

Granting of guarantees in an updated SNA¹

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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 tradable or offsettable guarantees 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 guarantees should be modified for three reasons: the memorandum item is not reported; the need to delineate across economic events that lead to guarantees; and the convergence with accounting standards that quantify the underlying liability, notably in the public sector,

This note proposes eight recommendations, which are submitted to the Advisory Expert Group (AEG) for decision.

Guarantees are typically 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

¹ Issue 37 of the list of items to be reviewed when updating *1993 SNA*.

² Note prepared on behalf of the Task Force on the Harmonisation of Public Sector Accounting (TF HPSA) by Reimund Mink, Rapporteur of the Team D of the TF HPSA, in charge of this topic, Jeff Golland and Pierre Sola.

would be the case without the guarantee.³ 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 subsidise economic activities without a need for an immediate cash outlay and at a potentially low cost. However, in the *1993 SNA*⁴, only tradable or offsettable guarantees are recorded in the core accounts

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.⁵ Contingencies are not seen as financial assets, 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 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.⁶ In a footnote, the 1995 ESA mentions that *insurance technical reserves (AF.6) are unconditional liabilities of insurance corporations and pension funds, while the counterpart financial assets of individual policy holders and beneficiaries are contingent assets in most cases [ESA 5.05].*

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*

³ 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.

⁴ References to and citations from international statistical standards are shown in *italics*.

⁵ 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*].

*general government unit would record a transfer to the defaulter and an incurrence of a liability to the creditor.*⁷

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.

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

⁶ See also paragraph 7.149 of the *GFSM 2001*.

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.⁸

Accordingly, maintaining the status quo in the treatment of guarantees in the *1993 SNA* is criticised. There is no doubt among users that the new *SNA* should record or inform 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

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 *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.

The following distinction should be made between (i) guarantees tradable or offsettable on the market; (ii) standardised guarantees; and (iii) one-off guarantees.

Table 1: Proposed treatment of guarantees in the updated SNA

	Standardised guarantees (large number of guarantees of a similar type)	One-off guarantees
Tradable or offsettable guarantees	Financial derivatives (e.g. credit default swaps)	
Non-tradable guarantees	Insurance technical reserves/provisions	Memo or supplementary accounts

Accordingly, guarantees tradable or offsettable on the market are treated as financial derivatives. Standardised guarantees as, for instance, granted to secure export credits or student loans should be recorded as part of insurance technical reserves (AF.6), the name of which could possibly be amended⁹. Furthermore, information should be provided to users about one-off guarantees. In line with the approach taken regarding non-performing loans, this could be done by including a memo item or by

⁷ Of course, this liability would subsequently disappear when the payment is made by the guarantor.

⁸ 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.

setting up a system of supplementary accounts. The re-routing treatment may also be considered of guaranteed loans through government for guarantees given to certain well-defined financially distressed corporations. 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 core accounts.

Recommendation 1

The proposed treatment of guarantees should distinguish between (i) guarantees tradable or offsettable on the market; (ii) standardised guarantees; and (iii) one-off guarantees.

3.1 Guarantees tradable or offsettable on the market

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 issuer takes 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 other instruments than credit derivatives would meet the conditions for this treatment.

Both the regular payments and any claims paid would be recorded as financial transactions in financial derivatives (AF.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.

Recommendation 2

Guarantees tradable or offsettable on the market should be treated as financial derivatives.

3.2 Standardised guarantees

In a number of cases, some specialised agencies (e.g. export credit insurance agencies) grant many guarantees of similar characteristics on a regular basis.¹⁰ The essential feature of such “standardised”

⁹ 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.”

¹⁰ 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

guarantees is that they involve a pooling of risks. More specifically, (i) given their large number, it is very likely that some of them will be called, and (ii) accordingly, it is possible to make a good estimate of the average loss by considering statistics on claims.¹¹ The types of loans for which institutional units give guarantees include export credits, student loans, or loans to small businesses. They are economically significant.

It is proposed to record a liability in the accounts of the unit giving such guarantees, equal to the net present value of the expected payments under the guarantee, net of any recoveries from the defaulting borrowers. Given the similarity of such cases with insurance contracts (both relying of the spreading of risks over a large number of independent contracts), they are treated as insurance technical reserves.¹² To deal with such standardised guarantees, ideally a new financial instrument sub-category would have to be introduced, AF.63 “standardised guarantees”, allowing to provide separately identified data. The measurement of output for standardised guarantees would be similar to that of insurance corporations based on the difference between premia received and the occurrence of the insured events, i.e. defaults on claims, measured on the basis of the net present value of expected losses under the guarantees granted.

