Questionnaire on the classification and terminology of financial assets and liabilities in the 1993 SNA Rev 1

This document describes the current position on the classification and terminology of financial assets and liabilities in the 1993 SNA and the changes proposed. Section 4 contains some questions concerning details which are still to be finalised. Please send your responses to these questions and any general comments you wish to make to

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1. Current classification and terminology

The current classification of financial assets and liabilities in the 1993 SNA distinguishes eight financial asset and liability categories. They are shown in Table 1 (Table 11.2 of the 1993 SNA). Most of the categories are further split into subcategories. The recommended breakdowns for currency and deposits, securities other than shares, and loans are optional. (It is proposed to use the term supplementary in place of optional in the update in contrast to standard items. Both supplementary items and memorandum items are shown in italics in table 1)

Table 1: Classification of financial assets and liabilities in the 1993 SNA

Financial asset (transaction)	SNA code (transaction)
Monetary gold and special drawing rights (SDRs)	**F.1**
Currency and deposits	**F.2**
Currency	*F.21*
Transferable deposits	*F.22*
Other deposits	*F.29*
Securities other than shares	**F.3**
Short-term	*F.31*
Long-term	*F.32*
Loans	**F.4**
Short-term	*F.41*
Long-term	*F.42*
Shares and other equity	**F.5**
Insurance technical reserves	**F.6**
Net equity of households in life insurance reserves and in pension funds	F.61
Net equity of households in life insurance reserves	F.611
Net equity of households in pension funds	F.612
Prepayment of premiums and reserves against outstanding claims	F.62
Financial derivatives	**F.7**
Other accounts receivable / payable	**F.8**
Trade credit and advances	F.81
Other	F.89
Memorandum item:	
Direct foreign investment	
Equity	
Loans	
Other	

The current classification of financial assets and liabilities is one of the issues to be dealt with during the current SNA update project (item 44). In this context, a note on the *Classification and the terminology of financial assets and liabilities in the updated SNA (SNA/M1.06/21)* was presented to the January/February 2006 Advisory Expert Group (AEG) meeting in Frankfurt following the suggestion put forward in the July 2005 AEG meeting to "write a paper exploring possible options for changes in the classification of financial instruments more generally." This paper benefited from discussions in IMF, OECD and EU statistical meetings.[1]

2. Proposals for change in the content and terminology of financial assets and liabilities

The paper contained numerous proposals for changes of the current classification and terminology of financial assets and liabilities. Most of the proposals were accepted by the AEG.[2] The consequences of the recommendations are spelt out below.

2.1 Monetary gold and SDRs

The two items, monetary gold and SDRs are grouped together because in the 1993 SNA they are the only financial assets without matching liabilities. It is now proposed that liabilities should be shown for SDRs and assets and liabilities should be shown on a gross basis.

> *The AEG agreed (i) to recognise SDR allocations as gross liabilities; (ii) to classify the allocations and cancellations of SDRs as transactions; and (iii) to continue to treat SDRs as an instrument, showing the assets and liabilities separately (page 38 of the Short Report, 4th AEG meeting (p. 38, SR4)).* [3]

As a result the question arises about whether the two items should continue to be grouped in a single asset class? If not, should they appear as two separate items or as two categories under a single item?

2.2 Currency and deposits

No change in terminology is proposed for this category but a change in coverage is proposed.

> *The AEG agreed (i) to classify unallocated gold accounts and other unallocated metal accounts as financial assets/liabilities; (ii) not to classify other forms of unallocated commodity accounts, if such exist, as financial assets/liabilities; and (iii) if any accounts are classified as financial assets/liabilities, to classify them as deposits (as foreign currency deposits without a need of any specific deposit class) (p.24, SR4).*[4]

2.3 Securities other than shares

The AEG recommended that the name of this category should be changed to reflect more appropriately the content.

