

Chapter 12: Financial account

(OLD Chapter 11: The financial account)

A. Introduction

- 12.1 The financial account is the final account in the full sequence of economic accounts that records transactions between institutional units. Net saving is the balancing item of the use of income accounts, and net saving plus net capital transfers receivable or payable can be used to accumulate non-financial assets. If they are not exhausted in this way, the resulting surplus is called net lending. Alternatively, if net saving and capital transfers are not sufficient to cover the net accumulation of non-financial assets, the resulting deficit is called net borrowing. This surplus or deficit, net lending or net borrowing, is the balancing item that is carried forward from the capital account into the financial account. The financial account does not have a balancing item that is carried forward to another account, as has been the case with all the accounts discussed in previous chapters. It simply explains how net lending or net borrowing is effected by means of changes in holdings of financial assets and liabilities. The sum of these changes is conceptually equal in magnitude, but on the opposite side of the account, to the balancing item of the capital account.
- 12.2 The financial account records transactions that involve financial assets and liabilities and that take place between resident institutional units and between resident institutional units and the rest of the world. The left-hand side of the account (table 12.1) records acquisitions less disposals of financial assets ~~less disposals~~, while the right-hand side records incurrence less repayments of liabilities ~~less their repayment~~.

1. Financial assets and liabilities

- 12.3 As described in chapter 34, an asset is defined as follows. *An asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of carrying forward value from one accounting period to another.*
- 12.4 Benefits are exchanged by means of payments. From this a financial claim, and hence a liability, can be defined. There are no non-financial liabilities recognized in the SNA, thus the term liability necessarily refers to a liability that is financial in nature.
- 12.5 *A liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide a payment or series of payments to another unit (the creditor). This includes shares and other equity in corporations.* The most common circumstance in which a liability is established is a legally binding contract that specifies the terms and conditions of the payment(s) to be made and payment according to the contract is unconditional.
- 12.6 In addition, a liability may be established not by contract but by long and well-recognized custom that is not easily refuted. Some payments by government to individuals fall under this category. In these cases, the creditor ~~has~~ may have a valid expectation of payment, despite the lack of a legally binding contract. Such liabilities, ~~are called~~ usually referred to as constructive liabilities, ~~are not recognised in the sequence of economic accounts.~~
- 12.7 Whenever ~~a either of these types of~~ liability exists, there is a corresponding financial claim that the creditor has against the debtor. *A financial claim is the payment or series of payments due to the creditor by the debtor under the terms of a liability.* Like the liabilities, the claims are unconditional. In addition, a financial claim may exist that entitles the creditor to demand payment from the debtor but whereas the payment by the debtor is unconditional if demanded, the demand itself is discretionary on the part of the creditor.
- 12.8 *Financial assets consist of financial claims and gold bullion held by monetary authorities as a reserve asset. Financial claims represent all financial instruments that give rise to an economic asset that has a counterpart liability, including shares and other equity in corporations.* ~~all financial claims, shares or other equity in corporations plus gold bullion held by monetary authorities as a reserve asset.~~ Gold bullion held by monetary authorities as a reserve asset is thus treated as a financial asset even though the holders do not have a claim on other designated units. ~~Shares are treated as financial assets even though the financial claim~~

~~their holders have on the corporation is not a fixed or predetermined monetary amount.~~

2. Quadruple-entry accounting

- 12.9 The accounting rules of the SNA, explained in chapter 34, describe how the quadruple principle of accounting is implemented. When a good, service, asset or liability is sold by one institutional unit to another, two pairs of entries are recorded. The first pair records the supply of the item by one unit and the acquisition by the other. The second pair of entries records the second party supplying the means of payment for the item, and the first party receiving this. Similar quadruple entries are required in respect of transactions involving property income and transfers. The second pair of entries usually appears in the financial account though in a few cases of transfers in kind, the second pair of entries may appear as negative and positive final consumption expenditure or disposal and acquisition of a non-financial asset. The latter also holds for cases where the counterpart entry consists of crypto assets without a corresponding liability designed to act as a general medium of exchange, and those designed to act as a medium of exchange within a platform only, which are treated as non-produced non-financial assets. In all cases of transactions involving financial instruments, except those relating to an exchange of financial instruments, ~~the acquisition of a financial asset or settlement of a liability~~ the first pair of entries appears in one or more of the non-financial accounts. In the case of the exchange of a financial instrument, all four entries appear in the financial account.
- 12.10 There are thus two reasons for entries in the financial account. The first reason is as counterpart to entries in other accounts; the second is to record transactions involving the exchange of financial assets and liabilities only, so both the original and the counterpart entries are recorded in the financial account.

3. Counterparts of non-financial transactions

- 12.11 Transactions involving the transfer of ownership of a good or non-financial asset, or the provision of a service or labour almost always entail a counterpart entry in the financial account for means of payment or claims on future means of payment. Even many transactions in kind, such as barter sales and remuneration in kind, conceptually lead to entries in the financial account. If unit A provides a product of value x to unit B, expecting another product of the same value in return, A has a financial claim of x on B. This financial claim is settled and thus no longer needs to be recorded when B fulfils delivery of the product promised. Entries in the financial account are needed when all elements of the in-kind transaction are not completed simultaneously.
- 12.12 The sale of a good, service, or asset may have as its counterpart a change in currency or transferable deposit. Alternatively, the counterpart may be reflected in the financial account in a trade credit or other category of accounts receivable or payable.

4. Exchanges of financial assets and liabilities

- 12.13 Whenever one financial asset is exchanged for another or when a liability is repaid with a financial asset, transactions are recorded only in the financial account. These transactions change the distribution of the portfolio of financial assets and liabilities and may change the totals of both financial assets and liabilities, but they do not change the difference between total financial assets and liabilities. For example, trade credits are extinguished by payments. The claim represented by the trade credit no longer exists when the debtor provides means of payment to the creditor. The resulting four entries in the financial account are:
- the creditor reduces its holdings of trade credits and increases its means of payment (currency or transferable deposits); and
 - the debtor reduces its liabilities (in the form of trade credits) and reduces its financial assets (in the form of means of payment).
- 12.14 When existing financial assets are exchanged for other financial assets, all entries take place in the financial

account and only affect assets. For example, if a debt security such as an existing bond is sold by one institutional unit to another on the secondary market, the seller reduces his holdings of securities and increases his holdings of means of payment by an equal amount. The purchaser increases his holdings of securities and decreases his holdings of means of payment.