When a guarantee is given, a transaction in AF.63 liabilities (of the unit giving this guarantee) would be recorded equal to the net present value of the expected losses. 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. Given that the lender is the beneficiary of the guarantee, it is deemed that the guarantee should be its asset. It is recognised that this implies an overstatement of its assets and net worth. 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 information about the provision to be applied in the books of the loan provider should be available as a memo item or in a set of supplementary accounts to allow analysts to assess this “overstatement” on the assets’ side.

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 be made.¹³ So for each individual guarantee an amount is recorded that would be a percentage of the

cover their costs from income but be funded, partially or fully, by government appropriations. These units would be classified to general government.

¹¹ In some cases, credit agency ratings are also used to judge the risk of default.

¹² 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.

¹³ 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].

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.¹⁴

The size of the liability in the balance sheet, in respect of a guarantee already given, could subsequently change for different reasons, like the expiring of time of the guarantee, the unwinding of the discount or the reassessment of the risk of the guarantee being called. Annex 1 provides a detailed example of the envisaged recording for a market producer whose premiums are more than the total expected costs. The envisaged recording is mostly the same in other cases (different levels of premiums) but with some differences in the first year when the guarantee is given. Further details are in a supplementary note.¹⁵

If a premium is paid for a guarantee, the amount paid should be part of the calculation of the output of the unit giving the guarantee. The calculation depends on whether the unit giving the guarantee is market or non-market, and is described in the above-mentioned supplementary note. The note also explains the differences in recording depending on whether the lender or the borrower pays the premium.

If the guarantor unit sells the guarantee for a premium that does not cover the administration costs it would be necessary to impute a subsidy from government to the guarantor unit (if it is a market unit), or record some government final consumption (if it is a non-market unit). If the premium is lower than the value of the AF.63 financial asset it is necessary to show a capital transfer from government to the lender for the difference, representing the gift-in-kind from government to the lender.

The question arises of which unit is subsidised when government gives such a guarantee for no premium or for a premium below cost. There are good arguments to say that the guarantor unit is subsidised if the premium does not cover its administration costs, and there is a capital transfer to the lender when the premium does not cover the value of the AF.63 financial asset. Further details are described in the supplementary note which shows the transactions between the government unit, the lender and the borrower.

It should be noted that this proposal would impact not only the liabilities of the general government sector, but also those of financial corporations, e.g. credit institutions, which also grant standardised guarantees.

¹⁴ 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.

¹⁵ The proposed treatment is described in more detail in the note entitled "Public agencies that routinely give borrowing guarantees – Classification in national accounts in the updated SNA", by Jeff Golland. The example in Annex 1 is extracted from that note.

Recommendations 3, 4, 5 and 6

Standardised guarantees should be treated as ‘insurance technical reserves’ (AF.6)¹⁶.

Within this financial instrument AF.6, a new sub-category should be created as ‘standardised guarantees’ (F.63).

The lender should have the counterpart asset.

If the guarantor unit sells the guarantee for a premium that does not cover the expected loss and administration costs, a subsidy / capital transfer to the lender should be imputed.

3.3 One-off guarantees

One-off guarantees granted by the government to some public corporations and to large infrastructure projects (often in the context of a public-private partnership) are usually not standardised and not tradable. Four modalities for the recording of these one-off guarantees have been considered:

a) Recording a **liability in the core accounts** for the expected cost – similarly to the proposed treatment of standardised guarantees. The issue is determining the expected cost of calls under the guarantee. In particular, in many cases, corporations receiving such guarantees would not have a credit rating to help this judgement. In addition, under this method the actual cost of a call under the guarantee would not hit government net lending/net borrowing since it is the initial estimate of that cost that has an impact. As initial estimates could be very different from the final amounts, this could significantly distort the net lending/net borrowing.

b) **Re-routing** the guaranteed borrowing through government showing government borrowing from the lender and on-lending to the borrower. Re-routing is seen as a tool in the current SNA¹⁷ and can be applied when it is judged that it better represents the relationships between the principal parties to a transaction. It was the procedure recommended by a Eurostat task force on guarantees and would be applied when the borrower was in severe financial distress as indicated by strict unequivocal conditions to be agreed.

c) A procedure similar to the corresponding **memorandum items** for non-performing loans could be aimed at, i.e. the new SNA could stress the need for additional information regarding general government units as guarantors. However, clarification is required in respect of the exact nature of the memorandum items (whether only stocks or also flows).

