EXPLANATORY NOTES

INTRODUCTION

1 This publication contains financial profiles of each subsector of the economy and the market for each conventional financial instrument. There are also tables showing inter-sectoral financial transactions and measures of sectoral financial surpluses and deficits.

2 Financial accounts of various types - which are also called flow of funds statistics - are published by many OECD countries, including the United States (from 1945), the United Kingdom (from 1952) and Canada (from 1962). In Australia, the Reserve Bank produced annual flow of funds accounts for the reference years 1953-54 to 1988-89. The final edition of these was published in the Reserve Bank's Bulletin for November 1989. The Australian Bureau of Statistics (ABS) has published quarterly estimates commencing with experimental estimates of inter-sectoral financial transactions for the March and June quarters 1989. Since the June 1998 reference quarter, the financial accounts dataset has been produced according to a revised international standard, the System of National Accounts, released in 1993 (SNA93) under the auspices of five international organisations: Commission of the European Communities - Eurostat, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, and World Bank. There are significant conceptual differences between the SNA93-based ABS Financial Accounts and the previous Financial Accounts (see Information Paper Cat. no. 5254.0). The dataset prior to June 1998 has been converted to the revised standard and backcast to June 1988 (stocks data) and September quarter 1988 (transactions data).

COMPARISON WITH PREVIOUS RESERVE BANK ESTIMATES

3 The Australian Financial Accounts shown here are not directly comparable with the flow of funds estimates which were previously published by the Reserve Bank. Therefore, the ABS series should therefore not be used as an extension of the Reserve Bank series. The main differences between the two series are as follows.

- The ABS statistics are compiled with assistance from specially conducted statistical surveys whereas the RBA's series were compiled mainly from administrative sources. These administrative by-product data were different in scope, coverage, timing and classification from the survey data used by ABS.
- The ABS statistics use the same sectors as in other parts of the national accounts whereas the RBA's sectoring was different. The RBA combined Commonwealth public trading enterprises and Commonwealth general government; and State and local public trading enterprises, and State and local general government. The sectors used by the RBA can be constructed by consolidation of the statistics presented in this publication. Also, the RBA's statistics had a more detailed classification of financial enterprises than that presented here.
- The ABS statistics use a more extensive classification of financial instruments than that used by the RBA. The RBA's classification can be constructed from the ABS statistics.

STOCK AND FLOW CONCEPTS

4 Tables 1 to 16 and 34 to 41 present balance sheet data at market prices at the end of each calendar quarter. Balance sheet data are also known as stock, level or position data. In contrast Tables 17 to 33 show net inter-sectoral financial transactions during the quarters. These are flow data. In this publication, flows (or net transactions) are defined as active dealing in a financial instrument. Transaction costs (such as brokerage and loan application fees) are not included in the value of transactions. The accompanying table gives examples of net transactions in financial instruments.

STOCK AND FLOW CONCEPTS *continued*

Instrument	Example of flows (net transactions)
Currency and deposits	new deposits *less* withdrawals of existing deposits
Debt securities - issued in Aust. - asset entries	purchases *less* sales
Debt securities - issued in Aust. - liability entries	new issues *less* maturing issues
Loans and placements	drawdowns *less* repayments of existing loans
Shares and other equity - listed - asset entries	purchases *less* sales
Shares and other equity - listed - liability entries	new issues *less* buy-backs of existing shares
Insurance technical reserves	net transactions in assets of life offices and superannuation funds *less* net transactions in their repayable liabilities

THE CLASSIFICATION OF INSTITUTIONAL SECTORS AND SUBSECTORS

5 The institutional sectors are based on the *Standard Economic Sector Classifications of Australia 1998* (ABS Cat. no. 1218.0) and are the same as the sectors used in national income and expenditure accounts.

6 The basic unit that is classified by sector is the institutional unit, which is defined as an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and transactions with other entities.

7 Two main broad types of institutional units are:
- households
- legal or social entities.

8 The second type is split into a number of different kinds of entities. These are:
- corporations and quasi-corporations;
- government units; and
- non-profit institutions (NPIs)

9 A corporation is defined as a legal entity, created for the purpose of producing goods and services for the market, that 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. Unincorporated enterprises which engage in market production and function as if they are corporations are known as quasi-corporations, and are included with corporations.

10 Government units are unique kinds of legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a given area. They engage in non-market production inasmuch that they provide goods and services to individuals or the community at large at prices that are not economically significant (see glossary for definition of 'economically significant'). Government units are primarily financed from taxation revenue.

11 NPIs are defined as legal or social entities, created for the purpose of producing goods and services, whose status does not permit them to be a source of income, profit or other financial gain for the units that establish, control or finance them. NPIs are subdivided between those that are predominantly engaged in market production (called market NPIs)

THE CLASSIFICATION OF INSTITUTIONAL SECTORS AND SUBSECTORS *continued*

and those that are predominantly engaged in non-market production (called non-market NPIs). Market NPIs sell their output at economically significant prices; non-market NPIs dispose of their output free of charge or at prices that are not economically significant.

12 Units are grouped into four broad domestic institutional sectors:

- non-financial corporations;
- financial corporations;
- general government; and
- households.

13 In addition, all non-residents engaged during the reference period in financial transactions with Australian residents or holding, at the reference date, financial assets or liabilities with Australian counterparties, are grouped into a rest-of-the-world sector.

Non-financial corporations

14 This sector comprises all resident corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services, and holding companies with mainly non-financial corporations as subsidiaries. Also included are non-profit institutions (NPIs) that mainly engage in market production of goods and non-financial services.

15 Private enterprises classified to this sector are mainly companies registered under the Corporations Act (or created by other Acts of Parliament) but also include property trusts. As well, large unincorporated businesses which keep complete and independent financial records and therefore qualify as quasi-corporations, are included. Examples of these unincorporated businesses are unincorporated partnerships of companies and trading trusts, unincorporated enterprises in Australia controlled by non-resident units (e.g. Australian branches of overseas corporations), and unincorporated enterprises assessable for income tax purposes as companies. All these privately owned businesses are grouped together into the subsector *private non-financial corporations*.

