3 Institutional Units and Sectors

I. Introduction

3.1 Chapter 3 identifies institutional units and groups them into institutional sectors based on their economic objectives, functions, and behavior. The chapter focuses on the role of institutional units as holders and issuers of financial assets and the classification and sectoring of their accounts for compiling monetary and financial statistics. The definition of institutional units and their classification into sectors follow closely the *System of National Accounts 2008* (*2008 SNA*), the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*), and the *Government Finance Statistics Manual 2014* (*GFSM 2014*). In addition, this chapter expands on issues that are relevant for compilers of monetary statistics and discusses special cases where sectoring is not straightforward.

3.2 The chapter first presents the concept and characteristics of institutional units, and the two main types of units that may qualify as institutional units. The chapter focuses then on the concept of residence, which is used to establish the economic boundary for compiling monetary and financial statistics, determining the foreign/domestic breakdown of assets and liabilities of the financial corporations (FCs). Finally, the classification of resident institutional units into institutional sectors and subsectors allows the presentation of the FCs' claims on and liabilities to the different sectors of the domestic economy. This sectoring is one of the foundations for constructing the analytical aggregates on broad money and credit described in Chapter 6.

II. Institutional Units

3.3 ***An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities.***

3.4 The following are the four main attributes of institutional units: (1) they are entitled to own goods or assets in their own right; (2) they are able to take economic decisions and engage in economic activities; (3) they are able to incur liabilities on their own behalf; and (4) they either have a complete set of accounts, including a balance sheet of assets and liabilities, or it would be possible and meaningful to compile such a set of accounts, if required.

3.5 Institutional units, as owners of financial assets and issuers of liabilities, constitute the structural building blocks for monetary and financial statistics. They own financial assets and incur liabilities.

3.6 Two main types of units may qualify as institutional units: persons or group of persons in the form of households, and legal or social entities.

A. Households

3.7 ***A household is a group of persons who share the same living accommodation, pool some, or all, of their income and wealth, and consume certain types of goods and services collectively, mainly housing and food.***

3.8 A household may consist of an individual or more than one person. Special cases of groups of persons who stay together for a very long or indefinite period of time (institutional households) are described in the section on institutional sectors (see paragraph 3.262).

3.9 Many assets are owned, or liabilities incurred, jointly by two or more members of the same household, while the income of individuals may be pooled for the benefit of all members. Many expenditure decisions, especially those relating to the consumption of food, or housing, may be made collectively for the household as a whole. It is meaningful to compile transactions accounts or balance sheets for the entire household unit, and not for individuals belonging to the same household. The individual members of multi-person households are not, therefore, treated as separate institutional units, but the household as a whole is treated as one institutional unit.

3.10 Production activities undertaken by households—such as production and selling of goods and services—are treated as an integral part of the households, unless legal or social entities are created separately from the households, such as those that satisfy the criteria to be considered quasi-corporations (see paragraphs 3.18–3.20).

B. Legal or Social Entities

3.11 The second type of institutional unit is a legal or social entity that engages in economic activities and transactions in its own right. ***A legal or social entity is one whose existence is recognized by law or society independently of the persons, or other entities, that may own or control it.*** Such units are responsible and accountable for the economic decisions or actions they take, although their autonomy may be constrained to some extent by other institutional units.

3.12 Three categories of legal or social entities constituting institutional units can be identified: (1) corporations, (2) nonprofit institutions (NPIs), and (3) government units. The status of an institutional unit cannot always be inferred from its name, and it is necessary to examine its economic objectives, functions, and behavior.

Corporations

3.13 ***Corporations are entities capable of generating a profit or other financial gain for their owners, are recognized by law as separate legal entities from their owners, and are set up for purposes of engaging in market production.*** In macroeconomic statistics, the term *corporation* is used more broadly than in just a legal sense. It covers legally constituted corporations, but also includes cooperatives, limited liability partnerships, notional resident units, and quasi-corporations. The key to classifying a unit as a corporation in macroeconomic statistics is not its legal status but rather the economic nature of the entity.

Types of corporations

Legally constituted corporations

3.14 ***A legally constituted corporation is a legal entity, created for the purpose of producing goods or services for the market, which may be a source of profit or other financial gain to its owner(s). It is collectively owned by shareholders who have the authority to appoint directors responsible for its general management.***

3.15 In macroeconomic statistics, the term *corporation* is not necessarily used in the same way as in the legal sense. Some NPIs and government units have the legal status of a corporation but are not considered corporations for the purposes of macroeconomic statistics. The key to classifying a unit as a corporation in macroeconomic statistics is the notion of being a market producer. Of particular importance is the characteristic to produce goods and services for the market at economically significant prices, as explained in paragraph 3.42, as well as the potential to be a source of profit or other financial gain to the owner(s).

Cooperatives, partnerships, etc.

3.16 Cooperatives are set up by producers for purposes of marketing their collective output. The profits of such cooperatives are distributed in accordance with their agreed rules and not necessarily in proportion to shares held, but effectively they operate like corporations.

3.17 Partnerships whose members enjoy limited liability, or not, are separate legal entities that behave like corporations. In effect, the partners are at the same time both shareholders and managers.

Quasi-corporations

3.18 ***Quasi-corporations are unincorporated enterprises that function in all (or almost all) respects as if they were incorporated.*** For purposes of sectoring and subsectoring, they are treated as institutional units (corporations) separate from the units that own them.

3.19 For a quasi-corporation to exist, it must be possible to develop a full set of accounts, including balance sheets, to distinguish it from its owners. The business-related assets and liabilities of the quasi-corporation must be separate from the personal assets and liabilities of its owners. Moreover, it must be possible to identify flows of capital and income occurring between the quasi-corporation and its owners. The intent is to separate from their owners those unincorporated enterprises that are sufficiently self-contained and independent that they behave in the same way as corporations.

Included are unincorporated enterprises owned by a nonresident institutional unit that is deemed to be a resident institutional unit because it engages in a significant amount of production in the economic territory over a long or indefinite period of time.

3.20 The three main kinds of quasi-corporations are: (1) unincorporated enterprises owned by government units engaged in market production and operated in a similar way as publicly owned corporations; (2) unincorporated enterprises, including unincorporated partnerships or trusts, owned by households that are operated as if they were privately owned corporations; and (3) unincorporated enterprises that belong to institutional units resident abroad, referred to as "branches."

Ownership and control of corporations

3.21 ***Control of a corporation is the ability to determine the general corporate policy of the corporation.*** The ownership of a listed corporation is diffused among the institutional units that own its shares. An institutional unit owning more than a half of the voting shares, or equity, of a corporation is able to control its policy and operations. There may be exceptional cases in which certain shareholders enjoy privileged voting rights, such as a "golden share" giving a right to veto. Effective control may also be exercised with less than 50 percent ownership, depending on the corporation's structure and the diffusion of ownership. However, it is not possible to stipulate a minimum below 50 percent that will guarantee control in all cases.[1]

Subsidiary and associate corporations

3.22 ***A corporation is a subsidiary of another corporation when the latter is able to exercise control over the former either by control of more than half of the shareholders' voting power or the right to appoint or remove a majority of the directors.***

3.23 ***A corporation is an associate of another corporation when the latter is able to exercise a significant degree of influence over the former, but not control.***

Groups of corporations

3.24 Large groups of corporations, or *conglomerates*, may be created whereby a parent corporation controls several subsidiaries, some of which may control subsidiaries of their own. Even if for certain purposes it may be desirable to have information on the group as a whole, each individual corporation should be treated as a separate institutional unit. Conglomerates owning subsidiaries or branches in other countries are usually described as multinational corporations.

Government control of corporations

3.25 ***A corporation is a public corporation if a government unit, another public corporation, or some combination of government units and public corporations control the entity.*** The ability to determine general corporate policy does not necessarily include the direct control of the day-to-day activities or operations of a particular corporation.

3.26 In determining control by government,[2] the following indicators will be the most important factors to consider: (1) ownership of the majority of the voting interest; (2) control of the board or other governing body; (3) control of the appointment and removal of key personnel; (4) control of key committees of the entity; (5) golden shares and options; (6) regulation and control; (7) control by a dominant public sector customer or group of public sector customers; and (8) control attached to borrowing from the government.

Control by a nonresident unit

3.27 In general, a nonresident unit controls a resident corporation if the nonresident unit owns more than 50 percent of the equity of the corporation. Branches of nonresident corporations are always under foreign control. Control may also be possible with a holding of less than half the equity if the nonresident unit can exercise some of the powers described in the previous paragraph indicating possible control.

Special cases

Head offices and holding companies[3]

3.28 Two different types of units exist that are often referred to as holding companies.

[1] For exceptional cases where control of a corporation can be achieved with less than half of the voting power, see *2008 SNA*, paragraphs 4.69–4.71.

[2] For more details, see *GFSM 2014*, Box 2.2, Government Control of Corporations.

[3] For the definition and delineation of head offices and holding companies, see the European Central Bank's and United Nations' handbook on *Financial Production, Flows and Stocks in the System of National Accounts*, Box 2.1 and Box 2.2.

3.29 The first is the head office that exercises some aspects of managerial control over its subsidiaries. These may sometimes have noticeably fewer employees, and more at a senior level, than its subsidiaries. These units are allocated to the nonfinancial corporations (NFCs) sector, unless all or most of their subsidiaries are FCs, in which case they are treated by convention as financial auxiliaries.

3.30 The type of unit properly called a holding company is a unit that holds the assets of subsidiary corporations but does not undertake any management activities. These units are captive financial institutions and are always allocated to the FCs sector, even if all the subsidiary corporations are NFCs.

Special purpose entities (SPEs)

3.31 SPEs are typically created to carry out a single, well-defined specific activity. Usually, they are created to raise funds in open markets to be used by their parent corporations or government, hold and manage wealth for individuals or families, and/or issue debt securities on behalf of related companies or government units. Although there is no common definition of SPEs, they share some of the characteristics described below.

3.32 Often, SPEs have no employees and no or very little nonfinancial assets, and are sometimes referred to as "brass plate companies," or "shell companies." They may have little physical presence beyond a "brass plate" confirming their place of registration. They are always related to another corporation or government unit, and are often resident in a territory other than the territory of residence of the related corporation or government unit. In the absence of any physical dimension to an enterprise, their residence is determined by the territory of incorporation or registration.

3.33 SPEs are commonly managed by employees of another corporation or government unit, which may or may not be a related one. The unit pays fees for services rendered to it and in turn charges its parent or other related corporation a fee to cover these costs.

3.34 Independent of the specific characteristics and denominations, units described as SPEs are allocated to sector and industry according to its principal activity, unless they fall into one of these three categories: (1) captive financial institutions; (2) artificial subsidiaries of corporations; and (3) special purpose units of general government.

3.35 A resident SPE that raises funds in open markets to be used by its parent corporation is one example of a *captive financial institution* (see also paragraph 3.186). Another example of a SPEs is a holding company that simply holds the assets (owning controlling-levels of equity) of its subsidiaries and whose principal activity is to own the group (see paragraphs 3.30 and 3.182). Other units also treated as captive financial institutions are units with characteristics of SPEs used for holding and managing wealth for individuals or families and issuing debt securities on behalf of related companies.

3.36 Artificial subsidiaries of corporations are legal entities that cannot act independently and are simply passive holders of assets and liabilities. A subsidiary corporation, wholly owned by a parent corporation, may be created to provide services to the parent corporation or other corporations in the same group, often for tax purposes or to minimize liabilities in the event of bankruptcy. In general, these corporations do not satisfy the criteria to be institutional units. They are thus not treated as separate institutional units, but as an integral part of the parent corporation or government unit, and their accounts are consolidated with those of the parent's unless they are resident in an economy different from that where the parent is resident. All nonresident artificial subsidiaries are treated as separate institutional units resident in the economy where they are established.

3.37 A distinction must be made between artificial subsidiaries and a unit undertaking only ancillary activities, which are limited in scope to the type of service functions that virtually all enterprises need to some extent (cleaning premises, running staff payroll, etc.). Like artificial subsidiaries, units undertaking only ancillary activities will in general not satisfy the condition of being an institutional unit.

3.38 General government may also set up units with characteristics and functions of artificial subsidiaries. Often, such special purpose units of general government (see also paragraphs 3.241–3.243) do not have the power to act independently, are restricted in the range of transactions they can engage in, and do not bear the risks and rewards associated with the management of the assets they hold. These units do not satisfy the criteria to be an institutional unit in macroeconomic statistics. If they are resident units, they are treated as an integral part of the general government subsector that has established them and not as separate units. If they are nonresident, they are treated as separate institutional units resident in the economy where they are established, but the fiscal activities they carry out are reflected in the accounts of the government that controls them.

Nonprofit institutions (NPIs)

3.39 ***NPIs are legal or social entities created for the purpose of producing or distributing goods and services, but they cannot be a source of income, profit, or other financial gain for the institutional units that establish, control, or finance them.***

3.40 The motives leading other institutional units—whether households, corporations, or government—to create NPIs include: (1) to provide services for the benefit of the households or corporations that control or finance them; (2) to provide goods or services to other persons in need for charitable, philanthropic, or welfare reasons; (3) to provide health or education services for a fee, but not for profit; and (4) to promote the interest of pressure groups in business or politics.

