



**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.4
**Review on financial accounts
and their data sources**

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DRAFT 3



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List of Abbreviations

BC	Beneficiary Country (Israel)
CBS	Central Bureau of Statistics (Israel)
ESA	European System of Accounts
MS	Member State
OFI	Other Financial Intermediaries

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 first activity devoted to component A: National Accounts, the sub-component on Financial Accounts, Activity A.4: Review on financial accounts and their data sources.

The purpose of the A.4 activity was to make an assessment on the current situation, and to identify problems and how to solve these. Data sources were reviewed (how and from whom), and it was discussed how to improve the data sources with a particular focus on how data from commercial banks can be obtained.

The mission was the first out of two planned missions on this subject, where the next one is planned to be in January 2014.

The consultants believe that the CBS already has done a good job compiling a complete set of financial accounts for Israel. In cases where there is only little or no information, CBS have taken wise choices. In Statistics Denmark, the same type of choice is made. However, in the view of the consultants it would of course be a good idea to get more detailed data and CBS should work towards achieving this, but their current estimates are good.

The consultants 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 the work of the consultants.

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

2. Assessment and results

CBS gave an overall review of the financial accounts and the revaluation accounts by sector in Israel. A lot of the information for the flows is based on indirect information, and other information like the survey for the non-financial corporation sector has a relatively high time lack.

The first version of the Israeli financial accounts has already been sent to OECD.

The missing information was discussed in details, and several solutions for new possible sources were discussed. Especially to investigate the possibilities to get extra data from the Bank of Israel has high priority.

During the mission, the consultants presented the Danish financial accounts. Furthermore, a meeting was organized in the Bank of Israel in order to clarify the situation regarding the actual starting point regarding data for the financial accounts as well as possible additional data collection.

3. Conclusions and recommendations

3.1 Missing information

One of the areas where CBS has scarce or no information is on securities by sectors (shares, bonds etc.). So it would be important with more information on this. During the mission several options were discussed

- Getting more detailed data from the Bank of Israel which already collects some data from the commercial banks. The Bank of Israel could maybe make the banks report more detailed information. This detailed information could hopefully both contain a split between instruments and sectors, for example for the securities in custody. In order to make a sector split according to the SNA the banks would need the business register. At the moment this is not possible, so a sector split may not be quite according to the SNA but the banks are probably capable of splitting the household and corporations. CBS should work towards amending the legislation so the commercial banks can get the business register, maybe only on sector level.
- Getting more detailed data from the stock exchange. This would not cover the entire amount of securities, but would add some additional information. Especially about the holders.
- The CBS could approach the commercial banks in an informal way. Maybe this will not provide answers from all the banks but CBS could maybe get information to make useful estimates.
- The CBS could develop its own questionnaire for the households. Of course this could be very expensive, and ICBS should also be aware of the response burden. In Denmark, a survey about the wealth was made in the past. (the questionnaire will be send to the CBS).

It was discussed how the ICBS could get more information regarding employee stock options. ICBS could check if the business survey has information on this. Also the annual reports from the largest companies could be studied.

Getting more detailed information on other financial intermediaries (OFIs)

CBS suggested making a survey in order to get better data for OFIs (especially for quarterly data). Bank of Israel supported this idea. The staff from CBS should see what the options (and budget) are for doing such a survey. This could also be a topic for the next mission. Denmark does a survey for some OFIs.

It was discussed how CBS could obtain better financial accounts with the data already available. In Denmark several sources are often used for one instrument. An example is loans from the banks where the information from the Central Bank about the balances from the Central Bank is divided by sector and maturity. For the revaluation, Danish Financial Supervisory Authority provides a grand total, where after the sector split from the balances is used to divide the total between the different sectors.

An example where ICBS could use different sources is on securities.

CBS receives the total amount of securities from the "Supervisor of Banks - Information on the Banking Corporations" and uses a sector split from the banks based on information from the annual financial statements based on the banks segments. And finally information regarding the instrument split is obtained from data from the stock exchange.

It was discussed that often it is not necessary with data on both transactions and revaluations. This is due to the fact that normally balances are reliable. With either transactions or revaluations, one can residually calculate the other since other changes in volume often is zero. This method is often used in the Danish financial accounts.