16 This sector also includes government-owned or controlled enterprises which are mainly engaged in the production of market goods and/or non-financial services and seek to recoup, through their sales, a substantial proportion of their costs of production. These enterprises are called *public non-financial corporations* and include enterprises incorporated under the Corporations Act or special statutes as well as unincorporated enterprises. Separate statistics are provided for public non-financial corporations owned by the Commonwealth government and those owned by State or local governments.

Financial corporations

17 This sector comprises all resident corporations and quasi-corporations mainly engaged in financial intermediation and provision of auxiliary financial services. For example, they borrow and lend; provide superannuation, life, health or other insurance services, or financial leasing services; or they invest in financial assets. Holding companies with mainly financial corporations as subsidiaries are also included, as are market NPIs that mainly engage in financial intermediation or production of auxiliary financial services. Mostly these enterprises are incorporated but large unincorporated enterprises such as unit trusts and superannuation funds are included in this sector if they qualify as quasi-corporations.

Financial corporations continued

18 This broad sector is broken down into eight sub-sectors:
- Central Bank;
- Banks;
- Other depository corporations;
- Life insurance;
- Pension funds;
- Other insurance corporations;
- Central borrowing authorities; and
- Financial intermediaries and auxiliaries n.e.c.

19 *Central Bank*. The only entities in this subsector are the Reserve Bank of Australia and the Australian Prudential Regulation Authority (APRA). The central bank sub-sector is responsible for:
- monetary policy development;
- issuing of national currency; custodian of the country's international reserves;
- custodian of reserve deposits;
- provision of banking services to government; and
- regulation of the financial system.

20 *Banks*. In these statistics, the only entities in this subsector are those financial corporations and quasi corporations licensed by APRA to operate as a bank. Development banks and State banks were included in this subsector for the periods in which they existed.

21 *Other depository corporations.* This subsector comprises all depository corporations with liabilities included in the Reserve Bank's definition of *broad money*, other than the RBA and those corporations that are categorised as banks. Prior to April 2003, financial corporations classified to this subsector are cash management trusts and corporations registered in categories A to G of the Financial Corporations Act (i.e. permanent building societies, credit co-operatives, authorised money market dealers, money market corporations, pastoral finance companies, finance companies and general financiers). Category C - authorised money market dealers - was abolished with effect from August 1996. New registration and reporting arrangements under the Financial Statistics (Collection of Data) Act took effect from April 2003, superseding the Financial Corporations Act. Since then the subsector has been defined as non-bank depository institutions authorised by APRA (mainly credit unions and building societies), corporations registered under the Financial Statistics (Collection of Data) Act (also known as Registered Financial Corporations), mainly money market corporations and finance companies, and cash management trusts.

22 *Life insurance.* This subsector comprises all insurance corporations
- registered as life insurers with APRA, and friendly societies. These institutions are
- important as repositories of long-term household savings.

23 *Pension funds.* This subsector comprises all superannuation funds that are regarded as complying funds for the purposes of the Superannuation Industry Supervision Act (1993) and other autonomous funds established for the benefit of public sector employees. Superannuation funds with all of their assets invested with insurance offices are included. Like the life insurance subsector, the subsector is a major repository for household savings.

24 *Other insurance corporations*. This subsector includes all corporations that provide insurance other than life insurance. Included are general, fire, accident, employer liability, household, health and consumer credit insurers. Also included is the Export Finance Insurance Corporation.

Financial corporations continued

25 *Central borrowing authorities.* This subsector includes all central borrowing authorities, which are institutions established by each State and Territory Government primarily to provide finance for public corporations and quasi-corporations and other units owned or controlled by those governments, and to arrange investment of the units' surplus funds.

26 *Financial intermediaries and auxiliaries n.e.c.* This subsector comprises all institutions that meet the definition of a financial enterprise and are not included above. It includes:

- economic development corporations owned by governments;
- common funds including cash common funds;
- mortgage, fixed interest, equity and balanced public unit trusts;
- wholesale trusts;
- issuers of asset-backed securities;
- cooperative housing societies;
- corporations registered in category J of the Financial Corporations Act (mainly credit union leagues);
- housing finance schemes established by State Government to assist first home buyers;
- fund managers;
- stock brokers;
- stock exchanges;
- insurance brokers; and
- arrangers of hedging instruments such as swaps, options and futures.

General government

27 This sector consists of all government units (as defined at the beginning of this section) and non-market NPIs that are controlled and mainly financed by government. It mainly comprises Commonwealth, State and local government departments, offices and other bodies that are primarily engaged in production of goods and services outside the normal market mechanism. Statistics for this broad sector are broken down into two levels of government (LOG): National government; and State and local government.

28 All units that have a national role or function are classified to the National government sector. The fact that a unit is controlled by the Commonwealth Government is prima facie (but not necessarily conclusive) evidence that the unit has a national role or function. The only multi-jurisdictional units currently classified to the National LOG are the public universities which are mainly financed and partly controlled by the Commonwealth Government but are subject to a degree of control by the establishing State or Territory Government.

29 All units that have a State or Territory, or a local, role or function are classified to the State and local government sector.

Households

30 A household is defined in SNA93 as 'a small group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food'.

31 This sector includes all financial and non-financial unincorporated enterprises that are owned and controlled by households and are not included in the *private non-financial corporations sector*. Most business partnerships and sole proprietorships are included because their owners combine their business and personal affairs and do not keep separate accounts for their business operations and therefore do not qualify as quasi-corporations. Although private non-market NPIs serving households, such as clubs and charities, are included in a separate sector in the *Standard Economic Sector Classification of*

Households continued

Australia(SESCA) (cat. no. 1218.0), in this publication such NPIs are included with the households sector because separate information about their financial operations is not available.

