The treatment of standardised guarantees in the new System of National Accounts: consultation of the AEG[1]

This paper constitutes a consultation of the AEG on the issue of the recording of standardised guarantees.

The February 2006 AEG made several decisions on standardised guarantees, of which the main recommendation to "treat them in the same way as insurance". The AEG requested further clarifications and also requested that illustrative tables be shown that would explain clearly the treatment proposed. This paper is intended to respond to this request. It presents illustrative tables showing the proposed treatments for standardised guarantees, whether in the case of market based standardised guarantees or for government sponsored standardised guarantees.

AEG members are requested to respond to the four following questions:

(1) Do you agree with the principles of recording market based standardised guarantees exactly as insurance, as shown in accounts 1 and 2 of the present paper?

(2) Do you agree that, in the general case, no imputation of subsidy or transfer is made in case of government sponsored agencies, as shown in account 4 of the present paper?

(3) Do you agree however that, if the government itself records a provision for standardised guarantees, then the SNA would record this provision as a financial liability and record a corresponding transfer, as shown in account 5 of the present paper?

(4) Do you confirm that if an agency (or part of an agency, if this part can be considered a separate institutional unit) specialised in standardised guarantees is controlled by government, and charges fees that are significantly below the costs (in terms of expected calls plus administrative costs) and is thus funded, partially or fully, by government appropriations, it should be classified inside general government?

1.   Introduction

Guarantees have a significant impact on the behaviour of economic agents, both by influencing their decisions on production, income, investment or saving and by modifying the lending and borrowing conditions on financial markets. Some borrowers would have no access to loans in the absence of guarantees, while others would not benefit from comparatively low interest rates. Guarantees are particularly significant for the general government sector and for the public sector as government activities are often linked with the issuance or activation of guarantees.

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[1] This is a third version of a paper originally drafted by Reimund Mink, but substiantially simplified by François Lequiller, who takes responsibility for any errors.

The 1993 System of National Accounts (SNA) indicates that only guarantees that are provided by means of a financial derivative (typically a credit default swap) be recorded in the standard accounts, with supplementary information to be provided where contingencies are important for policy and analysis. In the paper on *Granting and activation of guarantees in an updated SNA* (SNA/M1.06/18) presented to the fourth meeting of the Advisory Expert Group (AEG) on National Accounts from 30 January to 8 February 2006 in Frankfurt it was argued that the treatment of stocks and flows arising from the granting and activation of guarantees should be modified in the new SNA for three reasons: (i) the supplementary information to be provided is not reported; (ii) the need to delineate across economic events that lead to guarantees; and (iii) the convergence with international accounting standards that quantify the underlying liability, notably in the public sector.

Three types of guarantees are distinguished: (i) guarantees that are provided by means of a financial derivative; (ii) standardised guarantees; and (iii) one-off guarantees. While general agreement on the treatment of guarantees of type (i) and type (iii) was achieved, some questions remain concerning the treatment of standardised guarantees. In a number of cases, specialised agencies regularly grant many guarantees of similar characteristics.[2] The essential feature of such "standardised" guarantees is that they involve a pooling of risks. More specifically, (i) given their large number, it is very likely that some of them will be called, and (ii) accordingly, it is possible to estimate the average loss by considering statistics on claims.[3] The types of loans for which institutional units give guarantees include export credits, student loans, loans to small (and large) businesses, and loans to home buyers. Guarantees might also be provided for participations.

In that case the AEG agreed and clarified that standardised guarantees should be treated in the same way as insurance; in respect of output, property income and the recording of premiums and claims. Furthermore, a new sub-category of insurance technical reserves should be created and identified as "calls on standardised guarantees". 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.

The AEG also specified a number of aspects under this question flowing from the decision to treat standardised guarantees as insurance. The consumption item is attributed to the unit taking out the guarantee, the creditor or debtor as appropriate. If the guarantee is taken out by the debtor, all transactions with the guarantor are recorded as being with the debtor up until the call is paid to the creditor.

