



**EU Twinning Project
IS12/ENP-APFI/o8**

**Support to the Israeli Central Bureau of Statistics
in the development of National Accounts, Education Statistics,
Survey Methodology, ICBS Website and
Coordination of Israel National Statistical System**

Component A
National Accounts

Sub-component
Financial Accounts

Activity A.5
Improvement of data sources for financial accounts

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Other annexes produced for the mission (external to the report)

Annex A5.4	The 2014 Revision of the Danish National Accounts (Katja Moller)
Annex A5.5	The Danish Business Register (Mathias Dybdahl)
Annex A5.6	Difficulties in evaluating unquoted shares and other equity (Katja Moller)
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List of Abbreviations

BC	Beneficiary Country (Israel)
BoI	Bank of Israel
CBS	Central Bureau of Statistics (Israel)
FISIM	Financial Intermediation Services Indirectly Measured
MS	Member State
OFI	Other Financial Intermediaries
SNA	System of National Accounts

1. General comments

This mission report was prepared within the EU Twinning Project between the Israeli Central Bureau of Statistics and Statistics Denmark. It was the third activity devoted to component A: National Accounts, the sub-component on Financial Accounts, Activity A.5: Improvement of data sources for financial accounts. The first two, the MS Expert mission A.4 and the study visit A.2, were conducted in May and August 2013, respectively.

The purpose of the A.5 activity was to prepare a detailed work plan for the development of financial accounts by SNA. In particular, the activity included a follow-up on work done on data sources for financial accounts, and an evaluation of alternative sources and methods, cf. the Terms of Reference (Annex A5.1).

The MS Experts believe that the CBS has done a very good job on the subjects agreed upon during the first activity. CBS have begun to have more cooperation with the Central Bank of Israel (BoI), and also done a lot of exercises to improve the calculations.

During the A.5 activity, the MS Experts and the CBS staff had discussions on various topics.

The MS Experts would like to express their thanks to all officials and individuals met for the kind support and valuable information which they received during the stay in Israel, and which highly facilitated their work.

The views and observations stated in this report are those of the MS Experts and do not necessarily correspond to the views of EU or Statistics Denmark.

2. Assessment and results

CBS gave an overview of the progress and improvements carried out since the last activities.

The CBS had written a paper about the importance of financial accounts and the data requests to the BoI, and this paper had been discussed between the CBS and BoI at a meeting in February 2014..

The CBS had implemented several of the methods discussed during the A.4 activity, cf. the A.4 mission report. These methods were discussed and reviewed.

Several additional methodological issues were discussed during the mission. The MS Experts presented some issues where Statistics Denmark has faced different problems and solutions to these problems.

During the first day of the mission, the BoI was also present. A lot of the data missing could only, or most logically, be obtained with help from the BoI. Furthermore, several issues regarding classification in the business register was discussed. For this part of the mission, representatives from the Business Register Division of CBS .

3. Conclusions and recommendations

3.1 Progress during the last year

The CBS and BoI have made a joint decision that it would be preferred to improve the balance sheet data by compiling more detailed data for securities with information on both the issuer and the holder. At the moment it is being discussed internally in BoI whether or not to include it in the work plan for 2015.

If it will not be included in the work plan for 2015, the CBS hopes to get at least a split of instruments regarding securities, separation of branches of Israel banks abroad and separation of loans denominated in foreign currency by industry. An alternative way of getting data would be by contacting the commercial banks either as a joint effort together with the BoI, which was talked about at the just mentioned meeting, or by the CBS alone.

The CBS have also been considering a survey on OFIs on a quarterly basis and to get more detailed data for the compilation of FISIM from the BoI.

All in all it seems that CBS and BoI have begun cooperating more which is important for the development of the financial accounts.

3.2 Improvements since the last activity

The CBS have implemented new calculations for revaluation of loans and deposits. Until now the calculations have been done on annual data. Now the calculations are done on quarterly data, and the CBS will even try to do it on a monthly basis. The MS Experts evaluate the new method to be a good improvement, and the CBS should try and use the same methodology on securities.