- 12.15 When a new financial asset is created through the incurrence of a liability by an institutional unit, all related entries are also made in the financial account. For example, a corporation may issue short-term securities in exchange for means of payment. The financial account of the corporate sector accordingly shows an increase in liabilities in the form of securities and an increase in financial assets in the form of means of payment; the financial account of the purchasing sector shows a reduction in assets in the form of means of payment and an increase in assets in the form of securities.

5. Net lending

- 12.16 Some sectors or subsectors are net lenders while others are net borrowers. When institutional units engage in financial transactions with each other, the surplus resources of one sector can be made available by the units concerned for use by other sectors. The financial account indicates how deficit, or net borrowing, sectors obtain the necessary financial resources by incurring liabilities or reducing assets and how the net lending sectors allocate their surpluses by acquiring financial assets or reducing liabilities. The account also shows the relative contributions of various categories of financial assets to these transactions.

Table 12.1: The financial account - concise form - changes in assets

Table 12.1 (cont): The financial account - concise form - changes in liabilities and net worth

- 12.17 The evolution of net lending can be seen clearly in table 12.1. Non-financial corporations are shown to have a net borrowing requirement of 5672. This requirement is financed by incurring liabilities of 139435 and acquiring financial assets of 6383; the difference between the two equals net borrowing. Similarly, the household sector, which has a net lending balance of 206174, achieves this result by acquiring financial assets of 220189 and incurring liabilities of 1415.
- 12.18 Although much borrowing and lending is routed through financial intermediaries, some borrowers can transact directly with non-financial lenders. For example, governments can issue securities in the market; these securities can be purchased by households, non-financial corporations and the rest of the world as well as by financial institutions. In many other cases, financial intermediaries have as their special function the creation of a financial market that links lenders and borrowers indirectly. The financial institution incurs liabilities to net lenders through taking deposits or issuing securities and providing the financial resources thus mobilized to borrowers, for example in the form of loans, holding of debt securities and holdings of equity securities. Thus, their transactions in financial assets and liabilities will be comparatively large relative to other sectors and to the size of their own net lending or borrowing. In table 12.1, the financial corporations sector has a net borrowing of 151, which is financed by net incurrence of liabilities of 182173 and net acquisition of financial assets of 167172.
- 12.19 An examination of the financial transactions of the subsectors of the financial corporations sector, in addition to those of the consolidated financial sector, is often useful.
- 12.20 It is important to note that, for each institutional sector, the financial account indicates the types of financial instruments utilized by that sector to incur liabilities and acquire financial assets. The financial account does not, however, indicate to which sectors the liabilities are incurred and on which sectors the assets indicate financial claims. A more detailed and complex analysis of financial flows between sectors is discussed in chapter 2737. The analysis there illustrates debtor or creditor relationships by type of financial asset.
- 12.21 In the hypothetical case of a closed economy in which resident institutional units do not engage in transactions with non-residents, the total net lending and total net borrowing of the various sectors would have to be equal since the net borrowing requirements of deficit sectors would be met by net lending of surplus sectors. For the economy as a whole, net lending or borrowing would have to be zero. This equality reflects the symmetric

nature of financial assets and liabilities. When residents engage in transactions with non-residents, the sum of the net lending and net borrowing of each of the sectors making up the total economy must equal the economy's net lending to, or borrowing from, the rest of the world. In table 44.1 the total economy has acquired financial assets of 436 and incurred liabilities of 426. Net lending for the total economy to the rest of the world is therefore 10.

6. Contingent assets and liabilities

- 12.22 Many types of contractual financial arrangements between institutional units do not give rise to unconditional requirements either to make payments or to provide other objects of value; often the arrangements themselves do not have transferable economic value. These arrangements, which are often referred to as contingent assets and liabilities, are not actual current financial assets and are not recorded in the SNA. The principal characteristic of contingent assets and liabilities is that one or more conditions must be fulfilled before a financial transaction takes place. One-off guarantees of payment by third parties, whether implicit or explicit, are contingent assets and liabilities since payment is only required if the principal debtor defaults. Until the default is evident, the value of the one-off guarantee ~~should~~ may be shown as a ~~memorandum~~ supplementary item. Loan commitments provide a guarantee that funds will be made available but no financial asset exists until funds are actually advanced. Letters of credit constitute promises to make a payment conditional upon the presentation of certain documents specified by contract. Underwritten note issuance facilities (NIFs) provide a guarantee that a potential debtor will be able to sell short-term securities (notes) that he 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. The facility itself is contingent, and the creation of the facility does not give rise to ~~an~~ entry in the financial account. Only if the underwriting institution is requested to make funds available will it acquire an actual asset, which is recorded in the financial account.
- 12.23 ~~Certain financial derivatives are not treated as contingent financial assets but as actual assets. These are described in section C below.~~ Standardized guarantees are ~~also~~ treated as giving rise to actual and not contingent liabilities. A standardized guarantee is one where many guarantees of similar characteristics are issued. Even though the probability of any one guarantee being called is uncertain, the fact that there are many similar guarantees means that a reliable estimate of the number of calls under the guarantee can be made. Liabilities of this sort where the size of the liability may be determined probabilistically are often described as provisions. The term liability is used when the fact that payment will be required and the amount of the payment or the way in which the amount will be calculated are agreed. The term provision is used when the fact that a payment will be required is regarded as certain but there is no agreement on how the amount payable will be determined. A contingent liability is one where the size of payment may or may not be known with certainty but there is uncertainty about whether there will be a payment required or not.
- 12.24 For the purposes of the SNA, the treatment of contingent assets and liabilities is simple. Any payments of fees related to the establishment of contingent arrangements are treated as payments for services. Transactions are recorded in the financial account only when an actual financial asset is created or changes ownership. However, by conferring certain rights or obligations that may affect future decisions, contingent arrangements obviously produce an economic impact on the parties involved. Collectively, such contingent assets and liabilities may be important for financial programming, policy, and analysis. Therefore, where contingent positions are important for policy and analysis, it is ~~recommended~~ encouraged that information be collected and presented as supplementary data. Even though no payments may eventually be due for contingent liabilities, the existence of a high level of them may indicate an undesirable level of risk on the part of those units offering them. An example is an overdraft facility on a bank account, which is contingent until exercised.
- 12.25 Country practices may vary in determining which instruments are considered contingent and which are considered actual assets to be recorded in the balance sheet. Flexibility in the application of this recommendation is required to take national practices and variations in the nature of these instruments into account. An example, which is quantitatively important in trade financing, is the bankers' acceptance. A banker's acceptance involves the acceptance by financial institutions of drafts or bills of exchange and the unconditional promise to pay a specific amount at a specified date. The banker's acceptance represents an unconditional claim on the part of the holder and an unconditional liability on the part of the accepting bank; the bank's counterpart asset is a claim on its customer. For this reason, the banker's acceptance is treated as

an actual financial asset in the SNA even though no funds may have been exchanged.

