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Issue 37
Activation of guarantees and constructive obligations

GRANTING AND ACTIVATION OF GUARANTEES IN AN UPDATED SNA

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Granting and activation of guarantees in an updated SNA[1]

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Executive summary

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 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.

However, the 1993 System of National Accounts (SNA) indicates that only guarantees that are classified as financial derivatives be recorded in the core accounts, with supplementary information to be provided where contingencies are important for policy and analysis.

This note argues that the treatment of stocks and flows arising from the granting and activation of guarantees should be modified for three reasons: the supplementary information to be provided is not reported; the need to delineate across economic events that lead to guarantees; and the convergence with international accounting standards that quantify the underlying liability, notably in the public sector.

List of recommendations and questions to be raised

This note proposes fourteen recommendations and one question, which are listed subsequently. They will be submitted to the Advisory Expert Group (AEG):

R1: The proposed treatment of guarantees should distinguish between (i) guarantees as financial derivatives; (ii) standardised guarantees; and (iii) one-off guarantees.

R2: Guarantees that meet the definition of financial derivatives should be treated as financial derivatives. This should be clarified within the updated SNA by also specifying such types of guarantees as a sub-category of financial derivatives.

R3: The provision of standardised guarantees should be treated as in a manner that records a financial instrument equal to the net present value of the expected cost of calls on the guarantee.[3] There are two possibilities to do so: Option A: use the insurance current transfers D.71 and D.72; and Option B: do not use D.71 and D.72. In both cases financial transactions are recorded in the financial instrument, but in different ways. The balance sheets, output, and property income are the same for both options.

Question: Should standardised guarantees be recorded with or without the use of the current transfers D.71 and D.72?[4]

R4: A new sub-category of insurance technical reserves should be created and identified as 'standardised guarantees'.

R5: The financial instruments for 'standardised guarantees' are the assets of the creditor benefiting from the guarantee and the liability of the guarantor. When fees are paid by borrowers, the amount equal to the value of guarantee is re-routed through the creditor as a capital transfer from the borrower to the creditor for the value of the financial asset. The consumption element of the fee is not rerouted and remains the borrower's consumption.

R6: The fee paid to the guarantor covers a consumption element (as intermediate consumption or final consumption of the unit paying the fee) and the purchase of a financial asset. In addition, if treated like insurance (Option A), there would be a current transfer payable to the guarantor.

R7: The unit paying the fee receives imputed property income from the guarantor earned on the financial asset acquired when paying the fee. This is returned to the guarantor as the acquisition of more of the financial asset. The resulting increase in the balance sheet liability arises from the unwinding of the discount in the net present value.

R8: If a publicly controlled market guarantor sells the guarantee for a premium that does not cover the administration costs and the expected calls under the guarantee, a subsidy from government to the guarantor should be imputed for the amount relating to the administration costs and a capital transfer for amounts relating to the expected costs of calls.[5]

R.9: The activation of a standardised guarantee should be recorded as a financial transaction in F.63. Under the insurance option (Option A) a current transfer would be recorded from the guarantor to the creditor.

R10: For standardised guarantees, under the insurance option (Option A), where a one-off premium provides cover for a number of years, a D.71 current transfer would be imputed each year paid by the creditor to the guarantor equal to the value of the expected calls during that year. A financial transaction in F.63 (disposal of asset by creditor, reduction in liability of guarantor) would also be recorded for the same amount as the D.71 transfer, representing the expiry of the risk relating to that year. In effect, accruing insurance premiums would be imputed in cases where a one-off payment provides cover over several accounting periods.

R11: One-off guarantees should be recorded outside the core accounts, either in a memorandum item or, preferably, in a supplementary set of accounts, where a consistent recording of the involved flows and stocks would be provided.

R12: As in the case of provisions on non-performing loans, a sufficiently prominent status should be given to this information to ensure that it is reported in practice.

R13: The specific flows arising from the activation of a one-off guarantee should be recorded on the basis of contractual arrangements and specific circumstances (such as when the unit concerned no longer exists) either as a capital transfer or a financial transaction (including increases in existing equity participation) or other changes in volume of assets.

R14: Some guidance should be provided on how to record in the standard accounts one-off guarantees given to corporations in certain well-defined financially distressed situations.

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[5]   The precise method for allocation between subsidy and capital transfer, when the fee covers part of the costs, is explained in the text.

Background

Based on the work of the Task Force on Harmonisation of Public Sector Accounting (TF HPSA), views on how to classify and record guarantees in the System of National Accounts (1993 SNA) have been maturing and converging, and the basis for a common orientation exists encompassing a typology of guarantees and a diversity of recording (in the core accounts or not) depending on the type of guarantee.

For each guarantee, there are three parties involved – the lender, the borrower and the guarantor. Accordingly, stocks and flows of the credit relationship are recorded between the lender and the borrower, while stocks and flows of the guarantee relationship are recorded between the lender and the guarantor under whom the guarantor takes the risk of deterioration in the credit worthiness of the borrower.

Guarantees are seen as arrangements in which the guarantor agrees to pay the creditor in the event of the debtor defaulting. The arrangements enable the debtor to borrow at a lower rate of interest than it would be the case without the guarantee.[6] By conferring certain rights or obligations that may affect future decisions, guarantees obviously produce an economic impact on the parties involved. For general government, giving a guarantee is a way to support economic activities without a need for an immediate cash outlay and at a potentially low cost. Financial intermediaries provide guarantees as services for payment of a fee. Parent enterprises often use guarantees to support their subsidiaries (for example, to cut interest costs). Guarantees are also secured through financial derivatives. However, in the *1993 SNA*[7], only guarantees through financial derivatives are recorded in the standard accounts. All other forms of guarantees are considered contingencies; therefore they are not recorded when granted. Moreover, the activation of guarantees involves the recording of flows and changes in the balance sheets of the debtor, the creditor, and the guarantor. However, the existing statistical manuals do not cover comprehensively the treatment of stocks and flows arising from the granting and the activation of guarantees.

1.   Current position in the 1993 SNA and in related manuals

In the *1993 SNA*, guarantees of payment by third parties are deemed to be contingencies since payment is only required if the debtor defaults.[8] Contingencies are not seen as financial assets and liabilities, and are not recorded in the SNA. The *1995 European System of Accounts (ESA)* also describes a guarantee as an example of a contractual arrangement between institutional units, which specifies one or more

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[6]   This note refers only to explicit guarantees. Government may also provide implicit guarantees to entities. Such arrangements are usually not legally binding and do not allow, by nature, for a systematic and objective measurement.
[7]   References to and citations from international statistical standards are shown in *[italics]*.
[8]   Other types of contingencies are mentioned like lines of credit which provide a guarantee that funds will be made available but no financial asset exists until funds are actually advanced. Letters of credit are promises to make payment only when certain documents specified by contract are presented. Underwritten note issuance facilities (NIFs) provide a guarantee that a potential debtor will be able to sell short-term securities (notes) that it issues and that the bank or banks issuing the facility will take up any notes not sold in the market or will provide equivalent advances *[SNA 11.25]*.

conditions which must be fulfilled before a financial transaction takes place. It further states that a contingent asset is only a financial asset in cases where the contractual arrangement itself has a market value because it is tradable or can be offset on the market.[9]

A similar treatment of guarantees is recommended in other international statistical manuals. According to the *Monetary and Financial Statistics Manual (MFSM 2000)*, guarantees are outside the financial assets boundary and classified as other financial instruments *[MFSM 117]*. The *Government Finance Statistics Manual (GFSM 2001)* follows the *1993 SNA* by not treating any contingencies as financial assets or liabilities.

While contingent assets and liabilities are not recorded in the System, *any payments of fees related to the establishment of contingent arrangements are treated as payments for services [SNA 11.26]*.

Only if the underwriting institution is requested to make funds available will it acquire an actual asset, which is recorded in the financial account [SNA 11.25]. This is made more explicit in the *GFSM 2001 [3.97]*: *When a contingency is recognised as a liability of a general government unit, a flow is recorded with an expense as the debit and an increase in a liability as the credit. For example, if a loan guarantee has been called and the general government unit has no claim on the defaulter, then the general government unit would record a transfer to the defaulter and an incurrence of a liability to the creditor.[10]*

Where contingent positions are important for policy and analysis, it is recommended that supplementary information be collected and presented as supplementary data in the SNA [SNA 11.26]. The scope of financial assets and liabilities may also be broadened within satellite accounts by including contingent assets and liabilities in the classification of financial instruments.

As contingencies, especially those that may result in an expense, are seen as important for the general government sector, it is recommended in the *GFSM 2001* to record data on all important contingencies as memorandum items. *In addition to the gross amount of possible revenue or expense* (i.e. the total amount of the guarantee)*, estimates of expected revenue or expense should be presented [GFSM 3.96]*. This recommendation also refers to the fact that not all contingent assets and liabilities are easily quantifiable in terms of the net value of economic benefits expected to be received or paid. For example, the original nominal value of all loans guaranteed should be known, but the present value of the future payments by the government as guarantor depends on the likelihood and timing of default of each loan. Although precise recommendations cannot be specified for contingencies, a description of the nature of the various contingencies should be provided together with some indication of their possible value.