3.41 The distinction between NPIs engaged in market production and NPIs engaged in nonmarket production is used in determining the sector of the economy where an NPI is classified.

NPIs engaged in market production

3.42 Although they are not a source of profit to other institutional units, NPIs can be market producers if they provide services for which they charge economically significant prices. ***Economically significant prices are prices that have a significant effect on the amounts that producers are willing to supply and on the amounts purchasers wish to buy.***[4] NPIs engaged in market production sell their output at prices that are economically significant, but any surpluses generated cannot be appropriated by other institutional units, including those that control or manage them.

3.43 NPIs engaged in market production are classified as corporations. Schools, colleges, universities, clinics, or hospitals constituted as NPIs are market producers when they charge fees for their services that are based on production costs and are economically significant. Also treated as market producers are NPIs that, because of their status, are able to raise additional funds from donations by households, corporations, or governments, but still charge economically significant prices for their goods and services.

3.44 Other market NPIs restrict their activities to serving a particular subset of other market producers. Such NPIs are created by associations of the enterprises whose interests they promote. They include chambers of commerce, agricultural, manufacturing, or trade associations, employers' organizations, research and testing laboratories, or other organizations or institutes engaged in activities that are of mutual interest or benefit to the group of businesses that control and finance them. These NPIs are financed by contributions or subscriptions from the group of enterprises concerned. The subscriptions are treated not as transfers but as payments for services rendered and these NPIs are, therefore, classified as market producers (corporations).

NPIs engaged in nonmarket production

3.45 The majority of NPIs in most countries are nonmarket producers that provide most of their output free or at prices that are not economically significant. NPIs engaged mainly in nonmarket production fall into two main groups: (1) those NPIs controlled by government; and (2) those NPIs that are not. The latter group is the NPIs serving households (NPISHs) which constitute a separate sector of the economy.

3.46 Nonmarket NPIs that are controlled by government are included in the general government sector. NPIs are considered to be controlled by government[5] when: (1) the government has the right to appoint the officers managing the NPI; (2) other provisions exist enabling the government to determine significant aspects of the policy or program of the NPI; (3) a contractual agreement exists between a government and an NPI allowing the government to determine key aspects of the NPI's general policy; (4) an NPI is financed mainly by the government; or (5) a government is exposed to all, or a large proportion of, the financial risks associated with the NPI's activities.

[4] For a more detailed discussion of economically significant prices, see paragraphs 3.206–3.210.

[5] For more details, see *GFSM 2014*, Box 2.1, Government Control of Nonprofit Institutions.

3.47 Such government-controlled NPIs may engage in research and development, for example, for the benefit of producers, such as farmers. They may also be concerned with the setting or maintenance of standards for health, safety, the environment, accounting, finance, education, etc. Government-controlled NPIs are allocated to the general government sector, regardless of the types of institutional units that mainly benefit from their activities. Certain entities legally constituted as corporations by government units may have the characteristics of nonmarket NPIs controlled and mainly financed by government. Such entities should be treated as general government units whatever their names.

3.48 NPISHs consist of nonmarket NPIs that are not controlled by government. They provide goods and services to households free or at prices that are not economically significant.

Government units

3.49 Government units are unique kinds of legal entities established by political processes that have legislative, judicial, or executive authority over other institutional units within a given area. Their principal economic functions are to: (1) assume responsibility for the provision of goods and services to the community or individual households primarily on a nonmarket basis; (2) redistribute income and wealth by means of transfer payments; (3) engage primarily in nonmarket production; and (4) finance their activities primarily out of taxation or other compulsory transfers.

3.50 Government units may control unincorporated enterprises engaged in the production of market goods and services. If these enterprises are managed in a way similar to a corporation, with their own set of accounts, they are treated as quasi-corporations. Unincorporated enterprises owned by a government unit that are not quasi-corporations remain an integral part of these units and so are included in the general government sector.

III. Residence

3.51 The concept and coverage of residence for monetary and financial statistics are identical to those in the *2008 SNA* and *BPM6*. The delineation between resident and nonresident units facilitates the estimation of the external position of the FCs sector. The key concepts for defining the residence of an institutional unit are *economic territory* and *center of predominant economic interest*. Residence is not based on nationality of the account holder, nor on the currency of denomination of accounts.

A. Economic Territory

3.52 An economic territory can be any geographic area or jurisdiction for which statistics are required. The most commonly used concept of economic territory is the area under the effective economic control of a single government. It includes special zones.[6] The connection of entities to a particular economic territory is determined from aspects such as physical presence and being subject to the jurisdiction of the government of the territory. Economic territory may be larger or smaller than the physical or political borders of a country, for example a currency or economic union, or part of a country.

3.53 The economic territory includes: (1) the land area; (2) airspace; (3) territorial waters, including areas over which jurisdiction is exercised over fishing rights and rights to fuel or minerals; (4) in maritime territory, islands that belong to the territory; and (5) territorial enclaves in the rest of the world, such as embassies, consulates, military bases, scientific stations, information and immigration offices, aid agencies, and central bank representative offices with diplomatic status.

3.54 Economic territory has the dimensions of physical location, as well as legal jurisdiction, so that corporations created under the law are part of that economy. The concepts of economic territory and residence are designed to ensure that each institutional unit is a resident in one economic territory, determined by its center of predominant economic interest. Exceptions may be made for multi-territory enterprises, as explained later in this chapter.

B. Residence of Institutional Units

3.55 ***The residence of each institutional unit is the economic territory with which it has the strongest connection, expressed as its center of predominant economic interest.***

3.56 An institutional unit has a center of predominant economic interest in an economic territory when there

[6] For the government's own statistical needs, data on activities in these zones may be excluded or shown separately.

exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. Actual or intended location for one year or more is used as an operational definition. Although the choice of a specific period of time is somewhat arbitrary, it is adopted in *BPM6* (see paragraph 4.114) to avoid uncertainty and facilitate international consistency.

Resident units

3.57 ***An institutional unit is considered a resident of an economy if it has already engaged in economic activities and transactions on a significant scale in the territory for one year or more, or if it intends to do so.***

3.58 A household is a resident in the economic territory in which the household members maintain or intend to maintain a dwelling or succession of dwellings treated and used by members of the household as their principal dwelling. The residence of individual persons is determined by that of the household of which they form part and not by their place of work. All members of the same household have the same residence as the household itself, even though they may cross borders to work or otherwise spend periods of time abroad (see also paragraphs 3.62–3.63).

3.59 Corporations and NPIs usually may be expected to have a center of predominant economic interest in the economy in which they are legally constituted and registered. Corporations may be resident in economies different from their shareholders, and subsidiaries may be resident in different economies from their parent corporations. As a general principle, an enterprise is resident in an economic territory when it is engaged in a significant amount of production of goods or services from a location in the territory. They must maintain at least one production establishment in the territory and plan to operate it indefinitely or over a long period of time (usually one year or more). Additional factors to consider are the maintenance of a set of accounts covering local productive activities, and being subject to the income tax system in the economy in which it is located. Unincorporated enterprises that are not quasi-corporations are not separate institutional units from their owners and, therefore, have the same residence as their owners. When a nonresident unit has substantial operations over a significant period in an economic territory, but no separate legal entity for those operations, a branch may be identified as an institutional unit.

3.60 When a nonresident has ownership of immovable assets such as land, structures, or natural resources other than land, the assets are deemed to be owned by a notional resident institutional unit in the economy of location. All land, structures, and natural resources other than land are, therefore, owned by residents. The legal owner is deemed to hold equivalent equity in the notional resident unit.

3.61 Apart from these general definitions, there are special cases in which individuals or institutional units should be considered residents of the territory, and their accounts with FCs incorporated in the domestic assets and liabilities of those FCs.

Cross-border workers

3.62 Individuals who cross international borders to work remain residents of their home territories. In some cases, these workers regularly cross the frontier (daily or weekly) to work in a neighboring country. Also included as residents in home countries are seasonal workers, who cross the border for particular periods, such as the harvest or tourist season to attend a place of employment and then return to their households. Other short-term employment may occur for a particular task, such as construction projects, repairs, delivery of advice, and so on. In each case, the residence of the concerned person is based on the principal dwelling, rather than the territory of employment.

3.63 If these workers engage in substantial and sustained economic activity abroad; earn income, consume, and maintain regular residence abroad; and return only briefly or infrequently to their original household, they cease to be considered a member of the household in their home territory and, therefore, are no longer resident in the economy where the household is located. In this case, these individuals have a center of predominant economic interest where they work and consume.

Highly mobile individuals

3.64 Some individuals have close connections with two or more territories; they may have dwellings in more than one territory where they spend a significant amount of time. For individuals who do not have continuous actual or intended presence in any one territory for one year, the territory of the principal dwelling they maintain is the key consideration.

Staff of international organizations and technical assistance personnel

3.65 Although international organizations (see paragraph 3.98) are, by definition, resident in an economic territory of their own (that is, nonresidents of the country where they are physically located), employees of these organizations are residents of the local economies where they have their principal dwelling.

3.66 Technical assistance personnel on long-term (more than one year) assignment should be treated as residents of the countries where they work. Employees of international organizations on long-term assignment in a country different from the location of the headquarters of the organization are residents of the country where they perform their duties. If the assignment is shorter than one year, they are considered residents of the economy in which they reside on a longer-term basis.

Locally recruited staff of diplomatic representations

3.67 Locally recruited staff of embassies and other diplomatic representations continue to have their center of predominant economic interest in the country where they live and in which the embassy (or representation) is located.

Crew members of ships, aircrafts, or similar equipment

3.68 Crew members of ships, aircrafts, oil rigs, space stations, or other similar equipment that operate outside a territory or across several territories continue to be residents of the economies where they have their principal dwelling (even if they are outside their home-base territory for long periods of time) and not of the economies in which they stop or layover but are not living.

Refugees

3.69 The residence of refugees will change from their home territory to the territory of refuge, if they have stayed or intend to stay in their place of refuge for one year or more, even if that residence is involuntary or transient, and its future status is unclear.

General government

3.70 General government includes territorial enclaves, such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, and other enclaves of governments in host territories with diplomatic status. Usually, these operations are not separate institutional units, but even if they were, they are residents of their home territory, rather than the host territory where they are physically located. However, an entity created by a government under the laws and jurisdiction of the host territory is a corporation resident in the host economy and not part of the general government sector in either economy.

Subsidiaries or branches of multinational conglomerates

3.71 Subsidiaries of a multinational corporation should be treated as units separate from the parent company, because they meet the definition of an institutional unit and, therefore, are residents of the economy where they operate. Branches of a multinational corporation should be treated as units separate from the parent company when resident in another economy.

Construction projects

3.72 Construction companies operating in a foreign territory (for instance, for the construction of major projects like roads or dams) may be managed through a branch or local office in the economy where the project is undertaken. Although the branch or local office may have no separate legal identity, it may, nevertheless, be treated as a quasi-corporation and resident of the territory where the project is located. This is applicable particularly to large-scale projects with completion times of several years.

3.73 If the construction project will be finished in less than a year, the construction operations may not satisfy the conditions for recognition as a branch. Consequently, the accounts of the local office should be recorded as accounts of nonresidents for the territory where the project is located.

Units operating mobile equipment

3.74 Mobile equipment can consist of ships, aircrafts, drilling rigs and platforms, railway rolling stock, etc. The same principles of the residence of an enterprise must be applied to an enterprise operating mobile equipment outside the economic territory where the enterprise is a resident. If the operations take place in international waters or airspace, the unit has a predominant center of economic interest where the operator maintains the base of its operations. If operations take place in another economy outside of the home base and are substantial enough to meet the criteria to be classified as a branch, then the branch is considered a resident in the host economy.[7] Otherwise, production is attributed to the home base of the operator.

Offshore enterprises, offshore banks, and offshore financial centers

3.75 Sometimes a government has a separate physical or legal zone that is under its control, but to which, to some degree, separate laws are applied, such as free trade zones or offshore financial centers. These special zones are part of the economic territory under the control of the government and consequently the enterprises located there are treated as resident units of that economic territory.

3.76 Offshore units engaged in manufacturing processes (including assembly of components manufactured elsewhere) are residents of the economies in which the offshore enterprises are located. This treatment applies even if the units are located in special zones exempted from custom duties or regulations (free trade zones).

3.77 Similarly, offshore banks, which engage exclusively (or almost exclusively) in transactions with nonresidents, are still considered residents of the country where they are incorporated or registered.

3.78 Offshore financial centers are jurisdictions in which the majority of the financial transactions are entered into by FCs located therein and are on behalf of clients who reside outside the offshore financial center. Offshore financial centers have adapted to increased competition resulting from liberalization of financial regulations in advanced economies and account for a significant share of global financial flows. Offshore financial centers should compile data for all corporations incorporated or registered in their jurisdictions.

Pension funds of international organizations

3.79 Separately constituted pension funds of international organizations are not treated as international organizations, but regarded as FCs. They are residents of the economic territory in which they are located or, lacking a physical presence, residents of the economy where they are incorporated or registered.

