



Quarterly financial accounts for Denmark

SOURCES AND METHODOLOGIES

Contents

Quarterly financial accounts for Denmark include the financial sector accounts: balance sheets, transactions, revaluations and other changes in volume, i.e. statistics of developments in financial assets and liabilities for the whole economy divided into main sectors. The accounts are part of the national accounts and comply with the guidelines in Eurostat's manual The European System of Accounts 1995 (ESA95).

Relations to the rest of the national accounts

The link between the non-financial and the financial compilations is transactions. For a given sector this means that there is consistency between the net acquisition calculated on the basis of non-financial transactions (production, wages, investment income, imports and exports, etc.) and the net acquisition calculated on the basis of the financial flows (acquisition and sale of financial instruments, raising and reducing of debt, etc.). In other words: Profits have to be placed while deficits have to be financed.

Statistical principles

The quarterly financial accounts show the holdings of financial assets and liabilities at end-quarter. They also show transactions, revaluations and other changes in volume which specify the changes between two balances. As a main rule, all accounts are stated at market value. The financial accounts are compiled on a non-consolidated basis, i.e. accounts between institutional entities in the same sector are included in the statements.

Sectors

Under ESA95, the whole economy is divided into a number of domestic sectors and the rest of the world where the latter is included as a separate sector. The domestic sectors are broken down by type of economic activity and are generally divided into households, financial corporations, non-financial corporations and general government. Quarterly financial accounts comprise a division into 9 sectors in total, cf. below, as financial corporations are subdivided into the sectors Danmarks Nationalbank, other monetary financial institutions, other financial intermediaries, financial auxiliaries, and insurance corporations and pension funds. The financial corporation sectors differ by the type of financial intermediation, where financial intermediation generally covers channelling financial assets *from* persons or enterprises with savings surpluses *to* persons or enterprises with savings deficits.

The sectors in the financial accounts are as follows (with the ESA95 codes in brackets):

- Non-financial corporations (S.11)

Consist of institutional units whose distributional and financial transactions are separated from those of their owners. This means e.g. that sole proprie-

torships are not included in the sector. The principal activity of the units is the production of goods and non-financial services.

- Danmarks Nationalbank (S.121)

The national central bank is listed as a separate sector.

- Other monetary financial institutions (S.122)

Corporations which are principally engaged in financial intermediation and whose business is to receive deposits and/or close substitutes from the general public. and other institutional units than the sector as such and to divert these in the form of loans and/or investments in securities for own account The sector comprises banks, mortgage banks, other credit institutions and money-market funds and corresponds to the reporting population for Danmarks Nationalbank's Statistics on the balance sheets and flows of the MFI sector which again are identical to units authorised by the Financial Supervisory Authority.

- Other financial intermediaries(S.123)

Financial intermediaries that do not fit into the other financial sectors. The sector comprises investment associations, financial holding companies, LD Pensions and the Special Pension Savings scheme (SP). It also includes investment trusts, venture and leasing companies and companies providing consumer credit (e.g. via charge cards).

Financial auxiliaries (S.124)

Companies engaged in auxiliary financial activities, e.g. in connection with financial intermediation. The sector comprises e.g. stockbrokers, insurance brokers, Payment Business Services (PBS) and VP Securities.

- Insurance corporations and pension funds (S.125)

Insurance corporations and pension funds whose principal function is to act as financial intermediaries by pooling risks, excluding the public pension schemes LD Pensions and the Special Pension Savings scheme (SP). Examples of units in the sector are non-life insurance corporations, life insurance corporations, pension funds and ATP (The Danish Labour Market Supplementary Pension).

- General government (S.13)

Authorities and institutions whose principal function is to supply non-market public services to the general public and/or to redistribute income and wealth. Non-market services are defined as services actively controlled by public authorities and supplied free of charge or at economically not significant prices. In Denmark, this sector can be divided into three subsectors: central government, local government, and social security funds.