Rest of the world

32 This sector consists of all non-resident entities that engaged in financial transactions with resident entities during the reference period or held financial positions with resident entities at the end of the reference period. For a precise definition of non-resident refer to *Balance of Payments and International Investment Position, Australia: Concepts, Sources and Methods* (cat. no. 5331.0) or the SESCA.

THE CLASSIFICATION OF FINANCIAL INSTRUMENTS

33 The definitions of the financial instruments are identical for assets and liabilities.

Monetary gold and Special Drawing Rights (SDRs)

34 *Monetary gold* constitutes gold owned by the Reserve Bank that is subject to the Reserve Bank's effective control and is held as a financial asset and as a component of foreign reserves. SDRs are international reserve assets created by the IMF and allocated to its members to supplement existing reserve assets. Transactions in SDRs are recorded in the financial accounts of the central bank and the rest of the world.

Currency and deposits

35 *Currency* covers notes (the liability of the Reserve Bank) and coin (the liability of the Commonwealth Government). *Deposits* are customers' account balances with domestic deposit-taking institutions (central bank, banks and other depository corporations) and non-resident deposit-taking institutions. Also included are units issued by cash management trusts and withdrawable share capital of building societies. (Bonds, debentures, unsecured notes and transferable certificates of deposit issued by deposit-taking institutions are classified to the instruments *long term debt securities other than shares*. Negotiable certificates of deposit issued by banks are classified to *short term debt securities other than shares*).

36 The ABS does not make a distinction between deposits and loans for balances and transactions between deposit-taking institutions. For practical reasons, all balances and transactions related to deposits and loans between such institutions are classified as deposits. Similarly, most liability account balances of banks or other depository corporations which are not evidenced by a security are treated as deposits.

Short-term debt securities other than shares

37 Debt securities are divided into short term and long term using the original rather than the remaining term to maturity of the instruments. *Short-term securities* are those with an original term to maturity of one year or less. Issuers of promissory notes and bills of exchange may negotiate rollover facilities which allow them to use these instruments as sources of floating-rate long-term funds. However, in these statistics, the existence of rollover facilities is not treated as converting what are legally short-term instruments into long-term instruments. That is, the ABS classifies the instrument according to the contracted term at the time of the original drawdown rather than anticipating use of the rollover facility.

38 There are two types of short-term securities shown in this publication:
- Bills of exchange; and
- One-name paper.

39 Both types are issued to investors at a discount to face value. Professional traders call these short-term instruments *money market securities* and trade them in minimum parcels of $10 million. Except for promissory notes they are traded on well-established secondary markets. Treasury Notes are inscribed but the other instruments in this category are bearer securities.

Short-term debt securities other than shares continued

40 *Bills of exchange* A bill of exchange is an unconditional order drawn (issued) by one party, sent to another party (usually a bank) for acceptance and made out to, or to the order of, a third party, or to bearer. It is a negotiable instrument with an original term to maturity of 180 days or less. Although merchant banks were the promoters of the bill market in Australia, today almost all bills are bank accepted or endorsed because investors expect bills to be the obligation of a first-class credit.

41 *One-name paper* One-name paper includes promissory notes, Treasury Notes and certificates of deposits issued by banks.

- *A promissory note* - also called commercial paper in the - is a written promise to pay a specified sum of money to the bearer at an agreed date. It is usually issued for an original term between 30 and 180 days and is sold to an investor at a simple discount to the value shown on the face of the document. A promissory note is not accepted by a bank and unlike a bill of exchange is not endorsed by the parties which sell it in the market.
- *Treasury Notes* are inscribed instruments issued by the Commonwealth Government and have an original maturity of five, thirteen or twenty-six weeks.
- *Bank certificates of deposits* are similar to promissory notes except that the drawer is a bank rather than (say) an industrial company. Bank-issued certificates of deposit with an original term to maturity of one year or less are called *negotiable* certificates of deposit.

Long-term debt securities other than shares

42 Long-term debt securities have an original term to maturity of more than one year. Each consists of a document that represents the issuer's pledge to pay the holder the sum of money shown on the face of the document, on a date which at the time of issue is more than one year in the future the sum of money shown on the face of the document. Until that future date the issuer usually promises to pay interest to the holder twice yearly at a rate which is fixed, linked to an index or linked to a reference rate (such as the bank bill rate).These securities are traded in the wholesale over-the-counter (OTC) market by telephone and through private screen brokers.

43 Long-term debt securities are frequently borrowed by market makers to cover short positions. Where identified, stock loans of this nature are treated in these statistics as securities' trades. Repurchase agreements, which are also used to cover short positions, are treated as purchases and sales of debt securities.

44 Synthetic financial products are classified according to their strict legal form. For example, so-called synthetic shares take the legal form of unsecured notes and pay interest equal to the cash dividend of a particular share. Such instruments are classified as long-term debt securities rather than equities.

45 Most long-term debt securities are bonds and the long-term debt securities data are tabulated under the heading *Bonds etc.*

46 *Bonds etc* include:

- Treasury bonds issued by the Commonwealth Government;
- Various series of inscribed stock which are issued by the central borrowing authorities and other government-owned corporations. These are known as *semi-government securities* by professional traders;
- Debentures, transferable certificates of deposit, and unsecured notes, which are collectively called *corporate securities or medium-term notes* by professional traders;
- Asset-backed bonds including mortgage-backed bonds; and
- Convertible notes prior to conversion.

Derivatives

47 *Derivatives.* Derivatives are a special type of financial instrument whose value depends on the value of an underlying asset, an index or a reference rate. Examples are swaps, forwards, futures and options. In these statistics, derivatives are treated as debt securities irrespective of the nature of the underlying asset.