- 12.26 There are other circumstances where future payments are not treated as assets, even though both the size of the payment and the fact that it will be paid are known with a high degree of certainty. One example is that although a bank loan may be granted to an individual using the fact that he is in permanent employment with a regular wage as security, the promise of future earnings is not recognized as a financial asset; nor are future receipts from sales for an enterprise nor a stream of future tax revenue for government.

B. Transactions in financial assets and liabilities

1. The classification of financial assets and liabilities

- 12.27 Because of the symmetry of financial claims and liabilities, the same classification can be used to portray both assets and liabilities. Further, the same classification is used in all accumulation accounts for financial transactions. Within the SNA, the term “instrument” may be used to relate to the asset or liability aspect of an item on the financial balance sheet. In monetary statistics, some off-balance sheet items may also be described as instruments. The use of the same term in the SNA is for convenience only and does not imply an extension of the coverage of assets and liabilities to include these off-balance-sheet items.
- 12.28 ~~One~~~~Two~~ classes of financial assets that cannot properly be equated with identified claims over other designated institutional units ~~are included in the classification of financial instruments. The first class~~ is gold bullion owned by monetary authorities and others subject to the monetary authorities’ effective control and held as a financial asset ~~and~~ as a component of foreign reserves. There is no matching liability for gold bullion. ~~The second class is shares, other corporate equity securities and financial participations. These do not have fixed redemption values, as is the case for many other financial assets, but represent claims by the shareholders on the net worth of the corporation.~~
- 12.29 Table ~~11~~12.2 shows an elaboration of table ~~11~~12.1 incorporating the classification of financial instruments. The exact coverage and the definition of each of the items are described in section C along with an explanation of the types of transactions appearing in the financial account that apply to each instrument. ~~(For a discussion of financial instruments in the context of Islamic finance, reference is made to chapter 26.)~~ The remainder of this section deals with general matters of classification and the application of the accounting rules of the SNA as they apply to transactions in financial instruments.
- 12.30 The detail in which the classification is employed depends on the institutional sector to be analysed. The types of financial assets in which households transact are more limited than those for other sectors, and sources of information are generally more limited than those for other sectors. Financial corporations, on the other hand, transact in the full range of instruments, and information on their operations is often the most detailed and timely of any institutional units. Consequently, a detailed breakdown may be developed for financial corporations. Blanks, rather than zeros in table ~~11~~12.2 show where entries are conceptually impossible; zeros show that entries are possible but expected to be small.
- 12.31 The standard items in the classification of financial assets and liabilities provide a useful basis for international comparison of national data. Presentation of data for individual countries, however, must be tailored to meet their analytical needs and to reflect national practices. Thus the particular form of presentation chosen may reflect differing institutional arrangements, the extent and nature of national financial markets, the complexity of financial assets available, and the degree of regulation and other financial control exercised. For this reason, a number of supplementary items are suggested for use in addition to the standard components of the SNA. These are described together with the standard items in section C.
- 12.32 The classification of financial transactions has become more difficult because of financial innovation that has led to the development and increased use of new and often complex financial assets and other financial instruments to meet the needs of investors with respect to maturity, yield, avoidance of risk, and other factors. The identification issue is further complicated by variations in characteristics of financial instruments across countries and variations in national practices on accounting and classification of instruments. These factors tend to limit the scope for firm recommendations with respect to the treatment of certain transactions within the SNA. Thus, a substantial amount of flexibility, particularly with regard to further breakdowns, is required to match the classification scheme to national capabilities, resources and needs. In particular, further

breakdowns of the standard items are desirable for many countries to distinguish important types of assets within categories (such as short-term securities included in measures of money).

2. Negotiability

- 12.33 Financial claims can be distinguished as to whether they are negotiable or not. A claim is negotiable if its legal ownership is readily capable of being transferred from one unit to another unit by delivery or endorsement. While any financial instrument can potentially be traded, negotiable instruments are designed to be traded on organized and other markets. Negotiability is a matter of the legal form of the instrument, and evidence of actual trading is not required. Those financial claims that are negotiable are referred to as securities. Some securities may be legally negotiable, but there is not, in fact, a liquid market where they can be readily bought or sold. Securities include shares and debt securities, ~~and~~ listed financial derivatives, such as warrants, are sometimes considered to be securities. However, the SNA treats financial derivatives as a distinct type of financial asset that is neither a debt or equity security.

3. Valuation of transactions

- 12.34 The payments required under a contract relating to financial assets and liabilities almost always represent more than one transaction in the sense used in the SNA. Payments of interest on loans and deposits, as specified by financial institutions, involve both interest as recorded in the SNA and a service fee, which is the service payment to the financial institution for intermediating depositors and loan borrowers making the loan available or safe-guarding the deposit. The buying and selling prices for foreign currency, debt securities and shares are usually different; the difference between the buying price and mid-price represents a service provided to and charged to the buyer and the difference between the mid-price and selling price a service provided to and charged to the seller. The mid-price is the mid-point of the buying and selling price at the time a transaction takes place; if the purchase and sale of a share, for instance, do not take place simultaneously, the mid-point for the sale and purchase price at the time of sale and of purchase will not necessarily be equal. For some financial instruments, for example bonds, the increase in value over time ~~is taken to~~ represents interest, not simply a price increase in the value of the asset. In some cases more than one adjustment may be needed to the apparent transaction value to identify and re-route both the service charge and interest associated with the asset.
- 12.35 It is essential that the value of the transactions in financial instruments recorded in the financial account carefully excludes these service charges and interest payments. Part 4 of eChapter 1725 describes the adjustments necessary to make these exclusions on an instrument-by-instrument basis.
- 12.36 Financial transactions with respect to proprietors' net additions to the accumulation of equity in quasi-corporations and changes in households' claims on insurance companies and pension funds raise complex issues of valuation that are referred to in the relevant item under classification of these categories below and more extensively in chapters 1724 and 25.

