Table F.1 Total Net Borrowing and Lending in Credit Markets

Credit markets are organized or informal arrangements that enable the transfer of funds between suppliers and acquirers of funds. This table shows the credit market borrowing and lending of the sectors in the flow of funds accounts that participate in these markets.

Credit market borrowing or lending is defined here as the transfer of funds through certain financial instruments: open market paper, Treasury and agency securities, municipal securities, corporate and foreign bonds, bank loans not elsewhere classified, other loans and advances (such as loans made under various federal programs), mortgages, and consumer credit. Excluded from the definition are a number of other items that are also sources and uses of funds for the sectors—official reserves, special drawing rights certificates, Treasury currency, deposits and interbank items, security repurchase agreements, corporate equities, mutual fund and money market mutual fund shares, trade credit, security credit, life insurance and pension fund reserves, business taxes payable, investment in bank personal trusts, proprietors' equity in noncorporate business, and miscellaneous items; a sector's credit market borrowing is thus not the same as the increase in its total liabilities.

All the sectors in the flow of funds accounts are lenders of credit market funds except farm business; all the sectors are borrowers of credit market funds except the monetary authority, banks in U.S.-affiliated areas, bank personal trusts, other insurance companies, private pension funds, state and local government retirement funds, money market mutual funds, mutual funds, and closed-end funds.

For the economy as a whole, total credit market borrowing and total credit market lending are necessarily equal to each other. This is not the case, however, for individual sectors; in particular, financial institutions are the primary suppliers of credit market funds but obtain a large portion of their funds from non-credit-market sources such as deposits. For most credit market instruments it is not possible to match borrowers and lenders—for instance, one cannot identify which sectors hold corporate bonds issued by other particular sectors.

Table F.2 Credit Market Borrowing by Nonfinancial Sectors

The nonfinancial sectors in the flow of funds accounts are households and nonprofit organizations, nonfinancial business, the federal government, state and local governments, and the rest of the world. This table gives details on those sectors' credit market borrowing by sector and by type of financial instrument and, at the bottom, shows totals for domestic and foreign borrowing. Sectoral details shown in the table also appear in table F.1; for example, household borrowing, shown here on line 18, is the same as household borrowing shown on line 5 in table F.1.

Entities in the nonfinancial sectors borrow in order to fund their current expenditures, restructure their balance sheets, or finance their investments. Credit markets, and their associated financial instruments, facilitate the transfer of resources to the borrowing sectors from sectors that have current saving or accumulated past saving. The major nonfinancial borrowers in the credit markets are the households and nonprofit organizations sector and nonfarm nonfinancial corporate business. Households and nonprofit organizations borrow primarily in the form of home mortgages and consumer credit, while nonfinancial corporations obtain credit market funds in a variety of forms, of which the most prominent are corporate bonds, loans from banks, and commercial mortgages.

In table F.2 from the Z.1 release, shown on the facing page, the decline in federal government borrowing in recent years reflects the gradual reduction of the federal budget deficit; in general, however, credit market borrowing by individual sectors has increased over time, reflecting growth in the economy and the increasing role of financial markets. Analysts have found that over long periods of time there has been a fairly close relationship between the growth of debt of the nonfinancial sectors and aggregate economic activity; because of the importance of these sectors, the Federal Open Market Committee monitors the growth of their debt as part of its regular policy reviews of the economy. The Federal Reserve Board publishes monthly data on nonfinancial debt growth in its weekly H.6 statistical release, "Money Stock and Debt Measures."

Table F.3 Credit Market Borrowing by Financial Sectors

Credit market borrowing by the financial sectors is primarily a source of funds for financial intermediation (see the introduction to table F.1 for a definition of credit market borrowing). This table shows the financial sectors' credit market borrowing both by sector and by type of financial instrument.

The sectors that appear in the table are depository institutions (commercial banks, savings institutions, and credit unions) and nondepository institutions (life insurance companies, federally related credit providers, issuers of asset-backed securities, finance companies, mortgage companies, real estate investment trusts, security brokers and dealers, and funding corporations); the credit market borrowing of both types of financial institutions is also shown in table F.1. There are other financial sectors included in the flow of funds accounts that obtain funds from non-credit-market sources and thus do not appear in this table.

Table F.4 Credit Market Borrowing by All Sectors, by Instrument

Shown in this table is the credit market borrowing of all sectors, both financial and nonfinancial, by type of financial instrument; the total borrowing figure in line 1 is the same as total borrowing in line 1 of table F.1 (both are equal to the total net lending of all sectors shown in line 27 of table F.1). Also shown, at the bottom of this table as memorandum items, are total net issuance of corporate equities and total net issuance of mutual fund shares. These two financial instruments are not considered credit market instruments but are nevertheless important: For some firms, equity issuance is an alternative to credit market borrowing, and for many investors and lenders, purchasing mutual fund shares is an indirect means of investing in equities or credit market instruments.

Of the eight types of financial instruments used to carry out credit market borrowing, shown in lines 2 through 9 in the table, the ones with the largest dollar amounts outstanding are U.S. government securities, corporate and foreign bonds, and mortgages. The share of borrowing through each of the financial instruments as a percentage of total borrowing has changed over time, however, in response to changes in the economy and in the legal environment.

Table F.5 Total Liabilities and Their Relation to Total Financial Assets

This table shows both the relationship of total credit market borrowing to the net increase in liabilities of all sectors and the derivation of the net acquisition of financial assets of all sectors from the net increase in liabilities.

To find the net increase in all sectors' liabilities, the amount raised through each of the non-credit-market sources of funds included in the flow of funds accounts (lines 2 through 21) is added to total credit market borrowing in line 1, which is the same as line 1 in table F.1 and line 1 in table F.4. The total increase in liabilities, shown in line 22, is also the total of financial sources to all the sectors.

To find the net acquisition of all sectors' assets, liabilities not identified as sector assets (lines 23 through 28) and floats not included in assets (lines 29 through 31) are both subtracted from line 22; the result is shown in line 32. The items shown in lines 23 through 31 are actually the financial instrument discrepancies shown in table F.11; each of the lines reports the amount by which the measured total of funds borrowed through a particular financial instrument differs, as a result of timing or reporting differences, measurement error, or other inconsistencies, from the measured total of funds lent.

Table F.6 Distribution of Gross Domestic Product

Gross domestic product (GDP) is equal to the market value of all final goods and services produced during a particular time period by labor and property located in the U.S. (''real'' GDP is the total adjusted for the effect of changes in prices). GDP is likewise equal to the value of the purchases of these goods and services. This table shows the major components of expenditure on gross domestic product—personal consumption expenditures, gross private domestic investment, net exports, and expenditures by government, the ''C + I + G + X − M'' familiar to students of economics—along with subcategories of these broad totals. (Gross national product, or GNP, is the value of the goods and services produced by labor and property supplied by U.S. residents; it is obtained by adding net U.S. income receipt from abroad to gross domestic product. GNP appears as a memorandum item at the bottom of the table.)

The table corresponds to table 1.1 of the national income and product accounts published in the *Survey of Current Business* by the Bureau of Economic Analysis (BEA). Most of the data in the table are available from BEA as seasonally adjusted quarterly flows at annual rates. BEA does not, however, publish sectoral detail on investment in nonresidential plant and equipment or on investment in residential structures; the allocations of the totals for these two series among the sectors that appear here are made by the Flow of Funds Section on the basis of annual data on tangible assets and fixed investment flows produced by BEA for its publication *Fixed Reproducible Tangible Wealth in the United States.* The entries for residential and nonresidential fixed investment by sector in this table are the same as those in the individual sector tables, although in some sector tables a single total for fixed investment is shown.

Table F.7 Distribution of National Income

National income is the measure of earnings from aggregate economic activity. The amounts received by firms from buyers' expenditures on the final goods and services that make up gross domestic product (GDP) are paid out as income to the factors of production. Certain portions of the total, however, are not paid as income: the amount of consumption of fixed capital, which is an expense but is retained in the firm or governmental unit as a form of saving; business transfer payments, which are paid out by firms but are not defined as income because they are not earned; indirect business taxes, that is, expenses during the production process paid to governmental units; and the current surplus of government enterprises net of subsidies from the governments, which is not considered factor income. To arrive at total national income, net income receipts earned abroad are added to domestic earnings, and the statistical discrepancy, which arises because GDP and the charges against it are estimated separately, is subtracted.

This table corresponds to table 1.14 of the national income and product accounts (NIPA) published in the *Survey of Current Business* by the Bureau of Economic Analysis (BEA). It shows the major components of national income—compensation of employees, proprietors' income, rental income of persons, corporate profits with inventory valuation and capital consumption adjustments, and net interest—along with subcategories of the components and with sectoral detail on profits. A memorandum section at the bottom of the table, taken from NIPA table 1.9, shows the calculation of gross domestic product from national income.

Table F.8 Gross Saving and Investment

The flow of funds accounts show the relationship between saving and investment for individual sectors in the economy and are thus linked to the national income and product accounts (NIPA), which measure saving and investment for the entire economy. Flow of funds statistical releases include several tables—F.6, F.7, and this one—that reproduce data from the NIPA and enable users to analyze sectoral saving and investment in relation to the totals. The three tables correspond to tables that appear in the *Survey of Current Business,* a monthly publication of the Bureau of Economic Analysis (BEA), which compiles the NIPA.

Saving for any economic sector, in the NIPA, is the amount not spent out of current income. For individuals, saving is disposable personal income less current outlays; for incorporated businesses, saving is undistributed profits; and for governments, saving is the current surplus (equal to current receipts from taxes, social insurance payments, and, for state and local governments, from federal grants-in-aid, less current expenditures). Saving inclusive of consumption of fixed capital, or depreciation, is known as gross saving. Consumption of fixed capital is an item representing the value of the portion of fixed capital goods that is used up during a time period. It is a source of funds for any economic unit because it is a current expense that is not accompanied by a payment of funds outside the unit; the funds are retained and can be used for other expenditures.

Investment for any economic sector, in contrast, is a use of funds—the purchase of goods (the fixed capital goods referred to above) that are used in the production of other goods and services without being completely consumed during the production of any one good, along with changes in business inventories. (Goods that are completely consumed during a single production process or over the short term are known as intermediate goods; services purchased for use in the production process are always intermediate.) Fixed capital goods are residential and nonresidential structures and residential and nonresidential durable equipment. In the NIPA, total investment for the economy also includes net foreign investment in the U.S., which is equal to total foreign outlays to the U.S. less total foreign income from the U.S. Gross investment is the total of investment expenditures; net investment equals total investment less expenditures made to replace fixed capital goods that have worn out or have become economically obsolete. In practice, expenditures made for these replacement purposes are considered to be equal to the value of the consumption of fixed capital, or the depreciation allowances.

This table shows both gross saving and gross investment apportioned to three sectors—private domestic, government, and rest of the world. By definition, gross saving and gross investment are equal; in practice, however, they differ because measurements in the aggregate reflect timing and reporting differences, measurement errors, and differences in estimation procedures. A statistical discrepancy to account for these differences is reported in the NIPA. Because of certain definitional differences between the flow of funds accounts and the NIPA, the flow of funds sectoral figures for saving and investment do not sum to the NIPA totals; a discussion of these differences and a table showing a reconciliation between the two totals can be found in part 1 of this Guide.

Table F.9 Derivation of Measures of Personal Saving

Saving by the personal sector is saving by the households and nonprofit organizations sector consolidated with the nonfarm noncorporate business sector and the farm business sector. Nonfarm noncorporate business and noncorporate farm business are considered to be activity subaccounts of households, and the income earned from the activities of these unincorporated businesses is a component of personal income in the national income and product accounts (NIPA).

Saving for any sector is the amount not spent out of current income. In the NIPA, saving is defined as a sector's current income less its current expenditures; for the personal sector in the NIPA, saving is equal to disposable personal income (income net of taxes) less personal outlays. At the same time, saving for any sector is equal to the sector's investment (except for a discrepancy that arises from measurement, reporting, and timing differences among sources of information). Economic agents that make up a sector use their saving, by increasing their holdings of tangible and financial assets or decreasing their liabilities. The flow of funds accounts take advantage of the equality of saving and investment and calculate saving for the personal sector by adding the sector's net financial investment (its net acquisition of financial assets less its net increase in liabilities) and its net investment in tangible assets (gross investment less consumption of fixed capital, or depreciation). (Both the NIPA measure of personal saving and the flow of funds measure are net saving, reflecting the subtraction of consumption of fixed capital: In the NIPA, consumption of fixed capital is deducted as an expense when the components of personal income are calculated; in the flow of funds accounts, consumption of fixed capital is deducted from the purchase of tangible assets. Because capital gains and losses on existing assets do not result from current investment, they are not reflected in either the flow of funds or the NIPA measure of personal saving.)

This table presents three alternative measures of personal saving—the NIPA measure, shown in line 47, and two versions of the flow of funds measure. The broader flow of funds series (''personal saving, flow of funds accounts measure''), shown in line 42, reflects investment in all types of financial and tangible assets. The other, narrower flow of funds series (''personal saving, NIPA concept calculated with flow of funds accounts data''), which is conceptually identical to the NIPA series, is obtained by subtracting from the broader measure three items that are excluded from the NIPA: line 43, net flows of government insurance and pension fund reserves; line 44, net investment in consumer durables; and line 45, net saving by farm corporations. The difference between this narrower measure, shown in line 46, and the NIPA series in line 47 is equal to the discrepancy, with sign reversed, for the households and nonprofit organizations sector (table F.100). Each of these figures—the three saving measures and the difference shown in line 48—is shown, at the bottom of the table, as a percentage of disposable personal income.

Table F.10 Sector Discrepancies

A sector discrepancy is the difference between the gross saving of a particular sector and its gross investment. It is also equal to the difference between the sector's total sources of funds (nonfinancial sources, or saving out of income, plus borrowing of funds from external sources) and its total uses of funds (acquisition of physical and financial assets); as a balancing item, a discrepancy is considered a use of funds. A discrepancy may arise from differences in the timing or reporting of data obtained from different sources, measurement errors, or other inconsistencies. It is often viewed as an indicator of the quality or completeness of the data in the sector flow statement, with a smaller discrepancy relative to total sources or uses considered preferable to a larger one; nevertheless, the existence of discrepancies is generally seen as inevitable in the preparation of aggregate economic data. Examination of preliminary values for discrepancies is useful to analysts who prepare estimates of time series for the flow of funds accounts because the discrepancies can highlight inconsistencies among estimates for asset and liability series.