Ancillary corporations, holding corporations, and special purpose entities

3.80 Domestic ancillaries are treated as an integral part of the parent corporation, rather than as separate institutional units. Ancillary corporations located in a country different from their parent corporations are, however, treated as separate units, and considered residents of the country in which they are legally established.

3.81 Holding corporations and SPEs are often constituted outside the country where their parent unit resides, either for tax purposes or because of legal or accounting considerations. Even if these holding corporations and SPEs are bare trustees, not bearing any market or credit risk, they are treated as separate institutional units and considered residents of the economic territory where they are incorporated or registered.

Nonprofit institutions

3.82 An NPI is a resident of the country under whose laws and regulations it was created and in which its existence as a legal or social entity is officially recognized and recorded. When an NPI engages in charity or relief work on an international scale, it is necessary to specify the residence of any branches it may maintain in dispensing relief in individual territories. If an NPI maintains a branch or unit for one year or more in a particular country, that branch or unit should be considered a resident of that economy.

Currency union central banks

3.83 A currency union central bank (CUCB) is a regional financial institution that acts as a central

[7] See also *BPM6*, paragraphs 4.27–4.28 and 4.31.

bank for the member countries of a currency union. The CUCB is an institutional unit in its own right, owning assets and liabilities on its own account. The CUCB is nonresident of any currency union economy, but when compiling monetary statistics for the entire currency union, the CUCB is a resident institutional unit of the union. More detailed information on CUCBs is provided later in this chapter (see paragraphs 3.119–3.122).

Multiterritory enterprises

3.84 Some enterprises may operate as a seamless operation over more than one economic territory. Although the enterprise has substantial activity in more than one economic territory, it is run with no separate accounts and no separate branches can be identified.

3.85 Particular cases of multiterritory enterprises are binational (or multinational) public entities established to construct and operate hydroelectric projects on river borders, bridges, tunnels, or undersea cables that cross borders. Such enterprises may also include shipping lines, airlines, or pipelines.

3.86 Governments usually require separate entities or branches to be identified in each economic territory, but multiterritory enterprises may be exempted from such requirements. In the case of multiterritory enterprises, it is preferable that separate institutional units are identified for each economy. If that is not feasible, it is necessary to prorate the total operations of the enterprise into the individual economic territories. The factor used for prorating should be based on available information that reflects the contributions to actual operations, such as equity shares, equal splits, wages, or tonnage.

Nonresident units

3.87 ***Institutional units that have their center of predominant economic interest outside the economic territory are nonresidents.*** Their accounts are recorded as part of foreign assets or foreign liabilities of the resident FCs, irrespective of the nationality of the account holder and of the currency of denomination of the accounts.

3.88 In addition to cases in which it is easy to identify the accounts of nonresidents, there are several cases in which it is not clear-cut that the account holder is a nonresident of the economy, as discussed in the remainder of this section.

Migrant workers

3.89 Migrant workers that earn income, consume, and maintain their principal dwelling abroad for one year or more and who return only briefly or infrequently to their original households are no longer considered part of the household in their home economy but rather are residents of the economy where they work, as this is where they have a predominant center of economic interest. Even if individuals continue to be employed and paid by an enterprise that is resident in their home economy, those persons should be treated as residents of the host economy where they maintain their principal dwelling continuously for one year or more, as the principal dwelling determines their center of predominant economic interest.

3.90 Very often, migrant workers maintain deposit accounts in their country of origin (home economy) for savings purposes or to have access to funds when they visit their country. Accounts of migrant workers should be reported as nonresident accounts and, therefore, as foreign liabilities of the depository corporations (DCs) subsector in their home country. Similarly, any loan granted to a migrant worker in his or her country of origin should be reported as a loan to a nonresident. For DCs, it is often difficult to identify accounts of migrant workers as nonresident accounts, because they are opened by providing a national identification and a national address. In countries with a substantial proportion of their population who live and work abroad, special instructions should be issued to DCs with a view to identifying the accounts of migrant workers.

3.91 If the account opened by a migrant worker in the home economy is a joint account with a resident of that economy, or if the account holder authorizes a resident of the home economy to withdraw funds from such an account, then the account should be considered as belonging to a resident and should be reported under domestic liabilities.

Students

3.92 People who go abroad for full-time study generally continue to be resident in the economy in which they were resident prior to studying abroad, even though their course of study may exceed one year. Accounts that they open with FCs in the economy where they study should be reported, therefore, as accounts of nonresidents. If they develop an intention to continue their presence in the territory of study after the completion of the studies, they should then be considered as residents in the host territory.

Medical patients

3.93 People who go abroad for the purpose of medical treatment maintain their predominant center of interest in the territory in which they were resident before they received the treatment, even if they stay longer than one year. As with students, the movement is considered to have a temporary motivation and these patients remain members of households in their home territories.

Foreign diplomatic representations

3.94 Embassies and other diplomatic representations are enclaves of their governments in the host economy and part of the economic territory of the government they represent. Their accounts in the financial system of the host economy are reported as accounts of nonresidents.

3.95 Employees, including members of their household, sent by a government to work in its diplomatic representations continue to have a center of predominant economic interest in their home country, irrespective of the length of their assignment in the foreign country. They continue to be residents in their home economy even if they live in dwellings outside the enclaves. Their accounts in the financial system of the host economy are classified as accounts of nonresidents.

Government entities resident abroad

3.96 If a government uses an entity that is resident in another economic territory to carry out general government activities (i.e., fiscal activities rather than as a public corporation producing goods and services for the market), that entity is not included as part of the general government in either its economy of residence or the economy of the government that uses the entity. Such entities are not treated in the same way as embassies and other territorial enclaves if they are created and operate under the laws of the host economy. However, special imputations of transactions and positions between the government and the entity are adopted to ensure that any fiscal operations undertaken through nonresident entities are reflected in the transactions and positions of the government concerned.

Military personnel

3.97 Military personnel stationed abroad in an enclave of their home country (a military base) or in peace-keeping missions, as well as the military base itself, continue to have their center of predominant economic interest in their home economy, irrespective of the length of duty of their assignment. They and members of their household are considered nonresidents of the territory where they are serving.[8]

International organizations

3.98 International organizations have the following characteristics:

a. The members are either national states or other international organizations whose members are national states.

b. They are entities established by formal political agreements between their members that have the status of international treaties; their existence is recognized by law in their member countries.

c. International organizations are created for various purposes:

   - International financial institutions—these entities conduct financial intermediation at an international level (i.e., channeling funds between lenders and borrowers in different economies). Examples are the IMF, World Bank Group, Bank for International Settlements (BIS), and regional development banks.
   - Other international organizations—these entities provide nonmarket services of a collective nature for the benefit of their member states, such as peacekeeping, education, science, policy issues, and other research.

3.99 The economic territory of an international organization consists of the territorial enclave(s) over which the organization has jurisdiction. International organizations are not considered residents of any

[8] See also *BPM6*, paragraph 4.123.

national economy and, in particular, are not residents of the economy in which they are located or conduct their affairs. They are treated as extra-territorial (that is, nonresident) by that economy. All accounts that these organizations have with the FCs are treated as nonresidents' accounts. Regional organizations are a type of international organization whose members are governments or monetary authorities of economies that are located in a specific region of the world.

IV. Institutional Sectors

3.100 Institutional units are allocated to different institutional sectors according to the nature of the economic activity they undertake. Sectoring of resident institutional units is a key element in the compilation and presentation of monetary and financial statistics. In the monetary statistics described in Chapters 6 and 7, it is necessary to delineate the FCs sector and its subsectors, to identify money-issuing and money-holding sectors, and to identify FCs' claims on each of the other resident sectors and on nonresidents. Conceptually, the sectoring of institutional units in monetary and financial statistics should be aligned with the *2008 SNA* and other macroeconomic datasets, which group similar kinds of institutional units according to their economic objectives, functions, and behavior.

3.101 The resident institutional units of the economy are grouped into five mutually exclusive sectors: (1) FCs, (2) NFCs, (3) general government, (4) households, and (5) NPISHs. These sectors are further divided into subsectors, as shown in Box 3.1. The additional splitting of FCs into DCs, other depository corporations (ODCs), and other financial corporations (OFCs) subsectors for the purpose of monetary statistics is discussed in more detail later in this chapter. All resident institutional units are allocated to only one institutional sector. A unit engaged in activities belonging to more than one sector and not having a separate set of accounts for each activity must be classified entirely in a single sector, based on the most prominent economic activity in which it engages.[9]

[9] The *2008 SNA* (Figure 4.1) and the *GFSM 2014* (Figure 2.4) provide decision trees to allocate institutional units into different sectors based on whether they are residents or nonresidents, households or legal entities, whether the latter are market or nonmarket producers, whether they are controlled by government or not, and whether they produce financial services or goods or nonfinancial services.

Box 3.1 Main Sectors and Subsectors of the Domestic Economy

Financial corporations [S12][1]
- Depository corporations
  - Central bank [S121]
  - Other depository corporations (ODCs)
    - Deposit-taking corporations except the central bank [S122][2]
    - Money market funds (MMFs) [S123]
- Other financial corporations
  - Non-MMF investment funds [S124]
  - Other financial intermediaries except insurance corporations and pension funds (ICPF) [S125]
  - Financial auxiliaries [S126]
  - Captive financial institutions and money lenders [S127]
  - Insurance corporations [S128]
  - Pension funds [S129]

Nonfinancial corporations [S11]
- Public nonfinancial corporations
- National private nonfinancial corporations
- Foreign-controlled nonfinancial corporations

General government[3] [S13]
- Central government [S1321]
- State government [S1322]
- Local government [S1323]

Households [S14]

Nonprofit institutions serving households [S15]

[1] Square brackets indicate the *2008 SNA* sector codes.

[2] Deposit-takers whose deposit liabilities are not included in broad money are excluded from ODCs and classified as other financial intermediaries except ICPF.

[3] Social security funds are allocated to the general government subsectors, on the basis of the level at which they operate. This is the approach adopted in this *Manual*. Alternatively, the *2008 SNA* also allows social security funds to be combined into a separate subsector of general government.

3.102 Dividing the total economy into sectors and subsectors enhances the usefulness of the data for purposes of economic analysis. Institutional units with similar objectives and types of behavior are grouped together. Corporations, government units, households, and NPISHs differ with respect to their economic objectives, functions, and behavior. Corporations are created for the purpose of primarily producing goods and services for the market; government units provide primarily nonmarket goods and services to the community and redistribute income and wealth. Households are motivated by different economic objectives, including final consumption, and are therefore distinguished from corporations, although households may also engage in production for the market.

A. Financial Corporations [S12]

3.103 ***The FCs sector consists of all resident corporations, including quasi-corporations, that are principally engaged in providing financial services, including insurance and pension fund services, to other institutional units.*** It is usually the case that units providing financial services do not produce other goods and services and that financial services are not provided as secondary production.

3.104 FCs are distinguished from NFCs at the first level of sectoring, because FCs are engaged principally in providing financial services, including financial intermediation, which are inherently different from other types of productive activity. Financial intermediation involves incurring liabilities on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market. Some characteristics of financial intermediation include: (1) incurrence of liabilities to raise funds for lending; (2) transformation of financial instruments with respect to maturity, interest rate, currency of denomination, etc.; and (3) acquisition of credit and financial risks. Among the key factors in determining if an entity is part of the FCs sector are the incurrence of credit and financial risks, the existence of a separate set of accounts for the financial intermediation activities, and the predominance of the provision of financial services within the total production of goods and services of the unit.

3.105 The following entities are not included in the FCs sector: (1) corporations or quasi-corporations that mainly sell goods or nonfinancial services and provide credit directly to their customers—for example, manufacturers or retailers that extend consumer credit under their own credit plans; and (2) individuals or households that make loans or buy and sell foreign currency, if they do not have separate and complete sets of accounts for their financial activities.

3.106 For purposes of monetary statistics, a distinction is made between FCs that issue liabilities included in broad money (known as DCs), and OFCs that intermediate in financial assets, or engage in activities closely related to financial intermediation, but do not issue liabilities included in broad money. The DCs subsector comprises the central bank, deposit-taking corporations except the central bank, and MMFs.[10] The OFCs subsector of monetary statistics includes FCs other than DCs.

3.107 Although not directly relevant for the compilation of monetary statistics, the *2008 SNA* and the *GFSM 2014* decision trees for allocating institutional units (see footnote 9 in this chapter) also distinguish between public, foreign-controlled, and national private FCs. Using source data for monetary statistics, this kind of grouping of FCs may also be undertaken.[11]

Depository corporations

3.108 Chapter 6 defines the concept of broad money to be applied by compilers, taking into account the structure and other features of the financial system. ***For monetary statistics purposes, DCs are FCs that issue liabilities included in broad money.*** (The definition of broad money is presented in paragraph 6.11.)

3.109 Due to its special characteristics, the central bank constitutes a separate subsector within the DCs subsector. When compiling monetary statistics, the accounts of deposit-taking corporations except the central bank, and MMFs are aggregated together and are presented in a consolidated form in the ODCs survey (ODCS).

Central bank [S121]

3.110 The central bank is the domestic financial institution that exercises control over key aspects of the financial system. The central bank functions generally comprise the following: (1) issuing currency;[12] (2) conducting monetary policy, including by regulating money supply and credit; (3) managing international

[10] In *BPM6*, MMFs are included in the OFCs subsector.