4. Time of recording

- 12.37 In principle, the two parties to a financial transaction should record the transaction at the same point in time. When the counterpart to an entry in the financial account is in another account, the time of recording of financial claims is to be aligned with the time of recording in the other accounts of the transactions that gave rise to the financial claim. For example, when sales of goods or services give rise to a trade credit, the entries in the financial accounts should take place when ownership of the goods is transferred or when the service is provided. Similarly, when accounts receivable or payable arise from transactions related to taxes, compensation remuneration of employees and other distributive transactions, the entries in the financial account should take place when the entries are made in the relevant non-financial account.
- 12.38 When all entries relating to a transaction pertain only to the financial account, they should be recorded when the ownership of the asset is transferred. This point in time is usually clear when the transaction involves the sale of existing financial assets. When the transaction involves the incurrence or redemption of a liability,

both parties should record the transaction when the liability is incurred or redeemed. In most cases, this will occur when cash or some other financial asset is paid by the creditor to the debtor or repaid by the debtor to the creditor.

- 12.39 In practice, the two parties to a financial transaction may perceive the transaction as being completed at different points in time. This is especially true when trade credits or other accounts payable or receivable are extinguished by final payments and there is a lag between the point in time when payments are made and received, creating a “float”. There are several stages at which creditors and debtors could record a transaction. The debtor could record the liability as being extinguished when the ~~cheque or other~~ means of payment is issued to the creditor. A ~~substantial~~certain period of time may elapse before the creditor receives the means of payment and records the payment in his accounts. ~~There may then be further time lags between presentation of a cheque to a bank, cheque clearance, and final settlement of the transaction.~~ Asymmetries in time of recording of this transaction are, therefore, likely to emerge ~~unless the debtor records his transaction on a “cheques cleared” basis, a fairly uncommon accounting procedure.~~ A financial claim exists up to the point that the payment is cleared and the creditor has control of the funds; this would be the optimal point in time for recording the transaction. ~~In some cases, the float, in practice,~~ may be ~~significant~~very large and may affect, in particular, transferable deposits, trade credits, and other accounts receivable. ~~This effect is especially pronounced in countries where the postal system and bank clearing procedures are weak.~~ When the float is significant and accounts for large discrepancies in reporting, it is necessary to develop estimates of the size of the float in order to adjust the accounts.

5. Netting and consolidation

Netting

- 12.40 As described in chapter 34, netting is a process whereby entries on alternate sides of the account for the same transaction item and same institutional unit are offset against one another. In general the preference of the SNA is to avoid netting where possible but this may not always be possible and for some particular analyses, not always desirable.
- 12.41 The degree of netting at which transactions in financial assets and liabilities should be recorded depends to a great extent on the analysis for which the data are to be used. In practice, the degree of netting will depend on how data can be reported, and reporting may vary substantially for different classes of institutional units. If detailed information on financial transactions is maintained and reported, gross presentations are possible; if transactions must be inferred from balance sheet data, a certain level of netting is inevitable. A number of degrees of netting can be identified:
- a. no netting or fully gross reporting in which purchases and sales of assets are separately recorded, as are the incurrence and repayment of liabilities;
 - b. netting within a given specific asset, such as subtracting sales of bonds from acquisition of bonds and redemption of bonds from new incurrences of liabilities in the form of bonds;
 - c. netting within a given category of assets, such as subtracting all disposals of debt securities from all acquisitions of such assets;
 - d. netting transactions in liabilities against transactions in assets in the same asset category; and
 - e. netting transactions in groups of liability categories against transactions in assets in the same groups.
- 12.42 Transactions recorded in the financial account represent net acquisition of assets and net incurrence of liabilities. However, it is clear that, when data are collected on as gross a basis as possible, they can be netted to whatever degree is necessary for a particular use; when data are collected net, they cannot be grossed up. In general, netting beyond the level described in (c) above is discouraged as it hinders the usefulness of the financial accounts for tracing how the economy mobilizes resources from institutional units with positive net lending and transmits them to net borrowers. For detailed ~~flow-of-funds~~analysis of flows from creditors to debtors, gross reporting or netting at level (b) above is desirable, particularly for analysis of securities, but netting at level (c) above still provides useful information on financial flows.

Consolidation

- 12.43 Consolidation in the financial account refers to the process of offsetting transactions in assets for a given group of institutional units against the counterpart transactions in liabilities for the same group of institutional units. Consolidation can be performed at the level of the total economy, institutional sectors, and subsectors. Different levels of consolidation are appropriate for different types of analysis. For example, consolidation of the financial accounts for the total economy emphasizes the economy's financial position with the rest of the world since all domestic financial positions are netted on consolidation: as such, it would present the opposite view of the accounts of the rest of the world. Consolidation for sectors permits the tracing of overall financial movements between sectors with positive net lending and those with net borrowing and the identification of financial intermediation. ~~Consolidation only at the subsector level for financial corporations can provide much more detail on intermediation and allow, for example, the identification of the central bank's operations with other financial intermediaries.~~ Another area where consolidation can be instructive is within the general government sector when transactions between the various levels of government are consolidated. Chapter 2230 makes a specific recommendation in this regard. Within the ~~main~~ sequence of economic accounts, however, the SNA discourages consolidation.

C. Recording of individual financial instruments

1. Monetary gold and SDRs

- 12.44 Monetary gold and Special Drawing Rights (SDRs) issued by the International Monetary Fund (IMF) are assets that are normally held only by monetary authorities.

Monetary gold

- 12.45 Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as a reserve asset. It comprises gold bullion (including gold held in allocated gold accounts) and unallocated gold accounts with non-residents that give title to claim the delivery of gold. All monetary gold is included in reserve assets or is held by international financial organizations. Only gold that is held as a financial asset ~~and~~ as a component of foreign reserves is classified as monetary gold. Therefore, except in limited institutional circumstances, gold bullion can be a financial asset only for the central bank or central government. Transactions in monetary gold consist of sales and purchases of gold among monetary authorities. Purchases (sales) of monetary gold are recorded in the financial account of the domestic monetary authority as increases (decreases) in assets, and the counterparts are recorded as decreases (increases) in assets of the rest of the world. Transactions in non-monetary gold (including non-reserve gold held by the monetary authorities and all gold held by financial institutions other than the monetary authorities) are treated as acquisitions less disposals of valuables, ~~(if the sole purpose is to provide a store of wealth,~~) and otherwise as final or intermediate consumption, change in inventories, exports or imports. Deposits, loans, and securities denominated in gold are treated as financial assets (not as gold) and are classified along with similar assets denominated in foreign currencies in the appropriate category. A discussion on the treatment of allocated and unallocated gold accounts appears under currency and deposits.
- 12.46 Monetary gold under reverse transactions, such as gold swaps, is collateralized and generally not readily available for balance of payments financing needs, because restrictions to a cash borrower's control of its gold collateral are imposed during the tenure of the swap agreement. Such collateralized amounts of monetary gold should be excluded from reserve assets and either demonetized (in the case of gold bullion) or reclassified as other investment, currency and deposits (in the case of unallocated gold accounts). (See paragraphs 6.xxx to 6.xxx of BPM7 for additional details.)

