EUROPEAN CENTRAL BANK

EUROSYSTEM

Explanatory note accompanying the Eurosystem balance sheet in the Financial Accounts and comparison with reports deriving from other datasets

Financial Accounts (FA) statistics show a consistent overview of the financial transactions and positions of all institutional sectors of the economy. As from July 2019, in the euro area Financial Accounts the monetary financial institutions (MFIs) sector – which broadly corresponds to the banking sector – has been split into central banks (i.e. the Eurosystem) and "other MFIs"[1] to allow for individual analysis of these two sub-sectors. This note summarises the main principles applied in FA statistics, and explains the differences between the central bank balance sheet data as shown in the FA and the information about the Eurosystem balance sheet presented in other datasets, namely the MFI balance sheet statistics ("BSI statistics"), the balance of payments and international investment position (b.o.p./i.i.p.) and the financial statements of the Eurosystem (also known as the "accounting balance sheet"). In general, the main source of differences between these datasets relates to the different scope of aggregation of the figures, while there are also methodological differences. The methodological differences are particularly important for the comparison with accounting data as the two serve different purposes.

I. Main recording principles applied in Financial Accounts

In general, financial assets and liabilities are recorded at market value, to reflect their replacement value, and with the aim to ensure consistent valuation across holders and issuers in all sectors and countries. As exceptions, deposits and loans are recorded at nominal value. In addition, some specific methods are envisaged by statistical standards to value unlisted equity, with the aim to provide a proxy of market value, to be as comparable as possible to the market values of listed instruments. In the case of unlisted equity of central banks, the approach agreed by the ESCB (in line with international statistical standards[2]), is the "own funds" method, defined as total assets minus all liabilities other than equity[3].

It is important to note that FA statistics take a macroeconomic perspective, e.g. by applying the same (usually market) valuation method to instruments held or issued by any entity. This serves the comparability across countries and sectors, and the consistency of the macroeconomic accounts. Instead, financial statements aim to reflect the specific situation of a given reporting entity, in this case of the

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1 Other MFIs include, among other things, commercial banks, savings banks and money market funds. The same breakdown into central banks and other MFIs has also been made available in the national Financial Accounts of euro area countries as of October 2019.

2 Namely the System of National Accounts (SNA) 2008 and the European System of Accounts (ESA) 2010. The SNA recommends in its paragraph 13.74 to value equity liabilities of central banks by difference between assets and liabilities (other than equity). ESA 2010 states in its paragraph 20.151 that using the own funds of the corporation is an approach that can be used for public corporations that have unique types of activities such as when government has equity stakes in central banks.

3 Namely F12 – Special drawing rights; F21 – Currency; F2M – Deposits; F3.S – Short-term debt securities; F3.L – Long-term debt securities; F4.S – Short-term loans; F4.L – Long-term loans; F6 – Insurance, pension and standardised guarantee schemes; F7 – Financial derivatives and employee stock options; F8 – Other accounts payable.

Eurosystem, and use specific accounting rules. Therefore these individual financial statements are the appropriate tool to assess the financial situation of an individual Eurosystem central bank entity.

II. Differences as compared with BSI, BoP statistics and Financial Statements

1. Differences between FA statistics and BSI statistics

The Eurosystem balance sheet published as part of the FA statistics can be compared with related data reported in the BSI statistics published by the ECB. However, these sets of statistics present different scopes of aggregation of the figures. Also, while the methodologies followed for these two datasets are very similar, a few methodological differences exist, mainly reflecting the different purpose and timeliness of the data.

Presentational differences exist as the FA statistics show data by instrument, with a few items broken down by counterparty sector (the Eurosystem breakdown is shown for short and long-term debt securities, and deposits), while BSI statistics show most instruments only vis-à-vis other euro area counterparts (by sector) and group instruments used vis-à-vis non-euro area residents into “external assets” or “external liabilities”.

(1) BSI external assets and external liabilities

As a result, these external assets and external liabilities show an aggregation of many instruments but refer only to those Eurosystem positions and transactions held or carried out vis-à-vis non-euro area residents.

- External assets include gold, gold receivables, receivables from the International Monetary Fund (IMF), loans to non-residents and holdings of securities issued by non-residents.
- External liabilities include deposits from non-residents and debt securities with original maturity of up to two years and held by non-residents.

In the FA statistics these categories are shown on an instrument-by-instrument basis, i.e. without aggregation into external assets and external liabilities. In addition to this general difference in presentation, specific differences exist between the BSI statistics and the FA statistics for the following balance sheet items[4].

(2) BSI capital and reserves

From a conceptual perspective, this item corresponds to equity liabilities in the FA statistics. However, the content of these two items does in fact differ. In BSI statistics, capital and reserves comprises (i) equity capital raised; (ii) profit or loss accumulated in the accounting period; (iii) income and expenses recognised

[4] Fixed assets are non-financial assets and are therefore not covered by the Financial Accounts.

directly in equity; (iv) funds arising from income not distributed to shareholders; and (v) provisions. In the euro area FA, the equity liabilities of the members of the Eurosystem are generally measured as “own funds” as described above.