Loans and placements

48 *Loans* are borrowings which are not evidenced by the issue of debt securities, and are not usually traded and their value does not decline even in a period of rising interest rates. Examples are an overdraft from a bank, money lent by a building society with a mortgage over a property as collateral, and a financial lease agreement with a finance company. Repurchase agreements between deposit-taking institutions are treated as purchases and sales of debt securities, not collaterised loans.

49 *Placements* are customers' account balances with entities not regarded as deposit-taking institutions. Examples are account balances of State and local public non-financial corporations with their central borrowing authorities, of public sector pension funds with their State Treasuries, and 11am money placed with corporate treasuries.

Shares and other equity

50 This instrument includes:
- shares quoted on ASX;
- shares of unlisted companies;
- convertible notes after conversion;
- preference shares;
- net equity of foreign head offices in their Australian branches;
- shares issued by non-residents;
- growers' equity in marketing schemes; and
- units issued by public unit trusts.

51 Units are included in this instrument because they have some of the characteristics of equities, such as entitlement to a share of the profits and-on liquidation-the residual assets of the trust.

Insurance technical reserves

52 This instrument represents policyholders' claims on life insurance businesses and superannuation funds. These technical reserves are calculated by deducting all repayable liabilities from the value of total assets, and comprises the following:

53 *Household claims on technical reserves of life insurance corporations and pension funds*: This category represents households' net equity in, or claims on, the reserves of life insurance corporations and pension funds. In the case of life insurance corporations, it equates in large measure with the net policy liabilities of life offices to households. For life offices organised as mutual societies, residual net worth is also included. In the case of pension funds, it represents the funds' obligations to members including any surpluses and reserves.

54 *Pension fund claims on life insurance corporations reserves:* This category represents pension funds' net equity in, or claims on, life insurance corporation reserves. A significant number of pension funds invest their members' contributions in the statutory funds of life insurance corporations. These investments are typically held as unit-linked insurance or investment policies.

55 *Reserves and prepayments of general insurers:* This category represents policy holders' net equity in, or claims on, the reserves of general insurance corporations. This equates to prepayments of premiums and reserves held to cover outstanding claims.

Insurance technical reserves continued

56 *Unfunded public sector superannuation claims:* This category represents the liabilities of the general government sector to public sector employees in respect of unfunded retirement benefits. Such claims have been recognised in government accounts since jurisdictions have moved to accrual accounting. Prior to the change in accounting methods, the ABS has developed a set of historical estimates for outstanding liabilities and changes in liabilities for national accounting purposes.

Other accounts receivable/payable

57 This category covers any other claims by resident and non-resident counterparties that do not fit into the foregoing categories, such as trade credit and interest accruals.

SOURCES OF DATA

58 The quarterly sectoral capital accounts in the flow of funds matrices are prepared using a variety of indicators to dissect annual estimates based on survey data. Some of the indicators used are known to be of poor quality and hence these estimates should be used with caution.

59 Most of the financial data in this publication are derived from statistical surveys conducted by the ABS. Some other data sources are used particularly for valuation adjustments. The information sources for each of the sectors and subsectors are described below. Because there are two parties to financial transactions, 'counterpart' information about groups of units can be derived from the records of other units with which they have engaged in financial transactions. Instances of use of counterpart information in compiling the statistics are noted in the following text.

60 *Private non-financial corporations.* Because there are so many of these enterprises, estimates for this sector are derived from data obtained from several different sources, including counterpart information from banks, market capitalisation information from the Australian Stock Exchange, and aggregate data from the ABS Survey of International Investment. Balance sheet data are obtained directly from the largest company groups as well as from those property trusts which are open to the general public.

61 *National public non-financial corporations.* The largest of these report in the ABS's quarterly Survey of Financial Information.

62 *State and local public non-financial corporations.* As most financing by these bodies is conducted through the central borrowing authorities (which report to the ABS), counterpart information is used for all except the largest State corporations, which provide quarterly balance sheet information to the ABS. Annual reports of the State and Territory housing commissions are used to estimate their financial position.

63 *Central Bank.* The Reserve Bank provides a full balance sheet each quarter. However, there are timing and other differences with other information available to the ABS. To achieve the necessary consistency between the different data sources, the ABS has used some counterpart information extensively in preparing the estimates for this sub-sector. Accordingly, the information presented in this publication for the Reserve Bank does not reflect the legal position of the Bank. The main data difficulties are as follows.

- Some items on the RBA's balance sheet are valued as at the Wednesday closest to the end of the quarter. This is inconsistent with information provided both by the Commonwealth Department of Finance and the commercial banks which close off their accounts on the last working day of the quarter. Because of the large sums passing through the RBA's accounts, this difference in accounting period would have caused timing errors in the financial accounts had RBA data been used.

SOURCES OF DATA *continued*

- The RBA records entries in the Commonwealth Government's account when cheques are presented for payment but the Commonwealth Department of Finance makes these entries in its books when the cheques are drawn, which is likely to be several days earlier. Because of the large amounts involved, banking float at the start and end of each quarter is from time to time a serious problem in this sub-sector.

64 *Banks.* At the end of each month each bank provides APRA with a balance sheet which consolidates only the activities of its domestic banking businesses. (Other domestic businesses of banks-such as their finance companies-report separately and are classified to the appropriate subsector).

65 *Other depository corporations.* Arrangements for reporting data have varied over the years. Current reporting arrangements are:

- Non-bank Authorised Depository Corporations (mainly credit unions and building societies) report balance sheet data to APRA quarterly, with the larger ones reporting monthly;
- Registered Financial Corporations report balance sheet data to APRA monthly (larger corporations) and quarterly (smaller corporations);
- cash management trusts report balance sheet data to ABS quarterly.

66 *Life insurance offices.* The ABS Survey of Financial Information collects balance sheet information from the large life corporations. This information is supplemented by data provided by APRA, which requires all privately owned life insurance corporations to provide it with assets and liabilities information quarterly. Large friendly societies provide quarterly balance sheet information to the ABS.

