Enhanced Financial Accounts

Federal Economic Statistics Advisory Committee
Measurement of the Financial Sector
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Josh Gallin and Paul Smith
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Financial Accounts of the U.S.  
(formerly, Flow of Funds Accounts)

• National accounts published quarterly by the FRB

• Aggregate flows and holdings of various financial instruments for major sectors of the economy

  • **Instruments**: Deposits, MMMF shares, repos, CP, Treasuries, corp bonds, corp equities, mutual funds, etc.

  • **Sectors**: *nonfinancial*—households, businesses, governments; and *financial*—banks, broker-dealers, asset managers, GSEs, etc.

• Financial component of the *Integrated Macroeconomic Accounts*, published jointly with BEA
Uses of the *Financial Accounts*

- Fed, researchers, analysts, reporters use the *Accounts* to:
  - gauge effects of macro-financial developments
  - track aggregates such as household wealth, corporate cash, etc.

- Recently, *Financial Accounts* used to study the causes and effects of the financial crisis, and to monitor financial stability
  - Greenwood & Sharfstein: growth of the financial sectors
  - Gorton & Metrick; Krishnamurthy, et al: securities broker-dealers and the market for repurchase agreements
  - Gallin; Corrado et al: shadow-banking sectors
  - Bhatia and Bayoumi; Nakamura: role of leverage in financial crisis
Limitations of the *Financial Accounts*

- Not designed to be comprehensive source for today’s complex financial relationships and transactions
- Need more detailed, more disaggregated, higher-frequency data on
  - Assets
    - More granular categories, exposures to specific countries and institutions, duration and credit risk of fixed-income assets
  - Liabilities
    - From whom to whom, what type of instruments, what time frame and terms, what collateral
  - Off balance sheet items: Derivatives and counterparty exposures
  - Missing sectors
    - Hedge funds and other private pools, securities lending and investment of cash collateral pools, nonprofit organizations
New Project: Enhanced Financial Accounts

• Ambitious multi-year project to dramatically enhance the Financial Accounts

• Provide data with more detail, at higher frequencies, at more disaggregated levels, at market values, and for more sectors
  • In some cases new data will be integrated into framework of the Accounts, in other cases it will be supplemental

• Improve methods for providing data to the public

• Provide additional documentation and analysis
Five Types of Enhancements

• More detailed financial instruments
  • Ex: Split “corporate and foreign bonds” into foreign bonds, domestic unstructured bonds, ABS
  • Add maturities and credit ratings of fixed-income assets

• Additional sectors and activities
  • Hedge funds, nonprofits, securities lending, cash collateral pools

• Higher-frequency and more granular data
  • “Drill down” to data at monthly, weekly, or daily frequency; or by state, firm, type, etc.

• Derivatives: credit default swaps, interest rate swaps, etc.

• Improved online tools for extracting and analyzing data; better communication and documentation
Primary Focus of Enhancements

• Banks

• Shadow banking
  • Non-bank financial activity that played an important role in the recent financial crisis
  • Short-term funding markets such as repurchase agreements, securities lending, commercial paper, money funds

• Asset management
  • Financial holdings and activities of institutional investors such as pension funds, insurance companies, mutual funds, hedge funds

• Nonfinancial sectors
  • Key holders of wealth and spending such as households, businesses, nonprofits, and the foreign sector
Potential Shadow-Banking Enhancements

- **Commercial paper**
  - Drill down to daily data on CP level and rates

- **Money-market mutual funds**
  - New regulatory filings (SEC Form N-MFP) provide detailed monthly data
  - Example: fund’s exposure to specific financial institutions, by country

- **Repurchase agreements**
  - We now report gross rather than net repo positions—see *FEDS Note*
  - Would like to:
    - Split federal funds from repo
    - Combine data on tri-party repo with data on dealers from FR2004
    - Use Form PF to capture hedge funds’ activity in repo markets

- **Municipal finance**
  - VRDNs and tender-option bonds
Potential Asset-Manager Enhancements

• **Insurance companies**
  • Insurers already provide detailed regulatory filings on asset holdings
  • Also info on sec lending, cash collateral pools, and derivatives

• **Mutual funds and Exchange-traded funds**
  • Use private-vendor data to provide additional details

• **Pension funds**
  • Hoping for new detail on private pensions (Form 5500)
  • Drill down to less aggregated data using existing 5500 forms
  • Use CAFRs to extract new details on state and local pension plans
    • Break-down of fixed-income assets, info on sec lending and derivatives

• **Hedge funds**
  • Use SEC’s Form PF to create new hedge fund sector
  • Problem: missing info on hedge fund investors
Derivatives

- Often used to transform financial risks or exposures—e.g., interest-rate swap, currency swap, credit-default swap

- *Financial Accounts* report balance sheets but not derivatives
  - Incomplete picture of the distribution of financial risks in the economy
  - Ex: insurers use CDS and interest-rate swaps to hedge default risk and interest-rate risk from $2.5 trillion bond portfolio

- New data: Dodd-Frank Act required certain kinds of derivatives transactions be reported to swap data repositories

- We are exploring whether this data could be used to add derivatives to the *Financial Accounts*
Potential Nonfinancial Enhancements

- Rest of the World
  - Tracks interactions between U.S. residents and non-U.S. counterparties
  - Current data from Balance of Payments
  - Explore incorporating additional detail from this source

- Nonfinancial Businesses
  - Current data from tax filings and Census surveys
  - Explore extracting additional detail from these and other sources

- Households
  - Huge sector—$81 trillion—and important driver of PCE and GDP
  - Would like to break out hedge funds and nonprofits
  - Assets are residually calculated—lack comprehensive source data
  - Explore using surveys and other data to provide more detail
Next Steps

• We have already begun exploring many of these ambitious ideas
  • Even where we already have more detailed data—CP, money funds, insurance companies—incorporating these details will take time
  • Other ideas—new sectors, more granular data—may take years
• We will be relying on collaboration with other government statistical agencies—especially OFR!—and input from users
• Key component will be engagement with researchers, analysts, and others to identify gaps and areas for improvement
• Goal is to create a much improved tool for measuring the structure and interconnections of the modern U.S. financial system
• More details available in our FEDS Note at www.federalreserve.gov