[11] For compiling data for these three groups of FCs, separate sectoral balance sheets need to be compiled for each of the three groups for ODCs and OFCs.

[12] A few territories (Hong Kong SAR, Scotland, and Northern Ireland) have authorized private banks to issue currency, fully backed by reserves held with the central bank.

reserves; (4) transacting with the IMF; (5) providing credit to ODCs; and (6) usually acting as banker to government in holding central government deposits and in providing credit in the form of overdrafts, advances, and purchases of debt securities. Central banks in some countries also accept deposits from or provide credit to NFCs, NPISHs, and households.[13]

3.111 The central bank subsector includes the following: (1) central banks, which in most countries are separate identifiable institutional units subject to varying degrees of government control, and have various names such as central bank, reserve bank, monetary authority, national bank, or state bank; (2) currency boards or independent currency authorities that issue domestic currency that is fully backed by foreign exchange reserves; and (3) government-affiliated agencies that are separate institutional units and primarily perform central banking functions, except those exclusively engaged in supervision and regulation of the financial system (see paragraphs 3.113 and 3.175).

3.112 Many central banks act as fiscal agents of their central governments or government-affiliated units. Transactions and financial positions should be attributed to the central bank when it acts on its own behalf and is the actual debtor/creditor. When it acts only as an agent, the transactions or positions should be attributed to the unit that is the actual debtor/creditor. A key factor in determining the creditor/debtor status is the bearing of the financial risks and the appropriation of the benefits from the transactions.

3.113 Many central banks also regulate and supervise deposit-takers and sometimes OFCs. If these activities are performed within the structure of the central bank, they are included in the central bank subsector. However, if the supervisory authority is a separate institutional unit, it is classified as a financial auxiliary outside the central bank subsector.

3.114 Central banks usually have branches in various regions of a country. When compiling the central bank balance sheet, the accounts of all branches must be consolidated with the accounts of the headquarters. Central bank representative offices located in other economies are not consolidated with headquarters but are classified as resident financial auxiliaries in the economy in which they are located (see paragraph 3.172). If such overseas representative offices have diplomatic immunity, they are considered part of the economic territory in which the central bank itself is located.

3.115 In many countries, the central bank performs all central banking functions listed in paragraph 3.110. In some countries, however, certain central banking functions are performed wholly or partly by the central government. These functions might include currency issuance, the holding of international reserves, and conducting transactions with the IMF. In such situations, consideration could be given to compile, in addition to the central bank survey, an expanded set of accounts, referred to as the *monetary authorities accounts* (described in more detail in Chapter 7). These accounts follow a functional approach—that is, all data relating to central banking functions performed by the central government should be included along with the central bank's data. The functional approach groups stock positions and flows according to the functions or objectives they serve, as opposed to the institutional approach adopted in macroeconomic statistics. Specifically, if the central government holds part of the international reserves, they are included in the monetary authorities accounts together with the reserves held by the central bank.

Currency boards

3.116 Currency boards are independent monetary authorities that issue domestic currency, usually fully backed by foreign exchange reserves, at a fixed exchange rate vis-à-vis some major international currency. Although not engaged in all central banking functions, currency boards are included in the central bank subsector.

Government-affiliated agencies

3.117 In some countries, government-affiliated units perform certain central banking functions such as the issuance of coins and/or currency notes, the holding of international reserves, operation of exchange stabilization funds, or having financial relationships with the IMF. When the agencies undertaking such monetary authorities functions are institutional units separate from the central government (except those exclusively engaged in supervision and regulation of the financial system), they should be included in the central bank subsector.

[13] Some central banks offer deposit accounts and provide loans to their staff.

3.118 However, if these units remain financially integrated with and under the direct control and supervision of the government, they cannot be treated as separate institutional units, and any monetary authority functions carried out by the government should be recorded in the central government subsector.

Currency unions and currency union central banks

3.119 A common currency area, or currency union, consists of more than one economy and has a regional central decision-making body, usually a CUCB, with the authority to conduct a single monetary policy and issue the legal tender of the area. To belong to this area, an economy must be a member of the central decision-making body. Member countries of the currency union share a common currency and may have a single monetary and foreign exchange policy. Two kinds of currency unions are identified (see Box 3.2 and also *BPM6*, Appendix 3).

3.120 In the centralized model, the currency union has a CUCB owned by the governments of the member economies with the common currency issued by the CUCB and the central bank operations in each economy carried out by national directorates or agencies of the CUCB. This model is of the type observed in the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO), the Banque des États de l'Afrique Centrale (BEAC), and the Eastern Caribbean Central Banks (ECCB). In a centralized currency union, in each member economy the central bank functions are deemed to be carried out by a national (resident) directorate or agency of the central bank. This institutional unit acts as the central bank for that economy and must be treated for statistical purposes as an institutional unit that is separate from the headquarters of the CUCB. In these currency unions, not all transactions carried out and positions held by the CUCB can be allocated to individual member countries. Transactions and positions that are conducted on the own account of the CUCB and cannot be allocated to member countries (in particular, international reserves) remain at the CUCB-headquarter level and are taken into account, together with the allocated transactions and positions, only when monetary statistics are compiled at the currency union level.

3.121 The decentralized model was developed by the euro area through the creation of the European Central Bank (ECB). In the decentralized model, the currency union comprises a CUCB and currency union national central banks (CUNCBs) of the member economies, with the CUCB owned by the CUNCBs. Monetary policy decisions are made by the decision-making body of the CUCB, which also coordinates the implementation of the decisions, a primary responsibility of the CUNCBs. In each economy, monetary activities with residents of the currency union are carried out by CUNCBs having their own assets and liabilities, and these activities are recorded in the national data.

3.122 The economic territory of a currency union consists of the economic territory of the currency union economies, plus the CUCB. Any other regional organizations that comprise the same or a subset of the currency union economies are included in the currency union. The currency union needs to compile monetary statistics for the union-wide area, consolidating the accounts of the CUCB headquarters and the accounts of the CUNCBs, respectively. Foreign assets and liabilities of the CUCB will reflect its claims on and liabilities to nonresidents of the currency union. To support the compilation of the union-wide data, the sectoral balance sheets and surveys

Box 3.2 Currency Unions and Regional Central Banks[1]

Centralized Model

Banque Centrale des États de l'Afrique de l'Ouest (BCEAO)
Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo

Banque des États de l'Afrique Centrale (BEAC)
Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon

Eastern Caribbean Central Bank (ECCB)
Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

Decentralized Model

European Central Bank (ECB)
Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Portugal, Slovakia, Slovenia, Spain

[1] As of December 31, 2016.

for economies in a currency union should have a two-way classification of claims on and liabilities to nonresidents: those vis-à-vis residents in other economies of the currency union, and those vis-à-vis nonresidents of the currency union.

Other depository corporations

3.123 ***For monetary statistics purposes, all FCs (other than the central bank) that incur liabilities included in broad money are classified as ODCs.***

Deposit-taking corporations except the central bank [MS]

3.124 ***Deposit-taking corporations except the central bank have financial intermediation as their principal activity. To this end, they obtain funds through the acceptance of deposits or other financial instruments (such as short-term certificates of deposits) that are close substitutes for deposits.*** Deposit-taking corporations may also issue bills, bonds, other debt securities, or other financial instruments.

Commercial banks

3.125 *Commercial bank* is the most common designation of a deposit-taking corporation. The range of activities in which a commercial bank can participate varies widely among countries, depending on national banking regulations and practices, and the sophistication of the financial system in each country. The most common services provided by commercial banks are accepting deposits and granting business and personal loans. In many countries, they are required to place reserve requirements at the central bank in a certain proportion to their deposit liabilities.

Other deposit-taking corporations

3.126 Many other types of financial intermediaries also accept deposits and/or issue other types of liabilities that are close substitutes for deposits and therefore are included in broad money. These other deposit-taking corporations have various names, depending on their principal activities and national naming conventions.

3.127 Among the corporations and quasi-corporations that may be classified as other deposit-taking corporations are the following: (1) merchant banks; (2) savings and loan associations, building societies, and mortgage banks; (3) credit unions, and credit cooperatives; (4) municipal credit institutions; (5) rural banks and agricultural banks; (6) discount houses; (7) traveler's check companies engaged mainly in financial activities; (8) post office giro institutions; and (9) electronic money institutions.

3.128 This list is neither exhaustive nor prescriptive. Compilers of monetary statistics should investigate the characteristics of an FC's liabilities to determine whether the liabilities should be included in broad money, which determines whether such FC should be covered in the ODCS or not. (For more details see Chapter 6.)

3.129 Merchant banks specialize in financial activities that facilitate trade and commerce, typically dealing in international financing, long-term lending, and underwriting of securities. They also have banking relationships with multinational and other large corporations but usually do not offer banking services to the general public.

3.130 Savings and loans associations, building societies, and mortgage banks specialize in long-term lending for purchases of real estate. Traditionally, building societies and savings and loans associations were organized as mutual associations—that is, individuals who provided funds or borrowed were association members who had voting rights and control of the institutions. Legal and regulatory changes have relaxed the rules governing these institutions in many countries. Building societies raise funds in commercial money markets, and savings and loans associations undertake functions similar to commercial banks.

3.131 Credit unions and credit cooperatives are owned and controlled by their members. By opening a deposit account at a credit union, an individual becomes a member—and partial owner—of the credit union, participating in its equity. Credit unions accept deposits (technically, these may be designated as shares) and grant various types of loans to their members. Regulation and reporting requirements vary from country to country.

3.132 Municipal credit institutions are independent, locally managed savings banks that concentrate their business activities on customers in the region. In general, they are not profit-oriented, but are market producers. Their shareholders are usually located in one city or several cities in an administrative district.

3.133 Rural banks and agricultural banks are small community banks that provide financial services in rural areas. Due to the economic characteristics of their clients, they tend to specialize in micro-financing of rural and agricultural activities. Collecting data from rural banks can often be hampered by: (1) lack of supervision by the central bank and lack of legal obligation to report their data; (2) inadequate communication infrastructure in remote areas of the country that may hinder regular reporting (although improvements in communication technology is reducing this problem); and (3) lack of sufficient staff resources for timely and accurate compliance with reporting requirements.

3.134 Discount houses raise funds primarily to finance investments in money-market instruments (for example, government bills, bankers' acceptances, and certificates of deposits), and they purchase debt securities from individual banks for rediscounting with the central bank. If they issue liabilities included in broad money, they are classified in the ODCs subsector; otherwise they should be classified as OFCs.

3.135 Traveler's checks companies sell negotiable instruments that can be directly used in making third-party payments. A corporation that issues traveler's checks should be classified as an ODC if it is an FC and if the traveler's checks are included in broad money. Traveler's checks that have characteristics of both currency and liquid deposits are included in broad money if it is expected that most of the checks will be used for domestic market transactions; they are excluded if most are expected to be used for foreign travel.

3.136 Post offices in some countries accept transferable and savings deposits, either on their own account or on behalf of third parties (e.g., the treasury or another financial corporation). Account holders in post office giro institutions may make third-party payments or may withdraw funds from their savings accounts at other post offices of the country. If this financial activity of the post office has a separate set of accounts, it should be included in the ODCs subsector. If the deposit-taking and transfer services are not separated from the accounts of the nonfinancial operations, the postal system in its entirety is classified as an NFC. Data on transferable and other deposits accepted by the postal system should be collected for inclusion in broad money (see also paragraph 6.54).

3.137 Electronic money institutions are entities authorized to issue electronic money, which is a payment instrument whereby monetary value is electronically stored on a physical device or remotely at a server (see paragraphs 4.38–4.41). Electronic money can usually be used for payments to third-parties and is, therefore, a close substitute for transferable deposits. An electronic money institution should be classified as an ODC if it is an FC and if the electronic money issued is included in broad money (see paragraph 6.30). Monetary value stored on specific prepaid instruments does not represent electronic money if the instruments are designed to address specific needs only and can be used only in a limited way.[14]

Offshore banks

3.138 *Offshore banks* is a term for deposit-taking corporations (except the central bank) established in jurisdictions that provide legal and fiscal advantages, such as low or no taxation and less stringent regulations in terms of reserve requirements or foreign exchange restrictions. They engage in various types of financial transactions, including deposit-taking and the extension of loans denominated in currencies other than the currency of the economy in which they are located. They may be restricted from accepting deposits from residents of the economy in which they are located.

3.139 Offshore banks engaged in trade and finance are residents of the economies in which they are located. For the purpose of monetary statistics,[15] it is recommended that offshore banks are included in the ODCs subsector if they transact with residents of the economy where they are located and issue liabilities included in broad money. If they do not issue such liabilities, they should be classified as OFCs.[16] Because of

[14] See European Central Bank (2012), pages 9–10.

[15] The *BPM6* (paragraph 4.72) includes all offshore banks in deposit-taking corporations, regardless of whether they are in the money-issuing sector or not, and recommends that the money-issuing sector be identified on a supplementary basis to assist in reconciliation with monetary data.

