Granting and activation of guarantees in an updated SNA

Summary conclusion

General

Recommendations/questions

(a) The proposed treatment of guarantees should distinguish between

guarantees [covered by] financial derivatives;

standardised guarantees; and

one-off guarantees.

(b) 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.

Outcome

(a) The AEG agreed.

(b) The AEG agreed.

Standardized guarantees

Recommendations/questions

(c) 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. 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

Standardized guarantees

Outcome

(c) The AEG agreed and clarified that standardised guarantees should be treated in the same way as insurance; in respect of output, property income and the recording of premiums and claims.

(d) A new sub-category of insurance technical reserves should be created and identified as “standardised guarantees”.

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

(e) The AEG specified a number of aspects under this question flowing from the decision to treat standardised guarantees as insurance:

The assets of those benefiting from the guarantees are those matching the liability and not the itemised assets of the guarantor.

The consumption item is attributed to the unit taking out the guarantee, the creditor or debtor as appropriate.

If the guarantee is taken out by the debtor, all transactions with the guarantor are recorded as being with the debtor up until the call is paid to the creditor.

Because of the change in direction of the AEG's recommendation, recommendations (f) to (j) were not discussed. A new reworking of the tables will be prepared and checked for any remaining questions for discussion.

One-off guarantees

Recommendations/questions

(k) 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.

(l) 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.

(m) 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.

(n) 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.

Outcome

(k) The AEG preferred the memorandum item approach rather than having a set of supplementary accounts. Valuation should be at nominal value and on an expected net present value, if possible.

(l) The AEG agreed.

(m) The AEG agreed, with the qualification that the guarantor always makes a capital transfer or has a financial claim. It should be treated as a capital transfer unless there is a genuine financial claim.

(n) The AEG agreed.