> *The AEG agreed to introduce the term debt securities to replace securities other than shares (p.42, SR4).*

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1 See also the United Nations Statistics Division website: http://unstats.un.org/unsd/sna1993.

2 See also corresponding papers mentioned as references.

3 *Liability aspects of SDRs* (SNA/M1.06/22)

4 *Financial instruments – non-monetary gold* (SNA/M1.06/30)

2.4 Loans

Given the difficulty of distinguishing loans from deposits, especially when the transactions involve two financial intermediaries, the question was raised whether the two categories should be merged into one. However, while the AEG recognised the difficulty of making the distinction in this case, they felt there was a need for the distinction both for policy analysis and for the practical reason of input into the calculation of FISIM.

> *The AEG agreed that, by convention, FISIM would be restricted to (i) financial corporations and (ii) loans and deposits (p.27, SR4).*

As a result no change is proposed to this category. However, the AEG did note that current international standards do not provide sufficiently clear criteria to make a distinction between loans and deposits.

At the AEG meeting in July 2005, the question had been raised about whether, in view of the difficulty of making the distinction between a loan and a deposit, especially when both parties involved were depositary corporations, the distinction should be dropped. The AEG did not accept this proposal but added that

> *the current international standards do not provide sufficiently clear criteria to make a distinction between loans and deposits. Therefore there should be further consultation with experts to formulate improved operational guidelines to be set out in the updated SNA.*

It has not been easy to pursue this mandate. One option is to adopt the approach described in paragraphs 5.74 and 5.75 of the 1995 ESA, below.

> 5.74 The distinction between transactions in loans (F.4) and transactions in deposits (F.22, F.29) may often be based on the criterion who is taking the initiative for the transaction. In cases where the initiative is taken by a borrower, the transaction is to classify in the category loans. In cases where the initiative is taken by a lender, the transaction is to classify in one of the deposit sub-categories. However, the criterion of who is taking the initiative is often a matter of judgement.
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> 5.75 By convention, short-term loans granted to monetary financial institutions, resident or non-resident, are normally classified in one of the deposit sub-categories (AF.22, AF.29), and short-term deposits accepted by institutional units other than monetary financial institutions, resident or non-resident, are normally classified in sub-category short-term loans (AF.41). Therefore, deposits are liabilities predominantly of resident and non-resident monetary financial institutions (see paragraphs 5.44 and 5.49), while monetary financial institutions normally have no short-term loan liabilities in the system.

As stated in para 5.74, the criterion of who initiates the transaction is not always easy to apply and because some experts are uncomfortable with the proposed convention in para 5.75, further guidance on how to make the distinction was sought. As part of the preparation of a ***Compilation Guide on Monetary and Financial Statistics***, the IMF proposes a discussion of the distinction between deposits and loans in an annex to that guide. However, this too admits to the problems of determining which asset is appropriate in the case of inter-bank transactions.

Discussion therefore returned to the option of not distinguishing deposits and loans only in the case of inter-bank positions. Instead a different convention would be adopted, for example that all positions are shown as positive or negative deposits. Most often, these would be consolidated to show only any residual position between resident banks. A short note on this new proposal is attached.

On the treatment of traded loans the AEG decided that the current SNA position should be maintained.

The AEG agreed that a loan should be reclassified as a security only if there is evidence of a market and there are quotations in the market (p.84 of the Report, 3rd AEG meeting (p. 38, R3).

2.5 Shares and other equity

This item will in future include investment fund shares/units and will be renamed.

The AEG also agreed to include a breakdown of shares into quoted shares, unquoted shares and other equity. The last item covers the net equity of proprietors in quasi-corporations and in such units as partnerships where there are no shares.

The AEG agreed to replace the term "shares and other equity" by "equity" and split it further into the sub-categories "quoted shares", "unquoted shares" and "other equity" (p.42, SR4).