67 *Pension funds.* Arrangements for reporting of data have varied over the years. Current arrangements are:

- funds with assets of greater than $60m and regulated by APRA (large APRA funds) report quarterly in a survey conducted by ABS for APRA;
- funds with assets less than $60m and regulated by APRA (small APRA funds) provide annual data to APRA. Quarterly estimates of directly invested assets are compiled by ABS and APRA in collaboration, using new fund registration and fund exit data to estimate growth;
- funds regulated by the Australian Tax Office (ATO) (self-managed funds) provide annual data to ATO. Quarterly estimates of directly invested assets are compiled by ABS, ATO and APRA in collaboration, using new fund registration and fund exit data to estimate growth.

68 These data are supplemented by an ABS collection from professional fund managers, which report the quarterly asset breakdown of the pension funds they manage (i.e. the indirectly invested funds).

69 *Other insurance corporations.* All private general insurance companies are required to provide a quarterly statement of assets and liabilities to APRA. The ABS uses this information, supplemented by its own quarterly survey of government-owned general insurers. Data for health insurance companies are estimated from annual statistics provided by the Private Health Insurance Administration Council (PHIAC).

70 *Central borrowing authorities.* Data are provided to the ABS on a quarterly basis by all central borrowing authorities.

71 *Financial intermediaries and auxiliaries n.e.c.* comprise a range of institutions and a range of sources.

SOURCES OF DATA *continued*

72 Data for listed and unlisted unit trusts that are open to the general public and are not cash management, trading or property trusts are obtained from an ABS quarterly survey of all public unit trusts.

73 Issuers of asset-backed securities provide quarterly balance sheet data to the ABS.

74 The various government-owned financial institutions included in this sector provide quarterly balance sheet information to the ABS.

75 Security brokers' own-account holdings of financial assets are estimated.

76 *National general government*. The asset profile for this subsector is prepared using information collected from:

- an ABS-maintained database of government securities constructed from information provided by the RBA and private sector pricing data;
- Department of Finance quarterly ledgers provided to ABS;
- information counterparted into this subsector, for example bank deposits;
- information on coin liability is provided by the Reserve Bank.

77 *State and local general government.* Data for the State governments are obtained from the State Treasuries and state and Territory central borrowing authorities.

78 No data are collected for local governments, universities or other educational institutions as most of their funding comes from other government agencies and estimates are derived using counterpart information.Households, including unincorporated enterprises

79 The ABS does not collect balance sheet information from households and small unincorporated businesses. Estimates for a large part of this sector are made using counterpart information and all other information for the sector is derived residually (ie as an amount that balances the tables).

80 The ABS has no information about households' holdings of notes and coin. The estimates that appear in these statistics are made by taking the value of notes and coin outside the banking system and allocating half of this amount to households and the other half to private non-financial corporations.

81 *Rest of the world.* The data for the rest of the world in Table 32 are financial transactions between residents of Australia and residents of the rest of the world. The flow of funds information for the rest of the world is similar to the data published as the financial account in *Balance of Payments and International Investment Position, Australia* (cat. no. 5302.0). The main source of data for the Balance of Payments financial account and the rest of the world sector in this publication is the *ABS Survey of International Investment*. In the *Financial Accounts* the information is presented from the point of view of non-residents; assets are not netted against liabilities (nor conversely).

COMPILATION METHODS

82 The levels (stock) tables are prepared by gathering together balance sheet information from various sources and selecting the better estimates. As noted previously, a choice is often possible because different data sources provide alternative or *counterpart* measures of the same item. For example, borrowing by State owned non-financial corporations will be reported by the State central borrowing authorities or Treasuries as assets and by the non-financial corporations as liabilities. The sub-sector aggregates derived from these data do not agree because the ABS does not survey all State owned non-financial corporations. In this case, the data from the central borrowing authorities and Treasuries are therefore used to estimate both the asset and liability aspects of these borrowings.

COMPILATION METHODS *continued*

83 After the levels data have been finalised, net financial transactions are derived by taking the difference between closing and opening levels of balance sheet items and, where possible, eliminating changes on the balance sheet caused by valuation effects such as exchange rate movements.

84 In some cases, directly-collected transactions data are used instead of deriving transactions from the difference in consecutive levels.

ACCOUNTING BASIS

85 SNA93 states explicitly that the national accounts should record transactions on an accrual basis (as opposed to a cash or 'due for payment' basis), to reflect the time when economic value is transferred rather than when cash relating to the transaction is paid or falls due for payment. For practical reasons complete implementation of accrual accounting throughout the national accounts is not yet possible. Some areas where accrual accounting has not been adopted include:

- accrual of household income tax; and
- accrual of certain employee entitlements, including recreation and long service leave.

86 Furthermore, non-financial corporate enterprises may report on an accrual basis for the quarter that coincides with the end of their tax year (usually June), but are less likely to do so for the other quarters. This causes some distortion in the data for the two quarters surrounding the end of the tax year.

87 SNA93 states that assets and liabilities are to be valued using a set of prices that are current on the date to which the balance sheet relates and that refer to specific assets. These prices should be observable prices on markets whenever such prices are available for the assets and liabilities in question.

88 In these statistics tradeable securities, which include shares listed on ASX and debt securities traded on organised markets, are valued at market prices.

89 Other securities are assigned estimated market values. For example, equity not listed on ASX is valued on the basis of value of total assets of the enterprise in question less the value of any repayable liabilities.

90 Respondents to ABS surveys are asked to mark each derivative contract to net market value. Such values may result in net asset or liability value being recorded for the contract.

91 Deposits, loans and other accounts payable/receivable are recorded at their face value.

92 Insurance technical reserves of life and general insurance corporations are estimated based on the values compiled for those corporations' assets and repayable liabilities.

93 Insurance technical reserves of pension funds are valued on the basis of market value of total assets (including non financial assets) of the funds less any repayable liabilities.