- Households, etc. (S.14 and S.15)

The households sector (S.14) comprises consumers and sole proprietorships where the business activity is not segregated into independent legal entities. Non-profit institutions serving households (S.15) supply goods and services to households, e.g. trade unions and charities.

- Rest of the world (S.2)

Danish residents' accounts with non-residents, i.e. households, companies, etc. domiciled abroad.

Instruments

The financial assets and liabilities are divided into a number of different instruments. The instrument groups are identical for assets and liabilities. ESA95 comprises 7 principal instruments that again are divided into a num-

ber of subinstruments (a total of 19 instruments at the most detailed level). The quarterly financial accounts comprise the 7 principal instruments and 14 subinstruments at the most detailed level. The available data sources do not directly provide for a complete degree of detail.

The principal instruments and corresponding subinstruments are as follows (with the equivalent ESA95 codes in brackets):

- Monetary gold and special drawing rights (AF.1) Only relevant for Danmarks Nationalbank and comprises the foreign-exchange-reserve assets monetary gold (AF.11) and special drawing rights¹, SDRs (AF.12). In the quarterly financial accounts the two instruments are stated as one instrument.
- Currency and deposits (AF.2) Comprises banknotes and coins in circulation (AF.21), transferable deposits (AF.22), i.e. typically sight deposits, and other types of deposits (AF.29). The latter includes time deposits and deposits at notice. The instruments AF.21 and AF.22 are stated as one in the quarterly financial accounts.
- Securities other than shares (AF.3) Comprises negotiable securities which do not give the holder ownership rights in relation to the issuer. The instrument is divided into short-term securities (AF.331), long-term securities (AF.332) and financial derivatives (AF.34). The classification as long- or short-term securities, respectively, refers to whether the *original* maturity (i.e. the term to maturity at issue) was more or less than 1 year. Short-term securities include e.g. Treasury bills and certificates of deposit, while long-term securities include e.g. government and mortgage-credit bonds.
- Loans (AF.4) The financial assets which a creditor either directly or through brokers lend to debtors, maybe evidenced by non-negotiable documents. Loans are divided into short-term loans (AF.41), i.e. loans with an original maturity of 1 year or less, and long-term loans (AF.42) with an original maturity of more than 1 year. In general, loans are stated at nominal value, except mortgage-credit loans which are stated at market value.
- Shares and other equity (AF.5) The financial assets which represent property rights on corporations. These financial assets generally entitle the holders to a share in the profits of the corporations and to a share in their net assets in the event of liquidation. Comprises quoted shares (AF.511), unquoted shares (AF.512) and other equity (AF.513), comprising e.g. ownership interests in cooperative societies, limited partnerships, etc. Mutual funds shares (AF.52) are also included.
- Insurance technical reserves (AF.6) Comprises insurance corporations' and pension funds' provisions to cover obligations vis-à-vis policyholders and beneficiaries. The instrument can be subdivided into net equity of households in life insurance reserves (AF.611), comprising the insurance corporations' provisions for life insurance, and net equity of households in pension funds reserves (AF.612), comprising pension funds' provisions for pension disbursements to households. The in-

¹ Special drawing rights are international reserve assets created by the IMF and allocated to its members as a supplement to the existing reserve assets.

strument also includes prepayments of insurance premiums and reserves for outstanding claims (AF.62), comprising e.g. amounts due to policyholders in the form of prepaid premiums, as well as the companies' provisions to cover actual incidents for which damages have not yet been paid. In the quarterly financial accounts, the instruments AF.611 and AF.612 are stated under net equity of households in life insurance reserves and in pension funds reserves (AF.61).

- Other accounts
receivable/payable
(AF.7)

Comprises trade credits and advances (AF.71) and other accounts receivable/payable, except trade credits and advances (AF.79). The latter include e.g. tax payable and social benefits receivable. Other accounts receivable/payable (AF.7) are not subdivided in the quarterly financial accounts.

Sources

Quarterly financial accounts are derived statistics, i.e. the statement is based on existing primary sources. The sources are both direct and indirect.