[16] In the *2008 SNA*, offshore banks are included in the deposit-taking corporations subsector if they take deposits and meet the definition of a deposit-taker, regardless of whether those deposits are included in broad money or not.

the special characteristics of offshore banks, their data should be identified separately within the subsector.[17]

3.140 Given that offshore banks are often subject to less-stringent regulations than onshore FCs, data collection from offshore units is sometimes difficult. If the central bank does not regulate the activities of offshore banks, it will need to negotiate the provision of data from the offshore units, or to seek special legal powers to obtain reporting compliance.

Banks in liquidation

3.141 Because of financial difficulties, some deposit-taking corporations may operate under the control of receivers or regulators and others may have been closed. The deposit-taking corporations continue to exist until a formal bankruptcy or reorganization has taken place. Until such corporations are liquidated or reorganized, their deposits may be frozen. It is unclear as to whether depositors and other creditors will be able to recover all or part of their deposits or other funding and, if so, the length of time before creditors are reimbursed.

3.142 The deposit-taking corporations in liquidation or reorganization continue to have claims on various sectors of the economy, which may be transferred to a restructuring agency or may be acquired by other deposit-taking corporations. Reorganization, sale, or merger of such depository corporations may result in all or part of the funds eventually becoming available to depositors and possibly other creditors.

3.143 To avoid distortion in the monetary statistics during the restructuring process, it is recommended that deposit-taking corporations in liquidation or reorganization continue to be included in the ODCs subsector as long as they own financial assets and liabilities, but their liabilities be excluded from broad money as the depositors' withdrawal demands cannot be met (see paragraph 6.42). Separate data on their accounts should be presented as memorandum items accompanying the ODCs sectoral balance sheet. It is recognized that in practice it is usually difficult to get data on the accounts of banks in liquidation reported on a regular basis.

[17] Separate identification of offshore banks or units will also allow reconciling monetary and financial statistics with the national accounts and balance of payments.

Money market funds [S123]

3.144 ***MMFs are collective investment schemes that raise funds by issuing shares or units to the public. The proceeds are invested primarily in money market instruments, money market fund (MMF) shares or units, transferable debt instruments with a residual maturity of not more than one year, bank deposits, and instruments that pursue a rate of return that approaches the interest rates of money market instruments.*** For an investment fund to be recognized as an MMF, there needs to be: (1) a certain degree of capital certainty (store of nominal value); and (2) the possibility to withdraw funds immediately or on short notice. If the preceding conditions are not met, the institution is not classified as an MMF but as a non-MMF investment fund.

3.145 Some MMFs offer the facility to withdraw funds from shareholder accounts through checks payable to third parties or other means of direct payments to third parties. These payments to third parties may be limited with respect to minimum amount or maximum number of checks that can be written in a specified period.

3.146 MMF shares and units—with or without third-party payment features—are highly liquid and very close substitutes for transferable and other deposits. MMF shares and units are thus included in broad money and all MMFs as defined in paragraph 3.144 are classified as ODCs.

Other financial corporations [MS]

3.147 ***OFCs comprise the following*** **2008 SNA** ***subsectors: non-MMF investment funds, other financial intermediaries except insurance corporations and pension funds (ICPFs), financial auxiliaries, captive financial institutions and money lenders, insurance corporations, and pension funds.***

3.148 FCs in the OFCs subsector may be supervised and regulated by agencies at the state or national level rather than by the central bank, or not at all. Close collaboration between monetary statistics compilers and the agencies supervising the various types of OFCs is required in collecting and compiling monetary and financial statistics.

Non-MMF investment funds [S124]

3.149 ***Non-MMF investment funds are collective investment schemes that raise funds by issuing shares***

or units to the public. The proceeds are invested predominantly in long-term financial assets, such as equity shares, bonds, and mortgage loans, and nonfinancial assets, such as real estate. Non-MMF investment funds may also invest a small percentage of their total assets in highly liquid short-term financial instruments to ensure that requests to redeem shares or units are met without delay. They can be run under several denominations, such as mutual funds, investment pools, investment trusts, unit trusts, or institutions for collective investment. Shares or units issued by non-MMF investment funds are not close substitutes for deposits because of the following reasons: (1) they are not transferable by means of checks or other means of third-party payments; and (2) their price can fluctuate according to market conditions and so they are not a reliable store of nominal value. Consequently, shares or units issued by non-MMF investment funds do not meet the definition of broad money and are not included therein.

3.150 It is possible to distinguish between open-ended and closed-ended non-MMF investment funds. Open-ended investment funds issue and redeem shares on a continuous basis: each time a new investment is made by an investor, new shares or units are created; when shares are redeemed, an investment must be sold to match such redemption. Closed-ended investment funds are open for subscription only during a specified period at the launch of the scheme; thereafter, investors can acquire shares only by buying them on a secondary market from other investors.

3.151 Depending on the investment strategy, different kinds of non-MMF investment funds can be identified: (1) equity-based investment funds; (2) security-based investment funds; (3) real estate investment funds, which invest in debt and equity securities of companies that purchase real estate; (4) mortgage real estate investment trusts (mortgage REITs),[18] which provide dividends to shareholders by investing in real estate mortgages or mortgage-backed securities; (5) index funds, which are index-tracking funds that mirror the performance of a specific group of shares; (6) exchange-traded funds, which are a subset of index funds that are priced continuously throughout the trading day, and therefore trade like a stock; (7) funds of funds, which hold a portfolio of other investment funds shares rather than investing directly; and (8) hedge funds involving high minimum investments and light regulation, which invest in financial derivatives, take long and short positions in securities, and may sell over-the-counter derivative contracts.

3.152 Private equity funds (PEFs) are collective investment schemes that invest in unlisted equity. They are usually constituted as closed-ended investment funds or as limited partnerships. Investments into PEFs are made mainly by institutional investors, such as ICPFs or large financial groups. Venture capital funds are a subcategory of PEFs that invest in start-up companies. PEFs are included within non-MMF investment funds.

Other financial intermediaries except insurance corporations and pension funds [S125]

3.153 ***Other financial intermediaries except ICPFs consist of FCs that are engaged in providing financial services by incurring liabilities, in forms other than currency, deposits or close substitutes for deposits, on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market.*** It is a feature of a financial intermediary that transactions on both sides of the balance sheet are carried out in open markets.

3.154 FCs in the other financial intermediaries subsector generally raise funds on wholesale financial markets, and usually not in the form of deposits, and use the funds to extend loans and acquire other financial assets. The intermediaries often specialize in lending to borrowers in particular sectors of the economy and for specialized financial arrangements. Some of the types of units classified as other financial intermediaries are described in the following paragraphs.

3.155 Finance companies extend credit mainly to NFCs and households. They are less regulated than units in the ODCs subsector and often are subject to fewer reporting requirements. Finance companies offer such services as consumer loans, credit cards, small business loans, mortgage loans, economic development loans, and purchases of bankers' acceptances and trade receivables. If finance companies accept deposits included in broad money, they should be classified in the ODCs subsector.

[18] Equity REITs are not considered financial intermediaries as they specialize in owning and managing real estate. Thus, they are not part of the FCs sector.

3.156 Financial leasing companies engage in financing for the purchase of tangible assets. The leasing company is the legal owner of the financed goods (airplanes, automobiles, machine tools, mainframe computers, etc.); economic ownership (see paragraph 4.9) is conveyed to the lessee who incurs the benefits, costs, and risks associated with ownership of the assets.

3.157 Central clearing counterparties (CCPs) provide clearing and settlement of market transactions in securities and derivatives. This can include tri-party repos (see paragraph 4.79). *Clearing* refers to the process of offsetting obligations and entitlements vis-à-vis counterparties to transactions so that settlement—which involves the actual exchange of securities, derivatives, and funds—can occur more efficiently on a net basis. The CCPs take the financial risk of the transaction between the counterparties onto their own account and so mitigate counterparty risk to the other parties involved. CCPs are FCs, but not money issuers as the margin deposits they collect to mitigate the financial risks they assume are restricted and held as collateral, and so are not included in broad money (see paragraphs 6.37 and 6.76). CCPs should, therefore, be classified as other financial intermediaries except ICPFs.

3.158 Investment banks assist corporations in raising funds in equity and debt markets and provide strategic advisory services for mergers, acquisitions, and other types of financial transactions. In addition to assisting with raising funds for their corporate clients, investment banks invest their own funds, including in the securities offerings of their clients, and hedge funds dedicated to direct investments in corporations. Investment banks do not usually have deposit liabilities that meet the definition of broad money.

3.159 Underwriters and dealers specialize in securities market activities, operating through public exchanges, over-the-counter markets, and privately negotiated deals. They assist firms in issuing securities through the underwriting and market placement of new securities issues, and may trade in new or outstanding securities on their own account. Only underwriters and dealers that act as financial intermediaries are classified in this category. Securities brokers and other units that arrange trades between securities buyers and sellers but do not purchase and hold securities on their own account are classified as financial auxiliaries.

3.160 Financial derivative intermediaries consist of units that engage primarily in issuing and/or taking positions in financial derivatives.

3.161 Securitization vehicles are created to raise funds by selling securities backed by specific assets or future income streams. Securitization is the practice whereby an asset or a pool of cash–flow producing assets is converted into marketable securities.[19] For example, an originating mortgage lender could sell a portfolio of loans to a special purpose vehicle that issues securities to investors. The originator may continue to provide administrative services, but the vehicle is the legal owner of the portfolio. Such vehicles are included in other financial intermediaries except ICPFs if the entity is the legal owner of a portfolio of assets, sells a new financial asset that represents an interest in the portfolio, and has—or it would be possible and meaningful to compile—a full set of accounts. When the portfolio is not transformed, or the vehicle does not bear market or credit risks, then it should be combined with its parent (if resident in the same economy) or treated as a captive intermediary (if in a different economy to that of its parent).

3.162 Specialized financial intermediaries are a diverse group of highly specialized intermediaries such as: (1) export/import finance firms, which offer a broad range of financial and documentary services associated with international trade; (2) factoring companies, which acquire accounts receivables from commercial enterprises, extend credit by rediscounting the receivables, and provide guarantees that cover late or defaulted payments; (3) venture capital funds that pool funds of third-party investors in start-up companies; and (4) mezzanine companies that provide short-term financing for corporate mergers and acquisitions.

3.163 Asset management companies (AMCs) and bank restructuring agencies are created to address the workout of nonperforming loans (NPLs) or other impaired financial assets through the acquisition, management, and disposal of the impaired assets, often in the context of a banking crisis. These entities can function as fast-disposal units for selling loans and/or other impaired financial assets, medium-term corporate restructuring agencies, warehouses for holding the NPLs for extended periods, and hybrid units

[19] See *Handbook on Securities Statistics*, Chapter 6, paragraphs 6.2–6.9.

performing multiple functions. Most bank restructuring agencies have been established by governments as public institutions, but AMCs have also been created as subsidiaries of FCs to facilitate the management of their own NPL portfolios. For AMCs that are subsidiaries of ODCs and resident in the same economy as their parent, their balance sheets are consolidated with the balance sheets of their parent ODCs unless they meet all the criteria of an institutional unit (see paragraph 3.4).

3.164 If the entity is government-controlled, the extent to which it is engaged or not in financial intermediation will determine whether it is classified as a general government unit or an FC. The following criteria should be considered in determining whether the entity is an FC or part of general government, given that the economically significant price criteria are usually insufficient for this purpose:

a. An entity is more likely to be included in the general government sector if it (1) serves only government or primarily government; (2) sells or buys financial assets at a value other than market values; and/or (3) takes low risks because it has strong public financial support and, by law or effectively, acts on behalf of government.

b. An entity should be classified in the FCs sector if it (1) is a genuine holding company controlling and managing a group of subsidiaries; and/or (2) borrows on the market at its own risk to acquire financial or nonfinancial assets that it actively manages.

3.165 If the government-controlled entity is considered to be operating as an FC, it is sectored as an FC according to the nature of its operations, usually in the subsector other financial intermediaries except ICPFs. Otherwise, it should be classified as a general government unit, with its transactions, and assets and liabilities consolidated with those of the government.

Financial auxiliaries [S126]

3.166 ***Financial auxiliaries consist of FCs that are principally engaged in activities associated with transactions in financial assets and liabilities or with providing the regulatory context for these transactions but in circumstances that do not involve the auxiliary taking ownership of the financial assets and liabilities being transacted.*** Financial auxiliaries do not act as intermediaries. Some of the most common types of financial auxiliaries are described in the next paragraphs.

3.167 Public exchanges**,** securities markets**,** and clearing houses[20] provide facilities in which commodities, debt and equity securities, and financial derivatives are transacted and/or settled. An exchange is often responsible for ensuring the qualifications of its members, guaranteeing the completion of transactions, clearing and netting transactions, arranging payments, resolving disputes, and guarding against fraud. Exchanges are identified as such if they (1) are legally determined to be exchanges by regulators or courts; (2) maintain insurance or capital reserves; (3) exercise control over the trading of exchange members; or (4) operate a margining system or collect collateral. Provided they do not act as a principal to the transactions being conducted, the subsector includes the exchange and a number of entities such as securities depository companies, accounting and clearing offices, other specialized providers of securities trading services, and entities (private and government-controlled) that regulate or supervise exchanges and securities markets.