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[2] The classification of the sector of the institutional unit providing such standardised guarantees is discussed at the end of the memo.

[3] In some cases, credit agency ratings are also used to judge the risk of default.

Finally, the remaining recommendations were not discussed. Moreover, it was recommended that a new reworking of the tables should be prepared and checked for any remaining questions for discussion.

2.   Standardised guarantees

Standardised guarantees cover similar types of credit risk for a large number of cases. It is not possible to estimate precisely the risk of default of each individual loan but it is possible to estimate how many out of a large number of such loans will default. As a result, it is possible for the guarantor to determine suitable fees, working on the same principle as an insurance corporation. I.e. the fees received in respect of many loans cover the losses from the few defaulting loans. However, governments or government sponsored units sometimes help borrowers by charging fees that are below incurred costs.

Standardised guarantees are to be distinguished from one-off guarantees based on two criteria: (1) They are characterised by often repeated transactions with similar features and pooling of risks; (2) Guarantors are able to estimate the average loss based on available statistics by using a probability-weighted concept. One-off guarantees are, on the contrary, individual, and guarantors are not able to make a reliable estimate of the risk of calls.

The recommendations of treatment of standardised guarantees in the SNA consist in treating these transactions in a parallel way to non-life insurance. The examples that we will develop in this paper, concern guarantees provided to cover the default on a loan. It involves the "debtor" (small business or household) which can be seen as the "policy holder" when it pays the fee, a "creditor bank" (the unit which gives the loan) which can be seen as the "policy holder" when it pays the fee, the "guarantor" which can be seen as the "insurance company". Everything will be recorded as if the guarantee system was functioning as a "loan insurance" system. The applied accounting principles are different whether there is an explicit fee covering the costs of the guarantor (i.e. the standardised guarantees are provided on a market basis), or not (standardised guarantees are provided on a non market basis). The case when government helps borrowers by charging fees that are below the incurred costs or even sometimes not charging any fee at all is treated in a special section.

As standardised guarantees are to be recorded like non-life insurance in the SNA, the measurement of output for standardised guarantees will be similar to that of insurance corporations based on the difference between the premia (the term "fee" is used in the paper, in a synonymous way) received, including a supplement, and the expected claims. Part of the fee is recorded as output (P1) by the guarantor and part as "net premiums" (D71). Payments of fees give rise to an increase in financial assets "as a new sub-category of F.6 (insurance technical provisions), called, as agreed by the AEG, *provisions for calls under standardised guarantees*. As demonstrated in the accounting examples

these provisions are consistent with the current transaction F.62 "prepayment of premiums and reserves against outstanding claims" for non-life insurance[4].

The value of the output (and of consumption) is determined in exactly the same way as for non-life insurance corporations: fee plus imputed property income minus *expected claims (expected calls on the guarantee)* during the period. This is fully consistent with the AEG decision on using adjusted/expected claims for measuring the output of non-life insurance. The transactions D.71 and D.72 are used exactly as for non-life insurance. "D.71 net non life-insurance premiums" (which could become "D.71 net non life-insurance and guarantees premiums and fees") would be calculated, exactly as for non-life insurance, as equal in value to the <u>expected</u> value of insurance claims and calls occurring in the period on the standard guarantees". "D.72 Non life insurance claims" (which could become "D.72 claims on non-life insurance and calls on standardized guarantees") would be calculated, as for non-life insurance as actual claims and calls occurring in the period. Exactly as for non-life insurance, a property income, is recorded as D.44 (property income attributed to policy holders) and reintroduced as a fee supplement. Other changes in the financial asset and liability, such as from a changed perception of the risk due, would be recorded as other changes in the volume of assets.

It is proposed a liability in the accounts of the guarantor be recorded, equal to the net present value of the expected payments under the guarantee, net of any recoveries from the defaulting borrowers where the guarantor acquires the defaulting asset when paying the claim. Given the similarity of such cases with insurance contracts (both relying of the spreading of risks over a large number of independent contracts), they are treated as insurance technical reserves (which will be called "insurance technical provisions" in the new SNA). To deal with such standardised guarantees, ideally a new financial instrument sub-category would have to be introduced. Its valuation would be consistent with the treatment of guarantees as provision as described in IAS 37. The new financial asset sub-category would be called "standardised guarantees", allowing separately identified data to be provided. We will code it "F63" in this present paper, but this is a provisional code.