For some sectors in the flow of funds accounts, such as the farm business sector, no discrepancy is shown; for these sectors, one asset or liability flow item is calculated as a residual so as to balance total sources and uses of funds. This table presents the discrepancies for all sectors in the accounts for which a discrepancy is shown. The total of sector discrepancies equals the total of instrument discrepancies, shown in table F.11.

Table F.11 Instrument Discrepancies

An instrument discrepancy is the difference between the total borrowing of funds by all sectors through a particular financial instrument and the total lending of funds through the same instrument; it is considered a use of funds that balances total borrowing and total lending. A discrepancy may arise from differences in the timing or reporting of data obtained from different sources, measurement errors, or other inconsistencies. Frequently, large quarterly movements in discrepancies cancel out when the data are presented on an annual basis.

A discrepancy is calculated for the following financial instruments that are included in the flow of funds accounts: Treasury currency, foreign deposits, interbank transactions, federal funds and security repurchase agreements, checkable deposits of the federal government, checkable deposits of other sectors, trade credit, taxes payable, and miscellaneous items. No discrepancies exist for the other financial instruments in the accounts, because, for each instrument, the change in the holdings of one of the sectors (for many instruments, the households and nonprofit organizations sector) is calculated as a residual. Also included in this table is the nonfinancial discrepancy, which is made up of three items from the national income and product accounts: the statistical discrepancy, private wage accruals less disbursements, and net capital grants to the U.S. from abroad. The total of instrument discrepancies equals the total of sector discrepancies, shown in table F.10.

Table F.100 Households and Nonprofit Organizations

The households and nonprofit organizations sector consists of individual households (including farm households) and nonprofit organizations such as charitable organizations, private foundations, schools, churches, labor unions, and hospitals. Nonprofits account for about 6 percent of the sector's total financial assets, according to recent estimates, but they own a larger share of some of the individual financial instruments held by the sector. (The sector is often referred to as the "household" sector, but nonprofit organizations are included because data for them are not available separately except for the years 1987 through 1996. Supplementary tables F.100.a and L.100.a in the quarterly publications of the flow of funds accounts present the latest available annual data for nonprofits.) At the end of 1997, the sector had total financial assets of more than $27 trillion, about 40 percent of the financial assets of all sectors combined.

For most categories of financial assets and liabilities, the values for the household sector are calculated as residuals. That is, amounts held or owed by the other sectors are subtracted from known totals, and the remainders are assumed to be the amounts held or owed by the household sector. For example, the amounts of Treasury securities held by all other sectors, obtained from asset data reported by the companies or institutions themselves, are subtracted from total Treasury securities outstanding, obtained from the *Monthly Treasury Statement of Receipts and Outlays of the United States Government*, and the balance is assigned to the household sector. Series calculated in this manner are so identified in the table and carry a reference to the instrument table (for example, table F.209) that lists the sector included in the calculation. For a few series, such as consumer credit, data for the sector are available directly and are not calculated as residuals. When microeconomic data are available (such as the data available from the Federal Reserve Board's Survey of Consumer Finances), asset and liability totals for the sector are reviewed in light of that data, and the flow of funds series are sometimes adjusted to take into account the additional information.

In contrast to the practice in some countries, the household sector statement in the U.S. flow of funds accounts does not include the transactions of unincorporated businesses; those are shown separately in the tables for the nonfarm noncorporate and farm business sectors (tables F.103 and F.104). (The table for the personal sector, F.9, does present such a consolidation of the household sector with unincorporated business.)

Table F.101 Nonfinancial Business

Nonfinancial business in the flow of funds accounts comprises three sectors: nonfarm nonfinancial corporate business, nonfarm noncorporate business, and farm business. Each of these sectors is described in the introduction to its separate table. This table shows the details of gross saving and gross investment for the three sectors combined. Income before taxes is shown (line 1) for information purposes only; it does not enter directly into the calculation of other items that appear in the table. For the two unincorporated sectors (nonfarm noncorporate business and farm business), proprietors' net investment is calculated as a residual, so neither sector has a discrepancy; therefore, the discrepancy for nonfinancial business equals the discrepancy for the nonfarm nonfinancial corporate business sector.

Table F.102 Nonfarm Nonfinancial Corporate Business

The nonfarm nonfinancial corporate business sector comprises all private domestic corporations except corporate farms, which are part of the farm business sector, and financial institutions, which are shown in other tables; it includes holding companies (through consolidated reporting), S–corporations, and real estate management corporations. The sector is the largest component of the total nonfinancial business sector, alone accounting for roughly half of all net private investment in the U.S. economy; together, entities that make up the sector had well over $3 trillion of credit market debt outstanding at the end of 1997 in the form of bonds, mortgages, commercial paper, and loans from banks and nonbank financial intermediaries.

This table covers only the domestic activities of nonfarm nonfinancial corporations; it does not include the financial transactions of foreign subsidiaries of U.S. corporations. Therefore, earnings from the operations of foreign subsidiaries and foreign branches of U.S. corporations are reflected only in profit elements—either as earnings retained abroad or as dividends received. In symmetric fashion, the results of the operations of foreign corporations in the U.S. are included in the table, with earnings retained in the U.S. and dividends paid to U.S. stockholders being offset against the items' respective counterparts for U.S. corporations. Also, in a corollary way, changes in the foreign capital account positions are included in the table, with changes in the financial assets of the sector shown as foreign direct investment abroad and changes in the liabilities of the sector shown as foreign direct investment in the U.S.

Information on the nonfarm nonfinancial corporate business sector is obtained from a variety of sources. Data on investment and depreciation, as well as on corporate profits and other elements of cash flow, are taken from the national income and product accounts published in the *Survey of Current Business*. Information on credit market debt is obtained from securities markets reports, industry trade association releases, commercial bank reports of condition, and finance company surveys. An important source of information for all assets and for non-credit-market liabilities, such as trade payables, is the *Quarterly Financial Report for Manufacturing, Mining, and Trade Corporations*, published by the Bureau of the Census. In addition, the sector's assets and liabilities are benchmarked to annual data for corporations that appear in the *Statistics of Income Corporation Source Book*, published by the Internal Revenue Service.

Table F.103 Nonfarm Noncorporate Business

The nonfarm noncorporate business sector comprises partnerships and limited liability companies (businesses that file Internal Revenue Service Form 1065), sole proprietorships (businesses that file IRS Schedule C or Schedule C-EZ), and individuals who receive rental income (income reported on IRS Schedule E). Limited liability companies combine the corporate characteristic of limited liability for all owners with the pass-through tax treatment of partnerships, and they offer more organizational flexibility than S–corporations (corporations having thirty-five or fewer stockholders that elect to be taxed as if they were partnerships under the provisons of subchapter S of the Internal Revenue Code; such corporations are included in the nonfarm nonfinancial corporate business sector). The nonfarm noncorporate business sector is often thought to be composed of small firms, but some of the partnerships included in the sector are large companies. Firms in the sector generally do not have access to capital markets and, to a great extent, rely for their funding on loans from commercial banks and other credit providers (including the federal government) and on trade credit from other firms.

The nonfarm noncorporate business sector is the largest borrower of both multifamily residential mortgages and commercial mortgages. As the firms in the sector are unincorporated, they are owned by the households and nonprofit organizations sector; the firms' income is attributed to households as a component of personal income, and households add or withdraw equity in the firms through proprietors' net investment transactions (shown in table F.228). Proprietors' net investment for the sector is calculated as the difference between sources and uses of funds, and thus the sector does not have a discrepancy.

Most of the data for the sector are estimates based on summary reports published in the IRS *Statistics of Income Bulletin* (SOI). Usually, figures from the SOI are available with a lag of about two years.

Table F.104 Farm Business

The farm business sector is made up of corporate and noncorporate farms. Like the firms in the nonfarm noncorporate business sector, noncorporate farms are owned by households. In the national income and product accounts (NIPA), produced by the Bureau of Economic Analysis (BEA), consumption by farm individuals is part of personal consumption expenditures, and farm proprietors' income is transferred to households as part of personal income and is thus an element of household saving. Similarly, in the flow of funds accounts, expenditures on farm residential structures are part of the fixed investment total for the households and nonprofit organizations sector, and proprietors' net investment in noncorporate farms (net additions to or subtractions from household ownership equity) is part of the net acquisition of financial assets by the sector. In the flow of funds accounts, however, corporate farms are included in the farm business sector; in the NIPA they are part of nonfinancial corporate business.

The major asset of farms, real estate, is a nonfinancial asset that does not appear on tables of either flows or outstandings; their other assets are small in comparison (farm real estate at the end of 1997 was about $850 billion, while financial assets totaled about $70 billion). Farms' major sources of funding are loans or credits from banks, government-sponsored enterprises, the federal government, and trade suppliers, along with equity investment by owners.

Data on the financial assets and liabilities of farms are taken from the U.S. Department of Agriculture (USDA) publication *Agricultural Income and Finance Situation and Outlook Report*, the balance sheets of the agencies that are part of the Farm Credit System, quarterly reports of condition submitted by U.S.-chartered commercial banks, *Best's Aggregates and Averages, Property–Casualty*, and information obtained from the Department of the Treasury. Data on farm income, investment, profits, and capital consumption allowances are from the *Survey of Current Business* and from other materials available from the BEA.

Table F.105 State and Local Governments, Excluding Employee Retirement Funds

The sector for state and local governments, excluding employee retirement funds, comprises the government operations of the fifty states, their political subdivisions, and the District of Columbia, including debt-issuing authorities, government enterprises, and trust funds. The sector excludes state and local government employee retirement funds, which form a separate sector included in the insurance and pension funds grouping. State and local governments engage in activities that include education; building and maintenance of roads; provision of water, sewers, and sanitation; mass transit; public assistance; and health care. The activities are financed primarily through tax receipts, borrowing, and grants from the federal government.

State and local governments hold various financial assets, such as U.S. government securities, mortgages, corporate equities and mutual fund shares, and corporate bonds. Their major liabilities are municipal securities, mainly long-term obligations. Interest earnings on most types of municipal securities are exempt from federal taxation, which enables the governments to borrow funds at lower rates than if they issued taxable securities. When interest rates fall, state and local governments may issue securities to refinance an outstanding bond issue; the proceeds are held in escrow until the maturity date or first call when the earlier issue is repaid or paid down. State and local governments are restricted from earning arbitrage profits that would be obtained by investing the tax-exempt proceeds in higher-yielding investments. Since 1972, state and local governments have been investing in special types of U.S. Treasury securities (“SLGS,” or State and Local Government Series, pronounced “slugs”), which were introduced to assist the governments in complying with these restrictions.

Data on the receipts and expenditures of the sector are taken from the national income and product accounts (NIPA) published by the Bureau of Economic Analysis (BEA) in the *Survey of Current Business*; data on financial assets and liabilities are obtained from annual financial reports published by the states, from reports submitted to federal regulatory authorities, and from private date reporting services.

Table F.106 Federal Government

The federal government sector comprises all federal government agencies and funds that are in the unified budget, including the civil service and railroad retirement funds, insurance funds, and the Exchange Stabilization Fund. Also included are government-owned corporations and agencies that issue securities individually, such as the Export–Import Bank. The sector does not include the District of Columbia government, which is part of the state and local governments sector. Nor does it include the Federal Reserve Banks and certain monetary accounts of the Treasury, which together form the monetary authority sector, or government-sponsored enterprises, even though several of them were formerly part of the federal government. The sector is presented in the flow of funds accounts on a consolidated basis, with holdings of Treasury securities by agencies within the federal government netted out. As a result, the liability for securities outstanding shown for the federal government in the accounts is smaller than the published value for the total public debt, which includes securities held by the federal agencies.

Data on the federal government sector for the flow of funds accounts come mainly from the national income and product accounts (NIPA), produced by the Bureau of Economic Analysis (BEA), and from the Department of the Treasury. Gross saving for the sector is derived from the federal government surplus shown in the NIPA, but it differs from the NIPA series in two major ways: In the flow of funds accounts, gross saving for the federal government (1) excludes the change in reserve liabilities for employee life insurance and retirement funds (in the flow of funds accounts this amount is assigned to the households and nonprofit organizations sector, to provide treatment parallel to that of private insurance and pension funds) and (2) includes receipts from the sale or lease of access rights (that is, rights to the use of Outer Continental Shelf lands and the broadcast frequency spectrum).[1] Sales of access rights are shown in the federal budget as outlays; for most periods, the amounts shown are negative because they are payments to the federal government. Data showing net financial investment and related detail are obtained from Treasury Department publications—the *Monthly Treasury Statement of Receipts and Outlays of the United States Government* (referred to in this Guide as the *Monthly Treasury Statement*, or MTS) and the *Monthly Statement of the Public Debt of the United States*.

1. In October 1999, the allocation of pension and insurance reserves in the NIPA was changed and now corresponds closely to the allocation in the flow of funds accounts.

Table F.107 Rest of the World

The rest of the world sector consists of all entities (individuals, firms, institutions, and governments) not residing in the U.S. that engage in transactions with U.S. residents; the account measures the participation of foreigners in U.S. markets only, and transactions exclusively among foreigners are not included. In the flow of funds accounts, the sector is constructed from the perspective of the foreigners, resulting in parallel treatment of the rest of the world sector and the domestic sectors in terms of their roles as suppliers and users of funds. Thus, the acquisition of domestic assets by both the rest of the world and the domestic sectors provides funding in U.S. capital markets, and increases in the liabilities of both the rest of the world and the domestic sectors represent borrowings of funds supplied by U.S. markets. The perspective in the flow of funds accounts is the opposite of that in the balance of payments accounts, published by the Bureau of Economic Analysis (BEA), which conceptually measure transactions from the standpoint of capital flows for the U.S. economy. That is, the balance of payments accounts measure an increase in foreign holdings of U.S. assets as a positive capital flow (inflow) for the U.S. and an increase in U.S. holdings of foreign assets as a negative capital flow (outflow) for the U.S., whereas the flow of funds accounts measure an increase in foreign holdings of U.S. assets as a positive use of funds for the rest of the world and an increase in U.S. holdings of foreign assets as a positive source of funds for the rest of the world.