3.168 Brokers and agents are individuals or firms that arrange, execute, or otherwise facilitate client transactions in financial assets. Included are brokers and agents who handle the purchase and sale of securities or other financial contracts for their clients, as well as providers of financial advisory services to brokers and their clients. Brokerage firms are distinguished from underwriters and dealers that are classified as other financial intermediaries except ICPFs. Only brokers and agents that clearly specialize in brokerage and related activities and do not take their own positions in financial assets should be included in this subsector.

3.169 Foreign exchange companies, or bureaux de change, are separate institutional units that buy and sell foreign exchange in retail or wholesale markets. They are classified as financial auxiliaries because their main function is to intermediate in foreign exchange, earning a buy-sell spread, rather than obtaining their income from taking positions in foreign exchange. In many countries, foreign exchange corporations are licensed and regulated, and high-quality data on their activities can be collected. In economies with foreign exchange

[20] Contrary to CCPs, clearing houses do not assume any risk during the clearing process.

controls, individuals or enterprises such as travel agencies engage in informal foreign exchange trade, complicating the measurement of overall activity.

3.170 Insurance and pension funds auxiliaries include agents, adjusters, and salvage administrators. The unique nature and the large scale of their activities in some countries justify the separate identification of these units.

3.171 Financial derivative corporations facilitate the issuance of financial derivative contracts, without issuing the financial derivatives or taking financial positions in them. Although these units may have financial assets, they are not classified as other financial intermediaries except ICPFs, because they do not intermediate by incurring liabilities in order to acquire financial assets. These financial derivative corporations are distinguished from financial derivative intermediaries that issue or take positions in financial derivatives, and which are classified as other financial intermediaries except ICPFs.

3.172 Representative offices of foreign banks that do not accept deposits or extend credits are classified as resident financial auxiliaries, even though they promote and facilitate transactions of the nonresident parent company.

3.173 Corporations primarily involved in the operation of electronic payment mechanisms are classified as financial auxiliaries if they can be separately identified as institutional units, are primarily engaged in this specialized activity, and do not incur liabilities against the electronic payment instruments. If they incur liabilities against the issuance of electronic money, they are included in the ODCs subsector (if the electronic money is included in broad money).

3.174 Third-party payment processors, which provide banks with a payment platform, are classified as financial auxiliaries. Examples include online payment corporations, prepaid card corporations, and financial payment corporations.

3.175 Supervisory agencies and regulatory bodies that regulate or supervise FCs are sectored as financial auxiliaries if they are separate institutional units, even if they are agencies affiliated with the government. When the regulation is exercised by the central bank through one of its departments, such regulatory activities are subsumed within the central bank. Regulatory bodies may become involved in extending emergency credits, or acquiring assets and liabilities of FCs during bankruptcies or reorganizations. When holdings of financial assets and liabilities become substantial and the unit engages in financial intermediation, it should be reclassified as other financial intermediary except ICPFs.

3.176 Managers of pension funds and of mutual funds are responsible for implementing the fund's investment strategy and managing the trading of the portfolio. They are paid a fee for their services, which is usually a percentage of the fund's average assets under management. The fund's managers are allocated to the financial auxiliaries subsectors; the funds they manage are sectored either as MMFs, non-MMF investment funds, or pension funds.

3.177 Head offices of FCs that are engaged principally in controlling FCs or groups of FCs, but that do not themselves conduct financial intermediation are sectored as financial auxiliaries. They are classified as financial auxiliaries only if all or most of their subsidiaries are FCs; otherwise they are allocated to the NFCs sector.

3.178 Solicitor nominee companies are bare trusts that receive funds from private sources for lending secured by property. The nominee company holds the asset in its own name, but on behalf of the investors, who are the beneficial owners of the loan.

3.179 Peer-to-peer lending companies facilitate the lending of money from individuals and other lenders to unrelated individuals or small businesses ("peers"), circumventing traditional financial intermediaries. The loans are for relatively small amounts, and made mostly to individuals for consumption or credit refinancing. Peer-to-peer lending companies operate online by matching individual investors and other lenders with borrowers. They are classified as financial auxiliaries. Their main source of income is the fees collected from borrowers and lenders. Using several credit checking tools they are able to assign differentiated risk ratings to potential borrowers and so set customized interest rates. The interest rate is lower than for similar loans provided by banks because of the lower overhead costs of peer-to-peer lending companies, but the lenders receive a yield significantly higher than for a deposit. Nonetheless, the loans are generally unsecured and the lenders bear the default risk. Peer-to-peer lending companies typically assume no liability or risk for the loans being made, although sometimes they also use own funds for lending. If the latter is the case, they act as financial intermediaries and should be classified as other financial intermediaries except ICPFs.

3.180 Credit rating agencies assess the creditworthiness of an issuer of debt securities with regard to its financial obligations. They evaluate the issuer's overall financial capacity and willingness to make scheduled payments on a specific issue.

Captive financial institutions and money lenders [S127]

3.181 ***Captive financial institutions and money lenders consist of institutional units providing financial services other than insurance where most of either their assets or liabilities are not transacted on open financial markets.*** They include entities transacting within only a limited group of units or subsidiaries of the same holding corporation, or entities that extend loans from own funds provided by only one sponsor.

3.182 Captive financial institutions are corporate subsidiaries that act as financial agents for their parent corporations, raising funds for lending to their parent corporations or for purchase of parent corporations' accounts receivables. Captive financial institutions are sometimes operated by deposit-taking corporations for engaging in specialized activities or for regulatory reasons. If they do not qualify to be treated as units separate from their parent corporations, they are subsumed within the balance sheets of the parent corporations unless they are resident in an economy different from that where the parent is resident. They are classified in the OFCs subsector if they qualify to be treated as separate institutional units. Captive insurance companies and pension funds that serve their owners are not included in this subsector, but classified as insurance corporations or pension funds, respectively.

3.183 Holding companies are units that hold the assets of a group of subsidiary corporations as their principal activity, and do not provide any other service to the enterprises in which the equity is held (i.e., they do not administer or manage other units). Holding companies are always allocated to the FCs sector and treated as captive financial institutions, even if all the subsidiary corporations are NFCs.

3.184 Trusts are arrangements that provide for legal control of financial assets and liabilities and specify the use of the portfolio holdings and the income generated thereby.[21] Personal trusts control portfolios of assets owned by individuals, and assets within personal trusts are treated as part of the direct holdings of the households that control the trust. Similarly, many pension funds are organized as trusts. In general, trusts are not recognized as separate institutional units and are consolidated within the units that control or benefit from them. Only in two circumstances are trusts treated as separate institutional units, that is, as quasi-corporations: (1) if they are constituted in a different economy to that of any of the beneficiaries; or (2) otherwise satisfy the definition of a quasi-corporation. For instance, trusts established for some types of financial intermediation (e.g., securitization, collateralized security issuance, investment pooling) may be recognized as separate units if (1) they act like financial intermediaries, and (2) no other unit can reasonably be considered as controlling the portfolio. Data on trusts administered by DCs that are located in the same economy as their parent should be reported together with the accounts of the parent corporations.

3.185 Classified in this subsector are also units that provide financial services exclusively with own funds, or funds provided by a sponsor, to a range of clients and incur the financial risk of the debtor defaulting. The following units are included here, provided that they qualify as quasi-corporations: (1) money lenders (persons or groups) that offer small personal loans at a high rate of interest; (2) corporations engaged in lending (e.g., student loans, import and export loans) from funds received from a sponsor such as a government unit or an NPI; and (3) pawnshops or pawnbrokers that extend loans to individuals who use personal property as collateral.

3.186 Special purpose entities that qualify as separate institutional units and raise funds in open markets to be used by their parent corporation are classified as captive financial institutions. In this regard, it is essential to establish whether the SPE has a full set of accounts and is acting as a financial intermediary, such that it bears financial risk; otherwise its accounts are consolidated with those of its parent, if resident in the same economy. Accounts that SPEs hold at financial institutions should be classified in the same sector as their parent units if the SPE is not treated as a separate

[21] See also *BPM6*, paragraph 4.48.

corporation. An SPE established in a different economy to its parent is always treated as a separate unit and sectored as other financial intermediaries except ICPFs in the economy in which it is incorporated.

3.187 Sovereign wealth funds (SWFs) are created and owned by the general government to hold, manage, or administer assets to achieve financial objectives. They employ a set of investment strategies, which include investing in foreign financial assets. The funds are commonly established out of balance of payments surpluses, official foreign currency operations, privatization proceeds, fiscal surpluses, and/or receipts resulting from natural resources or commodity exports. The establishment of an SWF thus raises the issue of whether it is a separate institutional unit of the OFCs subsector or part of the general government. As with SPEs, the decision will depend on whether the SWF actively manages its portfolio and provides financial services on a market basis to government or simply acts as a passive holder of the government's assets.

3.188 Sometimes, the SWF engages the central bank as an agent to handle its transactions in foreign assets, but retains all investment decisions and the risks and rewards associated with them. In such cases, the accounts of the SWF should be kept by the central bank off balance sheet. On other occasions, the SWF constitutes deposits with the central bank, which represent the value of the fund, with the central bank bearing all risks and rewards associated with managing those assets. In such cases, the deposits of the SWF are recorded by the central bank on its balance sheet as a liability to the SWF, and the corresponding assets are recorded as part of total central bank assets.

3.189 If the SWF is an entity incorporated abroad or a quasi-corporation located abroad, it is treated as a separate institutional unit in the OFCs sector of the economy in which the entity is legally incorporated or domiciled.

Insurance corporations [S128]

3.190 ***Insurance corporations consist of incorporated, mutual, and other entities whose principal function is to provide life, accident, sickness, fire, or other forms of coverage to individual institutional units or groups of units, or reinsurance services to other insurance corporations.*** Captive insurances, which are insurance companies that serve only their owners, and reinsurance corporations are also included in this subsector. Insurance corporations may also operate pension plans, as indicated in the next section.

3.191 Life insurance corporations invest premiums to build up portfolios of financial assets to be used to meet future claims of policyholders, spreading risks of the policyholders over time. Non-life insurance corporations provide financial benefits to policyholders in the event of accidents, fire, property loss, health-related expenses, etc., spreading current risk or expenses among clients. Some individual insurance corporations sell both life and non-life insurance, in which case they are called composite insurance companies.

3.192 Some corporations create captive insurance subsidiaries to handle their insurance needs. Captives are units separate from their parents and are included in this subsector. Captives collect premiums from their parent corporation, then reinsure themselves, or invest their assets to build up reserves against future claims of the parent corporation.

3.193 Reinsurance corporations insure the insurance policies written by other insurance corporations in exchange for insurance premiums. Insurance corporations purchase reinsurance to offset policy risk, thereby capping the net loss incurred if the insured event occurs.

3.194 Financial guarantee corporations, including national deposit guarantee schemes and similar deposit protection arrangements, insure customers against financial loss on specific securities or other contracts, or against losses from the collapse of financial institutions. Deposit insurers, issuers of deposit guarantees, and other issuers of standardized guarantees that are separate institutional units and function like insurers by constituting reserves and charging premiums proportional to the cost of the service provided, are sectored as insurance corporations. Very often, guarantees on financial instruments are provided by banks, securities brokers, and other financial intermediaries as secondary activities and so are treated as an integral part of these institutional units.

3.195 A financial protection scheme may be classified as part of the general government, as a public FC, or a private FC outside the public sector according to the same sectoring principles that apply to any other entity. A resident financial protection scheme may satisfy the criteria to be an institutional unit or not. If it is not an institutional unit, it is treated as an integral part of the institutional unit that controls it. Where fees for such financial protection schemes are set by government, or when the government or a public corporation has control over the protection scheme through other means, the scheme is to be classified as a public financial (insurance) corporation, if it is a separate institutional unit. A protection scheme will be part of the general government sector if: (1) fees payable to the government for such a protection scheme are compulsory, that is, if beneficiaries cannot opt out of the scheme; (2) fees are clearly out of proportion to the service provided (fees are not determined based on the associated risks covered); and (3) fees payable to the government are not set aside in a fund, or can be used for other purposes (see also *GFSM 2014*, paragraph 2.135).

Pension funds [S129]

3.196 ***The pension funds subsector consists of autonomous pension funds that are established to provide retirement benefits for specific groups of individuals.*** These pension funds have their own separate sets of pension-fund assets and liabilities, with specific obligations to their contributors. Pension schemes can be established on a voluntary basis, or they can be compulsory with mandated contributions from the employee, employer, or both. Pension schemes may be administered by a separately constituted pension fund, or a fund that is operated by the employer. Governments also sometimes organize pension schemes for their employees, which are independent of the social security system.

3.197 Autonomous pension funds are separate funds (i.e., separate institutional units) established for purposes of providing incomes on retirement for specific groups of employees that are organized, and directed, by private or public employers or jointly by the employers and their employees. Nonautonomous pension funds are not separate institutional units and are therefore not separated from the entity who has organized them, and so their assets and liabilities are reflected in the accounts of that entity.

3.198 Pension schemes may be *funded* or *unfunded*. Funded pension schemes have separate pools of financial assets, or reserves, assigned for the payment of benefits. Unfunded pension schemes are administered by employers or the government, who do not create specific pension-fund reserves for the payment of benefits. By definition, unfunded pension schemes have no separated pool of assets and are not a separate institutional unit from the administrator of the scheme.