In the case of securities the CBS has information on the transactions from the stock exchange and calculate revaluations using the appropriate return index. Since going from the opening stock to the closing stock should be the sum of revaluations and transactions (and other changes in volume) choosing either the transactions or revaluations will affect the other. The CBS should choose the data they find more accurate.

3.2 Methodological issues and discussions

The case of intercompany loans in the non-financial corporations sector was discussed. Statistics Denmark only has information on loans in the non-financial sector on a consolidated basis since the information is obtained from the banks, balance of payments and other financial intermediaries.. The topic has been discussed in the EU for the last couple of years. During the on-going revision of the Danish national accounts which will be finished in 2014, non-consolidated data for this sector on the total loans from the annual reports will be added. This information will be purchased from a private company which collects annual reports in Denmark.

Whether the provident funds should be located among other financial intermediaries or insurance and pension was discussed. In the consultants' opinion there is no collective element: when a member dies, all the money go to the heirs and not the other members of the fund. Furthermore, there is no risk pooling - what the employee (and the employer) pay is allocated directly to the employee's account in the fund. It is the view of the consultants that the money should be allocated among other financial intermediaries.

CBS informed that they have some different estimation methods in cases where data is delayed. A case is trade credits which are linked to the consumer price index (CPI). This is a good idea, but it could be analyzed how good a fit it is - or if better estimations methods can be found. One possible option is to use the evolvement of loans. This could be done by looking at time series and checking whether trade credits and for example loans develop in the same way.

The case of branches of Israeli commercial banks located abroad was discussed. If it is pure branches, these should be excluded from the Israeli financial accounts. This is a very tough task since branches are normally included in the figures from company. These can be hard to separate because often the only information is often little or none.

It was discussed that ICBS could try to make monthly estimates on revaluations on loans and deposits denominated in foreign currency and part of the securities in order to get more precise estimates. At the moment it is done on a yearly basis.

The current calculation of issued shares in the non-financial corporations was discussed. The consultants believe that the method applied by CBS is rather good but that it could maybe be improved. The calculation could be done on industry level since different industries are behaving different in the market. And maybe CBS could make a liquidity adjustment by excluding the most liquid assets from the stock exchange.

A discussion of the new split between holding corporations and head offices was taken. If a company has more than 10 employees or a turnover bigger than zero then the company is, by Statistics Denmark, classified as a head offices otherwise it is a holding company. But the consultants recommend that CBS read the report from the joint OECD/Eurostat/ECB task force on holding corporations, head offices and other SPEs.

Regarding transactions and revaluations in net equity of households in life insurance reserves and in pension funds reserves (F.61) it was discussed how these are calculated in Statistics Denmark. Statistics Denmark calculates the transactions as:

Premiums - benefits paid out + supplementary premiums – production value (which serves as a service fee for administrating the pension) – tax on pension.

Then revaluations are residually calculated.

4. Road map: work programme and time plan

In order to make improvements to financial accounts, it would be good if CBS could get the Bank of Israel to get more information from the banking sector. Since this is costly and a burden both for the Bank of Israel and the banking sector, CBS should make it very clear why the data is important. CBS should also support the data collecting process by allowing the banking sector the business register. If there is a data confidentiality problem then maybe the banks can get the business register not on industry but on sector level since this is less sensitive information. This is listed in the following points:

- 1) CBS should make a short summary from the meeting with the Bank of Israel during the mission. , where it is stated, what came out of the meeting. This should be done and send along with a letter of thank you to the Bank of Israel before 6 June 2013.
- 2) CBS should make a paper where the importance of reliable financial accounts is explained and that it is also a requirement from the OECD. The paper should further state, where CBS could have use of more detailed data and why these data are important for the further development and the quality of the financial accounts. Data that are not directly linked with financial accounts, but also important, could also be mentioned (for example the case of FISIM). It should be prioritized what data is more important. This draft report should be sent to MS experts from Denmark at August 15th the latest.
- 3) At the study visit by the end of August the draft report will be discussed. Afterwards the CBS should finalize the report.
- 4) The report should be send to the Bank of Israel. CBS will arrange a meeting in the fall to discuss the wishes and needs from CBS.
- 5) Before the next mission in January, CBS will make a note on what data that is likely to be obtained from the Bank of Israel.

