 Non-financial corporations	Nominal	Transactions and balancing items	Nominal	S.11 Non-financial corporations	S.12 Financial corporations	S.13 General government	S.14 households	S.15 PISHs	S.1 Total economy	S.2 Rest of the world	Goods and services (uses)	Total	Accounts	
I. Production account	48			48				48			P.1 Output			48				48			48	I. Production account	
											P.2 Intermediate consumption											48	II.1.1. Generation of income account
											B.1 Value added/external balance	-48		48								48	II.1.1. Generation of income account
II.1.1. Generation of income account							48		-48		B.2 Operating surplus	-48		48									II.1.2. Allocation of primary income account
II.1.2. Allocation of primary income account	222	16	206	7	17	39	77	66			D.41 Interest		25	125	12	33	5	200	22			222	II.1.2. Allocation of primary income account
											P.119 Adjustment for FISIM	48		-48									II.2. Secondary distribution of income account
II.2. Secondary distribution of income account				-6	-2	16	-27	48	-41		B.5 Balance of primary incomes		-41	48	-27	16	-2	-6					II.2. Secondary distribution of income account
II.4. Use of income account			6	-6	-2	16	-27	48	-41		B.6 Disposable Income		-41	48	-27	16	-2	-6					II.4. Use of income account
											B.8n Saving, net/external balance												

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Annex 2

Annex II of Annex A of Regulation (EC) No.../96 is amended as follows.

The following text is deleted from the third sentence of point 11:

“: property income receivable less interest payable, excluding any property income receivable from the investment of their own funds.”

Annex 3 Calculating FISIM

1) Calculation of FISIM output by the sectors S122 and S123

a) Statistical data required

For each of the sub-sectors S122 and S123, it is necessary to use the table of average stocks of loans and deposits (split by user sectors) for the period (average for the start-of-period and end-of-period, or preferably the average of four quarters or twelve months) and the accrued interest after reallocation of interest rate subsidies to their actual recipients as defined by the 1995 ESA.

b) The choice of a reference rate

The loan and deposit headings in the balance sheets of financial intermediaries included in S122 and S123 have to be broken down to differentiate between loans and deposits:

- which are "interbank" (i.e. within the institutional units included in sectors S122 and S123);
- which are undertaken with the user institutional sectors (S124 - S125 - S11 - S13 - S14 - S15 - S2) (except with the central banks).

Each of these sub-divisions must be broken down to show whether the borrower or the depositor is resident or non-resident.

To obtain the FISIM output of the resident FIs by institutional sector, the reference rate is calculated as

$$\frac{\text{Interest receivable on loans between S122 and S123}}{\text{stock of loans between S122 and S123}}$$

This calculated rate is the "internal" reference rate which is used to calculate FISIM produced by the resident FIs and consumed by residents.

To determine FISIM imports and exports, the reference rate used is the average rate weighted by the levels of stocks in the headings "loans between S122 and S123 on one hand, and non-resident FIs on the other hand" and "deposits between S122 and S123 on one hand, and non-resident FIs on the other hand" which are included in the balance sheet of the financial intermediaries.

This calculated rate is the "external" reference rate which is used to calculate FISIM exports and imports.

c) Calculation of FISIM by institutional sector

For each institutional sector it is necessary to have the following table of loans and deposits granted by the resident FIs:

	stocks	interest receivable		stocks	interest payable
Loans granted by resident FIs S122 S123			Deposits with resident FIs S122 - S123		

The total FISIM by institutional sector is obtained as the sum of FISIM on loans granted to the institutional sector and of FISIM on deposits of the institutional sector.

FISIM on the loans granted to the institutional sector = interest receivable on loans - (loans stocks x "internal" reference rate)

FISIM on the deposits of the institutional sector = (deposit stocks x "internal" reference rate) - interest payable on deposits

Part of the output is exported; on the basis of the balance sheet of the financial intermediaries (S122 and S123) we observe:

	stocks	interest receivable		stocks	interest payable
Loans to non-residents			deposits of non-residents		

Exported FISIM is calculated using the "external" reference rate as follows:

FISIM on loans granted to non-resident (including FIs) = interest receivable - (loan stocks x "external" reference rate)

FISIM on the deposits of non-residents (including FIs) = (deposit stocks x "external" reference rate) - interest payable.

d) Breakdown into intermediate and final consumption of FISIM allocated to households

The services attributable to households must be broken down into:

- intermediate consumption of households in their capacity as owners of dwellings;
- intermediate consumption of households in their capacity as owners of unincorporated enterprises;
- final consumption of households.

It entails a breakdown of loans to households (stocks and interest) into:

- dwelling loans;
- loans to households as owners of unincorporated enterprises;
- other loans to households.

Loans to households as owners of unincorporated enterprises and dwelling loans are generally shown separately in the various breakdowns of lending in financial and monetary statistics. Other loans to households can be obtained by subtraction. FISIM for loans to households should be distributed among three items (dwelling loans, loans to households as owners of unincorporated enterprises and other loans to households) on the basis of information on average stocks and interest for each of the three groups. Dwelling loans are not identical to mortgage loans, as mortgage loans can have other purposes.

Household deposits must be broken down into:

- deposits of households as owners of unincorporated enterprises;
- deposits of individuals.

In the absence of statistics on the deposits of households as owners of unincorporated enterprises, average stocks can be calculated for each industry on the basis of the ratio of deposits to value added observed for corporations and extrapolated for unincorporated enterprises. FISIM on the deposits of households must be distributed between FISIM on the deposits of households as owners of unincorporated enterprises and that on the deposits of individuals on the basis of the average stocks of these two categories, for which, owing to lack of further information, the same interest rate will be used.

2) Calculation of imported financial intermediation

Non-resident FIs grant loans to residents and receive deposits from residents.

For each institutional sector it is necessary to have the following table:

	stocks	interest receivable by non-resident FIs		stocks	interest payable by non-resident FIs
Loans granted by non-resident FIs			Deposits with non- resident FIs		

The financial intermediation imported by each institutional sector is therefore calculated as follows:

FISIM imported for loans = interest receivable by non-resident FIs - (loan stocks x "external" reference rate)

FISIM imported for deposits = (deposits stocks x "external" reference rate) - interest payable by non resident FIs

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