3.   Government sponsored standardised guarantees

While the treatment described above and copied from the one for non life insurance applies well for the recording of private sector standardized guarantees (private loan insurance business) there is a problem when the activity, which is often the case, is linked with government. In this case, whether implicitly or explicitly, the government "subsidizes" the activity, thus leading to fees that are below their "market

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[4] As shown in the accounting examples of the end of the paper, this new category of F6 does not only correspond to a pre-payment of the fee, but reflects the expected calls of guarantees, which is different when the fee is lower than its market price.

price"[5] or even equal to zero. The TFHPSA proposed initially to explicitly show an imputed subsidy. However, the ISWGNA has decided, in its September 2006 meeting, to not retain such a treatment, essentially because it is would not be consistent with the treatment of concessional loans (i.e. loans with under market interest rate).

Thus the proposal included in the present paper for the treatment of government's involvement in standardised guarantees will therefore be essentially one on a cash basis: if a regular subsidy is paid from the government to the standardised guarantee agency, then it will be recorded as a subsidy; if the government pays irregularly lump sums to the agency to support it, this transfer would be classified as a capital transfer when it occurs.

However, this paper proposes two additional recommendations for these government sponsored agencies: (1) when the government itself recognises a provision for expected calls for standardised guarantees, then the SNA would record this provision in the account of the government; (2) when the agency (or part of the agency, if the agency can be split in different institutional units) is controlled by the government and charges no fee or a fee significantly below the "market price" of the risk, then the agency (or part of the agency) should be reclassified inside the general government.

3. Practical aspects of recording standardised guarantees

The estimate for expected calls on the guarantees is a probability-weighted concept. Although each individual guarantee is unlikely to be called, it is likely for the group as a whole that some payments will have to be made.[6] The national accountants will not know exactly how these expected claims are calculated by the guarantor, but they will have to obtain this value or to impute it (most probably based on past trends as for non life insurance).

Treating standardised guarantees in the same way as insurance means that transactions corresponding to *insurance net premiums D.71 and claims D.72 are recorded. Furthermore, entries have to be recorded for the* guarantor's output, the property income paid, and for changes in the financial account and balance sheet. Financial transactions (F.63) would be recorded for (i) initial granting of the guarantee

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[5] Note that the "market price" of some guarantees subsidized by the government may be difficult to estimate. For example, government will intervene to subsidize credit exports to those countries which have "political" risks that private guaranteeing agencies do not want to cover, in part because the risk itself is difficult to assess.

[6] According to IAS 37, provisions for large populations of events (warranties, customer refunds) are measured at a probability-weighted expected value [IAS 37.39]. Measurements are at discounted present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability [IAS 37.45 and 37.47]. In reaching its best estimate, the enterprise should take into account the risks and uncertainties that surround the underlying events. Expected cash outflows should be discounted to their present values, where the effect of the time value of money is material [IAS 37.42]. If some or all of the expenditure required settling a provision is expected to be reimbursed by another party, the reimbursement should be recognised as a reduction of the required provision when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The amount recognised should not exceed the amount of the provision [IAS 37.53].

(counterpart cash receipt of premium), (ii) property income (imputed or not) resulting from the first transaction (counterpart: D.44), (iii) the redistribution of expected claims (counterpart D71); (iv) the reduction of F63 corresponding to the production (P1) of guaranteeing (i.e. insurance) services.

One special feature of the loan guaranteeing business might be that the fees charged are not for one year but cover several years (the duration of the loan). However, this situation does not change the accounting principles, (similarly for non life insurance where this kind of "several year premium" could exist). The value of the production of the service should be split between the different years, and the extinction of the liability in F63 would take several years rather than one.