~~12.47~~

- ~~12.48~~12.47 Gold bullion in monetary gold takes the form of coins, ingots, or bars with a purity of at least 995 parts per thousand; it is usually traded on organized markets or through bilateral arrangements between central banks. Therefore, valuation of transactions is generally not a problem. Gold bullion held as a reserve

asset is the only financial asset with no corresponding liability.

SDRs

~~12.48~~ Special Drawing Rights (SDRs) are international reserve assets created by the International Monetary Fund (IMF) and allocated to its members to supplement existing reserve assets. SDRs are held only by the monetary authorities of IMF members and a limited number of international financial institutions that are authorized holders. The Special Drawing Rights Department of the IMF manages reserve assets by allocating SDRs among member countries of the IMF and certain international agencies (collectively known as the participants).

~~12.49~~ Holdings of SDRs by an IMF member are recorded as a financial asset, while the allocation of SDRs is recorded as the incurrence of a liability of the member receiving them (because of a requirement to repay the allocation in certain circumstances, and also because interest accrues). The holdings and allocations should be shown gross, rather than net.

~~12.49~~12.50 Domestic arrangements for holding SDRs and the accounting treatment may differ across IMF members according to differences in legal and institutional frameworks. The majority of members record the SDR positions on the central bank's balance sheet while some members record them on the balance sheet of a government agency. Regardless of where SDRs are recorded, the country's reserve assets increase with the allocation.

~~The mechanism by which SDRs are created (referred to as allocations of SDRs) and extinguished (cancellations of SDRs) gives rise to transactions. These transactions are recorded at the gross amount of the allocation and are recorded in the financial accounts of the monetary authority of the individual participant on the one part and the rest of the world representing the participants collectively on the other.~~

~~SDRs are held exclusively by official holders, which are central banks and certain other international agencies, and are transferable among participants and other official holders. SDR holdings represent each holder's assured and unconditional right to obtain other reserve assets, especially foreign exchange, from other IMF members. SDRs are assets with matching liabilities but the assets represent claims on the participants collectively and not on the IMF. A participant may sell some or all of its SDR holdings to another participant and receive other reserve assets, particularly foreign exchange, in return.~~

2. Currency and deposits.

~~12.51~~ Financial transactions in currency and deposits consist of additions to, or disposals of, currency and establishing or incrementing a deposit or making a withdrawal from it. In the case of a deposit, an apparent increase in the value may be due to the payment of interest on an existing stock level. Payments of bank interest are always separated into SNA interest and a charge for implicit financial ~~intermediation~~ services on loans and deposits indirectly measured (FISIM). SNA interest is first recorded in the ~~distribution of primary earned~~ income account and then may be recorded in the financial account as a new deposit. An increase in deposits may correspond to a rundown of currency or vice versa.

~~12.50~~12.52 Off-market central bank currency swap arrangements should be recorded as an exchange of deposits with maintenance of value. However, if the central banks conduct the transaction as a standard (market priced) currency swap, then it is recommended that the swap be recorded as an exchange of deposits with the simultaneous creation of a financial derivative, namely a forward contract (see paragraphs 6.102-104, BPM7 for additional details on central bank swap arrangements, and chapter 25 for the treatment of off-market swap more generally).

~~12.51~~12.53 The aggregate of currency, transferable deposits (including inter-bank deposits) and other deposits should always be calculated. A distinction should always preferably be made between currency and deposits in domestic currency and in foreign currency. If it is considered useful to have data for individual foreign

currencies, a distinction should be made between currency and deposits in each currency.

Currency

12.54 *Currency consists of notes and coins (including digital versions) that are of fixed nominal values and are issued or authorized by the central bank or government. Currency thus also includes digital currencies issued by the central bank or government.* (Commemorative coins that are not actually in circulation should be excluded as should unissued or demonetized currency.) A distinction should be drawn between domestic currency (that is, currency that is the liability of resident units, such as the central bank, other banks and central government) and foreign currencies that are liabilities of non-resident units (such as foreign central banks, other banks and governments). All sectors may hold currency as assets, but normally only central banks and government may issue currency. In some countries, commercial banks are able to issue currency under the authorization of the central bank or government.

~~12.52~~12.55 Notes and coins are treated as liabilities at full face value. The cost of producing the physical notes and coins is recorded as ~~government~~ expenditures of the issuing authority and not netted against the receipts from issuing the currency.

Crypto-assets with a corresponding liability designed to act as a general medium of exchange

~~12.53~~12.56 This category includes crypto assets with a corresponding liability designed to act as a general medium of exchange that are not issued or authorized by the central bank or government. They consist of, for example, stablecoins with a claim on the issuer. Similar assets designed as a medium of exchange within a platform are classified as debt or equity securities. Crypto assets without a corresponding liability designed to act as a medium of exchange are recorded as non-produced non-financial assets; see chapter 11.

Transferable deposits

~~12.54~~12.57 *Transferable deposits comprise all deposits that:*

- a. *are exchangeable for bank notes and coins (including digital versions) on demand at par and without penalty or restriction; and*
- b. *are directly usable for making payments by cheque, draft, giro order, direct debit/credit, or other direct payment facility.*

Some types of deposit accounts embody only limited features of transferability; these are excluded from the category of transferable deposits and treated as other deposits. For example, some deposits have restrictions such as on the number of third-party payments that can be made per period or on the minimum size of the individual third-party payments. A transferable deposit cannot have a negative value. A bank current or checking account, for example, is normally treated as a transferable deposit but if it is overdrawn, the withdrawal of funds to zero is treated as the withdrawal of a deposit and the amount of the overdraft is treated as the granting of a loan.

12.58 *Transferable deposits also include electronic money or e-money. E-money is monetary value stored electronically, which represents a liability of the issuer and is denominated in a currency backed by an authority. E-money must represent general purchasing power, in the sense that it may be used for purchasing goods and services from a variety of other entities. For more details, reference is made to the [Monetary and Financial Statistics Manual and Compilation Guide \(MFSMCG\) 2014](#).*

~~12.55~~12.59 Transferable deposits should preferably be cross-classified according to:

- a. whether they are denominated in domestic currency or in foreign currencies; and

- b. whether they are liabilities of resident institutions or the rest of the world.