ACCURACY OF THE ESTIMATES

94 *Deficiencies in the capital account of the matrix:* the estimates of saving shown in the capital account are derived residually as the balances in the national income account. Hence any errors and omissions in the estimates of income and expenditure are reflected as inaccuracies in the estimates of saving. Also, the estimates of inter-sectoral transfers of real estate and second-hand assets are known to be of poor quality.

95 *Deficiencies in the coverage of financial surveys:* The ABS does not presently collect balance sheet information from small non-financial corporations, solicitors' and similar trust funds, and financial auxiliaries (such as stock brokers), some of which buy securities on their own account. Although broad information reported by professional fund managers includes funds they invest on behalf of such investors, the fund managers provide asset profiles only for monies they invest on behalf of pension funds. If the coverage deficiency were not

ACCURACY OF THE ESTIMATES *continued*

corrected it would cause errors in some of the estimates for the household sector. As an interim measure the ABS has made estimates for these unreported assets using the partial information reported by fund managers.

96 The ABS is aware of the following deficiencies in reported data:

- There are some classification and timing problems in the data being reported by some large banks.
- The quality of the data for the *Other depository corporations* sector is only fair.
- The data for the rest of the world are of only fair quality because of deficiencies in coverage, classification and valuation.
- Stock lending, repurchase agreements, and short selling in securities markets-and inconsistent treatment of these practices by respondents-are causing some double counting of asset records for some types of securities.
- The ABS believes that derivative and synthetic financial products are being treated inconsistently.
- The estimates of the stock of issued shares of unlisted private non-financial corporations are very poor.
- For the convenience of survey respondents the information collected in the ABS survey of private non-financial corporations is consolidated for groups of companies. Hence it is not possible to show-for example-loans between group members as part of the loan market (Table 39). Similarly, as the ABS does not survey households, loans between households are also not shown in these statistics.

97 *Problems in estimating financial transactions from balance sheet information:* The revaluation data available to the ABS for frequently traded securities are of reasonable quality. These include estimates for listed shares and Commonwealth and State government bonds/bills. The revaluation data available for securities that are less frequently traded, such as unlisted shares, are of only fair quality.

98 *Accuracy of the estimates, conclusion:* Despite the described problems, the ABS considers that these statistics are of an acceptable standard for the purposes they are intended to serve. An indication of the overall quality of the data can be gained by considering the levels information for the household sector (Table 15), which are judged by the ABS to be the poorest quality data in the publication. All the liabilities data are good quality counterpart data from the asset records of financial institutions. In addition, households' deposit and loan assets are measured directly elsewhere and 'counterparted' into this sector. Only households' holdings of tradeable securities are derived residually and so reflect errors and omissions in the estimates for the other sectors. Households' holdings of shares are the lowest grade estimate in these statistics. A high proportion of the household data are therefore of high quality despite being considered of poorer quality than the balance of the statistics.

Related statistics and articles

99 Related ABS publications which may also be of interest include:

Australian System of National Accounts (cat. no. 5204.0) - issued annually;

Australian National Accounts: National Income, Expenditure and Product (cat. no. 5206.0) - issued quarterly;

Australian National Accounts: Concepts, Sources and Methods (cat. no.5216.0) - latest issue, 2000;

Balance of Payments and International Investment Position, Australia (cat. no.5302.0) - issued quarterly;

Balance of Payments and International Investment Position, Australia: Concepts, Sources and Methods (cat. no. 5331.0) - latest issue, 1998;

Government Financial Estimates, Australia (cat. no. 5501.0.55.001) - issued annually

Government Finance Statistics, Australia (cat. no. 5512.0) - issued annually;

Managed Funds, Australia (cat. no. 5655.0) - issued quarterly;

Australian National Accounts, National Balance Sheet (cat. no. 5241.0.40.001)-latest issue 1999-2000;

Information Paper: Upgraded Australian National Accounts: Financial Accounts (cat. no. 5254.0);

Information paper: Upgraded Australian National Accounts (cat. no. 5253.0);

Standard Economic Sector Classifications of Australia (SESCA) 2002 (cat. no. 1218.0) - latest issue, 2002.

100 Related articles are listed in the following table:

Related articles	Source	Issue
Notes on impacts of major revisions	5232.0	Jun qtr 2002
Household sector data in the financial accounts	5232.0	Mar qtr 2002
Recent trends in construction and first home buyer finance	5609.0	March 2002
Insurance technical reserves: Sources and methods	5232.0	Mar qtr 2001
Venture Capital Survey	5655.0	Dec qtr 2000
Investment managers	5655.0	Jun qtr 2000
Listed equity: Sources and methods	5232.0	Dec qtr 1999
Investment managers	5655.0	Jun qtr 1999
Investment managers	5655.0	Jun qtr 1998

NOTES TO ASSIST INTERPRETATION OF SELECTED TABLES

101 An explanation of how to interpret the statistical tables is given below:

Table 1

102 Table 1 (*Credit Market Outstandings*) of the financial accounts shows the key liabilities of each of the domestic non-financial sectors. Included are borrowings, debt securities; and equities.

103 All 'off-market' funding arrangements are excluded. For example:

- liabilities of the financial sector are excluded because of the role of the financial institutions in the economy - they borrow in order to lend.
- National government financial arrangements with State governments;
- National government financial arrangements with public trading enterprises (either National or State);
- State government financial arrangements with public trading enterprises (either National or State);
- financial arrangements between related corporations in the same subsector.

Table 1 continued

104 Excluded also are non-conventional instruments, including:

- deposits and insurance technical reserves, as these are with the financial sector;
- derivatives, as these are normally for hedging purposes, not fund raising;
- sundry accounts payable, as these are generally incurred through normal trading activities;
- unfunded superannuation liabilities, as these are incidental to employment.