The direct sources are used for compiling financial accounts for a specific sector and comprise information obtained directly from the sector, e.g. balance-sheet and flow statistics as well as annual, semiannual and quarterly accounts.

The indirect sources supply sector information that is not provided by the sector itself but obtained from other reporters of information. The indirect sources include e.g. counterpart information from the direct sources of other sectors (e.g. from Danmarks Nationalbank's Statistics on the balance sheets and flows of the MFI sector) and the cross-sectoral Securities statistics with information about issues and/or holdings of securities across sectors (information provided by VP Securities, custodian banks and reporters of holdings in foreign custody). The indirect sources provide information about the sectors for which no direct sources are available, or where the available direct sources are not exhaustive. Indirect sources are e.g. used in cases where a direct source is only available on an annual basis (e.g. annual accounts).

In addition, calculations are performed in the areas where no primary sources are available or where coverage is incomplete.

The main sources and their use include:

- Danmarks National-
bank's Statistics on
balance sheets and
flows of the MFI sector

The statistics are used as the central source for compilation of financial accounts for the sectors Danmarks Nationalbank (S.121) and other monetary financial institutions (S.122). Furthermore the counterpart information of these statistics is used in the financial accounts for all other sectors.

- Danmarks National-
bank's statistics Den-
mark's external assets
and liabilities

The source of the financial accounts for the rest of the world (S.2) is Danmarks Nationalbank's quarterly statistics Denmark's external assets and liabilities. The information on counterparts from these statistics is used in the financial accounts for the domestic sectors.

However, the statistics deviate as concerns Danmarks Nationalbank's holdings of monetary gold and special drawing rights (AF.1). This account is included in the Denmark's external assets and liabilities, but according to ESA95 it is not part of the financial accounts for the rest of the world. As from 1st quarter 2005 other changes in volume for the rest of the world are by definition set at zero, while revaluations and transactions specify the changes between two balances.

- Danmarks Nationalbank's Balance sheet statistics for investment associations

The statistics on investment associations are one among many sources for the sector other financial intermediaries (S.123) where the statistics contribute with balance-sheet and flow information about the investment associations. The statistics establish e.g. other financial intermediaries' liabilities in the instrument mutual funds shares (AF.52) and also comprise the central source for the compilation of the sectors' Danish mutual funds shares.

- Consumer credit and financing companies

Statistics Denmark's quarterly consumer credit statistics and annual accounts statistics of financing companies are direct sources of information about the companies providing consumer credit. These statistics comprise companies outside the MFI sector providing consumer financing in the form of charge card services, credit agreements or loans.

Statistics Denmark's annual accounts statistics for financing companies are the direct source for companies with activities in financial leasing and/or lending.

- Selected accounts for other financial intermediaries and financial auxiliaries

This source comprises financial data for LD Pensions, SP (included in other financial intermediaries as from 1 January 2002) and the Temporary Pension Savings scheme (discontinued at the beginning of 2003 when the assets were moved to SP).

Quarterly and annual accounts covering a significant part of the populations in question are used as direct sources for financial holding companies (and funds) and investment trusts and venture capital companies.

In addition, annual accounts for a number of other companies in the sector other financial intermediaries (S.123).

Regarding financial auxiliaries, accounts for greater units in the sector and use of total balances from Experian form the basis of an enumeration of the remaining part of the sector. It is assumed that the market value of issued equity equals book value.

- Financial data for insurance corporations and pension funds

The basis for the compilation of financial accounts for the sector insurance corporations and pension funds (S.125) are quarterly accounts from ATP Lifelong Pension and The Danish Financial Supervisory Authority's annual accounts statistics for life-insurance companies, etc. and non-life insurance companies form. Quarterly data are calculated on the basis of indirect sources that, *inter alia*, include Danmarks Nationalbank's statistics Denmark's external assets and liabilities, Statistics on balance sheets and flows of the MFI sector and Securities statistics. As from 2003 biannual financial data for insurance corporations and pension funds are also used.