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[9]   See also paragraph 7.149 of the *GFSM 2001*.
[10]   Of course, this liability would subsequently disappear when the payment is made by the guarantor.

2.   Reasons for changes of the 1993 SNA

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 benefit from the comparatively low interest rates. Furthermore, 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. This happens in the context of the privatisation, the restructuring or the liquidation of public corporations.

Within that context, there are three main reasons for changing the treatment of guarantees in the *1993 SNA*. First, the reporting as memorandum items recommended by the *1993 SNA* is not applied in spite of the system recognizing the importance of guarantees. Second, the economic events vary across guarantees, with what seem to be liabilities not reflected in the core accounts of the *1993 SNA*. Third, while the convergence of the international statistical standards and of the international accounting standards (IAS) is aimed at in the update of the *SNA*, the treatment of guarantees in the *1993 SNA* deviates from that in the IAS and from the International Public Sector Accounting Standards (IPSAS). These accounting standards recognise guarantees as liabilities (although no assets are shown in the books of the beneficiaries) in cases when it is probable that future events will confirm that an outflow of resources will be required to settle an obligation and a reasonable estimate of the amount can be made.[11]

Accordingly, maintaining the status quo in the treatment of guarantees in the *1993 SNA* is criticised. There is increasing demand by users that the new SNA should record or give information on the amounts of guarantees when they are given, not just when actual payments are made under the guarantee, because this point in time is seen as having an influence on economic behaviour and creating potential costs or benefits for the units involved.

3.   Proposed solutions

There are three main groups of guarantees which can be distinguished: (i) guarantees as financial derivatives; (ii) standardised guarantees; and (iii) one-off guarantees.

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[11]   Provisions are to be distinguished from contingencies that are defined as follows in the IAS 37 and the IPSAS 19 (that deal with provisions, contingent assets and contingent liabilities). A contingent liability is seen as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because (i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. In contrast a provision is an amount set aside on precautionary grounds because the fact that a claim will be made is certain or near certain; it is only the size which remains in doubt.

Guarantees that meet the definition of financial derivatives are already treated within the core accounts. These are guarantees which protect, on a guarantee by guarantee basis, the lender against certain types of risk arising from a credit relationship by paying the guarantor a fee for a specified period. The guarantees covered are such that experience in the market allows the guarantor to apply standard master legal agreements or to make a reasonable estimate of the likelihood of the borrower defaulting and to calculate suitable terms for the financial derivative he is prepared to enter into with the lender.

Guarantees that are not provided by means of a financial derivative, but where the probability of default can be well established are classified as standardised guarantees. These guarantees cover similar types of credit risk for a large number of cases. Classic examples are export credit guarantees or student loan guarantees. In none of these cases, is it possible to estimate very precisely the risk of any one loan being in default but it is possible to make a very good estimate of how many out of a large number of such loans will default. It is therefore possible for a guarantor to determine suitable fees to charge for a guarantee working on the same sort of principle as an insurance corporation where the fees received in respect of many loans cover the losses by a few.[12]

The third type of guarantees is the "one-off" where the conditions of the loan or of the security are so particular that it is not possible for the degree of risk associated with the loan to be calculated with any degree of precision. In line with the approach taken regarding non-performing loans, the recording of such guarantees could be done by including a memo item or by setting up a system of supplementary accounts. Given the subjective character of any estimate of the probability of such one-off guarantees being called, and the difficulties this would imply to ensure a symmetric recording in the books of guarantors and beneficiaries (especially in the case of cross-border transactions), it seems to be preferable, at least for the time being, that these estimates do not affect the major aggregates of the standard accounts. However, the recording in the standard accounts may be considered for guarantees given to corporations in certain well-defined financially distressed situations.

Recommendation 1

R1: The proposed treatment of guarantees should distinguish between (i) guarantees as financial derivatives; (ii) standardised guarantees; and (iii) one-off guarantees.

3.1   Guarantees as financial derivatives

The treatment of a guarantee as a financial derivative would apply when there is a market for similar instruments and observable market prices. Tradable guarantees are similar to credit derivatives as in both cases the guarantor accepts the risk of a deterioration in the credit worthiness of an entity. In such cases, there is no need to compile a net present value of the expected payments under the guarantee. In practice, however, for the time being, few instruments other than credit derivatives would meet the

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[12]   In line with the AEG decision of February 2004 the term provisions could also be used in the context of AF.6, with "qualifications to distinguish it from the common term "provisions" used in business accounts."

conditions for this treatment. Both the regular payments and any claims paid would be recorded as transactions in financial derivatives (F.8): the buyer of such a guarantee acquires an AF.8 asset. Changes to the value of the asset, for example when the nominated bond defaults, are recorded as revaluations. The accounting treatment of specific guarantees like financial derivatives is not a change in the *1993 SNA*, but a clarification, as the corresponding types of guarantees have to be specified as a sub-category of financial derivatives.

This might be necessary for credit default swaps, which protect the creditor (the protection buyer) against certain risks arising from a loan or security relationship by paying the guarantor (the protection seller) a fee for a specified period. The amount of the fee depends mainly on the debtor's credit rating, the term of contract, the predefined risk, and the type of the reference obligation (usually a debt security or a loan). The predefined risk – called the credit event – is based on standards supported by the use of master agreements prepared by the International Swap and Derivatives Association (ISDA). Credit events include late payments or default, filing for insolvency protection or the restructuring of liabilities to the detriment of the lender. If the credit default swap is based on a credit relationship with only one debtor (single-name credit default swap), the creditor transfers the reference obligation to the guarantor. If a credit event occurs, the fee payments of the creditor would stop and the guarantor would ensure that the creditor is compensated for its loss.

> *Example 1*
> A pension fund (creditor) owns 10 million worth of a 5 year bond issued by a non-financial corporation (debtor). In order to manage their risk of losing money if the corporation defaults on its debt they buy a credit default swap from a bank (guarantor) on a nominal value of 10 million, which trades at 200 basis points. In return for credit protection the pension fund pays 2% of 10 million (0.2 million) as annual payments to the bank. If the corporation does not default on its bond payments the pension fund makes regular payments to the bank for five years and receives its 10 million bond back from the debtor after 5 years. If the non-financial corporation defaults on its debt 5 years into the CDS contract then the premium payments would stop and the bank would ensure that the pension fund is refunded for its loss of 10 million.

> *Recommendation 2*
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> *R2: Guarantees that meet the definition of financial derivatives should be treated as financial derivatives. This should be clarified within the updated SNA by also specifying such types of guarantees as a sub-category of financial derivatives.*

3.2 Standardised guarantees

In a number of cases, some specialised agencies grant many guarantees of similar characteristics on a regular basis.[13] 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,

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[13] The classification of the sector of the institutional unit providing such standardised guarantees depends on the question whether the unit giving the guarantees runs with the objective of covering costs from fee and interest income, and keeps a full set of accounts. If this is the case such units would be classified as public or private corporations. Others might not cover their costs from income but be funded, partially or fully, by government appropriations. These units would be classified to general government.

and (ii) accordingly, it is possible to estimate the average loss by considering statistics on claims.[14] The types of loans for which institutional units give guarantees include export credits, student loans, loans to small businesses, and loans to home buyers. They are economically significant.[15]

It is proposed to record a liability in the accounts of the guarantor 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. The assumption here is that the payment of a single premium would provide a guarantee for a number of accounting periods.[16] 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 a new financial asset in the category currently used for insurance technical reserves.[17] 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 AF.63 "standardised guarantees", allowing separately identified data to be provided. The measurement of output for standardised guarantees would be similar to that of insurance corporations based on the difference between premia received and the net present value of the estimated cost of future claims. Property income would be imputed for the unwinding of the discount component in the estimated cost of future claims.

Under this proposal, the guarantor is recorded as selling a financial asset equal to the net present value of the expected loss and acquires a matching liability at the same time. An equivalent asset would be added to the balance sheet of the sector receiving the guarantee, i.e. that of the entity who granted the initial loan. It is recognised that this could imply an overstatement of its assets and net worth.[18] This is the case if the financing is made through a loan shown as an asset at nominal value, in accordance with the AEG decision of December 2004 regarding non-performing loans. This situation may already arise in the current SNA, when a lender buys a credit derivative to protect itself against a deterioration of the credit-worthiness of the borrower. Some additional information on loan provisioning made in the books of the creditor in the case of non-performing loans might be available as a memo item or in a set of supplementary accounts to allow analysts to assess this "overstatement" on the assets' side.[19]

The expected loss to be considered 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

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

[15] The distinction between standardised guarantees and one-off guarantees is determined by the recognition of the expected net present default values for a group of standardised loans as liabilities in the guarantor's accounts based on actuarial estimates.