Tables 2-15

105 These tables show the level (stock) of financial assets and liabilities of each domestic subsector of the economy at market prices. Since the aim of these tables is to present an analytically useful financial profile of each of the subsectors, they are consolidated to eliminate holdings of financial instruments by the subsector which issued them. For example, the block *Bonds etc* in the table for *Central borrowing authorities* (Table 11) shows the stock of bonds etc held as assets by this subsector. A central borrowing authority may be expected to hold long-term debt securities issued by other central borrowing authorities but these holdings are eliminated on consolidation (and the outstanding liability of this subsector for this instrument is reduced accordingly). In contrast, in the table called *The Bonds Market* (Table 37) a different basis of consolidation is used and these intra-sector holdings are shown (and shown to be substantial).

106 In Tables 2-15, the primary classification is the financial instrument (e.g. *Currency and deposits*) and the secondary classification is counterparty sector (e.g. currency and deposits accepted by: Banks).

107 Statistics for the financial assets and liabilities of subsectors of the non-financial public sector (Tables 3, 4, 13 and 14) are broadly comparable with statistics published in *Government Finance Statistics, Australia* (cat. no. 5501.0).

Table 16

108 Australia's net international investment position-level of investment at end of period-as published in *Balance of Payments and International Investment Position, Australia* (cat. no. 5302.0) can be derived from Table 16 *Financial Assets and Liabilities of the Rest of the World*. It is equal to total financial assets (of non-residents) less total liabilities (of non-residents).

109 When comparing the data in Tables 26 and 27 as published in Cat. no. 5302.0 and data in Table 16 in this publication, it is important to note the following differences.

- In this publication, assets and liabilities are published from the perspective of the party concerned. For example, in relation to non-residents, financial assets and liabilities are shown as belonging to the rest of world sector. In Cat. no. 5302.0, such data are published from the opposite perspective, ie as Australian assets and liabilities that have non-resident counterparties. This difference affects comparisons of the statistics only inasmuch that the arithmetic signs attributed to assets and liabilities are opposite in the two publications.
- This publication does not include the split made in Cat. no. 5302.0 between direct and portfolio investment. This affects comparison between data in the publications because direct investment (including equity, borrowing and trade credit) between related companies is published on a net basis in Cat. no. 5302.0 and is recorded on a gross basis in Table 16.

  The above points are illustrated in the example below:

  - A hypothetical company, ZZZ Corporation, operating in Australia is owned by a UK company, YYY Corporation. ZZZ Corporation has previously borrowed $500 million from its parent, but also lent $100 million to a related company overseas (e.g. another subsidiary of the same parent).

Table 16 continued

- In Cat. no. 5302.0, YYY Corporation's equity in ZZZ Corporation would be included in the Table 33, *Levels of Foreign Investment in Australia* under *Direct investment in Australia-equity*. The borrowing would also be included in Table 33, under the category *Direct investment in Australia-other capital - liabilities to direct investors*, as equal to the amount of $400 million ($500 less $100).
- In this publication, the equity would be included in Table 16, under *Financial assets - equity*. The borrowing would be displayed under *Financial assets - loans and placements* as equal to $500 million, and the loan would be included in *Financial Liabilities - loans and placements* as equal to $100 million.

- This publication includes more detailed sector and instrument splits than provided in Cat. no. 5302.0.
- This publication includes the reserve position in the IMF *in currency and deposits,* whereas, in Cat. no. 5302.0, the reserve position is shown as a separate item.

110 Note: In September quarter, 1998 the treatment of reinvested earnings that is applied in SNA93 and ABS balance of payments and international investment position statistics was adopted in the financial accounts and is applied throughout this publication.

Table 17

111 This table, called *Demand for Credit*, is the flow equivalent of Table 1 and so has the same exclusions. It shows quarterly net raisings of debt and equity on conventional credit markets world wide by each of the non-financial domestic sectors. The aggregate at the head of the table is a measure of the primary credit flow in Australia; that is, credit which is to be used primarily to finance non-financial outlays such as investment in plant and equipment.

Tables 18-32

112 These tables are the transactions equivalent of Tables 2-16. They show inter-sectoral transactions in financial assets and liabilities classified by financial instrument. Most instruments are disaggregated to show the subsector of the counterparty. For example, the line *Loans and placements* in the table for *Other depository corporations* (Table 23) shows the growth (or contraction) in lending by these financial institutions to the other subsectors.

113 In these tables, an entry without an arithmetic sign indicates a net increase in either financial assets or liabilities. An entry with a negative sign indicates a net decrease in financial assets or liabilities.

Table 33

114 This table presents the *flow of funds matrix*. The purpose of the matrix is to provide a framework for analysing the interrelationships between saving, capital formation and financial transactions in the economy. These national accounting relationships are shown in the accompanying diagram.

115 At the top of the matrix is a *capital account*. This shows the funds accumulated during the period by each of the sectors for the purchase of assets (Gross saving and capital transfers) together with estimates of expenditure on capital accumulation and the resulting positive or negative balance (Total net capital accumulation and net lending/net borrowing). A surplus in this account is called net lending; by convention a deficit (i.e. net borrowing) is shown as negative net lending.

116 The lower half of the matrix is called the *financial account*. This shows the net financial transactions taking place between sectors, classified broadly by financial instrument. These data are the most consolidated in the publication. All claims between entities within the same broad institutional sector (e.g. General government) are eliminated.

Table 33 continued

117 The lines under the heading *Net incurrences of liabilities* show the growth (or decline) in the market for each of the financial instruments during the period, by sector. The lines under the heading Net acquisition of financial assets show the increase (or decrease) of asset holdings by sector to accommodate the growth (or contraction) in the market.

118 In concept, a sector's *Net lending/borrowing* (in the capital account) should be the same as its *Net change in financial position* (in the financial account). Because this equality is unlikely to be realised in practice (due to the use of different sources of information to derive each aggregate) the item Net errors and omissions is included to show the difference between these alternative estimates of the same concept. This difference can be caused by errors and omissions in both the capital account and the financial account.