Any changes in standardised guarantees that are not due to transactions (such as holding gains and losses on foreign currency guarantees or other volume changes such as changes in the expectations of the number of calls to be made on outstanding guarantees) are recorded in the revaluation or other change in volume account.

4. Accounting examples

1. Fee covering costs: the case of private loan-insurance business.

This is the case of private loan-insurance business, with no involvement of general government. In this first case, we will suppose that we are dealing with market standardised guarantees where the fee charged by the guarantor to the creditor covers the costs (including expected default on loans). It is assumed that numerous standardised loans (e.g. 1000 loans of 100 each) are provided by the creditor and this activity is guaranteed by the guarantor. The probability of defaulting in each year is x%. The fee charged by the guarantor will be based on: (1) the value of the expected default on loans for the year, *plus*, (2) administrative costs + "normal" profit. Let us suppose the value of the expected calls is 71 and the administrative costs are 13. The fee charged is equal to 84, and the property income is equal to 7. This means the value of output is (84 + 7 – 71) = 20 and net fees (D71) are (84+7-20) or 71, equal to the value of expected calls. Let us suppose that actual calls (D72) are equal to 100.

Two sub-cases are possible. The first is when the fee is paid by the debtor. This is illustrated in account 1. The second is when the fee is paid by the creditor. This is illustrated in account 2. Here are the accounting entries.

In the production account: Output of 20 by the guarantor; consumption of 20 by the unit paying for the guarantee. This will be intermediate consumption if the creditor takes out the guarantee but is final

consumption (**in the use of income account)** if the guarantee is paid by the debtor (for example a student loan).

In the distribution of primary income account: property income of 7 payable by the guarantor and receivable by the unit taking out the guarantee.

In the secondary distribution of income account: net fees of 71 payable by the unit taking out the guarantee and receivable by the guarantor; actual calls of 100 payable by the guarantor and receivable by the creditor.

In the financial account and balance sheet, the unit taking out the guarantee has a decline in cash of 84; the creditor has an increase in cash of 100 as it receives actual calls but also has a decrease in assets (loans that are defaulted), thus its net lending is zero. The guarantor has a decrease in cash of 16, as actual claims are higher then expected claims.

ACCOUNT 1: the debtor pays the fees

Explanation: from the point of view of the guarantor (the a, b, c etc… refer to the transactions shown in the accounts)

a) Cash received for the fee: F2 (+84) with counter-entry in F.63 "pre-payment of fee" (+84);
b) Property income: D.44 (+7) with counterpart F.63 (+7);
c) P.1 production (+20) with counter-entry in F.63 (-20) (partly extinguishing the liability in pre-premiums);
d) Actual claims: cash paid F.2 (-100) and D.72 (+100); and
e) Net premiums: D.71 (71) with counterpart F63 (-71) (the extinguishing of the liability in expected claims)
Overall: The guarantor has a net borrowing of 16 (actual claims are 100 and fees are 84).

Explanation: from the point of view of the creditor (only additional transactions not commented before will be commented here):

g) defaulting on loans: capital transfer D9 to the debtor, with corresponding decrease of loans F4 (-100)
The creditor has net lending/borrowing of zero.

Explanation: from the point of view of the debtor:

All transactions have been already commented. The debtor has net lending/borrowing of +16 (It gained 100 in suppressed liabilities on loans but paid 84 as fee).

Debtor (Non-financial corporation, or household)		Creditor (Bank)		Guarantor (Guarantee bank)		Reinsurance (General government)	
Uses	Resources	Uses	Resources	Uses	Resources	Uses	Resources
	b) D.44 (+7)			b) D.44 (+7)			
c) P.2 (+20)					c) P.1 (+20)		
			d) D.72 (+100)	d) D.72 (+100)			
e) D.71 (+71)					e) D.71 (+71)		
	g) D9 (+100)	g) D9 (+100)					
B.9 CA (+16)		B.9 CA (+0)		B.9 CA (-16)			
Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
B.9 FA (+16)		B.9 FA (+0)		B.9 FA (-16)			
a) F.2 (-84)				a) F.2 (+84)			
a) F.63 (+84)					a) F.63 (+84)		
b) F.63 (+7)					b) F.63 (+7)		
c) F.63 (-20)					c) F.63 (-20)		
		d) F.2 (+100)		d) F.2 (-100)			
e) F.63 (-71)					e) F.63 (-71)		
	g) F4(-100)	g) F4(-100)					