Data for the sector on exports and imports of goods and services, factor income, and transfer payments are from the national income and product accounts (produced by BEA), which exclude Puerto Rico and other U.S.-affiliated areas. Sector coverage of foreign capital flows is the same as that in the balance of payments accounts (which include Puerto Rico and other U.S.-affiliated areas as part of the U.S.), with the important exception of international banking facilities (IBFs): The balance of payments accounts treat IBFs as domestic entities, whereas the flow of funds accounts, because IBF borrowing from and lending to U.S. residents is restricted by law, consider them foreign entities. Several differences also exist between the balance of payments accounts and the flow of funds accounts in their classification of some items; the most important difference is that in the flow of funds accounts, interbank claims and liabilities are netted, but in the balance of payments accounts they are not.

Table F.108 Monetary Authority

The monetary authority is the group of institutions and financial accounts that supply reserve funds to depository institutions and absorb funds from them; data on the amounts of funds supplied and absorbed by the monetary authority are presented in table 1.11 of the *Federal Reserve Bulletin*, "Reserves of Depository Institutions and Reserve Bank Credit."[1] The sector is made up primarily of the twelve Federal Reserve Banks and their subsidiary offices (but not the Board of Governors of the Federal Reserve System). It also includes certain monetary accounts of the U.S. Treasury: the monetary gold stock; the special drawing rights certificate account; and Treasury currency, which comprises standard silver dollars, fractional coin, national bank notes, and currency items in the process of retirement. (These Treasury accounts are excluded from the assets and liabilities of the U.S. government sector in the flow of funds accounts.)

The assets of the monetary authority are the factors supplying reserve funds; the largest asset is Treasury securities, which, in the conduct of monetary policy, are bought and sold by the Federal Reserve System through open market operations. The liabilities of the sector, primarily currency held by the public and by commercial banks and reserve deposits owed to depository institutions by the Federal Reserve System, are the factors absorbing reserve funds.

1. The "reserve equation" and the factors that supply and absorb reserve funds are discussed in *Purposes and Functions*, pp. 118–22.

Table F.109 Commercial Banking

The commercial banking sector is made up of four banking groups: U.S.-chartered commercial banks (table F.110), foreign banking offices in the U.S. (table F.111), bank holding companies (table F.112), and banks in U.S.-affiliated areas (table F.113). Each group is described in the introduction to its table. This table is a combined statement for the four groups, whereas the tables for the individual banking sectors are consolidated, with interbank assets netted against interbank liabilities.

Credit market funds advanced by the commercial banking sector, shown in line 43, serves as an indicator of the amount of funds supplied by the sector to the domestic nonfinancial sectors. Note that credit market funds advanced differs from bank credit, which is shown on line 7, in that it excludes security credit, corporate equities, and mutual fund shares and includes customers' liability on acceptances.

Table F.110 U.S.-Chartered Commercial Banks

Commercial banks are financial intermediaries that raise funds through demand and time deposits as well as from other sources, such as federal funds purchases and security repurchase agreements, funds from parent companies, and borrowing from other lending institutions (for example, the Federal Home Loan Banks); they use the funds to make loans, primarily to businesses and individuals, and to invest in securities. U.S.-chartered commercial banks are established under the regulations of a U.S. chartering authority—either the U.S. Comptroller of the Currency (for national banks) or the banking authority of one of the fifty states or the District of Columbia (for state-chartered banks). The deposit liabilities of U.S.-chartered commercial banks are components of various monetary aggregates (measures of the U.S. money supply published by the Federal Reserve System).

Because of the importance of banks in the U.S. financial system, their activities are closely monitored by federal regulatory agencies. In recent years, the commercial banking industry has undergone significant consolidation as a result of both the gradual removal of prohibitions on interstate banking arrangements and the growing similarity of other financial institutions to commercial banks; at the end of 1998 there were approximately 9,000 U.S.-chartered commercial banks, down from a peak of 14,407 in 1980.

Data for U.S.-chartered commercial banks shown in this table are taken directly from quarterly reports of condition submitted to regulatory authorities and published by the Federal Financial Institutions Examinations Council. The sector's assets and liabilities are reported on a consolidated basis; that is, intrasector deposit and loan balances are netted out. Foreign branches and foreign subsidiaries of U.S.-chartered commercial banks are not included in the consolidation; their assets and liabilities are included in the rest of the world sector.

Credit market funds advanced, shown in line 49, is a measure of funds supplied by the sector to domestic nonfinancial sectors. The measure differs from bank credit, which is shown in line 5, in that credit market funds advanced excludes security credit, corporate equities, and mutual fund shares and includes customers' liability on acceptances.

Table F.111 Foreign Banking Offices in the U.S.

The foreign banking offices sector comprises four groups of banking institutions that are foreign-related or that engage exclusively in international business: (1) branches and agencies of foreign banks that are not incorporated separately from their parents, are located in the U.S., and engage in U.S. banking business; (2) Edge Act and agreement corporations, which are U.S. subsidiaries of either domestic or foreign banks and are established by such banks to engage in international business; (3) New York State investment companies, which are banking offices owned by one or more foreign banks and are chartered by the State of New York (included in the sector through 1996:Q2); and (4) American Express Bank, the international banking subsidiary of American Express Corporation. Domestically chartered U.S. banks owned in whole or part by foreign banks are part of the U.S.- chartered commercial banks sector rather than the foreign banking offices sector.

Data for the sector are taken from quarterly reports of condition filed by the institutions: Branches and agencies of foreign banks and American Express Bank file form FFIEC 002, Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks; Edge Act and agreement corporations file form FR 2886b, Consolidated Report of Condition and Income for Edge and Agreement Corporations; and New York State investment companies formerly filed form FR 2886a, Quarterly Report of Condition for a New York State Investment Company and Its Domestic Subsidiaries.

The Monetary Control Act of 1980 requires that foreign banking offices, along with other depository institutions, hold required reserves equal to a percentage of their deposit liabilities; the reserves must be held in the form of deposits with Federal Reserve Banks or vault cash. Since that requirement took effect, the institutions have also been eligible to borrow at the Federal Reserve discount window.

Table F.112 Bank Holding Companies

Bank holding companies (BHCs) are parent companies of commercial banks. The bank holding company sector in the flow of funds accounts consists of those bank holding companies that submit reports of condition on the Federal Reserve's Form FR Y-9LP, Parent Company Only Financial Statements for Large Bank Holding Companies. The instructions accompanying the form state that the report is to be filed by "bank holding companies with total consolidated assets of $150 million or more, or multibank holding companies with debt outstanding to the general public or that are engaged in a nonbank activity (either directly or indirectly) involving financial leverage or engaged in credit extending activities, regardless of size."

The major assets of bank holding companies, other than small amounts of loans and securities, are equity and non-equity investments in their subsidiaries; at the end of 1997, BHCs' net investment in their bank subsidiaries was just under $414 billion, and their net investment in their nonbank subsidiaries—savings institutions, finance companies, mortgage companies, and security brokers and dealers—was about $90 billion. In this table, interbank liabilities of the sector are shown net of interbank assets. The main source of funding for the sector is the issuance of corporate bonds and commercial paper.

Table F.113 Banks in U.S.-Affiliated Areas

This sector is made up of commercial banks chartered in U.S.-affiliated areas and branches of U.S.-chartered commercial banks operating in these areas. U.S.-affiliated areas with local populations are the U.S. territories of American Samoa, Guam, and the U.S. Virgin Islands; the Commonwealth of the Northern Mariana Islands and the Commonwealth of Puerto Rico; two freely associated states—the Republic of the Marshall Islands and the Federated States of Micronesia; and the Trust Territory of the Pacific Islands (Palau). U.S.-affiliated areas that are uninhabited or that have only a military presence are Baker Island, Howland Island, Jarvis Island, Johnston Atoll, Kingman Reef, Midway Island, Navassa Island, Palmyra, and Wake Atoll.

Banks in U.S.-affiliated areas are considered part of the U.S. in balance of payments statistics published by the Bureau of Economic Analysis (BEA), but are considered foreign entities in the U.S. national income and product accounts published by BEA and in financial statistics published by the Federal Reserve Board. Because these banks are treated as foreign entities by the Board, their deposit liabilities are not included in the U.S. monetary aggregates (measures of the national money supply published by the Federal Reserve System), and the institutions are not part of the U.S.-chartered commercial banks sector or the foreign banking offices sector in the flow of funds accounts.

Data on the sector come from reports filed with federal regulatory authorities. Commercial banks chartered in the U.S.-affiliated areas submit quarterly reports of condition on the same forms used by domestically chartered banks (FFIEC 031, FFIEC 032, FFIEC 033, or FFIEC 034, depending on the size of the institution and its ownership of foreign offices); branches of U.S. banks located in these areas submit the annual Foreign Branch Report of Condition (FFIEC 030).

At the end of 1997, the sector comprised fourteen banks chartered in other areas and twenty-six branches of U.S. banks.

Table F.114 Savings Institutions

Savings institutions are financial intermediaries that raise funds mainly through time and checkable deposits and use the funds to provide loans, principally home mortgages, and to invest in securities. The savings institutions sector in the flow of funds accounts is made up of savings and loan associations, mutual savings banks, federal savings banks, and Massachusetts cooperative banks.

In function, savings institutions are similar to commercial banks, and in recent years the distinction between commercial banks and savings institutions has become blurred as the financial services industry has become more homogeneous. In the past, savings institutions were legally required to engage primarily in home mortgage finance, and even though they now may hold other types of assets, their traditional emphasis continues to be a major difference between savings institutions and commercial banks. Mortgages make up close to 70 percent of the credit market instruments that savings institutions hold.

Many savings institutions, particularly savings and loan associations, encountered financial difficulties beginning in the late 1980s. The federal government undertook a large-scale bailout of the industry, and many of the institutions disappeared through merger or failure. The industry is now considerably smaller than it had been; the sector's total financial assets were $1.029 billion at the end of 1997, down from a peak of $1.640 billion at the end of 1988.

Information about savings institutions comes from two main sources: Institutions that are regulated by the Federal Deposit Insurance Corporation (FDIC) file quarterly reports of condition similar to those submitted by commercial banks, and institutions regulated by the Office of Thrift Supervision (OTS) submit quarterly Thrift Financial Reports. A total of 564 institutions, including 81 Massachusetts cooperative banks, report to the FDIC; more than 1,200 institutions report to the OTS. The deposit liabilities of the institutions are components of the monetary aggregates (measures of the U.S. money supply published by the Federal Reserve System).

Table F.115 Credit Unions

Credit unions are federally chartered or state-chartered savings institutions open to members who share a so-called common bond, such as employment, geographic proximity, or organization membership. (Legislation enacted in 1998 permitted some broadening of this eligibility criterion.) There are about 12,000 credit unions in the U.S., offering primarily consumer-oriented financial services; most are fairly small institutions, although a few are very large and operate in the national financial arena. Credit union deposit liabilities are included in the monetary aggregates (measures of the national money supply published by the Federal Reserve System), and deposits in federal credit unions and federally insured state-chartered credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF).

The credit union industry has a hierarchical structure. Local credit unions belong to thirty-nine corporate credit unions. The corporate credit unions accept deposits from and make loans to member credit unions; in turn, they deposit most of their excess funds with U.S. Central Credit Union, a private institution whose principal function is to provide wholesale financial and payments services to its corporate credit union members and their credit union constituency. In the sector statement for credit unions, intrasector transactions at these various levels are netted out, but the investments of U.S. Central with institutions outside the credit union sector are included in the sector's total assets.

The primary source of data for the sector is the Credit Union National Association (CUNA), a trade association. Data reported to the National Credit Union Administration, a federal agency, are a secondary source of information about the federally and state-chartered credit unions insured by the NCUSIF. Federally insured credit unions pay an annual premium into the NCUSIF, which holds only securities issued by or guaranteed by the U.S. government; in the flow of funds accounts the credit unions sector's total holdings of U.S. government securities include an amount equal to the accumulated contributions of insured credit unions shown on NCUSIF's balance sheet.

Table F.116 Bank Personal Trusts and Estates

Bank personal trusts are legal entities established at banks and nondepository noninsured trust companies by individuals to invest in assets for the benefit of the owners or others. The sector also includes estates of deceased persons being administered by banks and trust companies. Trusts other than bank personal trusts (such as trusts administered by individuals) are not separately identified among the assets of the households and nonprofit organizations sector and are not included in this sector.

In the flow of funds accounts, bank personal trusts are considered financial institutions separate from their owners. They invest in both tangible and financial assets and have a single source of funds (and a single liability), investment by their owners. The most prominent assets of the trusts, together accounting for nearly 70 percent of their financial assets at the end of 1997, are corporate equities and mutual fund shares.

Information on bank personal trusts and estates is taken from *Trust Assets of Financial Institutions*, an annual publication of the Federal Financial Institutions Examination Council.

Table F.117 Life Insurance Companies

The life insurance companies sector encompasses all mutual and stock legal reserve life insurance companies in the U.S. These companies write about 98 percent of the life insurance policies in effect in the U.S. (the remainder are written by fraternal societies, savings banks, and the federal government); they also administer individual and group annuities. The companies' major nonfinancial source of funds is premium receipts; they also receive substantial investment income from their holdings of tangible and financial assets, primarily corporate and government agency bonds and corporate equities. Their major liabilities are reserves set aside for future benefit payments.

Information on life insurance companies comes from several sources. One source is data contained in the annual statements filed by the companies with the National Association of Insurance Commissioners (NAIC); the data are tabulated by the A.M. Best Company and by the American Council of Life Insurance (ACLI), a trade association, and are published, respectively, in *Best's Aggregates and Averages, Life and Health* and in ACLI's *Life Insurance Fact Book* and its quarterly release "Distribution of Investments of U.S. Life Insurance Companies." Data also come from quarterly estimates provided by A.M. Best from a sample of companies. Finally, the Investment Company Institute (ICI) provides data on the sector's holdings of mutual fund shares and money market mutual fund shares.