119 Given the accounting relationship between saving and net lending evident in the accompanying diagram, it is possible to use information from the financial accounts to derive an alternative measure of household saving to that published in the national income and expenditure accounts. This can be done by substituting *Change in financial position* for the household sector from the financial accounts for net lending in the following identity, relating to the household sector:

Net Saving = Net lending to non-residents *less*
Consumption of fixed capital *less*
Capital transfers *plus*
Gross fixed capital formation *plus*
Change in inventories *plus*
Acquisitions less disposals of non-produced non-financial assets.

Table 33 continued

INCOME ACCOUNT

Final consumption expenditure Consumption of fixed capital *Net Saving*	Compensation of employees Gross operating surplus Gross mixed income Taxes less subsidies on production and imports Net income from non-residents
Total use of gross income	Gross disposable income

CAPITAL ACCOUNT

Gross Fixed capital formation Changes in inventories Acquisitions less disposals of non-produced non-financial assets *Net lending (+)/net borrowing(-)*	*Net Saving* Consumption of fixed capital Net capital transfers
Total net capital accumulation and net lending/net borrowing	Gross savings and capital transfers

FINANCIAL ACCOUNT

 Currency and deposits Short term securities other than shares Long term securities other than shares Derivatives Loans and placements Equity Insurance technical reserves Other accounts payable *Net change in financial position*	Monetary gold and SDRs Currency and deposits Short term securities other than shares Long term securities other than shares Derivatives Loans and placements Equity Insurance technical reserves Other accounts receivable
Net incurrence of liabilities	Net acquisition of financial assets

120 The rest of the world column in Table 33 is an alternative presentation of Australia's quarterly balance of payments statistics, as published in *Balance of Payments and International Investment Position, Australia* (cat. no. 5302.0). In the financial accounts, these transactions are presented from the point of view of non-residents. The cell at the intersection of line *Net Lending/net borrowing* and the rest of the world column is the balance of payments *Current account* plus *Capital account* (with opposite arithmetic sign). The cell below is the balance of payments *Net errors and omissions* (with opposite sign). The *Net change in financial position* for the rest of the world is the balance of payments *Financial account*. It may also be found as *Change in net international investment position reflecting transactions*.

121 Information in Table 33 is not fully comparable with information for the general government sector published in *Government Financial Estimates, Australia* (cat. no. 5501.0.55.001). There are conceptual differences in the treatment of some classes of financial transactions, arising from differences between the International Monetary Fund *Manual on Government Finance Statistics* with which Cat. no. 5501.0 is compatible, and the SNA93, with which this publication is compatible. Conceptual differences aside, there are also known

Table 33 continued

valuation, timing and coverage differences between the sources used to compile Cat. no. 5501.0 and the sources used for this publication.

122 Two statistical discrepancies are shown in the flow of funds matrix. The first of these is the statistical discrepancy carried through from the capital account and represents the statistical discrepancy in the expenditure-based estimates of gross domestic product less the statistical discrepancy in the income-based estimates of gross domestic product (see *Australian National Accounts: National Income, Expenditure and Product* (cat. no. 5206.0) for an explanation of these discrepancies). This discrepancy is shown against *Net lending/net borrowing* in the capital account in Table 33, in the column headed *Discrepancy*.

123 The second discrepancy, which is shown against the item labelled *Net errors and omissions* in Table 33, has been discussed previously in this section. It represents the difference between *Net lending/net borrowing* (carried through from the capital account in Cat. no. 5206.0) and *Net change in financial position* (derived in the financial transactions account).

Tables 34-41

124 These tables present - as far as possible - the whole market for each of the financial instruments, that is, the level of financial assets and liabilities at market prices for each instrument. These tables are less consolidated than Tables 2-15. Claims between enterprises within the same company group are eliminated; claims between enterprises which are outside the company group but inside the same subsector are not eliminated. For example, claims between a bank and its banking subsidiaries are eliminated on consolidation but not claims between banking groups.

125 The top line in each of these tables shows all outstanding liabilities of residents of Australia for that financial instrument. Liabilities, for example, bonds, issued in international markets are included with those issued in the domestic market. This total is then dissected into the several sectors which issued this instrument-the primary classification-and under each of these lines there is an indented block showing the counterparty sectors which hold these instruments as assets. Tables 36 and 37 relating to the *One-name paper* and *Bond* markets respectively, also split the total liability between the total issued in Australia and the total issued offshore.

RELATED PRODUCTS AND SERVICES

126 This issue of the Australian Financial Accounts uses data consistent with the latest releases of:

- *Australian National Accounts: National Income, Expenditure, and Product* (cat. no. 5206.0); and
- *Balance of Payments and International Investment Position, Australia* (cat. no. 5302.0).

127 Current publications produced by the ABS are listed in the *Catalogue of Publications and Products* (cat. no. 1101.0). The ABS also issues, on Tuesdays and Fridays, a *Release Advice* (cat. no. 1105.0) which lists publications to be released in the subsequent few days. The Catalogue and Release Advice are available from any ABS office.

UNPUBLISHED INFORMATION

128 In addition to catalogued products (see paragraph 100), some priced special data reports are available covering bank lending to households and unincorporated businesses, public sector debt and net financing requirement, detailed sectoral capital account data, housing loans outstandings by type of lending institution, and details of households' deposits with banks.

UNPUBLISHED INFORMATION *continued*

129 Inquiries should be made to Derick Cullen by phone: 02 6252 6244; facsimile: 02 6252 5380; email: d.cullen@abs.gov.au; or by writing to the Director, Financial Accounts Section, ABS, Locked bag 10, Belconnen, ACT, 2616.

EFFECTS OF ROUNDING

130 Any discrepancies between totals and sums of components in the tables are caused by rounding.