The method for the compilation of unquoted shares has also been improved by excluding the ones with the highest market value (the *Tel Aviv 25*). The MS Experts agree that excluding these is a good idea. The CBS has also done calculations on a quarterly basis. The CBS tried excluding more companies, and have used a liquidity discount of 5 per cent.

The Rest of World accounts are now fully used in the financial accounts.

The CBS now use more data from the stock exchange in order to compile transactions for quoted shares. The new method gives very different results comparing to the old one, which CBS should examine further before final conclusions are drawn.

The CBS now receive new data for local government, which can be used as an indicator for S.1313.

There are still a few remaining issues. The CBS still have some issues regarding revaluation of life insurance, data on employee stock options and improvement to the timeliness of financial accounts.

The MS Experts would like to acknowledge the improvements that the CBS has done during the last year.

3.3 Methodological issues and discussions

The new questionnaire from OECD regarding institutional investors was discussed. The case of provident funds seems quite unique to Israel. In the opinion of the MS Experts, these should be classified in the OFI-sector, since there is no life expectancy risk. The MS Experts recommend that the liability of the provident fund to households should be classified as other deposits (F.29) since it can be seen as a long term deposit. At the moment it is classified as insurance, pension and standard guarantees schemes F.6 by CBS.

In the new questionnaire from OECD a lot of new information about sector split and maturity split is asked for. In Denmark it hasn't been decided, yet, how detailed the questionnaire will be filled in, but it will probably not be more detailed than what is required from the Eurostat data transmission program. In general, the financial accounts are done first and then the questionnaire from OECD is filled out. No special calculations are done for the OECD questionnaire.

The new F.6 instruments and its sub-categories (insurance, pensions and standardized guarantee schemes) were discussed. The following table was presented by the MS Experts which is constructed by the insurance and pension expert of Statistics Denmark:

ESA95		ESA2010	
F.62	Prepay. Of ins. Premiums and reserves for outstanding claims	F.61	Non life insurance technical reserves
F.611	Net equity of households in life insurance reserves	F.62	Life insurance and annuity entitlements
F.612	Net equity of households in pension funds reserves	F.63+F.64+F.65	Pension entitlements, claims of pension funds on pension managers and entitlements to non-pension benefits
F.612	Net equity of households in pension funds reserves	F.63	Pension entitlements (1)
F.612	Net equity of households in pension funds reserves	F.64	Claims of pension funds on pension managers (1)
F.612	Net equity of households in pension funds reserves	F.65	Entitlements to non-pension benefits (1)
-	New	F.66	Provisions for calls under standardised guarantees

The grey don't exist in Denmark
(1) is voluntary

Especially F.66 was discussed. In Denmark, there are only two examples:

1. *Student loans guaranteed by the government*
2. Loans from the so-called "Eksportkreditfonden" to exporting companies

The CBS wasn't aware of any such schemes in Israel, but will give it a closer look. It was also discussed which sectors could have this as a liability. In Denmark, it exists for S.13 and S.128, but it is uncertain whether other sectors could have it.

It was discussed how to treat off-balance sheet credit. Example: the bank connects between the government and the household by transmitting credit from one to another. In the view of the MS Experts this shouldn't appear on the balance sheet (in the financial accounts) of the bank, but rather directly between government and households.

Part of the Twinning activity also involved meeting with experts from the Business Register who facilitated a lot of discussion about classification and especially holding companies versus head offices. In Denmark a threshold of 10 employees is used to decide whether it is one or the other, but it could be a different number in the case of Israel. It was also discussed how to decide whether an entity is a non-financial holding company or a financial holding company. This depends on which types of companies they hold. In Denmark the Business Register doesn't move entities without consulting the relevant subject matter unit within Statistics Denmark.

The output of insurance companies and pension funds was discussed. In Denmark it is calculated from the cost side, because when the ESA95 procedure is used, it leads to very volatile results, which doesn't seem to reflect reality. The MS Experts would send an e-mail with the information of which costs of the Danish insurance and pension funds that are included in Statistics Denmark's calculations. CBS will look at the possibilities of calculating the life insurance from the cost side.