Table F.118 Other Insurance Companies

The ''other insurance companies'' sector encompasses all companies licensed to write property or casualty insurance policies in the U.S. The firms provide many types of insurance, such as fire, group and other accident and health, homeowners, medical malpractice, workers' compensation, automobile liability and physical damage, aircraft, reinsurance, burglary and theft, earthquake, credit, mortgage guaranty, and international.

The major assets of the companies that make up the sector are fixed-income securities and equities, but they hold several other kinds of assets and have historically been among the larger holders of municipal securities. The companies' primary liability is amounts payable to policyholders who have filed claims for damages. Their other liabilities include taxes payable and direct investment by foreign parent companies; they also obtain funding from equity issuance.

Data on the sector come from annual statements filed by the companies with the National Association of Insurance Commissioners; the statements are then tabulated by A.M. Best Company. Data obtained from the Best Company at the end of 1997 covered 2,450 insurance companies.

Table F.119 Private Pension Funds

The private pension funds sector encompasses all private pension plans that, in accordance with Title I of the Employee Retirement Security Act of 1974 (ERISA), have filed IRS/DOL/PBGC Form 5500 (or Form 5500-C/R for plans with fewer than 100 participants) with the Internal Revenue Service (IRS). It also includes the Federal Employees Retirement System (FERS) Thrift Savings Plan, a supplemental retirement option available to federal employees beginning in 1984. The sector covers both defined benefit plans and defined contribution plans and includes both the retirement funds of nonprofit organizations and the single-employer and multiemployer plans of for-profit firms that are qualified for tax preferences. It does not cover annuities purchased for retirees or other ‘‘insured assets’’ such as guaranteed investment contracts, separate accounts, or other retirement assets managed by insurance companies; the assets of private pension funds do include unallocated insurance company contracts, however.

Individual retirement accounts (IRAs) and Keogh accounts are not included in the private pension funds sector. Rather, the assets of such accounts are included with the instruments in whose form the accounts are held, in the households and nonprofit organizations sector. For example, the value of mutual fund shares held by the household sector includes the value of shares held in IRA and Keogh accounts, and the value of household sector deposits includes the value of deposits in IRA and Keogh accounts.

Under a defined benefit pension plan, an employee typically receives an annuity upon reaching a specified age. The size of the annuity in most cases is based on length of service and employment earnings; the annuity may or may not incorporate adjustments for changes in the measured cost of living, and it may be integrated with social security. The employer makes regular contributions to the plan to fund the participant’s future benefits. Private defined benefit plans are frequently noncontributory, that is, participants do not contribute to the plan, and generally there are not individual accounts for participants. The risk of the investment strategy is borne by the employer. Defined benefit plans invest in a variety of tangible and financial assets, but they may not invest more than 10 percent of the fund’s assets in firm (employer) securities.

Under a defined contribution plan, the employer or the employee, or both, contributes to the employee account. The employee bears the investment risk, and the value to the employee at retirement depends on the accumulated contributions, investment earnings, and asset appreciation. There are many types of defined contribution plans, including savings, or thrift, plans; profit-sharing plans; money purchase plans; and employee stock ownership plans (ESOPs). A 401(k) arrangement, one form of defined contribution plan, allows an employee to have a portion of his or her compensation (otherwise payable in cash) contributed to the plan and to defer federal tax on that contribution until the time of withdrawal. In contrast to defined benefit plans, the composition of defined contribution plans is generally dictated by the investment choices of plan participants, and the portfolio is not subject to distribution requirements.

As of the end of fiscal year 1994, the private pension funds sector comprised 74,400 defined benefit plans and 615,900 defined contribution plans. At the end of 1997, the sector held $3.6 trillion in assets, with that amount about equally split between defined benefit and defined contribution plans. Corporate equities and mutual fund share holdings account for more than half of the sector’s total financial assets; other assets are government, agency, and corporate bonds. Data for the defined benefit and defined contribution plans shown separately are published in supplementary tables in the Federal Reserve Board’s quarterly Z.1 statistical release, ‘‘Flow of Funds Accounts of the United States.’’

Data for the private pension funds sector are benchmarked to annual data submitted to the IRS by private pension plan sponsors on IRS/DOL/PBGC Form 5500 (and Form 5500-C/R). The IRS processes the forms and provides computerized files to the Department

Table F.119 Private Pension Funds—Continued

of Labor's Pension and Welfare Benefits Administration. The Department of Labor (DOL) further edits and checks the computerized files and creates weights to represent the universe of private pension plans with two or more participants. The Flow of Funds Section bases its estimates on the DOL annual data; quarterly figures are estimated using data for the Independent Consultants Cooperative universe as compiled by Bankers Trust Company (now part of Deutsche Bank). The Federal Retirement Thrift Investment Board provides quarterly data on the FERS Thrift Savings Plan.

Table F.120 State and Local Government Employee Retirement Funds

The state and local government employee retirement funds sector consists of retirement systems that are sponsored by a recognized unit of government as defined by the Bureau of the Census and whose members are public employees compensated with public funds. The sector includes retirement funds of both state governments and local government entities such as counties, municipalities, townships, school districts, and special districts. Each retirement system is a separately identifiable fund, financed at least in part with public contributions. Pension funds that are supported solely by employee contributions are excluded from the sector; also excluded are assets administered by insurance companies or the Teachers Insurance and Annuity Association–College Retirement Equities Fund that provide public employee retirement coverage without any contribution or supplemental coverage administered by a government entity. In addition, deferred compensation plans administered in accordance with Internal Revenue Code section 457 are not included.

About half of the retirement funds' assets are held in the form of corporate equities; other assets are in the form of corporate, government, and agency bonds and other financial instruments. The assets are assumed to be held for the benefit of the households and nonprofit organizations sector, so the funds' only liability is pension fund reserves, equal to the total of the funds' tangible and financial assets; the item appears as an asset on the households and nonprofit organizations sector statement.

In the national income and product accounts (NIPA), saving by retirement funds is treated as government saving, but in the flow of funds accounts it is considered to be household saving. To shift this portion of government saving to the households and nonprofit organizations sector, an amount equal to the net acquisition of financial assets by the funds is deducted from the saving of state and local governments and added to the NIPA figure for personal saving.[1]

Data on the assets of the sector are obtained primarily from two Bureau of the Census publications, the annual *Finances of Employee-Retirement Systems of State and Local Governments* and the *Quarterly Survey of Finances of Public-Employee Retirement Systems*. Other information comes from the Bureau of Economic Analysis (BEA) and the Department of Housing and Urban Development (HUD).

1. In October 1999, the NIPA treatment of government pension fund reserves was changed and now corresponds closely to the flow of funds version.

Table F.121 Money Market Mutual Funds

Money market mutual funds are investment companies that invest in short-term, liquid assets in order to provide money-market rates of return to investors; they are open-end investment companies that are allowed to issue an unlimited number of shares and are required to redeem all shares at net asset value. Introduced during the 1970s, money market mutual funds may be general funds or may specialize in municipal securities, which provide income exempt from federal taxes; they may also specialize in either institutional or ‘‘retail’’ (individual investor) clientele.

All money market mutual funds must comply with Rule 2a-7 of the Investment Company Act of 1940, which seeks to limit the risk of money market mutual funds. The rule places restrictions on the average maturity of a fund’s portfolio (ninety days or less), on the proportion of its securities holdings with less than the highest rating (no more than 5 percent of assets), and on the concentration of the fund’s assets in the securities of any single issuer (no more than 5 percent of assets).

Because many money market mutual funds allow their investors to write checks against their accounts, balances in the funds are components of the monetary aggregates (measures of the national money supply published by the Federal Reserve Board); fund balances are not insured by any federal agency, however. Data for the sector in the flow of funds accounts are based on reports made by the funds to the Investment Company Institute.

Table F.122 Mutual Funds

Mutual funds are investment companies that purchase financial assets using funds obtained mainly through the issuance of shares. Many of the funds have specific investment objectives, such as current income or capital appreciation, and many specialize in a certain type of financial security, such as municipal securities, growth stocks, or stocks issued by companies in particular industries or particular areas of the world. Funds have also tailored their operations to needs of different types of investors, with some offering low initial investment requirements, automatic investment by deduction from deposits, and regular newsletters giving information about current financial conditions; some funds are members of ''families'' operated by the same management company, allowing shareholders to transfer their investments readily among funds that have different objectives and investment styles. More than 5,000 mutual funds are currently operating in the U.S. They have become an increasingly popular form of investment among individual investors and, in the aggregate, appear to have become a substitute for directly held bonds, equity shares, and deposits.

Mutual funds are also known as open-end investment companies because they are permitted to issue an unlimited number of shares; they are required by law to redeem the shares at net asset value. The net asset value of an individual investor's share in a mutual fund is determined by the market value of the underlying assets. Shareholders receive returns through pass-throughs of current interest and dividends, distributions of realized capital gains, and accumulation of unrealized capital gains.

In the flow of funds accounts, the mutual funds sector covers all open-end investment companies (including unit investment trusts) that report to the Investment Company Institute (ICI) except money market mutual funds and limited-maturity municipal bond funds (which make up the money market mutual funds sector, shown in table F.121) and funding vehicles for variable annuities (which are included in the life insurance companies sector, shown in table F.117). The sector also excludes hedge funds.

Table F.123 Closed-End Funds

Closed-end funds, also called publicly traded funds, are investment companies that, like mutual funds, purchase various kinds of financial assets in order to achieve a specific objective such as long-term growth. Closed-end funds have a long history in financial markets, and several funds currently operating have been in existence since the late 1920s; at the end of 1997 there were about 500 in operation.

Unlike mutual funds, closed-end funds generally do not issue additional shares after the initial public offering and are not required by law to redeem outstanding shares. Shares of closed-end funds are traded in the market along with other corporate equities at prices determined by the market; shares that trade at a price above the net asset value are said to be trading at a premium, and those that trade at a price below the net asset value, at a discount. Data on the assets and liabilities of closed-end funds are provided by the Investment Company Institute (ICI).

Table F.124 Government-Sponsored Enterprises

Government-sponsored enterprises are financial institutions that provide credit to specific groups or areas of the economy, such as farmers or housing. The sector comprises the Federal Home Loan Banks, Fannie Mae, Freddie Mac, Sallie Mae (Student Loan Marketing Association, since 1997 a subsidiary of SLM Holding Corporation, a private company), the Farm Credit System, Financing Corporation (FICO), and Resolution Funding Corporation (REFCORP). Some of the enterprises were originally agencies within the federal government, but federal ownership equity in them has been retired and they are now considered private financial institutions; FICO and REFCORP are mixed-ownership government corporations established to serve as financing vehicles for the FSLIC Resolution Fund and the Resolution Trust Corporation respectively. Some have maintained legal ties to the U.S. government by having board members who are federal officials or by maintaining emergency lines of credit with the Department of the Treasury, or both.

In the flow of funds accounts, the securities issued by the agencies are identified as U.S. government agency obligations; they frequently trade at prices more favorable than those of securities issued by corporations that do not have an association with the federal government.

Data for the sector are compiled from balance sheets published by the individual agencies.

Table F.125 Federally Related Mortgage Pools

The federally related mortgage pools sector consists of entities established for bookkeeping purposes by several federally related agencies—Government National Mortgage Association (Ginnie Mae), Fannie Mae, Freddie Mac, and the agency formerly known as Farmers Home Administration (FmHA; now part of the Farm Service Agency in the Department of Agriculture)—to hold "pools," or packages, of mortgages having similar features.[1] (The mortgages are originally held by the agencies but are removed from their balance sheets when the pools are formed.) Rather than being composed of a group of institutions, the sector is made up of a set of legal or contractual arrangements; the entities are similar to those that make up the issuers of asset-backed securities sector (table F.126).

The pools issue securities known as mortgage-pool securities, which are the liabilities of the sector; the agencies that originally held the mortgages do not bear any liability for the securities. These obligations are largely pass-through securities (purchasers receive interest, amortization, and principal payments on the underlying mortgages). They are included in totals published in the flow of funds accounts for U.S. government agency securities (see table F.210).

Estimates of the value of the mortgages held by the pools are based on information obtained from various government sources. In the flow of funds accounts, the volume of mortgage-pool securities is assumed to be equal to the value of the securities that they hold.

1. Certain obligations issued by FmHA (called certificates of beneficial ownership) that were sold to the Federal Financing Bank, an agency included in the U.S. government sector, were reallocated from FmHA mortgage pools to FmHA mortgage holdings in 1986:Q4 because of accounting changes by FmHA.

Table F.126 Issuers of Asset-Backed Securities

Issuers of asset-backed securities are ‘‘special-purpose vehicles’’ (SPVs), entities established by contractual arrangement to hold assets and to issue debt obligations backed by the assets; the SPVs are similar to federally related mortgage pools in that they are not actual institutions, but are created for bookkeeping purposes. The financial assets of the sector are federally related mortgage pool securities and various types of loans, including student and business loans, mortgages, consumer credit (such as automobile loans and credit card receivables), and trade credit. These assets, often referred to as securitized assets, have been transferred from the balance sheets of the institutions that originated the loans (in most cases commercial banks, thrift institutions, and finance companies) to the balance sheets of the SPVs.

Another asset of the sector is motor vehicles leased to consumers; the leases were originally held by finance companies but have now been securitized. Acquisitions of the automobiles by the issuers of asset-backed securities sector, shown as fixed investment in line 2 of table F.126, occurs when the leases are securitized and the automobiles are removed from the balance sheets of the finance companies. The leases themselves are not financial assets of the sector or of the original finance-company lessor and are not liabilities of the household sector; rather, lease payments are treated as consumer expenditures by the lessee and as current income of the issuers of asset-backed securities sector.

The obligations issued by the SPVs in conjunction with the asset transfers are typically medium- to long-term corporate bonds as well as commercial paper; they represent claims against the assets that have been pooled to serve as collateral. The originators of the assets receive cash proceeds from the sale of the obligations and may continue to service the loans, thereby earning fee income.