[16] The payment of premium each accounting period, related to the risks in each accounting period, and with no obligation to insure future periods, would give a different and simpler recording, but such an arrangement would be unusual since the creditor would want a policy covering the life of the guaranteed instrument.

[17] This treatment is similar to that of provisions for guarantees in IPSAS 19, but makes a distinction between transactions and other flows when recording movements in the provisions.

[18] Normally, when a loan is given with no guarantee, the lender ensures that the interest rate is sufficiently high to cover defaults such as the net present value of the loan (market value), including interest flows and expected defaults, is close to the nominal value. For a loan with a guarantee the interest rate is often lower such that its market value would be lower than its nominal value.

[19] Such an overvaluation is an inevitable consequence of a system that combines nominal valuation and market valuation in the same balance sheet.

be made.[20] So for each individual guarantee an amount is recorded that would be a percentage of the loan guaranteed based on loans of similar risk. The estimated future payments would be discounted for the value of time and take account of any likely recoveries where payment under the guarantee gives the guarantor rights over the defaulting assets or other collateral.[21]

There are two options for the detailed recording: *Option A: use the insurance current transfers D.71 and D.72; and Option B: do not use D.71 and D.72. In both cases financial transactions are recorded in the financial instrument, but in different ways.* The guarantor's output, property income paid, and balance sheet is the same for both options. Financial transactions (F.63) would be recorded in both options A and B for (i) initial granting of the guarantee (counterpart cash receipt of premium), (ii) unwinding of the discount in the net present value calculation (counterpart of D.44), (iii) the payment of a claim (in the insurance approach, the payments of claims are not recorded as such in the financial accounts, but only a net change in reserves (standardised guarantee) for outstanding claims resulting from transactions; payment of claims reduce the reserves) . The differences are as follows:

Option A: Record current transfers (D.71 and D.72): Under this option movements in the standardised guarantee in the balance sheet due to a reassessment of the expected cost would be recorded as financial transactions (F.63), with counterparts in D71 and D72. This reassessment has two components:(i) expiry of the risk allocated to a year as that year passes (recorded in D.71 "accruing the premium", with a counter entry in F.63 – reduction of liability – similar to the treatment of prepayment of premiums); and (ii) changed perception of the risk due to actual claims during the year (recorded in D.72 "claims")[22] [23] This reassessment of the expected cost is like a movement in provisions under IAS 37. In essence, the movement in the financial account shows a net change due to increase in prepayments of premiums (+), decrease in prepayments due to attribution of prepaid amounts to the accounting period (-), increase in claims outstanding (+), settlements of claims (-).

Option B: .The net reassessment arising from (i) expiry of the risk allocated to a year as that year passes, and (ii) changed perception of the risk due to actual claims during the year would be recorded as 'other changes in the volume of assets.'

Any changes in standardised guarantees that are not due to transactions (such as holding gains and losses or other volume changes) are recorded similarly in both approaches.

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[20] 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].

[21] The issue of the discount factor to be used would need further elaboration, although the SNA might not have to describe it in detail. One possibility would be to use a risk-free rate corresponding to the maturity of each cash-flow, e.g. on the basis of zero-coupon Treasury bonds for each maturity.

[22] Under IAS 37 changes in the perception of the risks are continual made and can affect the balance sheet value and be recorded in the profit and loss account. Here, the change is made only when a claim is made, to align better with the definition of D.72.

[23] An argument could be made for also treating some of the initial premium as a prepayment for output. It is not proposed to do that because of the extra complexity and data requirements.

In dealing with standardised guarantees various cases are distinguished: (i) a market guarantor covering all costs with fees by the creditor; (ii) a market guarantor covering all costs with fees paid by the debtor; (iii) a public sector market guarantor not covering all costs with fees paid; and (4) a government unit providing the guarantee. These cases are described in the example in the annex 1 by distinguishing the different phases of a standardised guarantee: its granting, its lifetime, its expiration, and its activation.

Recommendations 3 to 10

R3: The provision of standardised guarantees should be treated as in a manner that records a financial instrument equal to the net present value of the expected cost of calls on the guarantee.[24] There are two possibilities to do so: Option A: use the insurance current transfers D.71 and D.72; and Option B: do not use D.71 and D.72. In both cases financial transactions are recorded in the financial instrument, but in different ways. The balance sheets, output, and property income are the same for both options .

Question: Should standardised guarantees be recorded with or without the use of the current transfers D.71 and D.72?[25]

R4: A new sub-category of insurance technical reserves should be created and identified as 'standardised guarantees'.

R5: The financial instruments for 'standardised guarantees' are the assets of the creditor benefiting from the guarantee and the liability of the guarantor. When fees are paid by borrowers, the amount equal to the value of guarantee is re-routed through the creditor as a capital transfer from the borrower to the creditor for the value of the financial asset. The consumption element of the fee is not rerouted and remains the borrower's consumption.

R6: The fee paid to the guarantor covers a consumption element (as intermediate consumption or final consumption of the unit paying the fee) and the purchase of a financial asset. In addition, if treated like insurance (Option A), there would be a current transfer payable to the guarantor.

R7: The unit paying the fee receives imputed property income from the guarantor earned on the financial asset acquired when paying the fee. This is returned to the guarantor as the acquisition of more of the financial asset. The resulting increase in the balance sheet liability arises from the unwinding of the discount in the net present value.

R8: If a publicly controlled market guarantor sells the guarantee for a premium that does not cover the administration costs and the expected calls under the guarantee, a subsidy from government to the guarantor should be imputed for the amount relating to the administration costs and a capital transfer for amounts relating to the expected costs of calls.[26]

R.9: The activation of a standardised guarantee should be recorded as a financial transaction in F.63. Under the insurance option (Option A) a current transfer would be recorded from the guarantor to the creditor.

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[24] The authors have in mind a guarantee that covers default risks over a number of years for one initial premium payment.

[25] Both methods can provide coherent and consistent recording in the accounts. The method using D.71and D.72 current transfers requires more source data but over the life of a policy the impact on net borrowing is the total payment of claims rather than the initial estimate of that amount which is the case with the simpler method. In effect of D.71 and D.72 would bring balance sheet movements in the liability above B.9 like the movement in provisions observed when applying IAS 37 to guarantees.

[26] The precise method for allocation between subsidy and capital transfer, when the fee covers part of the costs, is explained in Annex 2.

> *R10: For standardised guarantees, under the insurance option (Option A), where a one-off premium provides cover for a number of years, a D.71 current transfer would be imputed each year paid by the creditor to the guarantor equal to the value of the expected calls during that year. A financial transaction in F.63 (disposal of asset by creditor, reduction in liability of guarantor) would also be recorded for the same amount as the D.71 transfer, representing the expiry of the risk relating to that year. In effect, accruing insurance premiums would be imputed in cases where a one-off payment provides cover over several accounting periods.*

3.3 One-off guarantees

One-off guarantees granted by the government to some public corporations and to large infrastructure projects (and sometimes in the context of a public-private partnership) are usually not standardised and do not meet the criteria for financial derivatives.

After considering four modalities[27] for the recording of one-off guarantees, a consensus view has been emerged as follows:

(1) The granting of one-off guarantees should be recorded outside the standard accounts and a sufficiently prominent status should be given to ensure that one-off guarantees are recorded in practice. One-off guarantees granted to corporations in certain well-defined financially distressed situations and with a very high likelihood to be called might be treated as if these guarantees are called at inception.

(2) The activation of one-off guarantees involves flows among the three parties involved. (i) The creditor acquires a financial asset (may be, a loan) vis-à-vis the guarantor – the new debtor (financial transaction); (ii) The liability of the (original) debtor covered by the guarantee is written off in the case of his liquidation (other change in the volume of assets) or as if repaid (financial transaction); and (iii) The transactions and other flows between the (original) debtor and the guarantor (the new debtor) are determined on the basis of agreement between the involved parties, if such exists. Two situations could be distinguished: (a) When the (original) debtor continues to exist, an acquisition of a financial asset, including an increase in the existing equity participation, by the guarantor vis-à-vis the (original) debtor is recorded if the guarantor (the new debtor) acquires this asset as a result of the activation of a guarantee. However, if the guarantor does not acquire an asset vis-à-vis the (original) debtor as a result of the activation of a guarantee, a capital transfer from the guarantor to the (original) debtor is to be recorded; (b) If the (original) debtor does not exist anymore, a capital transfer to the creditor is recorded. Annex (2) provides a numerical example of recording flows arising from activation of one-off guarantees.

The activation of a guarantee may or may not require repayment of debt at once. The accrual principle for time of recording suggests that the total amount of debt assumed should be recorded at the time the guarantee is activated and the debt assumed, but not when actual payments are made by the guarantor.

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[27] The four options were (1) recording a **liability in the standard accounts** for the expected cost – similarly to the proposed treatment of standardised guarantees, (2) **re-routing** the guaranteed borrowing through government showing government borrowing from the lender and on-lending to the borrower, (3) **memorandum items** similar to those for non-performing loans (net present value and/or nominal values of amounts guaranteed— the maximum exposure), and (4) compiling a **supplementary system of accounts** would treat the flows and positions of such guarantees in a set of accounts using the same method as for the standardised guarantees.