It is important to stress that there is no guarantee that CBS can get the more detailed data that they wish. So until better data is available CBS should try and make even better estimates based on the data already available.

The CBS also wished for more detailed data on other financial intermediaries especially on a quarterly basis. The option for making a survey was discussed and it was agreed that CBS should look into whether this is obtainable taking the budget restraint and other factors into account. And maybe it could be a topic for the next mission.

Timeliness

At the moment CBS publishes the financial accounts a year after the reference year. The consultants believe it would be a good idea to look into if it is possible to speed up the compilation process. More timely statistics have more users, which could also facilitate the interest in providing better data. Of course one should bear in mind the trade-off between time and quality.

Annex A4.1. Terms of Reference

Mandatory result of the sub-component

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

Subject / purpose of the A.4 activity

Assessment on current situation, and identification on problems and how to solve these.

Review of data sources (how and from whom) and how to improve the data sources. Special focus on how data from commercial banks can be obtained; treatment of missing data.

Expected output of the A.4 activity

Recommendations regarding work plan for the acquisition of the data presently missing; recommendations on methods for treatment of missing data

Annex 2. Programme, 27-30 May 2013

Date	Place	Time	Event
Mon 27/5	ICBS	09:00	Introductory remarks to this part of component A
		09:15	BC: Overview of the complete system of financial accounts in Israel with focus on data sources and those parts of the system where improvements are asked for
		10:30	Coffee break
		11:00	MS: EU regulations on financial accounts
		12:00	Lunch break
		13:15	MS: Financial accounts in Denmark – the organisation of the work and the data sources
		14:30	Coffee break
		15:00	Workshop: Comparison of data sources and methodologies in Israel and Denmark
		16:30	Preliminary conclusions regarding the methodology with respect to the development of the financial accounts
Tue 28/5	ICBS	09:00	Workshop: Methods for dealing with missing data and other methodological issues.
		10:30	Coffee break
		11:00	Workshop: Preparation of the meeting with the Bank of Israel
		12:00	Lunch break
	Ministry of Foreign Affairs	13:30	Opening Ceremony of the Twinning Project
Wed 29/5	Bank of Israel	09:30	Seminar: Cooperation between the Central Bank and the National Statistical Office
			ICBS and BoI: Presentation of current level of cooperation
			MS: The division of labour and cooperation between Danmarks Nationalbank and Statistics Denmark
			Discussion: What data are generally needed for high quality financial accounts, and how can these data most easily be captured?
			Conclusions: The way forward for the financial accounts in Israel
	ICBS	12:00	Lunch break
		13:30	Work-shop: Follow up on the meeting with Bank of Israel
		14:30	Coffee break
Thu 30/5	ICBS	09:00	Ad-hoc and hands-on meetings: Wrapping up on methodological issues
		10:30	Coffee break
		10:45	Workshop: Agreement on recommendations and time plan
		12:00	Lunch
		13:15	Report writing and preparations for debriefing
		15:00	Debriefing with BC Project Leader: Recommendations, timeplan and implied work programme for BC

Annex A4.3. Persons met

From the Central Bureau of Statistics:

Noemi Frish Tsekhman, Senior Director, National Accounts
Nitzan Shechter, Director, Fixed Capital Formation and National Balance Sheets
Oz Shimony, Director, Macroeconomic Statistics
Galina Seleznev
Tali Nogrian
Ester Ohana, Senior Supervisor, GDP by Industry and Inventories
Pablo Mandler
Ronit Nissimbaom
Rivka Cohen
Miri Ben-Tulila
Yael Yasman
Natalia Miskevitch
Tehila Vintrov, Senior Supervisor, Fixed Capital Formation and National Balance Sheets

From the Bank of Israel:

Tsahi Frankovits, Head of Information and Statistics Department
Gaby Fiszman, Head of Statistics Division, Information and Statistics Department
Arad May, Head of Information and Reporting Unit, Banking Supervision Department
Shelly Reiss, Head of Financial Sector Unit, Information & Statistics Department
Avigdor Levy, Senior Economist, Financial Sector Unit, Information & Statistics Department
Amir Khatib, Economist, Forex Market Unit, Statistics Division
Maayan Kellerman, Economist, Capital Market unit, Information & Statistics Department
Liran Kalif, Economist, Capital Market Unit, Information & Statistics Department