Inter-bank positions

~~12.60~~ Though not strictly accurate, the term bank is frequently used as a synonym for ~~the central bank and other~~ deposit-taking corporations. Banks take deposits from and make loans to all other sectors. There may also be substantial borrowing and lending within the banking subsector, but this is of different economic significance from their intermediation activities involving other sectors. Chapter ~~2737~~ describes how a full analysis of the debtor and creditor sector for each instrument can be portrayed. Such an analysis is known as a detailed ~~flow of funds from whom to whom~~ table. However, not all countries are able to provide these tables on a timely basis.

~~12.56~~~~12.61~~ Inter-bank positions can usually be identified and ~~are~~~~could~~ usefully ~~be~~ recorded as a separate instrument category. This is one reason to consider separating inter-bank loans and deposits from other loans and deposits. A second reason concerns the calculation of the charge for ~~implicit~~ financial ~~intermediation~~ services ~~on loans and deposits indirectly measured (FISIM)~~. This calculation depends on knowing the level of loans and deposits extended by banks to non-bank customers and calculating the difference between the interest the banks receive or pay and the interest when a reference rate is applied to the same levels of loans and deposits. However, there is normally little if any ~~implicit financial services on loans and deposits FISIM~~ payable between banks as banks usually borrow from and lend to each other at a risk-free rate. For both these reasons, ~~it should be possible to separate~~ inter-bank loans and deposits ~~should be separated~~ from other loans and deposits

Table ~~12.1.2~~: The financial account — full detail — changes in assets

Table ~~12.1.2~~ (cont): The financial account — full detail — changes in liabilities and net worth

~~12.57~~~~12.62~~ There may be cases where the instrument classification of inter-bank positions is unclear, for example because the parties are uncertain, or one party considers it as a loan and the other a deposit. ~~Therefore, as~~ a convention to assure symmetry, ~~all such~~ inter-bank positions other than securities and accounts receivable or payable, ~~and including the~~ changes in these positions, are classified under deposits. Chapter ~~2737~~ describes the detailed ~~flow of funds from whom to whom~~ tables which removes the need for identifying inter-bank deposits as a separate category.

Other transferable deposits

~~12.58~~ —

~~12.1~~ — Other transferable deposits are those where one party or both parties to the transaction, or either the creditor or debtor or both of the positions, is not a bank.

~~12.59~~ —

Other deposits

12.63 *Other deposits comprise all claims, other than transferable deposits, that are represented by evidence of deposit.* Typical forms of deposits that should be included under this classification are savings deposits (which are always non-transferable), fixed-term deposits and non-negotiable certificates of deposit. The category also covers shares or similar evidence of deposit issued by savings and loan associations, building societies, credit unions and the like. Deposits of limited transferability that are excluded from the category of transferable deposits are included here. Claims on the IMF that are components of international reserves and are not evidenced by loans should be recorded in other deposits. (Claims on the IMF evidenced by loans should be included in loans; see paragraphs 5.43 and 5.51 of BPM7 for further details on claims on the IMF included in other deposits and loans.)

~~12.60~~~~12.64~~ Repayable margin payments in cash ~~in financial contracts, such as those~~ related to financial

derivative contracts (described below), are classified as deposits (if the debtor's liabilities are included in broad money), other accounts receivable/payable, or loans. ~~are included in other deposits, as are overnight and very short term repurchase agreements if they are considered part of the national definition of broad money. Other repurchase agreements should be classified under loans.~~

~~12.64~~12.65 It is possible to hold accounts for both “allocated gold” and “unallocated gold”. The distinction is precise, practical and recognized in the balance sheets of units holding these accounts. An allocated gold account gives full outright ownership of the gold and is equivalent to a custody record of title. The unallocated gold account does not give the holder the title to physical gold but provides a claim against the account provider denominated in gold. In effect, therefore, it is a deposit denominated in gold. They are thus treated as deposits in foreign currency. Accounts that are held for allocated gold, on the other hand, are treated as holdings of valuables. Both allocated and unallocated gold accounts are classified in reserve assets if—unless they are held by monetary authorities, or other units authorized by them, and meet other criteria for reserve assets. The relevant unallocated gold account liabilities are classified as deposits. (See paragraphs 5.76 and 5.77 of BPM7 for further details on allocated and unallocated gold accounts.)

~~12.62~~12.66 Similar accounts, distinguishing between unallocated and allocated accounts for different precious metals, are also possible and should be treated in a similar way; those for unallocated metals are deposits in foreign currency, those for allocated accounts are holdings of valuables. If the practice of using commodities in this way extends beyond metals, it will be for consideration whether to extend this practice.

~~12.63~~12.67 Transferable and other deposits may be held as assets by all sectors. Deposits are most often accepted as liabilities by financial corporations but institutional arrangements in some countries permit non-financial corporations, general government and households to accept deposits as liabilities.

~~12.64~~12.68 Other deposits should preferably be cross-classified according to:

- a. whether the deposits are denominated in domestic currency or in foreign currencies, and
- b. whether they are liabilities of resident institutions or the rest of the world.

3. Debt securities

~~12.65~~12.69 *Debt securities are negotiable instruments serving as evidence of a debt.* They include bills, bonds, negotiable certificates of deposit, commercial paper, debentures, asset-backed securities, money-market instruments, and similar instruments normally traded in the financial markets. *Bills are defined as securities that give the holders the unconditional rights to receive stated fixed sums on a specified date.* Bills are issued and usually traded in organized markets at discounts to face value that depend on the rate of interest and the time to maturity. Examples of short-term securities are Treasury bills, negotiable certificates of deposit, bankers' acceptances and commercial paper. *Bonds and debentures are securities that give the holders the unconditional right to fixed payments or contractually determined variable payments, that is, the earning of interest is not dependent on earnings of the debtors.* Bonds and debentures also give holders the unconditional rights to fixed sums as payments to the creditor on a specified date or dates.

12.70 Utility tokens that provide the holders future access to goods or services, should be classified as debt securities. The same holds for crypto assets with a corresponding liability designed to act as a medium of exchange within a platform. Because these latter payment tokens are quite different from traditional debt securities, it is recommended to record them in a separate subcategory (see below).