Let us now illustrate in the account 2 the situation where it is the creditor which pays the fee. Then all the insurance type transactions (D44, D71, F63) are between the guarantor and the creditor and no more between the guarantor and the debtor.

Note that the negative net lending borrowing (-84) shown in the account of the creditor is virtual. Indeed, we have not illustrated here all the transactions between the creditor and the debtor. In fact, if the creditor pays itself the guarantee, it has to pass this cost of 84 to the debtor (probably in interest). So it will finally have a zero net lending borrowing at the end. The same remark is true for the debtor: overall its "real" net lending is not +100, but +16.

ACCOUNT 2: the creditor pays the fee

Debtor (Non-financial corporation, or household)		Creditor (Bank)		Guarantor (Guarantee bank)		Reinsurance (General government)	
Uses	Resources	Uses	Resources	Uses	Resources	Uses	Resources
			b) D.44 (+7)	b) D.44 (+7)			
		c) P.2 (+20)			c) P.1 (+20)		
			d) D.72 (+100)	d) D.72 (+100)			
		e) D.71 (+71)			e) D.71 (+71)		
	g) D9 (+100)	g) D9 (+100)					
B.9 CA +100)		B.9 CA (-84)		B.9 CA (-16)			
Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
B.9 FA (+100)		B.9 FA (-84)		B.9 FA (-16)			
		a) F.2 (-84)		a) F.2 (+84)			
		a) F.63 (+84)			a) F.63 (+84)		
		b) F.63 (+7)			b) F.63 (+7)		
		c) F.63 (-20)			c) F.63 (-20)		
		d) F.2 (+100)		d) F.2 (-100)			
		e) F.63 (-71)			e) F.63 (-71)		
	g) F4(-100)	g) F4(-100)					

2) Up-front payment of the premium

When there is an up-front payment (which is generally the case) that covers default in any of the several years for which the loan is outstanding, the treatment would be the same as in account 1, but there would be splitting of the value of production over the five years, and a recording (in terms of stocks) of remaining F63 at the end of each year, reflecting the remaining liability in prepayment of fees.

3) Reassessment of provisions

(4) In the case provisions are reassessed accounting entries have to be made in the other volume changes accounts:

Debtor (Non-financial corporation or household)		Creditor (Bank)		Guarantor (Guarantee bank)		Reinsurance (General government)	
Changes in assets	Changes in liabilities	Changes in assets	Changes in liabilities	Changes in assets	Changes in liabilities	Uses	Resources
		K.10 (-2)			K10 (-2)		

4) Government involvement: Fee charged by the guarantor lower than the market fee

Let us now analyse the situation where the fee charged by the guarantor (i.e. a government sponsored unit) would be lower than the market fee. We will assume that we are in the case where the creditor pays the fee (account 2). Let us also suppose first that the guarantor remains classified outside the government (e.g. is classified as a financial corporation).

In this situation with low fees, the guarantor would not be able in the long-run to sustain its activity without at some point a financial support from the government. This financial support can take the form of a regular effective subsidy or, more probably, the form of irregular exceptional transfers. The case of a regular subsidy is simple. The accounts remain basically the same as in our first two examples, except that part of the cash payment for the fee is paid by government in addition to what is paid by the creditor. The case when there are irregular transfers is a little more complicated. The TFHPSA proposed to envisage an <u>imputed subsidy</u> in order to take into account, on an accrual basis, of the involvement of the government.