The principal sources of information on the sector are the publications *Inside MBS and ABS* and *Commercial Mortgage Alert*; reports from Sallie Mae; data obtained from Trepp/PSA CMO Information Service; quarterly reports of condition submitted by domestic commercial banks; and surveys of finance companies.

Table F.127 Finance Companies

Finance companies are nondepository financial institutions that provide credit to businesses and individuals; about 12 percent of their total financial assets are in residential and commercial real estate loans. Credit extended to businesses covers many types of lending: retail motor vehicle loans; wholesale motor vehicle loans, or floor plan financing; equipment loans and leases; and other business receivables, consisting of loans on commercial accounts receivable, factored commercial accounts, receivable dealer capital, small loans used primarily for business or farm purposes, and wholesale loans for mobile homes, campers, and travel trailers. Credit extended to consumers includes motor vehicle loans, personal cash loans, mobile home loans, and loans to purchase consumer goods such as appliances, apparel, and recreational vehicles. Excluded from the table are securitized loans, which are assets of the issuers of asset-backed securities sector.

Finance companies also own consumer motor vehicles that are leased to consumers; acquisitions of the vehicles are shown as fixed investment in line 2 of table F.127. The leases themselves are not financial assets of the lessors or liabilities of households; lease payments are treated as consumer expenditures by the lessee and as current income to the lessor. (The leases are shown as a memorandum item at the bottom of the table.) Debt used to finance the purchase of the vehicles by finance companies is reported as a liability.

Many finance companies have high credit ratings and are able to meet a substantial portion of their funding needs by issuing commercial paper and corporate bonds. Finance companies that are subsidiaries of holding companies obtain equity financing from their domestic or foreign parent companies; some of the subsidiaries are known as captive finance companies and provide credit to buyers of the parent companies' products.

Information on finance companies is obtained from monthly sample surveys of finance companies conducted by the Federal Reserve Board; the surveys are benchmarked to the Federal Reserve Board's quinquennial survey of finance companies. Data from the surveys are published in the Federal Reserve Board's monthly G.20 statistical release, "Finance Companies," and in the *Federal Reserve Bulletin*.

Table F.128 Mortgage Companies

The mortgage companies sector is made up of mortgage brokers and mortgage bankers. Mortgage brokers originate mortgage loans, which they then sell to portfolio lenders, government-sponsored enterprises (GSEs), and mortgage bankers; they also originate mortgages in other lenders' names. Mortgage bankers both originate mortgage loans and purchase them from brokers; they sell mortgages to portfolio lenders and GSEs, and they pool and securitize mortgages for sale as mortgage-backed securities. Both brokers and bankers sell virtually all their mortgages in the secondary markets.

Mortgage holdings are the only assets of the sector. These assets are financed mainly with bank loans; those companies that are subsidiaries of bank holding companies receive equity funding of their assets from their parent companies.

Information on the assets and liabilities of the sector is obtained primarily from surveys of mortgage holdings conducted by the Department of Housing and Urban Development (HUD).

Table F.129 Real Estate Investment Trusts

Real estate investment trusts (REITs) are companies similar to mutual funds that hold portfolios of real estate and real estate-related financial instruments for the benefit of their shareholders; they were created by federal legislation in 1960 to provide funds to the mortgage market. Real estate held by REITs includes multifamily residential, retail, office, industrial, health care, and hotel properties and self-storage facilities; the financial instruments held by REITs are construction and development loans, mortgages, and mortgage-backed securities. REITs are restricted to earning their income mainly from passive sources (that is, rents, interest, dividends, and gains from sales) and are exempt from federal corporate income tax if the major portion of their income is from real estate or mortgages and if they distribute nearly all their income to their shareholders.

REITs as a group suffered a severe decline during the late 1970s, but since the early 1990s they have grown strongly; REIT equity shares have become a popular form of investment with both individuals and institutions because they provide a relatively liquid means of investing in real estate. Several variants of the REIT structure have developed in response to tax considerations.

REITs obtain the majority of their funds through equity issues, but they also borrow in the credit markets. Data on the sector are obtained from the National Association of Real Estate Investment Trusts (NAREIT), a trade association.

Table F.130 Security Brokers and Dealers

Security brokers and dealers are firms that buy and sell securities for a fee, hold an inventory of securities for resale, or do both. The firms that make up sector are those that submit information to the Securities and Exchange Commission on either of two reporting forms, FOCUS (Financial and Operational Combined Uniform Single Report) or FOGS (Report on Finances and Operations of Government Securities Brokers and Dealers). Brokers and dealers are an important link in the transmission of funds from savers to the ultimate investors because they are a means of distributing both new security issues and those being resold on the secondary market. Dealers in U.S. government securities that stand ready to buy from or sell to the Federal Reserve System assist in the implementation of monetary policy conducted through open market operations.

The major assets of the sector are collateral repayable from funding corporations in connection with securities borrowing, along with corporate and government securities held for redistribution and credit provided to customers. Sector operations are financed largely with investment by parent companies, funds left on deposit by customers, security repurchase agreements, and bank loans.

Table F.131 Funding Corporations

The funding corporation sector comprises four types of financial institutions and entities: subsidiaries of foreign banks that raise funds in the U.S. capital markets and transfer the proceeds to foreign banking offices in the U.S.; subsidiaries of foreign bank and nonbank financial firms that raise funds in the U.S. and transfer them to the parent company abroad; nonbank financial holding companies; and custodial accounts for reinvested collateral associated with securities-lending operations.

The assets of the subsidiaries and the holding companies are their investments in affiliates. Funding for these assets is obtained from the commercial paper market, in which the funding corporations are major issuers. Proceeds that are transferred to parent institutions abroad are reported as foreign direct investment (FDI); by convention, FDI is reported as an asset of the parent and a liability of the subsidiary. In the case of funding corporations, therefore, the foreign parents' FDI assets and the subsidiaries' FDI liabilities have negative balances (because the parents owe the subsidiaries).

Custodial accounts are bookkeeping entities established to hold cash collateral put up by security dealers to back securities they borrow to cover short sales and delivery failures; the collateral is returned to the dealers when the borrowed securities are returned. While it is being held in custody, the collateral is invested in money market mutual fund shares, commercial paper, and corporate bonds.

Figures for commercial paper issuance by funding corporations are derived residually by subtracting the amounts owed by other financial issuers from total financial commercial paper outstanding shown in the daily "Commercial Paper" release published by the Federal Reserve Board. Data on investment by funding corporations in foreign banking office subsidiaries are also taken from the daily release. Through 1997:Q2, information on investment by funding corporations in their security broker and dealer affiliates was based on data from the Federal Reserve Bank of New York's commercial paper release; data are now estimated by the Flow of Funds Section on the basis of the previous relationship between commercial paper issuance by funding corporations reported in that release and net corporate bond issuance by investment banks. Estimates of reinvested collateral held in custodial accounts are based on data on securities borrowed and lent reported by brokers and dealers to the Securities and Exchange Commission.

Table F.200 Gold and Official Foreign Exchange Holdings

Monetary gold and official foreign exchange holdings are U.S. official international reserve assets; also considered official reserve assets and included in this category are special drawing rights and the net U.S. reserve position in the International Monetary Fund (IMF). Transactions in international reserve assets are made among official agencies of the world's countries to settle international accounts.

Monetary gold is the U.S. government gold stock held by the Department of the Treasury. It excludes gold in other, non-monetary forms such as ore, bullion, coins and medallions, jewelry, and dental supplies (exports and imports of gold in these forms are, however, included in balance of payments statistics for merchandise trade). Monetary gold also excludes gold owned by foreign official institutions that is stored at the Federal Reserve Bank of New York. At present, all U.S. monetary gold is ''monetized''; when gold is monetized, the Treasury issues a gold certificate equal to the value of the gold to the Federal Reserve System, which increases the value of the Treasury's deposit account by the same amount. In the flow of funds accounts, monetized gold is an asset of the monetary authority—the Federal Reserve Banks and certain Treasury monetary accounts (these accounts are not included in the federal government sector). In the past, amounts of unmonetized monetary gold have been held by the Exchange Stabilization Fund, an entity within the Treasury Department.

Official foreign exchange consists of holdings of foreign currencies by the Treasury Department and the Federal Reserve System that are used in connection with exchange market interventions, reciprocal currency arrangements with foreign monetary authorities, foreign currency transactions with the IMF, and borrowings of foreign currencies in foreign capital markets. Official foreign exchange excludes holdings of foreign currencies by federal government departments and agencies that are used for other types of transactions.

Special drawing rights (SDRs) are accounting units, sometimes called ''paper gold,'' that were originally created by the IMF in 1969 to serve as international reserve assets that would supplement countries' existing international reserves; since 1970 there have been six allocations of SDRs to IMF member countries in proportion to their IMF quotas, the latest allocation being made in 1981. SDRs were originally valued at 0.888671 gram of fine gold (equal to one U.S. dollar at the dollar's par value at that time of $35 per troy ounce). From 1996 through 1998, the value was based on a weighted average of the exchange rates for the currencies of the U.S. (39 percent), Germany (21 percent), Japan (18 percent), France (11 percent), and the United Kingdom (11 percent); since the beginning of 1999 the value has been based on an average of the U.S. dollar (39 percent), the euro (32 percent), the Japanese yen (18 percent), and the U.K. pound sterling (11 percent).

The U.S. net reserve position in the IMF is equal to the U.S. quota in the IMF minus IMF holdings of dollars (excluding dollar holdings in IMF administrative and subsidiary accounts) plus net U.S. loans to the IMF. The net reserve position represents the amount of foreign exchange that the U.S. may unconditionally draw from the IMF, up to the full amount of its quota. The value of the position is affected by IMF transactions in U.S. dollars with both the U.S. and foreign countries.

In the flow of funds accounts, net U.S. acquisitions of monetary gold and special drawing rights are equal to net sales of these items by foreigners; in tables of outstanding values, they are considered U.S. assets but not foreign liabilities, in accordance with international conventions for treatment. Official holdings of foreign currencies and the net U.S. position in the IMF are considered foreign liabilities for both flows and outstandings. Data for the series are obtained from the U.S. international transactions tables in the *Survey of Current Business*; some are shown in the *Federal Reserve Bulletin*.

Table F.201 SDR Certificates and Treasury Currency

U.S. Treasury currency is the stock of currency for which the U.S. Treasury is the legal obligor. Since 1966, Treasury currency has comprised silver dollars and fractional coins, United States notes, and items in the process of retirement. Special drawing rights (SDRs) are international monetary reserves issued to member countries by the International Monetary Fund. Special drawing rights certificates are issued to Federal Reserve Banks by the Treasury when it monetizes the special drawing rights themselves. The first allocation of SDRs to the U.S. took place in 1970, and the first issue of SDR certificates was made the same year. Both Treasury currency and SDR certificates are among the factors supplying reserve funds to the banking system (shown in table 1.11 in the *Federal Reserve Bulletin*).

Transactions in Treasury currency and in SDR certificates take place only between the Treasury and the monetary authority. The discrepancy item for Treasury currency—the difference between changes in the liability of the federal government for Treasury currency and changes in holdings of Treasury currency by the monetary authority—arises from seigniorage, the profit that the federal government earns from the issuance of its currency.

Data on U.S. government liabilities are taken from the *Monthly Treasury Statement* and the *Monthly Statement of the Public Debt*; data on the holdings of the monetary authority come from the *Federal Reserve Bulletin*.

Table F.202 U.S. Deposits in Foreign Countries

U.S. deposits in foreign countries are deposits, including negotiable certificates of deposit, held in foreign financial institutions by private U.S. owners. These deposits are not included in statistics on the U.S. money supply.

Data on the deposit liabilities of foreign institutions are taken from the U.S. international transactions (USIT) tables published in the *Survey of Current Business* (SCB); figures on holdings of the deposits by U.S. sectors are estimated from reports of currency holdings filed with the Internal Revenue Service, from the Federal Reserve Board's Survey of Consumer Finances, from the *Quarterly Financial Report* (QFR), from *Statistics of Income* (SOI) data published by the Internal Revenue Service, and from data collected by the Investment Company Institute (ICI). Data on the holdings of foreign deposits by U.S. residents are incomplete, as indicated by the existence and relative size of the discrepancy for the category.

Table F.203 Net Interbank Transactions

Net interbank transactions in the flow of funds accounts are changes in the assets and liabilities of banking and monetary institutions due from or owed to other such institutions that are used to manage transactions, assets, and liabilities and to facilitate institutions' operations as intermediaries. The transactions are used for short-term lending, netting and clearing of transaction cash flows, acquisition of foreign currencies, maintenance of correspondent balances, management of assets and liabilities, and adjustment of reserves. They are also used to make quasi-equity investments, especially between bank holding companies and their subsidiaries and between banks operating in the U.S. and their international banking facilities (IBFs) or other affiliated foreign offices. Interbank positions exist among the monetary authority, U.S.-chartered commercial banks, foreign banking offices in the U.S., bank holding companies, and foreign banks, including IBFs.

A bank typically has both asset and liability positions with other banks (on balance sheets, termed ''due from'' and ''due to'' positions respectively). However, because changes in asset and liability positions are frequently related to each other and fluctuate in tandem, and because some institutions report only on a net basis, interbank transactions in the flow of funds accounts are treated on a net basis. The data on net positions are often much less volatile than the data on gross positions and provide better measures of net lending or borrowing during a period. Also, in consolidated accounts for the banking sector, net interbank claims for the most part cancel; exceptions are net positions vis-à-vis the monetary authority and banks in foreign countries, and floats and timing discrepancies in reported data.

Data on interbank transactions are taken from several sources: for the monetary authority, from the *Federal Reserve Bulletin* (FR Bulletin); for domestic banks, from quarterly reports of condition submitted to the federal regulatory authorities; and for foreign banks, from tabulations supplied by the Department of the Treasury.