~~12.66~~12.71 Loans that have become negotiable from one holder to another are to be reclassified from loans to debt securities under certain circumstances. For such reclassification, there needs to be evidence of secondary market trading, including the existence of market makers, and frequent quotations of the instrument, such as provided by bid-offer spreads.

~~12.67~~12.72 Non-participating preferred stocks or shares are those that pay a fixed income but do not provide for participation in the distribution of the residual value of an incorporated enterprise on dissolution. They are repaid after standard debt and before equity in the order of repayment in case of bankruptcy. These shares are classified as debt securities. Bonds that are convertible into equity should also be classified in this category prior to the time that they are converted.

~~12.68~~12.73 *Asset-backed securities and collateralized debt obligations are arrangements under which payments of interest and principal are backed by payments on specified assets or income streams.* Securitization may also be used as a term to describe this process. Asset-backed securities may be issued by a specific holding unit or vehicle, which issues securities that are sold to raise funds to pay the originator for the underlying assets. Asset-backed securities are classified as debt securities because the security issuers have a requirement to make payments, while the holders do not have a residual claim on the underlying assets; if they did, the instrument would be equity or investment funds shares. Asset-backed securities are backed by various types of financial assets, for example, mortgages and credit card loans, non-financial assets, or by future income streams (such as the earnings of a musician or a government's future revenue) that are not recognized in themselves as an economic asset in macro-economic statistics.

~~12.69~~12.74 *A banker's acceptance involves the acceptance by a financial corporation, in return for a fee, of a draft or bill of exchange and the unconditional promise to pay a specific amount at a specified date.* In contrast to acceptances more generally, a banker's acceptance must be tradable. Much international trade is financed this way. Bankers' acceptances are classified under the category of debt securities. The banker's acceptance represents an unconditional claim on the part of the holder and an unconditional liability on the part of the accepting financial corporation; the financial corporation's counterpart asset is a claim on its customer. Bankers' acceptances are treated as financial assets from the time of acceptance, even though funds may not be exchanged until a later stage.

~~12.70~~12.75 *Stripped securities are securities that have been transformed from a principal amount with coupon payments into a series of zero-coupon bonds, with a range of maturities matching the coupon payment date(s) and the redemption date of the principal amount(s).* The function of stripping is that investor preferences for particular cash flows can be met in ways different from the mix of cash flows of the original security. Stripped securities may have an issuer different from the original issuer; in which instance, new liabilities are created. There are two cases of stripped securities:

- a. When a third party acquires the original securities and uses them to back the issue of the stripped securities. Then new funds have been raised and there is a new financial instrument.
- b. When no new funds are raised and the payments on the original securities are stripped and marketed separately by the issuer or through agents (such as strip dealers) acting with the issuer's consent.

~~12.71~~12.76 *Index-linked securities are instruments for which either the coupon payments (interest) or the principal or both are linked to an index such as a price index, an interest rate or the price of a commodity.* The objective is to conserve purchasing power or wealth during a period of inflation in addition to earning interest income. When the coupon payments are index-linked they are treated entirely as interest, as is the case with any variable interest rate financial asset. When the value of the principal is indexed to an indicator that moves in line with a broad-based measure of inflation, the issue price of the security is recorded as the principal and the index payment paid periodically and at maturity is treated as interest. The payment owing to indexation should be recorded as interest (property income) over the life of the security and the counterpart should be recorded under debt securities in the financial account. When a security is indexed to a commodity and thus may be subject to large price fluctuations, a variation on this procedure is recommended. It is explained in detail in ~~part 4 of~~ chapter ~~17~~25.

Supplementary classifications of debt securities

~~12.72~~12.77 *It is recommended to compile the following breakdown. ~~A supplementary subclassification of debt securities by maturity into short-term and long-term should be based on the following criteria.~~*

- a. Short-term debt securities include those securities that have an original maturity of one year or less. Securities with a maturity of one year or less should be classified as short-term even if they are issued under long-term facilities such as note issuing facilities.
- b. Long-term debt securities include those securities that have an original maturity of more than one year. Claims with optional maturity dates, the latest of which is more than one year away, and claims with indefinite maturity dates should be classified as long-term.

b.c. Crypto assets that qualify as debt securities.

In addition, it may sometimes be useful to distinguish listed debt securities from unlisted ones and to record them according to whether they are short- or long-term. It may also be useful to distinguish securities with an original maturity of more than one year, whose remaining maturity is less than one year.

4. Loans

~~12.73~~12.78 Loans are financial assets that:

- a. *are created when a creditor lends funds directly to a debtor, and*
- b. *are evidenced by documents that are not negotiable.*

~~12.74~~12.79 The category of loans includes overdrafts, instalment loans, hire-purchase credit and loans to finance trade credit, including factoring claims. Peer-to-peer lending through digital platforms, which facilitate lending of money from individuals and other lenders, often unsecured, to unrelated individuals or small businesses, thereby circumventing traditional financial intermediaries, are also considered as loans. Claims on or liabilities to the IMF that are in the form of loans are also included. An overdraft arising from the overdraft facility of a transferable deposit account is classified as a loan. However, undrawn lines of credit are not recognized as a liability as they are contingent. Securities, repurchase agreements, gold swaps and financing by means of a financial lease may also be classified as loans. However, accounts receivable/payable, which are treated as a separate category of financial assets, and loans that have become debt securities are also excluded from loans.

12.80 *A securities repurchase agreement (repo) is an arrangement involving the provision of securities in exchange for cash with a commitment to repurchase the same or similar securities at a fixed price either on a specified future date (often one or a few days hence, but also further in the future) or with an “open” maturity.* Securities lending with cash collateral and sale/buy-backs are economically the same as a repurchase agreement; all involve the provision of securities as collateral for a loan or deposit. *A repo is a securities repurchase agreement where securities are provided for cash with a commitment to repurchase the same or similar securities for cash at a fixed price on a specified future date.* (It is called a repo from the perspective of the security provider and a reverse repo from the perspective of the security taker.)

~~12.75~~12.81 The supply and receipt of funds under a securities repurchase agreement may be treated as a loan or deposit. It is generally a loan, but is classified as a deposit if it involves liabilities of a deposit-taking corporation and is included in national measures of broad money. However, margin calls in cash under a repo are classified as loans. If a securities repurchase agreement does not involve the supply of cash (that is, there is an exchange of one security for another, or one party supplies a security without collateral), there is no loan or deposit. ~~However, margin calls in cash under a repo are classified as loans.~~

12.82 The securities provided as collateral under securities lending, including a securities repurchase agreement, are treated as not having changed economic ownership. This treatment is adopted because the cash receiver is still subject to the risks or benefits of any change in the price of the security.