3.199 There are three types of funded pension schemes: (1) those operated by insurance corporations, (2) those operated as autonomous pension funds, and (3) those operated as nonautonomous pension funds. If funded, all three types of pension funds will hold reserves dedicated to the payment of pensions and other retirement benefits to the policyholders or other beneficiaries.

3.200 Depending on how the benefits are determined, pension plans may operate as *defined benefit plans* or *defined contribution plans*. Under a defined benefit plan, the future retirement benefits are determined by an actuarial formula related to participants' length of service and salaries, expected retirement ages, mortality rates, etc. Under a defined contribution plan, the benefits to be received by a participant are based on the participant's contributions to the pension fund and the investment performance of the fund.

3.201 Excluded from the pension fund subsector are nonautonomous pension funds managed by the employer, government-sponsored pension schemes funded through social security schemes (pay-as-you-go schemes), and arrangements organized by nongovernment employers for which the reserves of the fund are simply included among the employer's own resources or are invested in securities issued by that employer. A nonautonomous pension fund is not a separate unit, and the assets of the fund belong to the employer. All assets, liabilities, transactions, and other flows of nonautonomous pension funds are consolidated in the accounts of the employer who operates the scheme.

B. Nonfinancial Corporations [S11]

3.202 ***The NFCs sector encompasses corporations and quasi-corporations whose principal activity is the production of market goods or nonfinancial services.***

3.203 The NFCs sector is composed of the following resident institutional units: (1) all resident NFCs, regardless of the residence of their shareholders; (2) the branches of nonresident enterprises that are engaged in nonfinancial production in the economic territory on a long-term basis; and (3) all resident NPIs that are market producers of goods or nonfinancial services.

3.204 Some NFCs or quasi-corporations may have secondary financial activities—for example, producers or retailers of goods that provide consumer credit directly to their customers. Such corporations are classified as belonging entirely to the NFCs sector, provided that their main activities are nonfinancial.

3.205 Two classification criteria are used in the *2008 SNA* to subsector the NFCs. One criterion is to show NPIs separately from other units in the sector. Units other than NPIs may be described as for-profit institutions. The second criterion is that of control, to show: (1) PNFCs, (2) national private NFCs, and (3) foreign-controlled NFCs. For monetary statistics, the resident NFCs sector is split into only two subsectors—PNFCs and other NFCs.

3.206 The criteria for control of corporations and NPIs by government and nonresident units are described in the subsection *Legal or social entities* (see paragraphs 3.11–3.12). NFCs controlled by government are described as PNFCs, while NFCs controlled by nonresidents are described as being foreign-controlled.

Public nonfinancial corporations

3.207 PNFCs consist of resident NFCs and quasi-corporations that are subject to control by government units, another public corporation, or some combination of government units and public corporations (see the definition in paragraph 3.25). To be classified as a PNFC, rather than as a government unit, a corporation must be a market producer of goods or nonfinancial services (i.e., charge economically significant prices as defined in paragraph 3.42).[22]

3.208 In practice, it may be difficult to determine whether the prices charged are economically significant. Although there is no prescriptive numerical relationship between the value of sales (excluding taxes and subsidies) and the production costs, one would expect the value of the sales by PNFCs to average at least half of the production costs over a sustained multiyear period.

3.209 For instance, public railway and urban transportation systems may generate losses in a particular period, but when the fares for their service are high enough to cover at least half of the productions costs of the corporation and influence the public's decisions to use or not use the system, they can be regarded as economically significant prices. However, some government services may be provided for nominal fees that are so low that the fees do not ration the use of the facilities and do not produce enough revenue to contribute significantly to the financing of the operations, in which case the unit should be classified as part of general government.

3.210 A government-controlled publishing office that is an institutional unit and sells its publications at prices that cover at least half of its production costs should be classified as a PNFC. However, a national statistical office will be considered part of the central government, even if its publications are sold to the general public, because this activity produces only modest revenue.

3.211 The distinction between market and nonmarket producers should be made on a case-by-case basis. Once a government-controlled unit is classified as a market—or a nonmarket—producer, it should be reclassified only if a change in pricing holds for several years or is expected to hold for several years. Market producers that do not satisfy the requirements to be recognized as separate institutional units are integrated with the general government unit that controls them.

3.212 A government-controlled entity undertaking only ancillary activities, such as transportation, cleaning, or maintenance services to other government units does not satisfy the criteria to be an institutional unit and will be classified as part of general government.

3.213 For a market producer corporation (or quasi-corporation) controlled by government to exist and be classified as a public corporation, the government must allow considerable discretion with respect to the management of production and the use of funds. The corporation must be able to maintain its own working capital and finance some or all of its capital formation, either from own resources or by borrowing. The ability to distinguish flows of income and capital between a corporation and the government unit that owns it

[22] Paragraphs 2.104 through 2.121 of the *GFSM 2014* discuss the public corporations subsector in detail.

implies that the operating and financing activities of the corporation are not fully integrated with the parent unit's corresponding activities, even if the corporation is not a separate legal entity.

3.214 It is important to distinguish between public and private NFCs, and between government units and units that are PNFCs. The starting point in achieving a proper subsectoring should be the development of an official and comprehensive list of institutional units belonging to the PNFCs subsector. This list should be distributed to the central bank, ODCs, and OFCs, to ensure a uniform subsectoring of these units. The list should be periodically reviewed and updated. Some countries have introduced an identification code (linked to the tax system) for each institutional unit, which would lead to inclusion of each unit in its appropriate sector/subsector.

Other nonfinancial corporations

3.215 ***Other NFCs include all resident NFCs that are not controlled by government.*** Within this category, the *2008 SNA* (but not this *Manual*) distinguishes national private NFCs from foreign-controlled NFCs. For monetary statistics, the national private and foreign-controlled NFCs are combined into the category of *Other NFCs*.

National private nonfinancial corporations

3.216 National private NFCs include all resident NFCs that are not controlled by government or by nonresident institutional units.

3.217 Some private NFCs may produce goods or services for the government (that is, public goods or public services) or goods or services for which production is subsidized by the government. Even if the goods or services are not being produced for the market, corporations that produce the goods or services and charge economically significant prices should be classified as private NFCs.

3.218 This subsector also includes NPIs that produce goods or nonfinancial services for the market, such as units engaged in providing education or health services on a fee basis, or trade associations serving enterprises.

Foreign-controlled nonfinancial corporations

3.219 Foreign-controlled NFCs comprise all resident NFCs that are controlled by nonresidents. The classification is based on majority control (more than 50 percent of the shares) and is therefore not identical to the balance of payments concept of direct investment enterprises, which includes associated firms (those with 10–50 percent ownership by nonresidents). In other words, all foreign-controlled corporations are foreign direct-investment enterprises by definition, but not all direct investment enterprises may be foreign-controlled.[23] This subsector includes: (1) subsidiaries (but not associates) of nonresident corporations; (2) corporations controlled by a foreign government, or by a group of nonresident units acting in concert; and (3) branches or other unincorporated entities controlled by nonresidents that engage in significant amounts of production in the economic territory on a long-term basis and therefore are treated as resident quasi-corporations.

Unincorporated enterprises within households

3.220 Household unincorporated market enterprises are created for the purpose of producing goods or services for sale or barter on the market. They can engage in any kind of productive activity and can range from individuals working as street vendors with no capital or premises of their own, to manufacturing, construction, or service enterprises with several employees. These enterprises also include unincorporated partnerships in which the partners belong to different households.

3.221 Unincorporated enterprises within households that are not quasi-corporations are not separate institutional units from their owners and are classified as part of the household sector. However, if these unincorporated enterprises have their own sets of accounts independent of the households, their assets are separable from those of the owners, and their owners do not bear unlimited liability for the debts of the enterprise, they are treated as quasi-corporations and are classified in the nonfinancial corporations sector (see *2008 SNA*, paragraphs 4.155–4.157).

C. General Government [S13]

3.222 Government units are unique kinds of legal entities established by political process that have legislative, judicial, or executive authority over other

[23] For example, a foreign direct investment enterprise may be a government-controlled corporation with 10 percent of equity owned by a nonresident (*2008 SNA*, paragraph 4.82).

institutional units within a given area. The principal functions of government units are to assume responsibility for the provision of goods and services to the community or individual households primarily on a nonmarket basis, to redistribute income and wealth by means of transfers, engage in nonmarket production, and to finance their activities out of taxation or other compulsory transfers.

3.223 ***The general government sector consists of resident institutional units that fulfill the functions of government as their primary activity.*** The general government sector comprises all government units of central, state, provincial, regional and local government, and social security funds, as well as all resident nonmarket NPIs controlled by government units. Depending on the administrative and legal arrangements, more than one level of government exists within a country, but not all countries have all levels of government. The *2008 SNA* and the *GFSM 2014* provide two principal methods for delineating the subsectors of general government. The first method divides general government into: (1) central government, (2) state governments, (3) local governments, and (4) social security funds. The second method, which is the recommended method in this *Manual*, subsumes the social security funds within the general government subsectors—central, state, or local government—in which the social security funds operate, so classifying the deposits of the social security fund by level of government.

3.224 A government unit is not limited to a specific geographic location, given that ministries and government departments may be dispersed throughout a country, and branch offices and agencies may be maintained in various locations. Despite their separate locations, these government offices are part of the same institutional unit.

Central government [S1321]

3.225 The political authority of a central government extends over the territory of the country. The central government has the authority to impose taxes on all resident and nonresident units engaged in economic activities within the country.

3.226 The central government is a large and complex subsector. It is composed of a central group of departments or ministries, plus autonomous units under the authority of the central government. The departments (or ministries) are sometimes deliberately dispersed throughout the country, but they nevertheless remain part of the central government. Similarly, if the central government maintains branch offices or agencies in different parts of the country to meet local needs, including military bases or installations that serve national defense purposes, these must also be counted as part of the central government. For instance, a ministry of health may maintain a network of hospitals in different parts of the country. In this case, the accounts of the hospitals are classified as part of central government, rather than treated as part of local government.

3.227 Central government entities such as health or education ministries may establish hospitals, schools, universities, etc., for the provision of general public services that are offered free of charge or require payment of fees that are not economically significant. If these units are not separate institutional units, their accounts are an integral part of the central government accounts. Even where a separate institutional unit can be identified, if the unit is a nonmarket producer, its accounts should be consolidated with the central government accounts, as extrabudgetary units. The same principles apply for such units established by state and local government entities.

3.228 If entities such as hospitals and schools are separate institutional units under the control of government, and they charge economically significant prices for their services, they are considered to be market producers and their accounts are included in the public nonfinancial corporations subsector.

3.229 Compilers need to be provided with a comprehensive list of agencies and other entities that belong to the central government (as well as lists of entities within state and local government), based on the definitions of this *Manual* and other statistical manuals. Responsibility for providing this list should reside with a single government agency such as the ministry of finance or the general accounting office. The list should be periodically reviewed and updated.

3.230 In some countries, the central government may include units that engage in financial activities that are undertaken by central banks in other countries, such as issuance of currency, holding of international reserves and operation of exchange stabilization funds, and/or a financial relationship with the IMF. When such units remain financially integrated with central government and under direct control and supervision of central government, their activities are recorded in the central government subsector. Nonetheless, analytic importance is attached to compiling a single set of accounts that cover all monetary authority functions performed by the central bank and the central government, as explained in paragraph 3.115.

Nonmarket NPIs controlled by government

3.231 Nonmarket NPIs controlled by the central government should be classified as part of the central government sector. Governments may choose to use NPIs rather than government agencies to carry out some government policies. Government NPIs take the form of research and development institutes, standard-setting agencies, environmental protection agencies, etc.

3.232 A nonmarket NPI primarily financed by the central government through the national budget should be considered a central government agency, even if it charges fees for its services or has a source of income through the sale of its products. For instance, it is common for standard-setting agencies to charge for the issuance of certificates of quality, or for research and development institutes to copyright and sell their discoveries. However, these proceeds are not their main sources of income, and they continue to rely primarily on government transfers to finance their activities.

Autonomous agencies

3.233 Within the central government sector are numerous units created for special purposes that enjoy substantial administrative autonomy in terms of policy setting and budget management. Central government entities with individual budgets not fully covered by the general budget are considered extrabudgetary. Nevertheless, these should be classified as part of the central government, because they are funded mainly through the national budget.

3.234 Special agencies may have separate legal identity and discretion over the volume and composition of their expenditures, and may have a direct source of revenue in the form of earmarked taxes. Such agencies are often established to carry out specific functions such as road construction or the nonmarket production of health or education services.

3.235 Market regulatory agencies act on behalf of a government (or a regional organization with governments as its members), and influence the market for specific goods or services directly and/or indirectly. The nature of these market regulatory agencies may differ, and should be investigated to decide the sector classification. If the agencies merely distribute subsidies, or have solely administrative, advisory, or price setting functions, they should be classified in the general government sector. Those agencies with principal activity to buy, hold, and sell goods or services at economically significant prices should be classified in the nonfinancial public corporations sector. Those market regulatory agencies that meet the definition of an international or regional organization are classified as residents of the rest of the world.