Principal repayments by the guarantor (the new debtor) and interest accruals on the assumed debt should be recorded when these flows occur.

Recommendations 11 to 14

R11: One-off guarantees should be recorded outside the core accounts, either in a memorandum item or, preferably, in a supplementary set of accounts, where a consistent recording of the involved flows and stocks would be provided.

R12: As in the case of provisions on non-performing loans, a sufficiently prominent status should be given to this information to ensure that it is reported in practice.

R13: The specific flows arising from the activation of a one-off guarantee should be recorded on the basis of contractual arrangements and specific circumstances (such as when the unit concerned no longer exists) either as a capital transfer or a financial transaction (including increases in existing equity participation) or other changes in volume of assets.

R14: Some guidance should be provided on how to record in the standard accounts one-off guarantees given to corporations in certain well-defined financially distressed situations.

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4.   Implications for the System

Taking into consideration the proposed (different) treatments of guarantees, their presentation in the updated SNA has to be modified and extended. The proposed recording of standardised guarantees implies the creation of a new financial instrument sub-category (with corresponding entries into the production and income account). In this context, the relationship between guarantees and insurance technical reserves has to be clarified. Some clarification is also needed for the treatment of traded guarantees as financial derivatives.

Concerning the recording of one-off guarantees, it has to be considered whether memorandum items should be recorded or whether a complete supplementary set of accounts should be developed.[28] The presentation of a supplementary system of accounts would have the advantage to provide the users with a comprehensive and consistent set of flow and stock data. This would also allow the users of the data assessing the size of such guarantees vis-à-vis other key variables as shown in the (core) accounts of the general government and other sectors. The recording of flows arising from the activation of a guarantee should be clarified in the updated SNA and in the BPM5.

There is a further question to be considered. If standardised guarantees are to be treated analogously to insurance, the consequence is that activation of the guarantee is treated as a current transfer from the

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[28]   Various categories of other (implicit) assets and liabilities could also be covered by such a system. According to the proposal provided by the second AEG meeting in December 2004, such types of (implicit) assets and liabilities could be broken down into (i) provisions to cover events likely to happen but of uncertain timing; (ii) provisions to cover events certain to happen but of uncertain timing; (iii) contingencies; and (iv) impairment, which is a valuation issue.

guarantor to the creditor even though this is compensation for the loss of a financial asset. Treating the activation of standardised guarantees as capital transfers would disturb the parallel with insurance where the assumption is that for the guarantor, there are many regular payments in and fewer but still regular payments out. Treating the fees as current and the calls as capital would have undesirable effects on saving of the unit paying for the guarantee (which could be either the creditor or the debtor) and the guarantor. Treating the fees as capital would be in breach of the guidance on the distinction between current and capital transfers.

Within the discussion on insurance, it has been agreed that some claims, which are large, unpredictable and unusual might be treated as capital transfers. It would therefore seem consistent to suggest that calls under one-off guarantees in cases where the guarantor does not obtain a claim on the borrower could also be treated as capital transfers.

<u>Annex 1</u>
Detailed recording of <u>standardised guarantees (</u>version 22 November 2005)

Types of guarantee considered

This annex gives detailed guidance the proposed recording of standardised guarantees described in general terms in the paper AEG17 for the fourth meeting of the AEG.
The annex describes two possible methods.
A) Using the current transfers for insurance
This records financial transactions in F.63 for the net present value of expected calls on the guarantee, but also makes use of the current transfers for insurance: D71 and D72. This method second approach makes greater demands on data suppliers but is closer to the International Accounting Standard on provisions (IAS37) in that reassessments of the value of the AF.63 financial instrument in the balance sheet are treated above the line with an impact on saving and net borrowing.
B) Not using the current transfers for insurance.
This does not use D.71 and D.72. Reassessments of the value of the AF.63 financial instrument in the balance sheet are treated as other changes in volume.

Overview of the two methods

The table below shows the guarantor's account. The presentation has been simplified and does not for example show the guarantors' operating costs nor imputed property income in respect of the F.63 asset relating to the unwinding of the discount. In effect it assumes a discount factor of 0%.

THE EXAMPLES AT THE END OF THIS PAPER USE THE SIMPLE METHOD: OPTION B

Guarantee sold

At the start of the year a guarantor sells a loan guarantee for a premium of 80 covering risks over 5 years. The net present value of the expected loss on the guarantee is 30. The expected loss in each year is 6 (obviously we are talking about statistical averages here not what we expect in respect of a single guarantee). There are no claims in the first year.

Note that the premium is split between the expected cost of calls on the guarantee (recorded as a financial transaction) and the residual is output. In the case of the insurance method the component of the expected cost that relates to claims in the first year is included in D.71, and a counterpart financial transaction is recorded for the same amount representing the expiry of the first year risk. In the simple method this expiry is treated as an other change in volume, not as a transaction.

SNA category	Simple method		Insurance method	
	Resources / assets	Uses / liabilities	Resources / assets	Uses / liabilities
Non- financial transactions				
P.1 output	50		50	
D.71 insurance premiums			6	
D72 insurance claims				0
B.9 net borrowing NFA	+50		+56	
Financial transactions				
F.2 cash	+ 80		+ 80	
F.63 guarantees, when policy sold		+30		+30
F.63 guarantees, reassessments: Actual claims during year - Expected claims during year				-6
B.9 net borrowing FA	+50		+56	
Balance sheet movements				
AF.63 guarantees, open		0		0
F.63 guarantees, transactions		+30		+24
AF.63 guarantees, other flows Reassessments: Actual claims during year - Expected claims during year		-6		
AF.63 guarantees, close		24		24

Claim paid

In the second year a claim of 10 is paid. The expectation was for a claim of 6. No assets are acquired by the guarantor when the claim is paid.

We have the same treatment as above for the expiry of risk (6) during the year. In addition the claim of 10 is recorded as a financial transaction in F.3 and in addition is also included in D.72 in the insurance method.

Note that, for the insurance method, when a claim is paid, the hit on B.9 is the difference between the expected and annual losses in the year. For the simple method it is zero.

SNA category	Simple method		Insurance method	
	Resources / assets	Uses / liabilities	Resources / assets	Uses / liabilities
Non- financial transactions				
P.1 output				
D.71 insurance premiums			6	
D72 insurance claims				10
B.9 net borrowing NFA	0		-4	
Financial transactions[29]				
F.2 cash	- 10		- 10	
F.63 guarantees, when policy sold[30]		0		0
F.63 guarantees net reassessments: Actual claims during the year: Expected claims during year				10 -6
F.63 guarantees, claim		-10		-10
B.9 net borrowing FA	0		-4	
Balance sheet movements				
AF.63 guarantees, open		24		24
F.63 guarantees, transactions		-10		-6
AF.63 guarantees, other flows Reassessments, net: Actual claims during year - Expected claims during year		10 -6		
AF.63 guarantees, close		18		18

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[29] For insurance approach, only the net change in standardised guarantees is shown in the financial account (which is equal to 6 in this example). For clarity, this example shows all the underlying entries from which the net change is determined.

[30] Assuming no guarantees are issued in this year.

Valuation of output and imputed grants

A unit whose main purpose is to give guarantees clearly has output since it will employ staff and possibly receive fees for giving the guarantees. The method chosen to calculate output will depend on whether it is a market or a non-market body, and might involve the imputation of capital grants and/or subsidies depending on the level of premiums relative to expected losses and administration costs. The definitions below relate to the total activity of the guarantor over a year, or other accounting period, rather than being applied to each individual guarantee.

Market body

It is proposed to define output (P.1) as:

a) **If premiums >= expected loss[31] + administration costs[32]:**

   P.11 (market output) = premiums - expected loss

b) **If premiums < expected loss + administration costs, and**
   premiums >= expected loss

   P.11 (market output) = administration costs

This is achieved by imputing a subsidy (D.31) from general government to the guarantor, which is treated like extra premium.

   Imputed subsidy (D.31) = expected loss + administration costs - premiums

There might of course be actual government appropriations to the public unit to support its losses and costs. Indeed, over the longer term, actual government appropriations would be necessary if premiums were less than actual losses, net of any recoveries of interest and principal, and administration costs since the net losses and costs would need to be financed in some way if not being met by premiums. It would also be necessary to record an account payable (F.7) in the financial accounts (liability of government, asset of guarantor), for the difference between the accruing imputed subsidy (described above) and the actual government appropriations[33] to the guarantor unit.

c) **If premiums < expected loss**

   P.11 (market output) = administration costs

This achieved by imputing a subsidy (D.31) from general government to the guarantor, which is treated like extra premium, and imputing a capital grant from general government to the lender to pay for the F.63 financial asset (the part not covered by the premium).

   Imputed subsidy (D.31) = administration costs
   Imputed capital grant (D.9) = expected loss - premium

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[31] Expected loss would be the net present value of the claims paid on the policies to which the premiums relate, less any recoveries from assets acquired when paying claims. It would equal the value of the F.63 liability created by the transaction.

