

20120221 Central Bank of Taiwan: Modifications on the Categorization of Financial Institutions and Definition of the Monetary Aggregate M2

Source: Central Bank of Taiwan

Beginning with the February 2012 issue, the categorization of financial institutions and the definition of the monetary aggregate M2 in the CBC's Financial Statistics Monthly will be modified, taking notice of the IMF categorization of financial institutions and the reclassification of structured products as required by Financial Supervisory Commission (FSC) in Taiwan. More details are described in the following.

1. Categorization of financial institutions

The financial institutions in the Financial Statistics Monthly will be re-grouped in order to modify the representation of financial statistics. Before the modification, the Financial Statistics Monthly presents data on the consolidated assets and liabilities of financial institutions in four groups, including Deposit Money Banks, Monetary Institutions, Major Financial Institutions and Financial Institutions. After the modification, the data will be presented in three groups: Other Monetary Financial Institutions, Monetary Financial Institutions and Financial Institutions (see Annex Table for comparison). This modification takes into consideration the norms and grouping of financial statistics compilation in the IMF and major economies, and better reflects Taiwan's situation in financial services practices. This modification applies to all relevant data for the Financial Statistics Monthly collected since January 1997.

2. Definition of the monetary aggregate M2:

Since banks began to issue structured products in early 2001, the carrying values of the host contracts have been classified as banks' deposits, which is by definition a component of the monetary aggregate M2. However, structured products carry higher liquidity risk and market risk and, unlike deposits, do not necessarily guarantee the return of principal. For these reasons, such products will be removed from the components of the M2.

Pursuant to the Official Letter by the FSC, released in October 2010, requesting banks to exclude structured products from deposits, the CBC's Financial Statistics Monthly will, beginning from the February 2012 issue, modify the M2 definition by removing the carrying values of the host contracts of structured products from deposits. This modification applies to all relevant data collected since January 2001.

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