- Financial data for non-financial corporations	The compilation of stocks of unquoted shares issued by non-financial corporations and owned by the non-financial corporations themselves or by households, are based on annual financial statements extracted from the accounts data bases of Bureau van Dijk and Experian. Market values, quarterly data, transactions and revaluation are subsequently estimated by using Danmarks Nationalbank's Securities Statistics and tax information concerning income from shares (the tax data base).
- Statistics Denmark's quarterly financial accounts for general government	Financial accounts for general government (S.13) are based on the quarterly financial accounts from Statistics Denmark.
- Danmarks Nationalbank's Securities statistics	Securities issued by the domestic sectors and domestic securities held by the domestic sectors as well as the rest of the world are principally compiled on the basis of Danmarks Nationalbank's Securities statistics. The statistics are based on information from VP Securities, reportings of repos, domestic units' holdings in foreign custody and Danish residents' issues abroad. The statistics are supplemented with information from Danish custodian banks about the customers' balances of domestic securities not registered with VP Securities.
Reconciliation	<p>Reconciliation of the primary statistics is performed as part of the compilation of quarterly financial accounts. The reconciliation implies that different primary statistics covering the same balances are compared, and any discrepancies are examined. In case of deviations the quarterly financial accounts are based on the information assessed to be of the best data quality.</p> <p>The purpose of the reconciliation is also to ensure internal consistency in the financial balance sheets, transactions, revaluations and other changes in volume across the sectors in order that balances and changes in the total financial assets in a given instrument correspond to the balances and changes in total liabilities in the same instrument.</p> <p>The final step in the reconciliation process ensure complete consistency with the net lending/net borrowing compiled in the quarterly non-financial sector accounts.</p>
Uncertainties	In recent years all statistical systems of Danmarks Nationalbank have undergone fundamental changes. One impact of the changes is that the available data for the compilation of the quarterly financial accounts has been considerably improved. The integration of the statistics in the financial accounts, however, gives rise to examine data in new contexts which – as expected – has revealed some lack of consistency both within and between the individual statistics. The preliminary conclusion to the most recent quarters is that the uncertainty can now be primarily attributed to problems of allocation of periodicity. However, it is not possible to measure this uncertainty.

The quarterly financial accounts are reconciled to ensure consistency between the non-financial and the financial part of the national accounts. The extent of this reconciliation can be considered as an expression of the total uncertainty in the system of quarterly sector accounts. This is due to the fact that net lending/net borrowing of each institutional sector, compiled in the financial and non-financial part of the national accounts respectively, already before the reconciliation in principal ought to be alike. The amounts of reconciliation are published at the same time as the quarterly financial accounts.

Ongoing work

The focus of the ongoing work with quarterly financial accounts will be on continuous quality management across the incoming sources. Likewise accounts for transactions, revaluations and other changes in volume for the period 1999-2002 must be compiled. This work has been commenced in autumn 2006. Furthermore, the continuous focus is on minimizing the need for reconciliations in the system.

Revision

The statistics are revised according to "Danmarks Nationalbank's revision policy for financial statistics". Times of revision and revision periods for the individual statistics appear from "Danmarks Nationalbank's revision cycle for financial statistics". Both documents can be found on Danmarks Nationalbank's website, www.nationalbanken.dk under Statistics – Revision policy.

Statistics Denmark's annual financial accounts

Statistics Denmark publishes financial accounts compiled on an annual basis. A comparison between Danmarks Nationalbank's compilation of quarterly financial accounts and Statistics Denmark's annual financial accounts shows that there are numerical discrepancies between the two statistics. These are partly a result of the use of different primary statistics or calculation methods. Furthermore, discrepancies may be attributed to revisions of the primary statistics being incorporated quarterly in the quarterly financial accounts and semiannually in the annual financial accounts. Statistics Denmark and Danmarks Nationalbank are working together to ensure that the discrepancies between the two statistics are considered on an ongoing basis.

Symbols

Due to rounding-off there may be small differences between the sum of the individual figures and the totals stated.

- Not applicable.
- ... Data not available.

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