Table F.204 Checkable Deposits and Currency

Checkable deposits consist of demand deposits at U.S.-chartered commercial banks and foreign banking offices in the U.S., negotiable order of withdrawal (NOW) accounts and automatic transfer service (ATS) accounts at depository institutions, credit union share drafts, and demand deposits at savings institutions; checkable deposits are liabilities of these institutions. Currency is U.S. currency and coin held outside the U.S. Treasury, Federal Reserve Banks, and the vaults of depository institutions; currency in circulation is a liability of the monetary authority. Data on deposit liabilities are obtained primarily from quarterly reports of condition submitted by depository institutions to the federal regulatory authorities. Data on currency liabilities are prepared within the Federal Reserve Board.

Data on holdings of checkable deposits and currency by individual sectors are tabulated by trade associations and federal agencies from the balance sheets of entities that make up the sectors; holdings by the households and nonprofit organizations sector are the residual after the holdings of all other sectors have been subtracted from the total checkable deposit and currency liabilities of depository institutions and the monetary authority. For most sectors the information available does not make it possible to show their holdings of deposits and currency separately, but estimates of currency holdings by the rest of the world are available; U.S. currency held by the rest of the world totaled about $234 billion at the end of 1997 (out of total currency in circulation of about $437 billion).

Checkable deposits and currency are components of the monetary aggregates (measures of the national money supply published by the Federal Reserve System). However, the data on checkable deposits and currency outstanding published in the flow of funds accounts differ in several respects from the data included in these aggregates: The monetary aggregates are calculated on a daily-average basis, whereas the flow of funds data are as of the last day of the time period; travelers check liabilities of nonbank issuers are included in the monetary aggregates but not in the flow of funds series; outstandings data are seasonally adjusted for the monetary aggregates but are not adjusted for the flow of funds accounts; and deposits held by depository institutions and by the federal government, as well as Federal Reserve float and cash items in process of collection, are excluded from the monetary aggregates but not from the flow of funds accounts.

Table F.205 Time and Savings Deposits

Time and savings deposits are deposits at U.S.-chartered commercial banks, foreign banking offices in the U.S., banks in U.S.-affiliated areas, savings institutions, and credit unions that depositors may withdraw after giving prior notice. The category comprises small time deposits (deposits with balances of less than $100,000 that have a stated maturity) and savings deposits (passbook savings accounts) as well as large time deposits (deposits with balances of $100,000 or more that have a stated maturity); both money market deposit accounts and IRA/Keogh accounts held in the form of time and savings deposits are included in the total. In practice, depositors may generally withdraw funds from passbook savings accounts at any time without giving prior notice and without penalty, but they may not draw down funds from a time deposit having a stated maturity before the maturity date without penalty.

Information on time and savings deposit liabilities comes primarily from the quarterly reports of condition filed by the institutions with federal regulatory authorities. Data on holdings of time and savings deposits by most of the sectors are taken from balance sheets compiled by trade associations and federal agencies; holdings by the households and nonprofit organizations sector are the residual found by subtracting the holdings of the other sectors from the total liabilities. Data on liabilities are available separately for small time and savings deposits and large time deposits, but data are insufficient to classify sectors' assets by type of deposit.

Small time and savings deposits are included in the M2 and M3 monetary aggregates (measures of the national money supply published by the Federal Reserve System); large time deposits are included in the broad measure M3.

Table F.206 Money Market Mutual Fund Shares

Money market mutual fund shares are obligations issued by money market mutual funds, which are open-end investment companies that invest in short-term, liquid assets, including short-term municipal securities. The funds began operating in the 1970s and quickly became popular with investors as a higher-earning alternative to deposits. The shares may be redeemed at any time, although the funds usually require that a minimum balance remain in each account. Money market mutual fund shares may be used in carrying out transactions—the funds often allow shareholders to write checks, usually for a minimum amount, such as $500, against individual account balances—and the value of retail, or individual investor, money market mutual fund shares is included in the M2 monetary aggregate; the value of all such shares is included in the M3 aggregate (the monetary aggregates are measures of the national money supply published by the Federal Reserve System).

Data on the issuance of money market mutual fund shares and on holdings by some sectors come from the Investment Company Institute (ICI); other data are obtained from regulatory reports or are estimated by the Flow of Funds Section. Holdings by the households and nonprofit organizations sector are the residual after the holdings of all other sectors have been subtracted from the total share value.

Table F.207 Federal Funds and Security Repurchase Agreements

Federal funds purchases and security repurchase agreements are short-term borrowings by institutions in the commercial banking, savings institutions, real estate investment trusts, and security brokers and dealers sectors. In the flow of funds accounts, this category excludes transactions carried out entirely among commercial banking groups, which are classified as net interbank claims and are included in table F.203.

Federal funds are immediately available balances borrowed for periods of one day or longer. A security repurchase agreement, also called an RP or repo, is an agreement to sell an asset, in many cases a federal government security, accompanied simultaneously by an agreement that the seller will repurchase the asset at a later date at a higher price. Repurchase agreements are viewed as collateralized loans, with the difference between the sale price and the repurchase price of the security constituting the interest payment. Repurchase agreements (and reverse repurchase agreements) are often carried out by the Federal Reserve System in order to temporarily inject reserves into (or remove reserves from) the banking system and withdraw them when they are no longer needed (or replace them when the need returns). Government security dealers use repurchase agreements, often with nonfinancial corporations, to finance their inventories. Commercial banks and savings institutions use retail repurchase agreements to temporarily raise funds from individuals.

Because some sectors do not report federal funds purchases or sales separately from security repurchase agreements, it is not possible to show net purchases and sales of the two items individually. The relatively large size of the discrepancy in the table (line 23) (that is, the difference between changes in liabilities and changes in assets) on a quarterly basis is likely due to differences in the timing of recording of sales and purchases.

Data on borrowing in the two markets come from reports submitted to the federal regulatory authorities; information on asset acquisition comes from the federal regulatory authorities, other federal agencies, trade associations, and private data reporting services.

Table F.208 Open Market Paper

Open market paper comprises commercial paper and bankers acceptances. Commercial paper consists of short-term unsecured promissory notes issued by financial and nonfinancial borrowers; maturities range up to 270 days and average about 30 days. Commercial paper may be directly issued or dealer-placed. It is usually bought and sold on a discount basis, with face value being paid to holders upon maturity.

A bankers acceptance is a draft or bill of exchange drawn on and accepted by a banking institution (the ''accepting bank'') or its agent for payment by that institution on a future date specified in the instrument (most commonly about three months later). Funds are advanced to the drawer of the acceptance (the borrower) by the discounting of the accepted draft either by the accepting bank or by others; the accepted draft is a negotiable money-market instrument and may be sold and resold subsequent to its original discounting. On the maturity date, the current owner of the acceptance presents the accepted draft to the accepting bank for payment. The bank is obligated to pay the holder the face amount of the draft on the maturity date; the borrower is obligated to repay the borrowed funds to the bank on or before that date. Bankers acceptances are often used in the financing of international trade. In the flow of funds accounts, they are treated as liabilities of U.S.-chartered commercial banks and of foreign banking offices in the U.S.

Information on the issuance of commercial paper in the U.S. market comes from data published in the Federal Reserve Board's daily ''Commercial Paper'' statistical release, which in turn are derived from data supplied by the Depository Trust Company; through 1997:Q2, data on commercial paper were collected by the Federal Reserve Bank of New York. Data on bankers acceptance liabilities come from quarterly reports of condition submitted to federal regulatory authorities by U.S.-chartered commercial banks and foreign banking offices in the U.S.; in those reports the data are reported as ''bank's liability on acceptances executed and outstanding.''

Data on the holdings of open market paper by investing sectors are obtained from federal regulatory authorities, other federal agencies, trade associations, and private data reporting services. From the information available, it is not possible to determine sectors' holdings of commercial paper separately from their holdings of bankers acceptances. Holdings of open market paper by the households and nonprofit organizations sector are the assets of nonprofit organizations; information on these holdings is based on reports to the Internal Revenue Service by such organizations and on estimates of asset holdings provided by a sample of large foundations. Funding corporations (see table F.131) are the residual holder of open market paper; their holdings are calculated by subtracting the holdings of other sectors from total issuers' liabilities for commercial paper and bankers acceptances.

Table F.209 Treasury Securities

U.S. Treasury securities are marketable and nonmarketable securities issued by the Department of the Treasury. The total for Treasury securities outstanding shown in the flow of funds accounts includes premium and is net of discount; about $8 billion of the total is non-interest-bearing debt, mostly matured securities that have not been presented for redemption. The figure excludes amounts that are held by government agencies and trust funds (such as the Federal Old Age and Survivors Insurance Trust Fund) and is thus about $1.7 trillion smaller than published values for the total public debt.

Marketable Treasury securities comprise Treasury bills (which have original maturities of up to fifty-two weeks); Treasury notes (maturities of up to ten years); Treasury bonds (maturities of more than ten years, up to thirty years); securities issued by the Federal Financing Bank; and inflation-indexed marketable notes and bonds. Nonmarketable Treasury securities, which are issued for special purposes or to particular groups of investors, include U.S. savings bonds and notes and the state and local government series, or SLGS (securities offered for sale to issuers of state and local government tax-exempt debt to assist in compliance with yield restrictions in the Internal Revenue Code). Information on the issuance of U.S. Treasury securities is obtained from publications of the Department of the Treasury, primarily the *Monthly Treasury Statement* and the *Monthly Statement of the Public Debt*.

Data on the holdings of U.S. Treasury securities by most individual sectors come from federal regulatory authorities, other federal agencies, trade associations, and private data reporting services. The households and nonprofit organizations sector is assumed, in the flow of funds accounts, to be the holder of all savings bonds and notes. Because information for nonfarm noncorporate businesses and closed-end funds is not sufficient to separate their purchases of U.S. government securities (Treasury securities and agency securities) by type, all purchases of U.S. government securities by the two sectors are considered purchases of Treasury securities. The holdings of the households and nonprofit organizations sector of Treasury securities other than savings bonds and notes are the residual after the holdings of all other sectors have been subtracted from the total.

Table F.210 Agency Securities

U.S. government agency securities are of three types:

1. Securities issued by federal agencies, other than the Treasury. These securities, reported as "agency securities issued under special financing authorities" in the *Monthly Treasury Statement*, currently include obligations of the U.S. issued by the Export–Import Bank of the U.S. and the FSLIC Resolution Fund of the Federal Deposit Insurance Corporation; obligations guaranteed by the U.S. issued by the Federal Housing Administration, the Bureau of Land Management, and the Coast Guard; and obligations not guaranteed by the U.S. issued by the Architect of the Capitol and by four independent agencies, including the Postal Service and the Tennessee Valley Authority. Also included in this category are Commodity Credit Corporation certificates of interest, whose value has been zero since the second quarter of 1970, and loan participation certificates, whose value has been zero since the third quarter of 1988.
2. Securities issued by government-sponsored enterprises, such as Fannie Mae and the Federal Home Loan Banks.
3. Federally related mortgage pool securities issued by the Government National Mortgage Association, Fannie Mae, Freddie Mac, and the Farm Service Agency.

Data on outstanding issuance of U.S. government agency securities come from publications of the Department of the Treasury and from balance sheets of government-sponsored enterprises. Data on the holdings by most individual sectors come from federal regulatory authorities, other federal agencies, trade associations, and private reporting services. Information on the holdings of nonfarm noncorporate businesses and closed-end funds is not available separately, and purchases by these sectors are included in totals for purchases of Treasury securities, shown in table F.209. Purchases by the households and nonprofit organizations sector are the residual after the purchases by all other sectors have been subtracted from total issuance.

Table F.211 Municipal Securities and Loans

Municipal securities and loans are obligations issued primarily by state and local governments. The category consists of long-term and short-term securities; it excludes the trade debt of state and local governments and U.S. government loans to them. A portion of the municipal debt outstanding—the amount issued by nonprofit hospitals and that issued by nongovernmental entities to finance activities such as lending to students, along with public-purpose investment undertaken by private entities—is owed by the households and nonprofit organizations sector and the nonfarm nonfinancial corporate business sector. Some municipal issues are included as loan assets on the balance sheets of holders.

Most municipal debt is tax-exempt; that is, the interest earned on holdings is exempt from federal income tax. Since 1986, however, a small portion of the debt issued (about 3 percent of gross issuance of long-term securities in recent years) has been taxable. The two types of debt are not shown separately in the flow of funds accounts.

Data on issuance and retirement of municipal obligations are obtained from private data reporting services and the Bureau of the Census. Data on holdings come from balance sheets obtained from regulatory authorities, government agencies, trade associations, and private data reporting services; holdings of the households and nonprofit organizations sector are the residual after the holdings of all other sectors have been subtracted from total issuance.

Table F.212 Corporate and Foreign Bonds

Corporate and foreign bonds are debt obligations of U.S. financial and nonfinancial corporations and foreign entities. The obligations, which are reported on balance sheets as debt having a remaining maturity of more than one year, include bonds, notes, debentures, mandatory convertible securities, long-term debt, and unsecured debt; the obligations of savings institutions include mortgage-collateralized securities. For U.S. corporations, the category includes bonds issued both in the U.S. and in foreign countries, but not bonds issued in foreign countries by foreign subsidiaries of the U.S. corporations. For the rest of the world, the category is made up of bonds issued in the U.S. by foreign borrowers through U.S. dealers and purchased by U.S. residents; the foreign borrowers are private corporations and financial institutions, central governments and their agencies and corporations, local and municipal governments, and international organizations. Also included in the debt obligations of the rest of the world are bonds of foreign entities that were originally issued abroad but were subsequently acquired by U.S. residents through U.S. dealers; this component does not include bonds issued by foreign entities that are purchased by non–U.S. residents.

Data on bond issuance are obtained from private data reporting services, federal regulatory authorities, and industry trade associations; information on transactions involving foreigners appears in the U.S. international transaction tables published in the *Survey of Current Business* (SCB).

On the asset side, it is not possible to separate the purchases of domestic issues and foreign issues (except by life insurance companies), and sector holdings of the securities may be of both types. Life insurance companies hold the largest share (nearly a third) of the total corporate bond debt outstanding; outstanding holdings by the various sectors are shown at book value, except for bonds held by security brokers and dealers, which are shown at market value. Foreign purchases of corporate bonds include purchases by non–U.S. residents of new issues sold abroad by U.S. corporations as well as net foreign purchases of outstanding bonds issued by U.S. corporations; also included are foreign purchases of municipal securities and, before 1993, foreign purchases of bonds issued by U.S. corporations through finance subsidiaries in the Netherlands Antilles.