[32] Compensation of employees, intermediate consumption, capital consumption, D29 - D39

[33] Actual government payments to the guarantor would be recorded as unwinding the F7 liability up to the value of the liability in the balance sheet. Amounts above that would be non-financial transactions.

Non-market body
a) If premium > administration cost + expected loss
P.11 (market output) = premiums – expected cost
Normally, if the unit were classified as non-market, the premiums received for guarantees would be less than the expected loss from guarantee claims and the administration costs. However it might be that the guarantee unit cannot be treated as a separate institutional unit or quasi unit because it is part of a larger unit that is clearly non-market. In that case this situation (premium > expected loss and admin costs) could arise, and it would be treated as a market kind of activity unit (KAU)[34].
b) **If premiums < expected loss + administration costs, and**
    premiums >= expected loss
  P.1 (output) = administration costs (sum of the costs as for any non-market body)
  P.131 (partial payment for other non-market output) = premium paid – expected loss
  P.132 (other non-market output)   = output P.1 – P.131
                                           = admin costs +expected loss – premium paid
                                           = final consumption (P.3)
c) If premiums < expected loss
  P.1 (output) = administration costs (sum of the costs as for any non-market body)
               = P.132 (other non-market output)
                = final consumption (P.3)
Impute a capital grant from general government to the lender to pay for the F.63 financial asset (the part not covered by the premium).
    Imputed capital grant (D.9) = expected loss – premium
Note that the government subsides and capital grants are not shown as being paid to the borrower even though the intention of the policy is to help the borrower. This is not a problem: subsidies to be paid to a producer to enable it to reduce prices paid by its customers (the beneficiaries).

Accounts of the lender and borrower

The financial asset (F.63) would be recorded in the balance sheet of the lender since it is the lender who owns the right to make a claim on the guarantee if the borrower defaults[35]. Either the lender or the borrower could actually pay the premium.
Often the cost of the guarantee acquired by the lender is charged to the borrower by netting it off the amount of capital advanced. In such cases the gross amount of the loan would have to be recorded and the payment for the guarantee recorded as a capital transfer as discussed below.
a) Premium paid by the lender
In the accounts of the lender, the premium payment would be split between the acquisition of a financial asset (F.63 = expected loss) and intermediate consumption (P.2) for the remainder.
If the premium were less than the expected loss, a capital grant would be recorded from general government to the lender to make up the difference so that the acquisition of a financial asset could be recorded at the full value of the expected loss.
b) Premium paid by the borrower
In the accounts of the borrower, the premium payment would be split between the payment of a capital transfer to the lender (D.99) (= expected loss) and intermediate consumption (P.2) for the remainder. The lender's account would show the receipt of the capital transfer and the acquisition of the financial asset (F.63).

Recording the liability

A new category in the financial account and balance sheet would be created to deal with provisions in respect of guarantees: call it F.63 / AF.63 "standardised guarantees"[36].

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[34] See ESA95 paragraphs 3.14 to 3.45
[35] Some guarantees might be constructed such that the borrower can make a claim in the event of its financial distress, and use the funds to pay the lender. In those cases it might be better to treat the guarantee as an asset of the borrower.
[36] Sometimes this text uses the term "guarantee provisions" when referring to F63. This is to just to show a similarity with the treatment of provisions in IPSAS19.

When a guarantee is given, an acquisition of an F.63 liability (financial transaction) would be recorded equal to the expected loss, and added to the balance sheet of the unit giving the guarantee. An equivalent asset would be added to the balance sheet of unit receiving the guarantee (normally the lender).

Note that the expected loss is a probability-weighted concept. Although each individual guarantee is unlikely to be called, for the group as a whole it is likely that some payments will be made. So for each individual guarantee an amount is recorded that would be a percentage of the loan guaranteed based on loans of similar risk. The estimated future payments would be discounted for the value of time[37].

The size of the liability in the balance sheet, in respect of a guarantee already given, could subsequently change for any of the reasons listed below. The proposed recording of the flows causing the balance sheet changes takes account of the national accounts principle that holding gains and losses are not recorded as transactions.

a) A claim is paid

There would be three financial transactions in the accounts of the guarantor.

    i)   Reduction in cash F.2;

    ii)   Redemption of liability in F.63 representing the loss inherent in the claim;

    iii)   Acquisition of asset in F.4 representing the market value[38] of any loan assets acquired when paying the claim[39];

The sum of the amounts recorded in F.63 and F.4 would equal the cash paid in F.2.

b) A reassessment of the value of the guarantee.

The value of the guarantee could be reassessed for several reasons, including those listed below. In each case the change would be recorded in other flows, and not be a transaction.

    i)   The risk of the guarantee being called in the future may be reassessed because of a change in the environment or other reasons;

    ii)   The impact of time expiring the guarantee;

    iii) The effect of time reducing the probability of a call on the guarantee since the expected loss would assume a potential loss in each time period;

    iv) Past claims may have led to different cash flows than had been expected, either because the amount of claims was different than expected or because the losses from individual claims were more or less than expected;

    v)   Change in discount rate;

    vi) Reassessment of recoveries;

c) The impact of time unwinding the discount

The value of the liability, in respect of the expected loss in a future year, increases with the passage of time due to the reduction in the discount factor applied to it. This is the holder of the asset earning

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[37] This note does not give any guidance on what the discount factor should be. There are a variety of approaches. For example, the U.S. federal budget discounts the expected value of cash flows by the interest rates for U.S. Treasury zero-coupon securities for corresponding time periods. The zero-coupon rate on 1-year Treasury securities is used to discount cash flows one year in the future; the zero-coupon rate on 2-year Treasury securities is used to discount cash flows two years in the future; and so forth. The same discount rates are used in financial accounting. These rates are viewed in different ways: as the cost of borrowing to the government; as the rates at which Treasury would borrow to finance default payments; or as rates that are free of credit risk (credit risk is already included in the cash flows, because the discounting is applied to the expected values of cash flows).

[38] This raises the difficult question of recording loans at market value. We could argue here that it is not the value of individual loans that is being set to market value but that a judgment is being taken about the volume of loans that will still perform. Or else just apply the existing ESA95 guidance in paragraph 6.51. "… when an existing loan or trade credit is sold to another institutional unit the difference between the redemption price and the transaction price should be recorded under the revaluation account of the seller and the purchaser at the time of transaction".

[39] It is normally the case that the guarantor of a loan acquires the right to any recovery of interest and capital when paying a claim to the original lender. Alternatively it might be that some other sort of asset is acquired that was collateral for the loan/guarantee.

property income: call it D.47 "property income attributed to guarantee holders". A transaction in F.63 would also be recorded for the same amount. In effect the holder of the guarantee uses the imputed property income to fund the purchase of more F.63 asset[40].

The interest rate used here would be the same as the discount factor used to calculate the net present value of the expected loss.

Recording the guarantee as an asset

It is proposed that the lender should be recorded as the unit holding the guarantee, since it is the lender that has the legal right to make a claim on the guarantee if the borrower does not pay.

In line with national accounts principles, the financial liability, its transactions and other changes in its value, would be mirrored exactly in the value of the counter-party's asset.

There is a problem in that the impact of a guarantee will already influence the balance sheet of the asset holder through the valuation of the guaranteed asset in some cases.

Warranties

IPSAS19 gives an example of government giving a guarantee/warranty when it sells a product, such that it agrees to repair the product if it develops a fault within the first year. Under IPSAS19, the government records a liability in its balance sheet for the expected cost of the repair work claimed under the guarantee. The balance sheet of the owner of the product would record the value of the product taking account of the un-expired warranty. It is unlikely to show the warranty as a separate asset. So in national accounts at present, the value of the warranties is likely to be reflected in the valuation of related assets, but the provisions are not recorded as liabilities.

Securities

Securities are recorded at market value in the national accounts. The value of securities as an asset therefore currently reflects the value of the guarantee (which is not to say that the effect on market price equals the estimate that the government would make for a provision).

Loans

The market value of a loan with a guarantee from a third party has a higher value than a loan without such as guarantee. But in national accounts loans are always recorded at nominal value, so if the guarantee were also recorded as a financial asset the total assets of the lending unit would be overstated if the market value of the loan without the guarantee were less than its nominal value.

Does the over valuation matter ?

The simple solution would be to record guarantee provisions as separate assets and not worry about their impact on the valuation of the assets that they guarantee. This works fine when the guarantees are clearly separate assets and not embedded within the underlying asset; such as credit default swaps. But when they are not separable from the underlying asset there is an argument that recording the guarantees separately would overstate the total assets of the entities holding the guarantees in the sense that the payment to the holder of the guaranteed assets could not consist of both the principal of the underlying asset and the guarantee. Another argument against simple recording concerns transactions in the underlying asset since these would be at market value and not at market value plus the value of the guarantee: how to account for the movement of the guarantee asset ?