It was discussed how to treat provision paid to managers of pension funds. The manager has a cost to compensate employees. The pension fund has a cost to a service provided by the manager. The households then buy/consume a service from the pension fund. This can be compared to buying a completely different service, for instance an accounting service.

Different ways of grossing up was also discussed. In Statistics Denmark balances or employees for the financial sector is used, while CBS uses revenue for grossing-up. The MS Experts recommend that CBS investigates whether another method can be used, because revenue for financial companies normally isn't the best indicator.

Ownership structure for unquoted shares was discussed. In Denmark, there is some information on this in the statistical Business Register. In CBS, this is not the case. The MS Experts recommend that maybe a one-off exercise could be done, looking at the annual reports where the ownership structure is sometimes stated. However, this is very time consuming. Earlier, Statistics Denmark used an approach like this where, every second year, the largest companies were analysed, and every five years a sample of the small companies were looked at.

It was also discussed, to do the calculations for the market value on unquoted shares by industry. CBS has the information but does not currently use it, but the MS Experts recommend that this should be pursued.

The possibility of calculating the transactions for unquoted shares as it is done in Denmark was discussed. This involves taking the difference in own funds from the end and beginning of the period and eliminating retained earnings. At the moment, CBS calculates revaluations by using the total return index and then residually calculate the transactions. The MS Experts recommend that CBS examine using the own funds method.

It was discussed whether the households can hold securities and shares directly or only through mutual funds, and it was included that they can indeed do both.

How to do the split between long and short term securities and loans was discussed. In Denmark the information comes directly from the securities statistics and MFI-statistics. The original maturity is always used.

It was discussed how to treat the interest arising from the difference between the redemption price and the issue price that has to be distributed over the years to the maturity of the bond. In the Danish securities statistics this will be reflected in balances and revaluations as the redemption date of the bond comes nearer. As the interest accruing should be seen as reinvested, Statistics Denmark has made adjustments to the transactions/revaluations which should match the distributed interest arising from the difference between the redemption price and the issue price. In practice, it is done by deducting the amount from revaluations and adding it to the transactions.

Example of how the non-financial and financial accounts should be connected:

A simple bond is issued at a price at 95 and ends at 100 in year 5. The interest rate is 5 per cent and the payment is once a year. This provides an effective interest rate of 6,458 pct. The debtor is assumed to hold 25 in cash from the beginning and the creditor holds 95.

	Debtor					Creditor				
	1	2	3	4	5	1	2	3	4	5
D.41 credit						0,000	6,135	6,209	6,287	6,370
D.41 debit	0,000	6,135	6,209	6,287	6,370					
B.9 non-financial	0,000	-6,135	-6,209	-6,287	-6,370	0,000	6,135	6,209	6,287	6,370
Ressources										
Primo	25,000	120,000	115,000	110,000	105,000	95,000	95,000	101,135	107,344	113,630
Transactions	95,000	-5,000	-5,000	-5,000	-105,000	0,000	6,135	6,209	6,287	6,370
Ultimo	120,000	115,000	110,000	105,000	0,000	95,000	101,135	107,344	113,630	120,000
Uses										
Primo	0,000	95,000	96,135	97,344	98,630	0,000	0,000	0,000	0,000	0,000
Transactions	95,000	1,135	1,209	1,287	-98,630	0,000	0,000	0,000	0,000	0,000
Ultimo	95,000	96,135	97,344	98,630	0,000	0,000	0,000	0,000	0,000	0,000
B.9 financial	0,000	-6,135	-6,209	-6,287	-6,370	0,000	6,135	6,209	6,287	6,370

It was discussed if there is a double registration of shares if for example Company A holds company B which holds company C. In the view of the MS Experts it should all be registered if all the companies are institutional units.

Calculation of FISIM for S.125 was discussed. In Denmark the information from the annual survey on finance companies is used, where the information about the loans and interest is received.

It was also discussed how to treat unfunded defined benefit schemes. In Denmark the Freiburg-model is used which Statistics Denmark has paid for. Another possibility is to get training by the World Bank which also costs money. The MS Experts promised to send material on the Freiburg-model to CBS.