Information on purchases of corporate bonds is taken from reports submitted to federal regulatory authorities and from the publications of trade associations and private data reporting services. Information on purchases by the rest of the world appears in the *Survey of Current Business*; data on these transactions are collected from U.S. dealers and reflect only transactions that take place through these dealers. Purchases by the households and nonprofit organizations sector are found as the residual, after the purchases by all other sectors have been subtracted from total issuance.

Table F.213 Corporate Equities

Corporate equities are shares of ownership in financial and nonfinancial corporate businesses. The category comprises common and preferred shares issued by domestic corporations and U.S. purchases of shares issued by foreign corporations, including shares held in the form of American depositary receipts (ADRs); it does not include mutual fund shares, which are reported separately in table F.214. The total value of corporate equities includes the value of the shares of all corporations, both widely held and closely held and both traded on organized exchanges and sold over the counter; shares traded on the New York and American Stock Exchanges and in the Nasdaq Stock Market account for most of the total.

Data on issuance and holdings of corporate equities are obtained from private data reporting services, trade associations, and regulatory and other federal agencies. Purchases of equities by foreigners are included in this table only if they are considered ''portfolio'' investment, that is, if they are purchases by a single foreign investor that will result in ownership of less than 10 percent of the outstanding equity of the issuing U.S. firm; purchases by a single foreign investor that result in ownership of 10 percent or more of the firm's outstanding equity are considered foreign direct investment and are included in table F.230. Purchases of equities by the households and nonprofit organizations sector are found as the residual after the purchases of all other sectors have been subtracted from total issuance.

In tables of outstanding values, corporate equities are shown at market value. Because equities are ownership shares and a part of the net worth of corporations, they are not considered liabilities of the incorporated sectors.

Table F.214 Mutual Fund Shares

Mutual fund shares are obligations issued by mutual funds, also known as open-end investment companies. Mutual funds issue their shares on demand and stand ready to redeem them at net asset value (the market value of the total assets of the redeeming fund less its total liabilities, divided by the number of shares outstanding). The category excludes money market mutual fund shares, which are shown in table F.206. Mutual fund shares are distinct from corporate equities; even though the mutual funds themselves hold corporate equities, funds invested in equities are not double-counted in the flow of funds accounts.

Data on issues of mutual fund shares are derived from reports of the Investment Company Institute (ICI); data on holdings of shares by sectors come from regulatory and trade association reports and from ICI. Share values are determined by the market value of the underlying assets held by the funds, but the values for the shares outstanding shown in the flow of funds tables differ from figures reported by ICI because in the flow of funds accounts some of the mutual funds' financial assets are shown at book rather than market value. Mutual fund shares held by the households and nonprofit organizations sector, whose holdings are larger than those of any other sector, are the residual after the holdings of all other sectors have been subtracted from the total.

Table F.215 Bank Loans Not Elsewhere Classified

Bank loans not elsewhere classified (n.e.c.) are loans held by U.S.-chartered commercial banks, foreign banking offices in the U.S., bank holding companies, and banks in U.S.-affiliated areas that are not included in any of the identified loan categories (mortgages, consumer credit, security credit, and open market paper). The category also includes small amounts lent in the past to foreign borrowers by the Federal Reserve System; the value of this component has been zero since 1970. At the end of 1997 more than 80 percent of bank loans n.e.c. outstanding had been extended to nonfinancial businesses, in the form of commercial and industrial loans, lease financing receivables, and agricultural loans. Bank loans n.e.c. to the households and nonprofit organizations sector, a much smaller portion of the total, consist of overdrafts on deposit accounts; loans to individuals, other than consumer credit and loans secured by real estate; and loans to nonprofit organizations. Bank loans n.e.c. are also made to the rest of the world and to some financial institutions.

Data on total bank loans outstanding and on the loans made to most sectors are from quarterly reports of condition submitted by each of the banking groups to federal regulatory authorities; data on loans extended by banks to finance companies, real estate investment trusts, and mortgage companies are obtained from reports of trade associations.

Table F.216 Other Loans and Advances

Other loans and advances are loans of various types that do not fit into one of the other loan categories accounted for in the flow of funds accounts (open market paper, mortgages, consumer credit, security credit, and bank loans not elsewhere classified). The types of loans are described below. (Because the category ‘‘bank loans not elsewhere classified’’ residually accounts for all loans made by the commercial banking sector, ‘‘other loans and advances’’ does not include loans made by commercial banks.) Information on these loans is obtained from the federal regulatory authorities, other federal agencies, institutional surveys, and trade associations.

1. U.S. government loans—Loans, other than mortgages and trade credit, made by the federal government for numerous public purposes, including public housing, disaster relief, and assistance to small businesses. Borrowers are individuals, farm and nonfarm businesses, state and local governments, foreigners, and Sallie Mae.

2. Foreign loans to U.S. corporate business—Loans of all types, including real estate loans, made by foreign banks to U.S. nonfarm nonfinancial corporations.

3. Customers' acceptance liabilities to banks—Obligations to banks for funds that have been advanced to the drawers of drafts or bills of exchange that have been accepted by the banks (bankers acceptances). The borrowers, foreigners and U.S. nonfarm nonfinancial corporations, are obligated to repay the funds on or before the maturity dates of the accepted drafts. In the flow of funds accounts, customers' acceptance liabilities are assets of U.S.-chartered commercial banks and foreign banking offices in the U.S.

4. Savings institution loans to business—Commercial loans made by savings institutions that file reports with the Office of Thrift Supervision; also, commercial and industrial loans and lease financing receivables, along with several other categories of loans included here because the amounts are small, held by savings institutions that file reports with the Federal Deposit Insurance Corporation. In the flow of funds accounts, the liability for the loans is divided evenly between the nonfarm nonfinancial corporate business sector and the nonfarm noncorporate business sector.

5. Policy loans—Loans secured by the cash surrender value of life insurance policies issued by life insurance companies and by the federal government. In the flow of funds accounts, all policy loans are liabilities of the households and nonprofit organizations sector.

6. Loans from government-sponsored enterprises—Loans, other than mortgages, from Sallie Mae, the Farm Credit System, and the Federal Home Loan Banks. Government-sponsored enterprises assist in directing credit to particular segments of the economy. Among the forms of lending included in this category are student loans, agricultural loans, and advances to financial institutions that are members of the Federal Home Loan Bank System.

7. Securitized loans held by issuers of asset-backed securities (ABS)—Student loans owed by the households and nonprofit organizations sector and sold by Sallie Mae to the ABS sector, and securitized loans to businesses originated by finance companies and banks and now on the balance sheets of the ABS sector. The latter assets are motor vehicle loans and leases, equipment loans and leases, and other business receivables (loans on commercial accounts receivable; factored commercial accounts; receivable dealer capital; small loans used primarily for business or farm purposes; and wholesale and lease paper for mobile homes, recreation vehicles, and travel trailers).

8. Finance company loans to business—Loans made by finance companies to nonfarm nonfinancial corporate businesses and nonfarm noncorporate businesses. The liability for these loans is allocated between the two sectors by the Flow of Funds Section.

Table F.217 Total Mortgages

Mortgages are loans that are secured in whole or in part by real property. This table summarizes transactions in home mortgages, multifamily residential mortgages, commercial mortgages, and farm mortgages. Holders of mortgages include lenders that both originate the loans and hold them as assets, such as commercial banks, thrift institutions, and insurance companies, as well as institutions that acquire the loans in the secondary market. Some institutions emphasize particular types of mortgage lending; savings institutions, for example hold about 80 percent of their mortgage loans in the form of home mortgages, whereas life insurance companies hold about the same percentage of their mortgage loans as commercial mortgages. The category includes mortgages that have been pooled to provide collateral for mortgage pool securities and collateralized mortgage obligations issued by government and government-related agencies; such mortgages are shown as holdings of the federally related mortgage pools sector (table F.125). Mortgages that back the security obligations of private issuers are assets of issuers of asset-backed securities (table F.126).

Table F.218 Home Mortgages

Home mortgages are loans secured by one-to four-family properties, including owner-occupied condominium units. The total includes second mortgages on properties of these types, loans taken out under home equity lines of credit, mortgages held by households under seller-financing arrangements, and construction and land development loans associated with one- to four-family residences. The household sector is the primary borrower of home mortgages; however, the category also includes business borrowing for construction of one- to four-family residences.

Figures on home mortgages are estimated by the Federal Reserve Board's Financial Institutions Section using data from federal regulatory authorities, other federal agencies, trade associations, and private data reporting services.

Table F.219 Multifamily Residential Mortgages

Multifamily residential mortgages are loans secured by residences with five or more dwelling units. The category includes construction and land development loans associated with multifamily properties; it does not include loans secured by owner-occupied condominiums (they are part of the home mortgages category, table F.218). The primary borrowers of multifamily mortgages are businesses; the federal government and real estate investment trusts also borrow small amounts.

Data on multifamily residential mortgages are estimated by the Federal Reserve Board's Financial Institutions Section on the basis of reports from federal regulatory authorities, other federal agencies, trade associations, and private data reporting services.

Table F.220 Commercial Mortgages

Commercial mortgages are loans secured by nonfarm nonresidential properties, including properties owned by nonprofit organizations such as universities, hospitals, and churches (mortgages secured by multifamily residential properties are shown separately in table F.219). The figures include construction and land development loans associated with commercial properties. The major providers of commercial mortgage funds are commercial banking institutions and life insurance companies; issuers of asset-backed securities also provide significant amounts.

Data on commercial mortgages are estimated by the Federal Reserve Board's Financial Institutions Section on the basis of information from federal regulatory authorities, other federal agencies, trade associations, and private data reporting services.

Table F.221 Farm Mortgages

Farm mortgages are loans secured by farm properties. In the flow of funds accounts, farm mortgage debt is considered to be a liability of the farm business sector only. The primary lenders of farm mortgages are government-sponsored enterprises, such as the Farm Credit System, and the commercial banking sector; other sectors, including the households and nonprofit organizations sector, provide smaller amounts of farm mortgage funds.

Data on farm mortgages are estimated by the Federal Reserve Board's Financial Institutions Section using information from federal regulators, other federal agencies, and private data reporting services.

Table F.222 Consumer Credit

Consumer credit consists of short-term and intermediate-term loans to individuals; it is a liability of the households and nonprofit organizations sector only. Examples of consumer credit are loans for the purchase of automobiles and mobile homes, and secured and unsecured loans for furniture, boats, trailers, appliances, education, and vacations. Of the $1.3 trillion in consumer credit outstanding at the end of 1997, $417 billion was loans for automobiles, $556 billion was revolving credit, and the remainder was other forms of debt. Consumer motor vehicle leases are not included in consumer credit.

The U.S.-chartered commercial banking sector is the largest holder of consumer credit; however, finance companies and other depository institutions also hold significant amounts. In recent years, securitization of consumer credit has grown. Pools of automobile loans, revolving credit, and other forms of consumer credit are originated by a bank or other institution and transferred to the balance sheets of "special-purpose vehicles"; these entities (which in the flow of funds accounts are included in the issuers of asset-backed securities sector) then issue their own securities to finance the purchase of the loans. At the end of 1997, about 25 percent of outstanding consumer credit was held in pools of securitized assets.

The volume of consumer credit outstanding is estimated by the Federal Reserve Board's Financial Institutions Section from data reported to federal regulatory authorities; monthly surveys of banks, finance companies, and credit unions; and information from other government agencies. Data are published monthly in the Board's G.19 statistical release, "Consumer Credit," and in the *Federal Reserve Bulletin* (table 1.55).

Table F.223 Trade Credit

Trade credit and trade debt are accounts receivable and payable arising from the sale of business-related goods and services. The nonfinancial business sectors are lenders of more than 80 percent of trade credit provided and account for nearly 80 percent of trade debt outstanding, though a number of other sectors are either lenders of trade credit or borrowers of trade debt. The federal government, for example, extends trade credit in the form of prepayments to business firms for items not yet delivered. The households and nonprofit organizations sector incurs debt only as trade payables of nonprofit organizations included in the sector; balances on retail charge accounts are considered consumer credit (table F.222). The discrepancy for the trade credit category, calculated as the change in trade payables less the change in trade receivables, reflects both differences in the time at which borrowers and lenders record these items and reporting differences.

Information on trade credit is obtained from a variety of sources, including federal regulatory authorities, other federal agencies, trade associations, and private data reporting services.

Table F.224 Security Credit

Security credit consists of loans to security brokers and dealers from the commercial banking sector for purchasing and carrying securities, as well as customer credit and debit balances with brokers and dealers. Security lending to and from foreigners is also included in the total through 1976:Q1, but data on such lending have not been available separately since then. Under the Securities Act of 1934, the Federal Reserve Board is authorized to regulate the use of credit for purchasing or carrying securities. The instruments making up this category are those subject to this authority. The category does not cover all loans for which securities are used as collateral; some of these loans are considered to be consumer credit or bank loans not elsewhere classified. In the flow of funds accounts, security credit is not considered to be a form of credit market borrowing or lending because it is an indirect form of credit; it is included in total bank credit statistics, however, and is part of total bank credit extended by U.S.-chartered commercial banks and foreign banking offices in the U.S.

Data on security credit come from quarterly reports of condition submitted to federal regulatory authorities by banks and from reports submitted to the Securities and Exchange Commission by security brokers and dealers.

Table F.225 Life Insurance and Pension Fund Reserves

Life insurance reserves are funds that have been set aside to back claims against policies issued; they are obligations of life insurance companies and of the federal government. In the flow of funds accounts, the liability of private life insurance companies for life insurance reserves is equal to the sum of reserves for life insurance policies and reserves for supplementary contracts; the liability does not include reserves for annuities, health insurance, or policy dividend accumulations. The liability of the federal government is equal to the total assets of several U.S. government life insurance funds. Life insurance reserves are assets of the households and nonprofit organizations sector.