¹⁶ The name of the financial asset category AF6 might in this context be reassessed, in line in particular with the AEG decision of February 2004 that the term provisions could also be used in this respect, with “qualifications to distinguish it from the common term “provisions” used in business accounts.”

¹⁷ SNA paragraph 3.24.

d) 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.¹⁸ As mentioned above, the current SNA already recommends collecting and presenting supplementary information where contingencies are *important for policy and analysis* [SNA 11.26]. It also mentions the option of a satellite analysis and accounts by broadening the scope of financial assets and liabilities and including contingent assets and liabilities in the classification of financial instruments. This could be done by following current corporate practice and including equivalent amounts in both the assets and liabilities of each sector involved [SNA 21.34].

The treatment would be as follows: (i) A provision (government expenditure and an increase in liabilities in the balance sheet) is recorded in the supplementary account for the net present value of amounts expected to be called; (ii) Changes in expectations are recorded as changes in provisions in the balance sheet arising from equal and opposite financial and non-financial transactions (government expenditure or revenue). This would also take account of the increase in the net present value of the provisions due to the passage of time (“unwinding the discount”); (iii) Actual payments under a call on the guarantee would be recorded as redemption of the liability (borrower’s asset).

In the 1993 SNA core accounts, the activation of the guarantee would affect net lending/net borrowing of the guarantor and of the lender as a capital transfer would be recorded in the core accounts.

As in the case of provisions on non-performing loans, a key issue would be to give a sufficiently prominent status to this information to ensure that it is reported in practice.

Recommendations 7 and 8

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.

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.

4. Implications to 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

¹⁸ This approach would be to some extent similar to that of IAS 37 or IPSAS 19, where all involved assets and liabilities are shown in a coherent framework (guarantees with a probability of more than 50% to be called are shown on-balance sheet, and those with a lower probability are off-balance sheet). In some countries, such as Sweden and the USA, public accounts include all guarantees.

technical reserves has to be clarified. Finally, some clarification is 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.¹⁹ 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.

Summary of the recommendations to the AEG

1. The proposed treatment of guarantees should distinguish between (i) guarantees tradable or offsettable on the market; (ii) standardised guarantees; and (iii) one-off guarantees.
2. Guarantees tradable or offsettable on the market should be treated as financial derivatives.
3. Standardised guarantees should be treated as ‘insurance technical reserves’ (AF.6)²⁰.
4. Within this financial instrument AF.6, a new sub-category should be created as ‘standardised guarantees’ (F.63).
5. For standardized guaranteed, the lender should have the counterpart asset.
6. If the guarantor unit sells the guarantee for a premium that does not cover the expected loss and administration costs, a subsidy / capital transfer to the lender should be imputed.
7. 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.
8. For one-off guarantees, 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.

¹⁹ 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.

²⁰ The name of the financial asset category AF6 might in this context be reassessed, in line in particular with the AEG decision of February 2004 that the term provisions could also be used in this respect, with “qualifications to distinguish it from the common term “provisions” used in business accounts.”

Suggested recording of standardised guarantees

This provides a detailed example of the envisaged recording for a market body whose premiums are more than the total expected costs. The envisaged recording is mostly the same in other cases but with some differences in the first year to the measurement of output and recording of subsidies. The other cases are explained in the supplementary note. 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 (npv) of the expected loss from claims on the guarantee is 30.

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

The intermediate consumption of the lender and output of the guarantor is 50.

The acquisition of a financial asset (the npv of the expected loss) is 30.

Output of the guarantor is the premium (80) minus the npv of expected loss (30), and is recorded all in the first year (a simplification).

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 (in broad terms: 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 defaults, 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 liability.

Year 4

The assets acquired (nominal value 35) return 10 of principal and the remainder of 25 is reassessed and written-off (for example some of the borrowers might have gone bankrupt).

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: 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 received	80					
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.4 Property income						
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.4 Property income		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.4 Property income						
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 ²¹	+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			

²¹ 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 [1995 ESA 6.51].

Year 4: loans written off (25) after returning 10 of principal	Guarantor		Lender		Borrower	
	Resources	Uses	Resources	Uses	Resources	Uses
Non-financial account						
P.1 Output						
P.2 Intermediate consumption						
D.1 Compensation of employees						
D.39 Subsidy paid to lender						
B.2 Gross operating surplus						
D.4 Property income						
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.4 Property income						
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 ²²	15		1000		25	
AF.42 loans		0	0			0
AF.63 standardised guarantees		0	0			

²² Compared with year 1: Guarantor's cash rises by 15 because of a profit of 10 priced into the premium and because the expected cost (25) was 5 less than the expectation (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