(3) BSI remaining assets and remaining liabilities

These BSI statistics items cover a variety of components that are included under various instruments in the FA.

- Suspense items and transit items, amounts receivable/payable related to future settlement of securities and foreign exchange transactions, or dividends to be received or paid are generally recorded in the FA under “other assets receivable” and “other assets payable” (F89).
- Financial derivatives (including some margins related to financial derivatives) are separately identified as “financial derivatives” (F7) in the FA.
- Provisions representing liabilities against third parties: for national central banks (NCBs) that have a non-autonomous pension fund scheme, the technical reserves of that fund are recorded under “remaining liabilities”, while in the FA they are shown under “insurance technical reserves” (F6).
- Accrued but not yet due interest related to loans and deposits is recorded in BSI statistics under remaining assets and remaining liabilities but is allocated to the corresponding deposits and loans in the FA.
- Asset counterpart to coins issued: coins are in general a liability of government but are by convention imputed as a liability of the central bank (under the item “currency in circulation”), while a corresponding asset of the central bank vis-à-vis the government is recorded in both sets of statistics. In BSI this asset comes under remaining assets while in the FA this asset is classified as a deposit.
- Intra-Eurosystem net assets or liabilities related to the allocation of banknotes: the euro currency in circulation is, for statistical purposes, allocated among euro area Member States based on the Eurosystem’s banknote allocation key, whereby 8% of total Eurosystem issuance is allocated to the ECB and the remainder to NCBs according to their respective shares in the capital of the ECB. The difference between this allocation and the amount actually put into circulation by the central bank is recorded under “remaining assets” or “remaining liabilities” in the BSI, depending on its sign, and as deposits (assets or liabilities) in the FA.
- Liability counterpart to the allocation of special drawing rights (SDRs): recorded under SDR liabilities (F12) in the FA.

In addition to items (1) to (3), the following adjustments are to be made to bridge BSI statistics with the FA methodology (i.e. ESA 2010 and related compilation conventions):

(4) BSI loans by NCBs to other NCBs or to other MFIs are classified as deposits in FA;

(5) receivables from the IMF are recorded together with special drawing rights under “external assets” in BSI statistics and under “transferable deposits” (F22) in the FA;

(6) securities held by NCBs are shown at market value in the FA; in BSI statistics reporting book values is acceptable and the book value is used in some cases provided that it does not diverge significantly from the market value;

(7) financial derivatives are presented on a gross basis in BSI statistics, but they are netted out in the euro area FA; the amount recorded in liabilities is equal to the original liabilities minus the original assets.

2. Differences between FA statistics and b.o.p./i.i.p. statistics

The methodology followed in b.o.p./i.i.p. statistics is the same as that in the Financial Accounts so no methodological sources of discrepancies exist. The main source of differences between Financial Accounts and b.o.p./i.i.p. statistics refers to the different scope of aggregation of the data: in short, b.o.p./i.i.p. statistics show positions and transactions vis-à-vis non-residents classified by function (e.g. portfolio investment, other investment, or reserve assets) and, within each function, by instrument. As explained above, the FA show data by instrument, with only a few items broken down by counterpart (short and long-term debt securities, and deposits), with respect to the central bank sector.

3. Differences between the FA statistics and the Eurosystem financial statements

The ECB also publishes accounting information in the form of (i) the consolidated weekly financial statement of the Eurosystem, (ii) the monthly disaggregated financial statement of the Eurosystem, and (iii) the annual consolidated balance sheet of the Eurosystem. However, as most accounting aggregates combine different instruments, a comparison with FA instrument data is difficult. Only few items can be compared, for example gold and gold receivables, receivables from the IMF and banknotes in circulation.

The measurement concept for equity value under the FA statistics (the so called “own funds” method) leads to a totally different value from that of the equity shown in Eurosytem's financial statements, as the former must follow statistical standards that aim to ensure international comparability and consistency across sectors, rather than to mirror the economic situation of an individual entity. As explained above, individual financial statements are the appropriate tool to assess the financial situation of an individual entity, while FA statistics are aimed to provide a macroeconomic perspective on financial interactions across institutional sectors.

The specific features of the Eurosystem financial statement as compared with BSI statistics are explained in a separate note, available on the ECB website. Most of the sources of differences with BSI statistics also apply vis-à-vis the FA statistics. In particular, differences in valuation and in the netting between certain assets and liabilities lead to different aggregates being presented. Similarly, some statistical entries reflect conceptual links, e.g. the recording of coins as a liability of the central bank even though they are, in practice, issued by the government in many countries; such entries are not recorded as liabilities in the central banks’ financial statements.