An argument in favour of the simple recording observes that for fixed-rate loans and bonds the market value would be influenced by changes in market interest rates and the current market appetite for risk, not just perceptions of the level of default. So even at present in national accounts the measurement of net financial wealth is distorted by having a mixture of nominal and market value recording.

The payment of claims

The payment of a claim would be a release of the guarantee provisions (reduction in F.63 liabilities) and decline in cash (F.2).

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[40] Or one could say that the property income funds the purchase of extra premiums equal to the expected loss since no administrative input is needed, so there is no output. The extra expected loss generates the extra F.63 in the same way as for a new policy. In effect this recording of property income recognizes the "lending" implied by paying the premium in advance of receiving any benefits.

In those cases where the payment of a claim gives the guarantor rights over the defaulting financial asset or other collateral, the payment of the claim would be split between two transactions:

a) the acquisition of assets recorded at their market value (taking account of the likelihood of continued default);

b) the release of the guarantee provisions (reduction in F.63 liabilities) - representing that part of the claim that will never be recovered through the assets acquired when paying the claim

If the defaulting assets were to start performing, the receipts of interest and capital would be recorded in the usual way with other flows being used to record any increase in the value of the asset above that recorded in the balance sheet when the claim was paid. If it became clear that there was no possibility of the loan providing any further benefits, there would be a corresponding liquidation of the asset through other flows.

Note that there are no further transactions in F.63 in respect of changes in the value of the assets acquired when paying a claim even though it does alter the actual loss on the guarantee. This is because the changes have no relevance for the lender; the lender no longer has an asset in respect of the loans acquired by the guarantor.

It might often be the case that a payment of a claim would occur simultaneously with an upward revaluation (in other flows) of the guarantee provision. For example this would be necessary if the claim were greater than the existing value of the guarantee provision. It might also be the case that the payment of a claim causes a reassessment of similar types of risks associated with other unexpired guarantees.

There would be no need to record a capital transfer for the write-off in this case because the impact on the non-financial account is when the expected loss is deducted from the premium income[41].

Recording Subsidies

Two types of subsidy are considered. The first is discussed above in the section on the valuation of output and is the amount of the administration costs not funded by the premium (after a first call on the premium to buy the financial asset F.63).

Insurance companies hold large capital reserves to pay claims. The investors who invest their cash in the reserves require a commercial rate of return on their investment - a return that reflects the risk of an insurance business. Public units that give guarantees do not usually have to bear this cost because they have immediate access to the government funds and do not have to hold reserves and earn a commercial return on them. Economists have argued that this is a subsidy. The question is whether national accounts should impute this sort of subsidy. In theory there are good arguments to do so, but for practical reasons it might be too difficult to develop a suitable agreed methodology in time for the SNA 2008 update.

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[41] The impact of Paris and London club decision would be recorded in other flows. A capital transfer would only be recorded if, as a result of rescheduling, the loss in capital value were a deliberate act of generosity, rather than a realistic estimate of what it would be possible to collect. The Eurostat Deficit and Debt Manual chapter 2.4.II is relevant here.

Example 1: market unit, no subsidy, payment by lender

The accounting table below records the case in which:
Year 1

- The guarantor unit guarantees loans of 1000 for 5 years.

- The net present value of the expected loss from claims on the guarantee is 30.

- The lender pays 80 for the guarantees. This is shown in two parts

    o 50: the intermediate consumption of the lender and output of the guarantor

    o 30: the acquisition of a financial asset (the npv of the expected loss).

- Output of the guarantor is the premium (80) minus the npv of expected loss (30).

- The administration cost of the guarantor is 40 (D1 = 22; P2 = 18).

- Balance sheet of lender starts with 1080 cash

Year 2

- The passage of time increases the net present value of the expected loss by 3 (unit's discount factor is 10%: 3 = 10% of the outstanding liability of 30).

- The expected loss is judged to have been reduced by -2 because of a reassessment of the risks.

Year 3

- Loans with nominal value 35 default, and lender makes a claim of 35 which is paid by the guarantor.

- The assets acquired from paying the claim are judged to have market value of 25.

- The loss in paying the claim is therefore 10, which is a redemption of 10 of the guarantee provision liability.

Year 4

- The assets acquired (nominal value 35) return 10 of principal and the remainder of 25 is reassessed and written-off.

Year 5

- The loans are repaid and guarantees expire.

General observations
The impact of the passage of time on the value of guarantee, including the unwinding of the discount, and any changes due to the reassessment of risks, are likely to occur in every year. To keep the tables simple this effect is shown only in year 2. The accounts for the unit receiving the guarantee (the lender) show only transactions relevant for the recording of the guarantee. So for example its production and property income are ignored.

Example 1: market unit, no subsidy, lender pays 80

Year 1: guarantee is given	Guarantor		Lender		Borrower	
Non-financial account	Resources	Uses	Resources	Uses	Resources	Uses
P.11 Market Output	50					
Premium allocated to P2	50					
Premium allocated to F6	30					
Imputed premium received	0					
NPV of expected cost	30					
P.2 Intermediate consumption		18		50		
D.1 Compensation of employees		22				
D.39 Subsidy paid to lender						
B.2 Gross operating surplus	10		-50			
D.47 Property income, guarantees						
B.9 Net lending/borrowing	+10		-50			
Financial account	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
F.2 cash	40		-1,080		+1000	
F.42 loans			+1,000			+1,000
F.63 standardised guarantees		+30	+30			
B.9f Net lending/borrowing	+10		-50			
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	0		1,080		0	
AF.42 loans	0		0			0
AF.63 standardised guarantees		0	0			
Closing balance sheet						
AF.2 cash	40		0		1000	
AF.42 loans			1,000			1,000
AF.63 standardised guarantees		30	30			

Year 2: discount unwinds and provision value reassessed	Guarantor		Lender		Borrower	
Non-financial account	**Resources**	**Uses**	**Resources**	**Uses**	**Resources**	**Uses**
P.1 Output						
P.2 Intermediate consumption						
D.1 Compensation of employees						
D.39 Subsidy paid to lender						
B.2 Gross operating surplus						
D.47 Property income, guarantees		**3**	**3**			
B.9 Net lending/borrowing	**-3**		**3**			
Financial account	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
F.2 cash						
F.42 loans						
F.63 standardised guarantees		**+3**	**+3**			
B.9f Net lending/borrowing	**-3**		**+3**			
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees		**-2**	**-2**			
Opening balance sheet						
AF.2 cash	**40**		**0**		**1000**	
AF.42 loans	**0**		**1,000**			**1,000**
AF.63 standardised guarantees		**30**	**30**			
Closing balance sheet						
AF.2 cash	**40**		**0**		**1000**	
AF.42 loans			**1000**			**1,000**
AF.63 standardised guarantees		**31**	**31**			

Year 3: claim paid	Guarantor		Lender		Borrower	
Non-financial account	**Resources**	**Uses**	**Resources**	**Uses**	**Resources**	**Uses**
P.1 Output						
P.2 Intermediate consumption						
D.1 Compensation of employees						
D.39 Subsidy paid to lender						
B.2 Gross operating surplus						
D.47 Property income, guarantees						
B.9 Net lending/borrowing	**0**					
Financial account	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
F.2 cash	**-35**		**+35**			
F.42 loans	**+25**		**-25**			
F.63 standardised guarantees		**-10**	**-10**			
B.9f Net lending/borrowing	**0**					
Other flows						
K.10 F.42 loans[42]	**+10**		**-10**			
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	**40**		**0**		**1000**	
AF.42 loans	**0**		**1000**			**1,000**
AF.63 standardised guarantees		**31**	**31**			
Closing balance sheet						
AF.2 cash	**5**		**35**		**1000**	
AF.42 loans	**35**		**965**			**1,000**
AF.63 standardised guarantees		**21**	**21**			

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[42] ESA95 6.51 says. …when an existing loan or trade credit is sold to another institutional unit the difference between the redemption price and the transaction price should be recorded under the revaluation account of the seller and the purchaser at the time of transaction.