To illustrate this case we will first create a "reference account": using account 2 as a starting point we will transform it into account 3. However, this account 3 shows the situation of the guarantor in a "regular" year (normal business), when the <u>actual claims are exactly equal to the value that makes the net lending borrowing of the guarantor equal to zero</u>. There are no other changes compared to account 2: this "balanced" situation is simply more illustrative to analyse the variant when the government intervenes.

ACCOUNT 3: the creditor pays the fee and actual claims are equal to the value that makes the net lending borrowing of the guarantor equal to zero.

Debtor (Non-financial corporation, or household)		Creditor (Bank)		Guarantor (Guarantee bank)		Reinsurance (General government)	
Uses	**Resources**	**Uses**	**Resources**	**Uses**	**Resources**	**Uses**	**Resources**
			b) D.44 (+7)	b) D.44 (+7)			
		c) P.2 (+20)			c) P.1 (+20)		
			d) D.72 (+84)	d) D.72 (+84)			
		e) D.71 (+71)			e) D.71 (+71)		
	g) D9 (+84)	g) D9 (+84)					
B.9 CA +84)		B.9 CA (-84)		B.9 CA (0)			
Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
B.9 FA (+84)		B.9 FA (-84)		B.9 FA (0)			
		a) F.2 (-84)		a) F.2 (+84)			

Uses	Resources	Uses	Resources	Uses	Resources	Uses	Resources
		a) F.63 (+84)			a) F.63 (+84)		
		b) F.63 (+7)			b) F.63 (+7)		
		c) F.63 (-20)			c) F.63 (-20)		
		d) F.2 (+84)		d) F.2 (-84)			
		e) F.63 (-71)			e) F.63 (-71)		
	g) F4(-84)	g) F4(-84)					

Let us now suppose (see account 4) that the fee charged is lower than the market rate of 84, let us say half the normal charge: 42. This has several effects. First, while the fee has been reduced (in blue), the "provision for expected claims F63" is not reduced (in red), because the risk remains the same for the guarantor! There is therefore a problem with the calculation of output. If the normal formula was used output would be negative because equal to the fee (42) + supplement (3.5) – expected claims (71) = - 25.5 ! This is why we have proposed in this example that output is obtained using the formula applied to the strict part of expected calls which correspond to the fee paid, this being half the expected claims. Thus output = 42 + 7 – 35.5 (71/2) = 10.

ACCOUNT 4: the fee is 42 instead of 84 (without showing an imputed government subsidy)

Debtor (Non-financial corporation or household)		Creditor (Bank)		Guarantor (Guarantee bank)		Reinsurance (General government)	
Uses	Resources	Uses	Resources	Uses	Resources	Uses	Resources
			b) D.44 (+3.5)	b) D.44 (+3.5)			
		c) P.2 (+10)			c) P.1 (+10)		
		d) D.71 (+35.5)			d) D.71 (+35.5)		
			e) D72 (84)	e) D.72 (84)			
	g) D9 (+84)	g) D9 (+84)					
B.9 CA +84)		B.9 CA (-42)		B.9 CA (-42)		B.9 CA (0)	
Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
B.9 FA +84)		B.9 FA (-42)		B.9 FA (-42)		B.9 FA (0)	
		a) F.2 (-42)		a) F.2 (+42)			
		a) F.63 (+84)			a) F.63 (+84)		
		b) F.63 (+7)			b) F.63 (+7)		
		c) F.63 (-20)			c) F.63 (-20)		
		d) F.63 (-71)			d) F.63 (-71)		
		e) F.2 (+84)		e) F.2 (-84)			
	g) F4(-84)	g) F4(-84)					

If nothing else is done this account shows a negative net lending borrowing of -42 for the guarantor. This is because the account does not explicitly show the involvement of the government, while the government has promised to cover the difference between the market fee and the subsidized fee. The

government could be shown either as paying an imputed subsidy to the agency, either as taking in charge the remaining risk not covered by the fee. We have illustrated this involvement in the account 5 below. This account shows the additional imputed entries corresponding to the accrual recording of the involvement of the government in the coverage of half of the risk of the guarantor: when the (half) fee is paid to the guarantor, this creates immediately, on the liability side of the government, a provision for expected call F63 (in green) equal to the risk taken by the government (half of 84). The counterpart of this entry in the guarantor's account is a claim on the government. The counterparts of both these entries in the non financial accounts are transfers (D71). If one had chosen to record this transfer as a subsidy, one would only have to change D71 into D39 and F63 into F7 (trade credit) in the account below. One important impact is that the deficit of -42 appears logically now in the account of the government and no more in the account of the guarantor.