Pension fund reserves are funds that have been set aside to meet future benefit obligations to retired or disabled individuals. They are liabilities of private pension funds, life insurance companies, state and local government employee retirement funds, and the federal government. For both private pension funds and state and local government employee retirement funds, the liability is equal to the total assets of the sector; for life insurance companies, the liability is equal to policy reserves behind individual and group annuities, excluding unallocated insurance company contracts and variable annuity plans held with the companies for private pension funds in the name of individuals who are not separately identified. Individual retirement accounts (IRAs) and Keogh accounts that are invested in annuities are included in the life insurance companies' pension fund reserves liability. All pension fund reserves are assets of the households and nonprofit organizations sector.

For the federal government, the pension fund liability is equal to the total assets of the civil service retirement fund and the railroad retirement fund. The civil service retirement fund covers the Civil Service Retirement System (CSRS)—basically a defined benefit plan covering federal employees hired before 1984—and the Federal Employees Retirement System (FERS)—basically a defined benefit plan, supplemental to social security, for federal employees hired after 1983 and for employees formerly covered by CSRS who elected to join FERS. FERS also has a thrift savings plan, which is included among defined contribution plans in the private pension fund sector in the flow of funds accounts. Federal government pension fund reserves do not include the reserves of the social security system.

Data on private life insurance reserves and the pension fund reserves of life insurance companies come from A.M. Best Company. The primary source of information on the assets of private pension funds is a tabulation by the Flow of Funds Section of annual data submitted by the funds on IRS/DOL/PBGC Form 5500 (and Form 5500-C/R) and provided on tape by the U.S. Department of Labor; quarterly estimates are based on data from the Independent Consultants Cooperative supplied by Bankers Trust Company (now part of Deutsche Bank). Data on state and local government employee retirement funds come from annual issues of *Finances of Employee-Retirement Systems of State and Local Governments* and from the Quarterly Survey of Finances of Public Employee Retirement Systems, made available by the Bureau of the Census. Information on U.S. government liabilities for insurance and pension fund reserves is taken from the *Monthly Treasury Statement* and the *Budget of the U.S. Government*.

Table F.226 Taxes Payable by Businesses

Taxes payable by businesses are taxes owed by the corporate and noncorporate business sectors to federal, state, and local governments; the corporate taxes payable include obligations of both the financial and the nonfinancial sectors. The corresponding asset for governments is taxes receivable. Flows of taxes payable are estimated as the difference from one period to the next in taxes payable reported on the balance sheets of individual sectors; flows of taxes receivable are estimated as the difference between taxes accrued, as reported in the national income and product accounts (NIPA), and taxes received, as reported by governments. The asset for state and local governments consists primarily of miscellaneous business taxes due from nonfarm noncorporate businesses. The discrepancy for this financial instrument category is the difference between the change in taxes payable and the change in taxes receivable; it may be an indication of conceptual differences between tax-liable sectors and the government entities or of differences in the time at which data were reported.

Data on tax liabilities come from quarterly reports of condition filed by depository institutions and from other regulatory reports; some series are estimated by the Flow of Funds Section from data published in the NIPA, from *Statistics of Income* (SOI) tabulations by the Internal Revenue Service, and from the *Quarterly Financial Report* (QFR), published by the Bureau of the Census. Data on tax receipts come from tables published in the *Survey of Current Business* (SCB), from the *Monthly Treasury Statement*, and from information on state and local government tax collections made available by the Bureau of the Census.

Table F.227 Investment in Bank Personal Trusts and Estates

Bank personal trusts are legal entities established at banks and nondepository trust companies by individuals to invest in assets for the benefit of the owners or other persons; the sector also includes estates of deceased persons being administered by banks and trust companies. (Data on the assets of the sector appear in table F.116.) In the flow of funds accounts the trusts are considered financial institutions that have a single liability, an obligation to the owners and beneficiaries equal to the total of the trusts' assets. The owners and beneficiaries are part of the households and nonprofit organizations sector, which has a corresponding financial claim equal to the liability of the trusts. This table shows change in investment in the trusts—the net funds added to trusts by their owners (excluding capital gains that have accrued to the assets)—along with the trusts' liability.

Table F.228 Proprietors' Equity in Noncorporate Business

Proprietors' equity in noncorporate business is the net acquisition of ownership by households in nonfarm noncorporate business, noncorporate farm business, and noncorporate security brokers and dealers. For the nonfarm noncorporate business and farm business sectors, the investment is calculated as the difference between sources and uses of funds; for the noncorporate security brokers and dealers, data on the investment are obtained directly from regulatory reports. Details on calculations and sources for the series for all three sectors appear in the tables for the individual sectors. The sum for the three items appears in the table for households and nonprofit organizations (F.100) as a component of the net acquisition of financial assets.

Table F.229 Total Miscellaneous Financial Claims

Total miscellaneous financial claims are the sum of identified miscellaneous financial claims, shown in tables F.230 and F.231, and unidentified miscellaneous financial claims, shown in table F.232. The categories are described in the introductions to those tables.

Table F.230 Identified Miscellaneous Financial Claims, Part I

Identified miscellaneous financial claims are an assortment of asset and liability instruments that individually appear on the balance sheets of only a few sectors and are therefore not treated as separate instrument categories. Some of the items are fairly important, however, involving relatively large flows of funds among sectors or across international boundaries. Because the number of instruments is large, the group is covered in two tables (this one and the next), with details of issues and purchases by sector. The instruments covered by this table are described briefly in the following paragraphs.

1. U.S. direct investment abroad—The acquisition of equity in, and the provision of loans to, foreign affiliates by U.S. firms through the purchase of tangible or financial assets of foreign firms or the direct ownership of their equity shares. Purchase of equity by a U.S. firm is considered direct investment if the purchase results in ownership of 10 percent or more of the outstanding equity of the foreign affiliate. A U.S. purchase of equity in a foreign company that results in a share in the foreign company's equity of less than 10 percent is considered portfolio investment and is counted as a U.S. purchase of foreign corporate equities. In tables of outstanding values, U.S. direct investment abroad is the largest of the identified miscellaneous financial claims. Data on U.S. direct investment abroad are published by the Bureau of Economic Analysis (BEA) in the *Survey of Current Business* (SCB).

2. Foreign direct investment in the U.S.—The acquisition of equity in, and the provision of loans to, U.S. affiliates of foreign firms by the purchase of tangible or financial assets of U.S. firms or the direct ownership of their equity shares. The 10 percent threshold that distinguishes direct investment from portfolio investment for direct investment abroad also applies to foreign direct investment in the U.S. Data on foreign direct investment are also published by BEA in the SCB.

3. Federal government equity in the International Bank for Reconstruction and Development (World Bank) and other international organizations—Capital subscriptions to these organizations. The series excludes the U.S. position in the International Monetary Fund, which is part of U.S. international reserves, shown in table F.200. Information on the value of the equity appears in U.S. international transactions tables in the SCB.

4. Federal Reserve Bank stock—Equity in the twelve Federal Reserve Banks. Under the Federal Reserve Board's Regulation I, a commercial bank that is a member of the Federal Reserve System must subscribe to stock equal to 6 percent of its paid-up capital and surplus in the Reserve Bank of the Federal Reserve District in which the commercial bank is located; half of the 6 percent subscription must be paid in to the Reserve Bank, and the rest remains on call. The holding of this stock does not carry with it the control and financial interest conveyed to holders of common stock in for-profit organizations; the stock may not be sold or pledged as collateral for loans. Data on Federal Reserve Bank stock outstanding is published each month in table 1.18 in the *Federal Reserve Bulletin*.

5. Equity in government-sponsored enterprises—Equity ownership in Fannie Mae, the Farm Credit System, and the Federal Home Loan Banks held by other sectors. Firms that take advantage of the credit-provision programs of some of the enterprises are required to own stock in them. The federal government formerly held equity investments in the Federal Land Banks, retired in 1947; in Federal Home Loan Banks, retired in 1951; and in Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal National Mortgage Association (now known as Fannie Mae), all retired in 1968. (Federal Land Banks, Banks for Cooperatives, and Federal Intermediate Credit Banks are now part of the Farm Credit System.) Information on equity ownership in the enterprises by the various sectors is obtained from periodic financial reports of the enterprises; the distribution of equity ownership in some of the enterprises is estimated by the Flow of Funds Section.

Table F.230—Continued

6. Investment in subsidiaries by bank holding companies—The acquisition of equity ownership by bank holding company parents in U.S.-chartered commercial banks, savings institutions, finance companies, mortgage companies, and security brokers and dealers. Data on bank holding company investments are obtained from periodic financial reports submitted to federal regulatory authorities or are estimated by the Flow of Funds Section.

7. Investment by nonfarm nonfinancial corporations in finance company subsidiaries—The acquisition of equity ownership by such corporations in the subsidiary companies. Among the companies are the "captive" subsidiaries of motor vehicle manufacturers and the credit subsidiaries of major retailers. Information on finance company equity is reported to the Federal Reserve Board in quinquennial benchmark surveys and in monthly sample surveys of finance companies.

8. Investment by funding corporations in affiliated companies—The raising of funds for affiliated companies (foreign banking offices in the U.S. and security brokers and dealers) by funding corporations, which are domestic entities that include nonbank financial holding companies and funding subsidiaries of foreign-bank parent companies. Funding corporations raise funds in commercial paper markets and, for security brokers and dealers, through bond issues and reinvest the funds in the subsidiaries. Data on investment are obtained from Federal Reserve estimates of commercial paper issuance or are estimated by the Flow of Funds Section.

Table F.231 Identified Miscellaneous Financial Claims, Part II

Identified miscellaneous claims are an assortment of asset and liability instruments that individually appear on the balance sheets of only a few sectors and are therefore not treated as separate instrument categories. Some of these items are covered in the table preceding this one (table F.230), and the rest are shown here. The instruments covered here are described briefly in the following paragraphs.

1. Non-official foreign currency holdings of the federal government—Holdings of foreign currency and short-term assets by federal government departments and agencies, other than holdings by the Department of the Treasury that are included in U.S. official international reserve assets; these currency holdings are liabilities of the rest of the world sector. Information on the series is published in the U.S. international transactions (USIT) tables in the *Survey of Current Business* (SCB).

2. Postal Savings System deposits—Liabilities of the Postal Savings System, which was established by congressional mandate in 1910. Through the system, individuals were able to establish and contribute to savings accounts at local post offices. The system was closed by statute in 1966, and the federal government liability for outstanding deposits was discontinued in the third quarter of 1985; the flow of funds series, which appears as an asset of the households and nonprofit organizations sector and a liability of the federal government, has been carried forward with a zero value since then. Information on deposit liabilities for the system were obtained from its annual reports and from information published in the *Federal Reserve Bulletin*.

3. Deposits at Federal Home Loan Banks—Deposits held by savings institutions at the Federal Home Loan Banks, which are part of the government-sponsored enterprises sector. Data on the deposits are obtained from the Federal Home Loan Banks' combined statements of condition.

4. Deferred and unpaid life insurance premiums—The assets reported by life insurance companies as deferred and uncollected premiums. Data on the assets are obtained from *the Life Insurance Fact Book*. In the flow of funds accounts, the series is the liability of the households and nonprofit organizations sector.

5. Life insurance company reserves—Reserves set aside by life insurance companies, other than life insurance or pension fund reserves, to cover accident and health policies, policyholders' dividend and coupon accumulations, and policyholders' dividends. In the flow of funds accounts, these liabilities are assets of the households and nonprofit organizations sector. Data on the reserves are obtained from A.M. Best Company.

6. Policy payables—Liabilities of "other" (that is, property–casualty) insurance companies for unearned premium reserves (indicating the companies' liability to provide insurance coverage), reserves for incurred claims, and reserves for loss-adjustment expenses. In the flow of funds accounts, these liabilities are assets of the households and nonprofit organizations sector, nonfarm nonfinancial corporate business, nonfarm noncorporate business, and farm business. Data on the liabilities are obtained from A.M. Best Company; the asset counterpart of the series is alllocated among holding sectors by the Flow of Funds Section.

7. Unallocated insurance company contracts—Guaranteed investment contracts and variable annuity plans administered by life insurance companies for private pension funds in the name of individuals who are not separately identified. These items are assets of the private pension funds and liabilities of the life insurance companies; they are excluded from the pension reserve liabilities of the life insurance companies. Figures on the items are tabulated by the Flow of Funds Section from data submitted on IRS/DOL/PBGC Form 5500 and provided on tape by the Department of Labor.

8. Pension fund contributions payable—Employer contributions owed to pension funds by the nonfarm nonfinancial corporate business sector. Figures on these receivables are

tabulated by the Flow of Funds Section from data submitted on IRS/DOL/PBGC Form 5500 and provided on tape by the Department of Labor.

9. Collateral repayable to security brokers and dealers—Liabilities of funding corporations to the security brokers and dealers sector for cash collateral. Security dealers borrow (and lend) securities to cover short sales or delivery failures; as part of the borrowing transactions, the dealers provide cash collateral, which is held in custodial accounts (part of the funding corporations sector) until they return the borrowed securities. The value of the collateral is assumed to be equal to the value of securities borrowed less the value of securities lent. Data on securities borrowed and lent are obtained from reports submitted to the Securities and Exchange Commission.

Table F.232 Unidentified Miscellaneous Financial Claims

For many sectors, unidentified miscellaneous financial claims are determined indirectly as the residual after the total of changes in individual ‘‘identified’’ asset or liability items for the sector (which appear on other instrument tables in the flow of funds accounts) has been subtracted from the change in total assets or liabilities reported by the sector. For other sectors (nonfarm noncorporate business, the federal government, bank personal trusts and estates, private pension funds, and mutual funds, for miscellaneous assets; and nonfarm noncorporate business, for miscellaneous liabilities), the amount of such claims is obtained directly as the total amount reported by original sources as ‘‘other’’ assets or liabilities.

In most cases, the nature of the items in this category is truly unidentified. In some cases, however, items that are identified separately in original documents are included here because the items are not significant enough from an analytical viewpoint to be classified as individual transaction categories. Examples are interest accrued by, prepaid expenses of, and real estate acquired for banking-house purposes by the Federal Reserve System (the major component of the monetary authority sector), as reported in the System’s *Annual Report*; and the intangible assets of U.S.-chartered commercial banks, as reported in their quarterly reports of condition.