Year 4: loans written off (25) after returning 10 of principal	Guarantor		Lender		Borrower	
Non-financial account	**Resources**	**Uses**	**Resources**	**Uses**	**Resources**	**Uses**
P.1 Output						
P.2 Intermediate consumption						
D.1 Compensation of employees						
D.39 Subsidy paid to lender						
B.2 Gross operating surplus						
D.47 Property income, guarantees						
B.9 Net lending/borrowing						
Financial account	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
F.2 cash	**+10**				**-10**	
F.42 loans	**-10**					**-10**
F.63 standardised guarantees						
B.9f Net lending/borrowing	**0**					
Other flows						
K.10 F.42 loans	**-25**					**-25**
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	**5**		**35**		**1000**	
AF.42 loans	**35**		**965**			**1,000**
AF.63 standardised guarantees		**21**	**21**			
Closing balance sheet						
AF.2 cash	**15**		**35**		**990**	
AF.42 loans	**0**		**965**			**965**
AF.63 standardised guarantees		**21**	**21**			

Year 5: guarantee expires	Guarantor		Lender		Borrower	
Non-financial account	Resources	Uses	Resources	Uses	Resources	Uses
P.1 Output						
P.2 Intermediate consumption						
D.1 Compensation of employees						
D.39 Subsidy paid to lender						
B.2 Gross operating surplus						
D.47 Property income, guarantees						
B.9 Net lending/borrowing						
Financial account	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
F.2 cash			+965		-965	
F.42 loans			-965			-965
F.63 standardised guarantees						
B.9f Net lending/borrowing						
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees		-21	-21			
Opening balance sheet						
AF.2 cash	15		35		990	
AF.42 loans	0		965			965
AF.63 standardised guarantees		21	21			
Closing balance sheet						
AF.2 cash[43]	15		1000		25	
AF.42 loans		0	0			0
AF.63 standardised guarantees		0	0			

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[43] Compared with year 1: Guarantor's cash rises by 15 because of a profit of 10 priced into the premium and because the actual cost (25) was 5 less than the expected loss (30) priced into the premium. The lender's cash is unchanged since the guarantee, paid by the borrower, protected it from any loss. The borrower's cash rises by 25 because it has 25 of its debt written off. Total cash falls by 40 because of the payment to the guarantors staff and suppliers

Example 2: market unit with subsidy lender pays

Assumptions
The premiums are paid by the lenders. Lender starts with 1080 of cash, and guarantor has 30.
Example 2a
As example 1, but this time the guarantor, a market body, charges premiums (60) that are less than the expected loss of guarantee calls (30) and administration costs (40). We therefore impute a subsidy of 10 from general government to guarantor, which increases the guarantor's "total premium" (actual plus imputed) by 10 such that the "total premium" is 70, to ensure a non-negative gross trading surplus for the guarantor.
The accounts of the guarantor are balanced by showing an asset in F.7 *accounts receivable* for the amount of the imputed subsidy. This asset is liquidated when there are actual cash transfers to the guarantee unit from general government to finance its losses. Only those government payments up to the value of the guarantee would be treated as financial transactions, the rest would be non-financial. The general government account would record expenditure equal to the value of the imputed subsidy and a liability in *accounts payable*.
Only the first year recording is shown. The other years would apply the same concepts as for example 1 apart from any future transaction in the account receivable.
Output is defined as P.11 (market output) = administration costs = 40
This is achieved by imputing a subsidy (D.31) from general government to the guarantor, which is treated like extra premium.

   Imputed subsidy (D.31) = expected loss + administration costs - premiums
$$= 30 + 40 - 60 = 10$$
   Thus, output can also be defined here as
$$= \text{actual premium} + \text{imputed premium} - \text{expect loss} = 60 + 10 - 30 = 40$$

Example 2b
As example 2a, but this time the premium is only 10.
P.11 (market output)   = administration costs = 40
Imputed subsidy (D.31)   = administration costs = 40
Imputed capital grant (D.9) = expected loss – premium = 30 – 10 = 20
As above, output can also be defined here as
$$= \text{actual premium} + \text{imputed premiums} - \text{expect loss} = + 10 + 30 + 20 - 30 = 40$$

Example 2a: market unit, with subsidy, lender pays 60

Year 1: guarantee is given	Guarantor		Lender		Borrower	
Non-financial account	Resources	Uses	Resources	Uses	Resources	Uses
P.11 Market Output	40					
Premium allocated to P2	30					
Premium allocated to F6	30					
Imputed premium (D.31 subsidy)	10[44]					
NPV of expected cost	30					
P.2 Intermediate consumption		18		30		
D.1 Compensation of employees		22				
B.2 Gross operating surplus	0		-30			
D.47 Property income, guarantees						
B.9 Net lending/borrowing	0		-30			
Financial account	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
F.2 cash	+20		-1,060		+1,000	
F.42 loans			+1,000			-1,000
F.63 standardised guarantees		+30	+30			
F.79 accounts receivable[45]	+10					
B.9f Net lending/borrowing	0		-30			
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	30		1,080		0	
AF.42 loans	0		0			0
AF.63 standardised guarantees		0	0			
F.79 accounts receivable						
Closing balance sheet						
AF.2 cash	50		20		1,000	
AF.42 loans			1000			1,000
AF.63 standardised guarantees		30	30			
F.79 accounts receivable	10					

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[44] General government would include expenditure of 10 for this D31 subsidy, with an impact on its net lending/borrowing. It can be thought of as extra premium when calculating the output as premium minus expected loss.

[45] Counterpart is general government

Example 2b: market unit, with subsidy, lender pays 10

Year 1: guarantee is given	Guarantor		Lender		Borrower	
Non-financial account	Resources	Uses	Resources	Uses	Resources	Uses
P.11 Market Output	40					
Premium allocated to P2	0					
Premium allocated to F6	10					
Imputed premium (D.31 subsidy)	40[46]					
Imputed premium (D.99)	30					
NPV of expected cost	30					
P.2 Intermediate consumption		18		0		
D.1 Compensation of employees		22				
B.2 Gross operating surplus	0		0			
D.47 Property income, guarantees						
D.99 Capital transfer[47]			20			
B.9 Net lending/borrowing	0		20			
Financial account	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
F.2 cash	-30		-1,010		+1,000	
F.42 loans			+1,000			-1,000
F.63 standardised guarantees		+30	+30			
F.79 accounts receivable[48]	+60					
B.9f Net lending/borrowing	0		20			
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	30		1,080		0	
AF.42 loans	0		0			0
AF.63 standardised guarantees		0	0			
F.79 accounts receivable						
Closing balance sheet						
AF.2 cash	0		70		1,000	
AF.42 loans			1000			1,000
AF.63 standardised guarantees		30	30			
F.79 accounts receivable	60					

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[46]   General government would include expenditure of 40 for this subsidy, and 20 for the capital transfer. The two "imputed premiums" can be thought of as extra premium when calculating the output as premium minus expected loss.

[47]   From by general government.

[48]   Counter-part is general government. 40 in respect of the subsidy and 20 in respect of the capital grant.

Example 3: non-market unit, lender pays

Assumptions
As example 1, but this time the guarantor is a non-market unit and so classified to general government. The output is defined as the sum of the production costs (P2, D1, D29-D39, K1) as for any non-market unit.

Example 3a: lender pays a premium of 10.

In this case premiums < expected loss

   P.1 (output) = administration costs = 40

A capital grant is imputed from general government to the lender to pay for the F.63 financial asset (the part not covered by the premium).

   Imputed capital grant (D.9) = expected loss – premium = 30-10 = 20

Example 3b: lender pays a premium of 60.

In this case premiums < expected loss + administration costs, and

   premiums >= expected loss

   P.1 (output) = administration costs = 40

   P.131 (partial payment for other non-market output) = premium paid – expected loss

$$= 60 – 30 = 30$$

   P.132 (other non-market output) = output P.1 - P.131 = 40 – 30 = 10

Example 3a, non-market unit, lender pays premium of 10.

Year 1: guarantee is given	Government unit giving guarantees		Lender		Borrower	
Non-financial account	**Resources**	**Uses**	**Resources**	**Uses**	**Resources**	**Uses**
P.1 Output	40					
P 131, premium allocated to P.2	0					
premium allocated to F.63	10					
P132 other non-market output	40					
P.2 Intermediate consumption		18				
D.1 Compensation of employees		22				
B.2 Gross operating surplus	0					
D.47 Property income, guarantees						
D.99 capital transfer		20	20			
P.3 final consumption		40				
B.9 Net lending/borrowing	-60		20			
Financial account	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
F.2 cash	-30		-1,010		1,000	
F.42 loans			+1,000			+1,000
F.63 standardised guarantees		+30	+30			
B.9f Net lending/borrowing	-60		+20			
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	30		1,080		0	
AF.42 loans	0		0			0
AF.63 standardised guarantees		0	0			
F.79 accounts receivable						
Closing balance sheet						
AF.2 cash	0		70		1,000	
AF.42 loans			1,000			1,000
AF.63 standardised guarantees		30	30			
F.79 accounts receivable						

Example 3b: non-market unit, lender pays premium of 60.