3.236 Sinking funds are separate accounts that may or may not be institutional units. They are made up of segregated contributions provided by the units that make use of the funds (the "parent" units) for the gradual redemption of the parent units' debt. Sinking funds may also be established to provide for major repairs or replacements. Public sector sinking funds are classified to sectors according to whether they are separate institutional units and, if so, whether they provide their services at economically significant prices or not. Sinking funds that are separate institutional units and provide services as market producers are classified as public financial corporations. Sinking funds that are separate institutional units and provide services as nonmarket producers are classified as general government units. Sinking funds that are not separate institutional units are classified with the unit that controls them.

3.237 Agencies that manage internationally financed development projects, such as those financed by multilateral organizations (e.g., the World Bank) or donor agencies (e.g., the United States Agency for International Development), usually have the power to hire staff, acquire goods, and contract work for project implementation. These resident agencies open special accounts, either at central banks or at commercial banks, for the project funds. These agencies enjoy autonomy, but their expenditures are project-related. They are usually classified as part of the central government. The central government (generally the ministry of finance or the ministry of development) negotiates the loans or grants with the international organizations and assumes the financial liability for the project.[24] For analytical purposes, separate identification of the government accounts related to projects financed by international agencies is recommended.

3.238 National universities are a special case of units providing nonmarket education services. Even if they are incorporated into the ministry of education and receive most of their funding through the national budget, they enjoy a much greater degree of policy and financial autonomy than primary or secondary schools. If the universities are controlled by a central government unit (e.g., the ministry of education) and their main source of funding is the central government, their accounts should be part of the central government accounts, even if the universities can freely spend the funds provided by the central government. If controlled at the state level, the university is part of the state government subsector.

3.239 Political parties are usually part of the NPISHs sector. In single-party states, the relationship between the central government and the government party may determine that the party should be classified within the central government subsector.

Public-private partnerships

3.240 ***Public-private partnerships (PPPs) are long-term contracts between two units, whereby one unit acquires or builds an asset or set of assets, operates it for a period, and then hands the asset over to a second unit.*** Such arrangements are usually between a private enterprise and government, but other combinations are possible, with a public corporation as one of the parties or a private NPI as the second party. These schemes are described variously as PPPs; private finance initiatives (PFIs); build, own, operate, transfer schemes (BOOTs); and so on.

3.241 A PPP arrangement may or may not result in the creation of a separate institutional unit. When a separate institutional unit is established as a result of a PPP arrangement, its sector classification is determined by the economic nature of its activities, including whether it is a market producer or not, and who controls it. If the PPP is a market producer, it is classified as an NFC; whether it is a PNFC or other NFC will depend on the control (whether it is controlled by a government unit or a private corporation).[25] If the PPP is a nonmarket producer controlled by a government unit, it is classified as part of the general government sector. Relevant for monetary statistics compilers is the sectoring of FCs' claims on and liabilities to PPP units.

Special purpose entities of government

3.242 Governments may set up SPEs that may be involved in fiscal or quasi-fiscal activities, such as securitization of assets or borrowing. Resident SPEs that function only in a passive manner relative to general government and that carry out fiscal and quasi-fiscal activities do not satisfy the criteria to be institutional units and are therefore treated as part of government, regardless of their legal status.

3.243 Resident SPEs acting independently, acquiring assets and incurring liabilities on their own behalf, and accepting the associated risk, are treated as separate institutional units and classified to a sector according to their principal activity.

3.244 SPEs that are resident in a different country than their controlling government are always classified as separate institutional units in the economy where they are established. A government may create nonresident SPE to undertake government borrowing or incur government outlays abroad for fiscal purposes. Even if there are no actual flows recorded between the government and the SPE related to these fiscal activities, flows and stock positions should be imputed in the accounts of both the government and the rest of the world to reflect the fiscal activities of the government undertaken by the SPE (see *BPM6*, paragraphs 8.24–8.26).

State, provincial, or regional governments [S1322]

3.245 State, provincial, or regional governments exercise some of the functions of government at a level below that of central government and above that of

[24] In some cases, the loans or grants are extended to a lower level of government. The funds may be deposited with a financial institution that manages them. In this case, the accounts opened to administer the projects are classified by the FC to the corresponding creditor sector (such as central, state, or local government).

[25] For the statistical treatment of PPP arrangements, see *Public Sector Debt Statistics: Guide for Compilers and Users* (2013), paragraphs 4.123–4.126, and *GFSM 2014*, paragraphs A4.58–A4.65.

the local government level. This subsector consists of state, provincial, or regional governments that are separate institutional units plus those nonmarket NPIs that are controlled by state, provincial, or regional governments.

3.246 A state, province, or region is the largest geographical area into which a country may be divided for political or administrative purposes. The legislative, judicial, and executive authority of a state government extends over the entire area of an individual state, which usually includes numerous localities. The autonomy, powers, and responsibilities of states vary widely among countries, depending on their political and historical circumstances. In some countries, individual states do not exist.

3.247 A state government usually has the fiscal authority to levy taxes on institutional units that are resident in, or engage in economic activities or transactions within, its area of jurisdiction. It must also be entitled to spend or allocate some, or possibly all, of the taxes or other revenue that it receives according to its own policies, although some of the transfers it receives from central government may be tied to certain specific purposes. It should also be able to appoint its own officers, independently of external administrative control. If a regional unit is entirely dependent on funds from central government, and if the central government also determines the ways in which these funds are to be spent, for statistical purposes the unit should be treated as an agency of the central government rather than as a separate level of government.

3.248 The principal departments and ministries of a state government will constitute a single institutional unit similar to the core unit of the central government. In addition, there may be agencies that operate under the authority of a state government and have separate legal identity and enough autonomy to form additional institutional units. The same considerations that apply to the central government regarding nonmarket NPIs, autonomous agencies, and SPEs are applicable to determination of whether these units are part of the state government subsector or some other sector. State governments may own or control corporations or have other units that engage in market production and are classified as quasi-corporations.

3.249 The authority over some institutional units may be shared by two or more states. Such units are included in the state government subsector.

Local governments [S1323]

3.250 The local government subsector consists of local governments that are separate institutional units plus those nonmarket NPIs that are controlled by local governments. The legislative, judicial, and executive authority of local government units is restricted to the smallest geographic areas distinguished for administrative and political purposes. The scope of their authority is less than that of the central or state governments, and such governments may or may not be entitled to levy taxes on institutional units or economic activities in their areas.

3.251 Typical sources of revenue for local government are taxes on real estate and automobiles and fees for collective services (e.g., trash collection). Local governments are typically dependent on grants and transfers from higher levels of government. In some countries, local governments are able to raise funds by issuing bonds. Local governments are entitled to own assets, raise funds, and incur liabilities on their own account and must also have some discretion over their expenditures and should be able to appoint their own officers independent of external administrative controls.

3.252 The principles for classifying units at the central and state government level also apply to the local government subsector. Units that satisfy the criteria to be a quasi-corporation should be classified in the NFCs sector if the services are supplied on a market basis. Units supplying services on a nonmarket basis remain an integral part of the local government unit to which they belong.

3.253 Statistics for local government may cover a wide variety of governmental units, such as counties, municipalities, cities, towns, townships, boroughs, school districts, and water sanitation districts. Local government units with different functional responsibilities often have authority in the same geographic area. For example, separate government units representing a town, a county, and a school district may have authority over the same areas. Two or more contiguous local governments may jointly organize a government unit with regional authority that is accountable to the local governments. Such units should also be included in the local government subsector.

3.254 Government units serving both a state and one or more local governments are included at the level of government that accounts for the largest share of their operations and financing. In some countries, other levels of government exist between the central government and the lower levels of government. These intermediate levels of government are grouped together with the level of government, either state or local, with which they are most closely associated.

Social security funds

3.255 A social security fund is a particular kind of government unit that is devoted to the operation of one or more social security schemes. Social security funds can be found at all government levels (central, regional, local). To be treated as independent institutional units, they must be organized and managed separately from the other activities of the government, hold their assets and liabilities separately, and engage in financial transactions on their own account.

3.256 Social protection schemes are systematic government interventions intended to relieve households and individuals of the burden of a defined set of social risks.[26] Typical social risks covered by these schemes are: (1) old age, (2) invalidity, (3) death, (4) sickness and maternity, (5) work injury, and (6) unemployment. The government often provides the relief in the form of social benefits, which are transfer payments (in cash or in kind) provided in a collective arrangement. These benefits are provided through social security schemes that cover the community as a whole, or large sections of the community, and generally require formal participation by beneficiaries, evidenced by compulsory contributions by employees and/or employers. The terms under which benefits are paid to recipients are determined by the government.

3.257 Social security funds can be very large and play an important role in government policies and the mobilization of financial resources of the entire community. Because the government can vary social security benefits as part of its overall economic policy, no liabilities are associated with social security schemes. In some countries, social security funds may become so closely integrated with the other finances of the government as to bring into question whether they should be treated as a separate subsector of the general government. Even if they are separately constituted, this *Manual* recommends combining the accounts of social security funds with the level of government at which they operate.

3.258 Social security funds are distinguished from autonomous pension schemes provided by employers, which offer benefits linked to employment. These schemes, operated privately or by the government, are included in the OFCs sector.

D. Households [S14]

3.259 A household is defined in paragraph 3.7. In general, each member of a household should have some claim upon the collective resources of the household. Unattached individuals are also considered households.

3.260 Households often coincide with families. Nonetheless, a household may be of any size and take a wide variety of different forms in different societies or cultures, depending on tradition, religion, climate, geography, and other socioeconomic factors. Most relevant is that among members of the same household there is sharing of resources and consumption.

3.261 Domestic staff that live on the same premises as their employer do not form part of their employer's household, even though they may be provided with accommodation and meals as remuneration in kind. They have no claims upon the collective resources of their employer's households, and the accommodation and food they consume are not included with their employer's consumption. They should be treated as belonging to a separate household.

3.262 Households can also be institutional households. These comprise groups of persons who are expected to reside in institutions for long, or indefinite, periods of time and are treated as belonging to a single household if they have little or no autonomy of decision making or action in economic matters. Some examples of persons belonging to institutional households are: (1) members of religious orders living in monasteries, convents, or similar institutions; (2) long-term patients in hospitals, including mental hospitals; (3) prisoners serving long sentences; and

[26] For a description of different organizational structures to provide social protection, see *GFSM 2014*, Appendix 2.

(4) persons living permanently in nursing or retirement homes.

Households as producers

3.263 Households may engage in various kinds of economic activity, not merely consumption. Members of households play a major role in production through the operation of their own unincorporated enterprises (often referred to as "sole proprietors") or through the supplying of labor as employees of unincorporated or corporate enterprises.

3.264 Households' unincorporated enterprises may produce for the market or for their own final use. Some household enterprises are created solely for the purpose of producing goods or services for sale or barter on the market. Other household enterprises operate primarily for production of goods or services for own final use, such as the activities of subsistence farmers, and households engaged in the construction of their own dwellings.

3.265 Household unincorporated enterprises also include unincorporated partnerships that are engaged in producing goods or services for sale or barter on the market. The partners may belong to different households. When the liability of the partners for the debts of the enterprises is unlimited, the partnerships must be treated as unincorporated enterprises and remain within the household sector because all the assets of the household, including the dwelling itself, are at risk if the enterprise goes bankrupt.

3.266 Unincorporated enterprises owned by households and engaged in market production are classified in the household sector. However, if it is possible to separate all assets of the enterprise—including financial assets down to the level of cash—from those belonging to the household as consumer, these enterprises qualify as quasi-corporations and they are included in the NFCs sector. Similarly, unincorporated partnerships with many partners, such as some large legal, accounting, or architectural firms are likely to behave like corporations and should be treated as quasi-corporations assuming a complete set of accounts is available for the partnerships.

E. Nonprofit Institutions Serving Households [S15]

3.267 NPIs are allocated to the financial or NFCs sector when they engage in market production, or to the general government sector if they are controlled by government, resident in the same economy, and engaged in nonmarket production. NPIs are nonmarket producers if they provide goods or services to their members, other households, or the community as a whole, either free or at prices (or fees) that are not economically significant. Nonmarket NPIs that are not financed and are not controlled by government units are called NPISHs and constitute a separate institutional sector.

3.268 NPISHs are mainly financed from contributions, subscriptions from members, donations, transfers, and earnings on their holdings of financial and nonfinancial assets. The NPISHs sector includes two major categories: (1) trade unions, professional or learned societies, consumers' associations, political parties (except in single-party states), churches or religious societies (including those financed by the government), and social, cultural, recreational, and sports clubs; and (2) charities and relief or aid organizations financed by voluntary transfers (in cash or in kind) from other institutional units.

3.269 Compilers may need to consider borderline cases or misleading designations in deciding whether a unit should be classified as a NPISHs or an NFC. For example, recreational and sports clubs are classified as NPISHs if they are not-for-profit and are organized as civil associations. However, sports clubs that are organized as private enterprises are classified in the NFCs sector. Professional associations can be borderline cases for which it is necessary to determine if they serve households (and therefore are NPISHs) or serve corporations.

3.270 For monetary statistics, households and NPISHs are combined in the category of *Households and NPISHs*. It is recommended that compilers identify a memorandum item *"of which: households"* for loans to and deposits of households.

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