

Borderline between Securities and Other Financial Instruments

SNA Update Issue 44a

BOPCOM Outcomes on Questions/Points for Discussion

6. Questions/Points for discussion

1. *Do members agree that traded loans are to be reclassified as securities if a loan becomes tradable and is, or has been, traded in the secondary market? Alternatively, do members conclude that traded loans not be reclassified as debt securities?*

2. *If traded loans are reclassified as debt securities, should the definition of the requirements for a secondary market be elaborated according to the criteria in the External Debt Guide or some other criteria? What are the members' views on whether, in addition to being tradable in secondary markets, there should be a requirement that the debtor is not legally prevented from buying back the debt?*

Views of members of the were divided on whether “traded loans” should be determined on the basis of evidence of trading and market price.

In the absence of consensus, the Committee decided that existing treatment for traded loans should be retained, i.e., they should be reclassified as securities when they meet the criteria (i.e., evidence of trading and market price) as set out in ESA95 and External Debt Guide.

3. *If traded loans are reclassified as debt securities, do members agree that the flows arising from traded loans becoming securities be treated as reclassifications in other changes in assets and liabilities account?*

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3½. *If traded loans are not reclassified, do members agree that loans should be broken down between traded and nontraded loans?*

Views were divided on whether loans should be broken down into “traded loans” and other loans and on the consequent issue of whether traded loans can be valued at market prices in balance sheets.

4. *Do members agree that untraded securities should not be reclassified?*

The Committee decided that securities should generally be classified on an ex ante basis, except for the rare instance as set out in for “traded loans” above.