

Enhanced Financial Accounts

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Measurement of the Financial Sector
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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