The AEG agreed that investment fund shares/units should be separately identified as "investment fund shares" under the heading "equity and investment fund shares"; the sub-categories will be as indicated in column 3 (p.42, SR4).[5]

The AEG agreed that various types of investment fund shares/units (e.g. money market, bond, equity, real estate, mixed fund, and perhaps hedge fund shares/units) should be supplementary items. Money market fund shares might be a standard item (p.42, DSR4).

In addition, recommendations are made for methods which are suitable for estimating the value of unquoted shares.

The AEG agreed on the principle of flexibility in the approaches to valuing unquoted equity. It also agreed that transaction prices are the preferred means of valuing unquoted equity. The AEG did not rank the other alternative methods proposed for valuing unquoted equity when [recent[6]*] transaction prices are not available (p.30, SR4).*

2.6 Insurance technical reserves

Three recommendations affect this item. The first stems from the recommendations on the measurement of insurance and leads to replacing the expression "reserves" by "provisions" because it is recognised that the amounts which need to be set aside reflect expectations about future losses. The second recommendation is the proposal that standardised guarantees should be treated in a manner similar to insurance. Consequently this item should also allow for provisions for the expected calls to be made on these guarantees.[7]

The AEG agreed to broaden the category insurance technical reserves by introducing a sub-category 'reserves for calls on standardised guarantees' (p.42, SR4).

The AEG agreed that the category of insurance technical reserves, now to be called "insurance technical provisions," should be extended to be "provisions for insurance claims and calls under standardised guarantees" with an optional breakdown to distinguish insurance reserves from provisions for calls on standardised guarantees (p.64, SR4).

The third recommendation is that instead of attributing ownership of some assets of insurance corporations and pension funds to the policy holders or beneficiaries, these assets should remain in the ownership of the insurance corporations and pension funds but with appropriate liabilities shown towards the policy holders and beneficiaries. This permits correct recording in the case where the liabilities do not exactly match the assets available to meet the liabilities.

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5 *Equity* (SNA/M1.06/23)

6 The word "recent" has been added to the AEG conclusion as stated to underline the accepted position that historical costs are not acceptable.

7 *Granting and activation of guarantees in an updated SNA* (SNA/M1.06/18)

2.7 Financial derivatives

The inclusion of financial derivatives is the only substantive change to have been officially adopted since the 1993 SNA was published. As an elaboration of that extension, it is recommended to break the asset category of financial derivatives into two and to identify those financial derivatives (usually credit default swaps) which are used to provide a guarantee to a third party. In addition a higher level aggregate of financial derivatives and employee stock options is proposed.

> *The AEG agreed on the split between options and forwards (and employee stock options). A split by risk categories would be too detailed for most countries and should be supplementary. (p.42, SR4).*
>
> *The AEG agreed to specify guarantees [covered by] financial derivatives as a sub-category of financial derivatives (p.62, SR4).*[8]
>
> *The AEG accepted … that an instrument category will be introduced entitled "financial derivatives and employee stock options," with the sub-categories of (1) financial derivatives and (2) employee stock options (page 14 of the conclusions and recommendations of the first AEG meeting).*

It is proposed that both options and forwards might be further disaggregated according to risk categories on a supplementary basis.

2.8 Other accounts receivable/payable

No changes are proposed to either the content or terminology of this category.

3. Proposed classification and terminology

Table 2 shows how Table 1 would be modified if all the recommendations described above are adopted. No new coding structure has been proposed for new or modified categories to avoid confusion with the existing coding structure.