Year 1: guarantee is given	Government unit giving guarantees		Lender		Borrower	
Non-financial account	Resources	Uses	Resources	Uses	Resources	Uses
P.1 Output	40					
P 131, Premium allocated to P.2	30					
premium allocated to F.63	30					
P132 other non-market output	10					
P.2 Intermediate consumption		18		30		
D.1 Compensation of employees		22				
B.2 Gross operating surplus	0					
D.47 Property income, guarantees						
P.3 final consumption		10				
B.9 Net lending/borrowing	-10		-30			
Financial account	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
F.2 cash	+20		-1060		1,000	
F.42 loans			+1000			+1,000
F.63 standardised guarantees		+30	+30			
B.9f Net lending/borrowing	-10		-30			
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	30		1,080		0	
AF.42 loans	0		0			
AF.63 standardised guarantees		0	0			0
F.79 accounts receivable						
Closing balance sheet						
AF.2 cash	50		20		1,000	
AF.42 loans			1000			1,000
AF.63 standardised guarantees		30	30			
F.79 accounts receivable						

Example 4: market unit with subsidy, borrower pays

Assumptions
As examples 1 and 2, but this time the premium is paid by the borrower.
Example 4a: borrower pays 60
The component of the borrower's payment that relates to the acquisition of the financial asset (30) is routed through the lender, using an imputed capital transfer D.99, which the lender uses to buy the asset, so that the asset is on the balance sheet of the lender not the borrower.
The borrower's account shows intermediate consumption of 30 (rather than the lender's account as in example 2a).
Example 4b: borrower pays 10
The component of the borrower's payment that relates to the acquisition of the financial asset (10) is routed through the lender, using an imputed capital transfer D.99. The government account records a capital transfer of 20 to the lender, which, together with the capital transfer form the borrower, the lender uses to buy the asset, so that the asset is on the balance sheet of the lender not the borrower.
The government accounts shows a subsidy to the guarantor of 40.

Example 4a: market unit, with subsidy, borrower pays 60

Year 1: guarantee is given	Guarantor		Lender		Borrower	
Non-financial account	**Resources**	**Uses**	**Resources**	**Uses**	**Resources**	**Uses**
P.11 Market Output	**40**					
Premium allocated to P.2	**30**					
Premium allocated to F.63	**30**					
Imputed premium (D.31 subsidy)	**10**[49]					
Imputed premium (D.99)	**0**					
NPV of expected cost	**30**					
P.2 Intermediate consumption		**18**				**30**
D.1 Compensation of employees		**22**				
B.2 Gross operating surplus	**0**				**-30**	
D.47 Property income, guarantees						
D.99 Capital transfers			**30**			**30**
B.9 Net lending/borrowing	**0**		**+30**		**-60**	
Financial account	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
F.2 cash	**+20**		**-1,000**		**+940**	
F.42 loans			**+1,000**			**-1,000**
F.63 standardised guarantees		**+30**	**+30**			
F.79 accounts receivable[50]	**+10**					
B.9f Net lending/borrowing	**0**		**+30**		**-60**	
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	**30**		**1,080**		**0**	
AF.42 loans	**0**		**0**			**0**
AF.63 standardised guarantees		**0**	**0**			
F.79 accounts receivable						
Closing balance sheet						
AF.2 cash	**50**		**80**		**940**	
AF.42 loans			**1,000**			**1,000**
AF.63 standardised guarantees		**30**	**30**			
F.79 accounts receivable	**10**					

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[49] General Government would include expenditure of 10 for this subsidy, with an impact on its net lending/borrowing.
[50] Counter-part General Government; the amount relates to the subsidy

Example 4b: market unit, with subsidy, borrower pays 10

Year 1: guarantee is given	Guarantor		Lender		Borrower	
Non-financial account	Resources	Uses	Resources	Uses	Resources	Uses
P.11 Market Output	40					
Premium allocated to P.2	0					
Premium allocated to F.63	10					
Imputed premium (D.31 subsidy)	40[51]					
Imputed premium (D.99)	30					
NPV of expected cost	30					
P.2 Intermediate consumption		18				
D.1 Compensation of employees		22				
B.2 Gross operating surplus	0		0		0	
D.99 Capital transfer[52]			30			10
B.9 Net lending/borrowing	0		30		-10	
Financial account	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
F.2 cash	-30		-1,000		+990	
F.42 loans			+1,000			-1,000
F.63 standardised guarantees		+30	+30			
F.79 accounts receivable[53]	+60					
B.9f Net lending/borrowing	0		30		-10	
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	30		1,080		0	
AF.42 loans	0		0			0
AF.63 standardised guarantees		0	0			
F.79 accounts receivable						
Closing balance sheet						
AF.2 cash	0		80		990	
AF.42 loans			1000			1,000
AF.63 standardised guarantees		30	30			
F.79 accounts receivable	60					

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[51] General Government would include expenditure of 40 for this subsidy, with an impact on its net lending/borrowing.
[52] 20 from by General Government, 10 from borrower
[53] Counter-part is General Government. 40 in respect of the subsidy and 20 in respect of the capital grant.

Example 5: non-market unit, borrower pays

Assumptions
As example 3, but this time the borrower pays the premium
Example 5a: borrower pays 10
The component of the borrower's payment that relates to the acquisition of the financial asset (10) is routed through the lender, through a capital transfer D.99. The government account records a capital grant of 20, which the lender uses to buy the asset, so that the asset is on the balance sheet of the lender not the borrower.
The government accounts shows a subsidy to the guarantor of 40.
Example 5b: borrower pays 60
The component of the borrower's payment that relates to the acquisition of the financial asset (30) is routed through the lender, through a capital transfer D.99, which the lender uses to buy the asset, so that the asset is on the balance sheet of the lender not the borrower.
The borrower's account shows intermediate consumption of 30 (rather than the lender's account as in example 2a).

Example 5a, non-market unit, borrower pays premium of 10.

Year 1: guarantee is given	Government unit giving guarantees		Lender		Borrower	
Non-financial account	Resources	Uses	Resources	Uses	Resources	Uses
P.1 Output	40					
P 131, premium allocated to P.2	0					
premium allocated to F.63	10					
P132 other non-market output	40					
P.2 Intermediate consumption		18				
D.1 Compensation of employees		22				
B.2 Gross operating surplus	0					
D.47 Property income, guarantees						
D.99 capital transfer		20	30			10
P.3 final consumption		40				
B.9 Net lending/borrowing	-60		30		-10	
Financial account	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
F.2 cash	-30		-1,000		990	
F.42 loans			+1,000			+1,000
F.63 standardised guarantees		+30	+30			
B.9f Net lending/borrowing	-60		+30		-10	
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	30		1,080		0	
AF.42 loans	0		0			0
AF.63 standardised guarantees		0	0			
F.79 accounts receivable						
Closing balance sheet						
AF.2 cash	0		80		990	
AF.42 loans			1,000			1,000
AF.63 standardised guarantees		30	30			
F.79 accounts receivable						

Example 5b: non-market unit, borrower pays premium of 60.

Year 1: guarantee is given	Government unit giving guarantees		Lender		Borrower	
Non-financial account	**Resources**	**Uses**	**Resources**	**Uses**	**Resources**	**Uses**
P.1 Output	40					
P 131, premium allocated to P.2	30					
premium allocated to F.63	30					
P132 other non-market output	10					
P.2 Intermediate consumption		18				30
D.1 Compensation of employees		22				
B.2 Gross operating surplus	0					
D.47 Property income, guarantees						
P.3 Final consumption		10				
D.9 Capital transfer			30		30	
B.9 Net lending/borrowing	-10		-30		-60	
Financial account	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
F.2 cash	+20		-1000		940	
F.42 loans			+1000			+1,000
F.63 standardised guarantees		+30	+30			
B.9f Net lending/borrowing	-10		-30			
Other flows						
K.10 F.42 loans						
K.10 F.63 standardised guarantees						
Opening balance sheet						
AF.2 cash	30		1,080		0	
AF.42 loans	0		0			0
AF.63 standardised guarantees		0	0			
F.79 accounts receivable						
Closing balance sheet						
AF.2 cash	50		80		940	
AF.42 loans			1,000			1,000
AF.63 standardised guarantees		30	30			
F.79 accounts receivable						

One-off guarantees

Flows arising from activation

1. *Debtor continues to exist and a claim established on the debtor by the guarantor*

Creditor

	Financial	Account	
Assets		*Liabilities*	
Loans	+100 (on guarantor)		
	-100 (on debtor)		

Guarantor

	Financial	Account	
Assets		*Liabilities*	
Loans*	+100 (on	Loans	100 (to creditor)
debtor)			

Debtor

	Financial	Account	
Assets		*Liabilities*	
Loans		Loans	-100 (to creditor)
			+100 (to guarantor)*

* Claim of guarantor could also be in the form of equity.

2. ***Debtor continues to exist and no claim established on the debtor by the guarantor***

Creditor

		Financial	Account	
Assets			*Liabilities*	
Loans	+100 (on guarantor)		Loans	
	-100 (on debtor)			

Guarantor

Capital Transfer	100 (to debtor)			
		Financial	Account	
Assets			*Liabilities*	
Loans			Loans	100 (to creditor)

Debtor

		Financial	Capital Transfer	100 (from guarantor)
Assets			Account	
Loans			*Liabilities*	
			Loans	-100 (to creditor)

3. *Debtor does not exist*

Creditor

		Capital Transfer	100 (from guarantor)
	Financial	Account	
Assets		*Liabilities*	
Loans	+100 (on guarantor)	Loans	
(OCVA)	-100 (on debtor)		

Guarantor

Capital Transfer	100 (to creditor)		
	Financial	Account	
Assets		*Liabilities*	
Loans		Loans	100 (to creditor)

Debtor

	Loans	
	(OCVA)	-100