4. Roadmap for 2014

BoI will by the end of May 2014 decide whether or not a project concerning the securities in custody will be done. This decision is crucial for the way forward for the CBS. If BoI decides to implement this project, the CBS should be able to get very detailed information about the securities.

If BoI decides not to implement the project, the CBS should try to contact the commercial banks directly together with BoI or alone to get at least some information.

Before the end of June the CBS should have a meeting with the BoI, where the following topics should be discussed:

- 1) Which direction the BoI will take regarding securities in custody and the way forward in this matter.
- 2) Split of the branches of Israeli banks abroad for the loans.
- 3) Interest rates or flow for FISIM calculations.

Before the end of December 2014 the CBS will have considered the topics discussed in this report as part of fulfilment of the Twinning project's mandatory result for the sub-component on Financial Accounts. Furthermore, a time plan for the actual implementation of the different initiatives in the coming years will be developed by CBS.

Annex A5.1 Terms of reference

Component A: National Accounts (sub-component on financial accounts)

Mandatory result of the sub-component

Preparation of detailed work plan for the development of financial accounts by SNA.

Activity A.5: Improvement of data sources for financial accounts

Subject / purpose of the A.5 activity

Follow-up on work done on data sources for financial accounts. Evaluation of alternatives sources and methods.

Expected output of the A.5 activity

Report with recommendations and work plans regarding the implementation of new data sources and methods for their treatment and integration into the financial accounts.

Annex A5.2 Agenda (meeting programme)

Date	Place	Time	Event
Mon 28/04	CBS	09:00	Welcome and acquaintance
		09:15	General presentation on National Accounts - Oz Shimony (ICBS)
		09:30	Progress made during the last year - Noemi Frisch Tsekhman (ICBS)
		10:00	Holocaust Remembrance Day siren (2 minutes siren)
		10:30	Coffee break
		11:00	SNA2008 / ESA2010 - Methodology and Implementation in Denmark (Statistics Denmark)
		12:30	Lunch
		13:30	Institutional Investors - Uri Barazani (BOI)
		14:30	Continuation - open discussion on issues related to new OECD questionnaire: data sources on transactions; calculation methods for instruments and sub-sectors; counter-part data
		15:30	End of day 1
		Tue 29/04	CBS
09:15	Continuation... - (Statistics Denmark) and discussion.		
09:30	Consultation on various topics (the different subjects will be sent separately).		
10:30	Coffee break		
11:00	Detailed review of the improvements made for the stocks and flows - Tehila Vintrov and Nitzan Shechter (ICBS)		
12:30	Lunch		
13:30	Ways of coping with incomplete information (Statistics Denmark)		
15:30	End of day 2		
Wed 30/04	CBS	09:00	Summary from day 1 and day 2
		09:15	Survey of Other Financial Intermediaries in Denmark (Statistics Denmark)
		09:45	Defined Benefit unfunded pension funds (Statistics Denmark)
		10:45	Coffee break
		11:15	Possible ways for developing financial account in accordance with the different scenarios
		12:30	Lunch
		13:30	Possible ways for developing financial account in accordance with the different scenarios (<i>continuation</i>)
		15:30	End of day 3
Thu 01/05	CBS	10:00	Summary from day 3
		10:15	Work plans – for the remainder of the Twinning project, and for the alternative options regarding the coming years' implementation
		12:00	Lunch
		13:00	Report writing and preparation for debriefing
		14:15	Debriefing (together with D.3)
		15:30	End of meeting

Annex A5.3 Persons met

Israeli Central Bureau of Statistics

Nitzan Shechter (Component Leader),

Oz Shimony, National Accounts Department, Senior Director

Avigail Levi, Business and Economy Department, Senior Director

Noemi Frish Tsekman, Tehila Wientraub, Esther Ohana, Tali Nogrion, Shachar Barasofsky,

Arkady Shnaider, Ronit Nissemboim, Galina Braverman

Bank of Israel

Uri Barazani, Economist

Yair Haim, Statistics Department