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[8] *Granting and activation of guarantees in an updated SNA* (SNA/M1.06/18)

Table 2: Proposed classification of financial assets and liabilities in the 1993 SNA Rev 1

Financial asset (transaction)	SNA code (transaction)
Monetary gold and special drawing rights (SDRs) *	**F.1**
Currency and deposits	**F.2**
Currency	*F.21*
Transferable deposits	*F.22*
Other deposits	*F.29*
Debt securities	**F.3**
Short-term	*F.31*
Long-term	*F.32*
Loans	**F.4**
Short-term	*F.41*
Long-term	*F.42*
Equity and investment fund shares	**F.5**
Equity	
Quoted shares	
Unquoted shares	
Other equity	
Investment fund shares/units	
Money market fund shares/units	
Other investment shares/units	
Provisions for insurance claims and calls under standardised guarantees	**F.6**
Provisions for insurance claims	
Non-life insurance	
Life insurance	
Pension entitlements	
Provisions for calls under standardised guarantees	
Financial derivatives and employee stock options	**F.7**
Financial derivatives	
Options	
Forwards**	
Employee stock options	
Other accounts receivable / payable	**F.8**
Trade credit and advances	F.81
Other	F.89
Memorandum item:	
Direct foreign investment	
Equity	
Loans	
Other	
** The possible disaggregation of this item is still open*	
*** Credit default swaps to cover for guarantees to be indicated within this item*	

3.1 Measures of money and debt

The AEG agreed to include information on "linking measures of money to the balance sheets and the financial accounts" and on "debt". The Editor will consider the exact format of this sort of information throughout the text (p.42, SR4).

4. Questions yet to be resolved

The recommendations described above are still proposals. If there are comments on either the changes of substance or of terminology proposed, these should be addressed to UNSD by July 23rd. In addition there are some specific questions on which guidance from experts in financial statistics is requested. These questions follow:

4.1 Monetary gold and SDRs

1. Given that SDRs now will have an associated liability, should the two items be shown separately?

2. If yes, should they both be at the same level in the classification?

3. If no, should the split of the single item into monetary gold and SDRs be standard or supplementary?

4.2 Loans and deposits

1. Would you wish the SNA to adopt the conventions in the 1995 ESA as articulated in para 5.75 that if one party is a depository institution, an asset position of a depository institution should be classified as a loan and a liability position be classified as a deposit?

2. If both parties are depository institutions should an asset position of the first depository institution and the corresponding liability position of the second depository institution be classified as a loan, as a deposit, or as a new sub-category "interbank positions"?

3. Would you show such a new sub-category "interbank positions", by convention, as deposits as a separate sub-item under currency and deposits?

4. Are there are other documents spelling out the basis for distinguishing loans from deposits which you think could be referred to?

4.3 Investment fund shares

1. Would it be desirable to specify additional supplementary items to identify bond, equity, real estate, mixed fund and hedge fund shares?

2. Would you be able to obtain information at this degree of detail?

4.4 Financial derivatives

1. Would it be desirable to specify risk categories for forwards and options?

2. Would you be able to obtain information at this degree of detail?

Annex: Distinguishing loans and deposits

A key reason to distinguish loans and deposits is that the definition of FISIM depends on the difference between the observed interest rate payable by depositary institutions and a reference rate. The reference rate is typically higher than the rate paid on deposits and lower that the rate paid on loans. To calculate FISIM, it is therefore necessary to have the observed interest payable on loans and deposits separately and separate figures for the stock of loans and deposits.

One proposal for the reference rate is the interbank rate. If chosen, this means that there is no FISIM payable on interbank lending and borrowing and so there is not the same need to distinguish interbank loans and deposits as there is for loans and deposits to non-bank customers.

There will be occasions where there is some FISIM earned on interbank lending and borrowing. Allocating loans and deposits to banks by convention which may lead to misclassification of their true nature may then lead to errors in the calculation of FISIM, even to the appearance of negative figures. It may be that there is a good case for investigating FISIM payable by banks separately from that payable by non-bank customers. Lending and borrowing between resident banks and non-resident banks is an area for special attention since the reference rate for resident banks and for non-resident banks is likely to be different.

The proposal to show interbank positions separately is put forward as a pragmatic solution to allow non-bank FISIM (assumed to be the majority of FISIM) to be calculated readily while providing information to permit closer investigation of the trickier interbank element.