ACCOUNT 5: the fee is 42 instead of 84, with support from government through imputed specific imputed guarantee transactions.

Debtor (Non-financial corporation or household)		Creditor (Bank)		Guarantor (Guarantee bank)		Reinsurance (General government)	
Uses	Resources	Uses	Resources	Uses	Resources	Uses	Resources
			b) D.44 (+3.5)	b) D.44 (+3.5)			
		c) P.2 (+10)			c) P.1 (+10)		
		d) D.71 (+35.5)			d) D.71 (+35.5)		
			e) D72 (84)	e) D.72 (84)			
					f) D71 (+42)	f) D71 (+42)	
	g) D9 (+84)	g) D9 (+84)					
B.9 CA +84)		B.9 CA (-42)		B.9 CA (0)		B.9 CA (-42)	
Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities	Net acquisition of financial assets	Net incurrence of liabilities
B.9 FA +84)		B.9 FA (-42)		B.9 FA (0)		B.9 FA (-42)	
		a) F.2 (-42)		a) F.2 (+42)			
		a) F.63 (+84)		a) F63(+42)	a) F.63 (+84)		a) F63(+42)
		b) F.63 (+7)			b) F.63 (+7)		
		c) F.63 (-20)			c) F.63 (-20)		
		d) F.63 (-71)			d) F.63 (-71)		
		e) F.2 (+84)		e) F.2 (-84)			
	g) F4(-84)	g) F4(-84)					

However, the ISWGNA prefers not to show these imputed flows. The ISWGNA's preference is therefore for the account 4. This preference is based essentially on the fact that the SNA does not record imputed subsidies in other similar situations, such as concessional debt. Does this

mean that the ISWGNA does not want to show the involvement of the government in the support of the guarantor. Obviously, no. It is only an issue of accrual versus cash. In account 4, the involvement of the government as support of the agency will appear but on a cash basis. Indeed, when the government will effectively pay to support the agency, the cash will be treated either as a current transfer (if it is a regular payment) or a capital transfer (if it is exceptional payments), with impact on the deficit in the period of the payment. On the contrary, in account 5, the involvement is recorded in parallel with the creation of the risk, but when the government will effectively pay to support the agency, this payment will be recorded as a decrease in F63, with no impact on the deficit. The AEG is consulted to confirm this choice of avoiding the creation of such imputed flows, and thus preferring account 4 to account 5.

However, one special situation needs to be addressed. It is when the government itself records in its own accounts a provision for expected calls, which seems to happen in some countries. This means that the government fully recognises in accounting terms its involvement in the guarantee system, and on an accrual basis. It seems therefore inappropriate for the SNA to not show this same involvement. One could therefore recommend that, when the government itself records provisions for expected calls on guarantees, the national accounts would adopt the recording corresponding to account 5.

Finally, it must be reminded that the normal rules to be applied to the classification of institutional units in the government should also apply to agencies dealing with standardised guarantees. If such an agency (or part of it, if it can be split into different institutional units) is controlled by the general government and is charging fees that are nil or significantly lower than their "market price" (or costs equal to expected calls for guarantees plus administrative costs), such a unit would be classified to general government. By implication, a unit exclusively engaged in such activities would be classified in general government when it does not cover costs from such income, but is instead funded, partially or fully, by government appropriations. Thus the consolidation of its accounts with those of the rest of the government, will lead to an appropriate picture of the whole of the involvement of the general government in the guaranteeing business. This recommendation is simply the application of the general rule, but it would be perhaps useful to remind the SNA readers that it applies also to standardised guarantees agencies that are fully or partly subsidised by governments.