~~12.76~~12.83 The party that acquires securities under a repurchase agreement or security lending (borrowing) can on-sell the securities due to the change in legal ownership of the securities. This on-selling of the securities is recorded as a negative asset, to avoid the double-counting of the security by both the economic (original) owner and the final owner.

12.84 *A gold swap involves an exchange of gold for foreign exchange deposits with an agreement that the transaction be reversed at an agreed future date at an agreed gold price.* The gold should not be recorded on the balance sheet of the gold taker (cash provider) will not usually record the gold on its balance sheet, while the gold should also not be removed from the balance sheet of the gold provider (cash taker) will not usually remove the gold from its balance sheet. In this manner, the transaction is analogous to a repurchase agreement and should be recorded as a collateralized loan or deposit. Gold swaps are similar to securities repurchase agreements except that the collateral is gold.

~~12.77~~12.85 Reverse transactions that involve commodities (or potentially other non-financial assets) are recorded in the same way as the above reverse transactions for securities and gold.

~~12.86~~ 12.86 When goods are acquired under a financial lease, a change of economic ownership of the goods from the lessor to the lessee is deemed to take place. The change of economic ownership may be distinguished by the fact that all the risks and rewards of ownership are transferred from the legal owner of the good, the lessor, to the user of the good, the lessee. The lessee contracts to make payments that enable the lessor, over the period of the contract, to recover all, or virtually all, of his costs including interest. This de facto change in ownership is recorded by assuming a loan is made by the lessor to the lessee, the lessee uses this loan to acquire the asset and the payments by the lessee to the lessor represent not rentals on the asset but payments of interest, possibly a service charge and repayments of principal on the imputed loan. Interest is recorded as property income payable or receivable and debt repayment is recorded in the financial account as reducing the value of the asset (loan) of the lessor and the liability of the lessee. There is more extensive discussion of financial leases in ~~part 5 of~~ chapter ~~17~~27.

~~12.78~~12.87 Factoring is a transaction in which a factor, which can be a bank, a specialized factoring company, or other financial organization, buys trade accounts receivable from a supplier at a discount. Factoring is commonly viewed as a purchase or sale of invoices transferring the legal right of the claim on the debtor to the factor. In factoring, the indirect financing by the factor to the debtor is treated as a loan. The accounts receivable concerned are trade-related receivables arising from the provision of goods, services, or work in progress. There are two basic types of factoring: non-recourse and recourse factoring. In a non-recourse agreement, the factor assumes the full risk of non-payment by the debtors at maturity and therefore may charge the supplier a higher fee. In a recourse agreement, all or part of the risk is kept by the supplier. The factor may also keep a reserve that should be paid back to the supplier once the debtor pays its liability in full. The instrument reclassification from trade credit to a loan should be recorded as a transaction in the financial account. The recourse is seen as a guarantee treated as a contingent liability for the supplier, which should therefore not be recorded unless and until being activated by the factor. The factoring income is treated as a fee paid by the supplier; see paragraph 7.xxx. The reserve held by a factor is classified as a deposit, a loan, or other accounts receivable/payable, following the recording of other cash collaterals (e.g., repayable margins for financial derivatives).

Supplementary classifications of loans

~~12.79~~12.88 Loans may be divided, on a supplementary basis, between short- and long-term loans.

- a. Short-term loans comprise loans that have an original maturity of one year or less. Loans repayable on the demand of the creditor should be classified as short-term even when these loans are expected to be outstanding for more than one year.
- b. Long-term loans comprise loans that have an original maturity of more than one year.

~~12.80~~12.89 It may also be useful to distinguish loans that, though taken out for a period longer than a year, have less than one year to maturity in the accounting period considered, as well as loans secured by mortgages.

5. Equity and investment fund shares

~~12.81~~12.90 Equity and investment fund shares have the distinguishing feature that the holders own a residual claim on the assets of the institutional unit that issued the instrument. Equity represents the owner's funds in the institutional unit. In contrast to debt, equity does not generally provide the owner with a right to a predetermined amount or an amount determined according to a fixed formula.

~~12.82~~12.91 Investment fund shares have a specialized role in financial intermediation as a kind of collective investment in other assets, so they are identified separately.

Equity

~~12.83~~12.92 Equity comprises all instruments and records acknowledging claims on the residual value of a corporation or quasi-corporation after the claims of all creditors have been met. Equity is treated as a liability of the issuing institutional unit.

12.93 Ownership of equity in legal entities is usually evidenced by shares, stocks, depository receipts, participations, or similar documents. They may also take the form of equity crypto assets, which are similar to standard equity albeit with a novel technology for being created, allocated, transferred and managed. Shares and stocks have the same meaning, while depository receipts are securities that facilitate ownership of securities listed in other economies; a depository issues receipts listed on one exchange that represent ownership of securities listed on another exchange. Participating preferred shares are those that provide for participation in the residual value on the dissolution of an incorporated enterprise. Such shares are also equity securities, whether or not the income is fixed or determined according to a formula. (Non-participating preferred shares are treated as debt securities as explained above.)

~~12.84~~12.94 Subscription rights are the rights of corporate shareholders to participate in the acquisition of shares newly issued by the corporation. Subscription rights are designed to offset any potential dilution effect in the value of the stake of current shareholders resulting from the terms of issuance: by exercising the rights, the investor maintains their percentage of ownership in the corporation buying a proportionate number of shares of the issuance. Despite their expiry date, subscription rights are classified as equity, as they represent part of the own funds of the corporation.

~~12.85~~12.95 Equities are subdivided into:

- a. listed shares;
- b. unlisted shares; and
- c. other equity and equity in international organisations.

Both listed and unlisted shares are negotiable and are therefore equity securities.

~~12.86~~12.96 **Listed shares are equity securities listed on an exchange.** They are also referred to as quoted shares. The existence of quoted prices of shares listed on an exchange means that current market prices are usually readily available.

~~12.87~~12.97 **Unlisted shares are equity securities not listed on an exchange.** Unlisted shares can also be called private equity; venture capital usually takes this form. Unlisted shares tend to be issued by subsidiaries and smaller scale enterprises and typically have different regulatory requirements but neither qualification is necessarily the case.

~~12.88~~12.98 **Other equity and equity in international organisations consists of all forms of equity other than listed and unlisted shares**~~is equity that is not in the form of securities.~~ It can include equity in quasi-corporations (such as branches, trusts, limited liability and other partnerships), unincorporated funds and notional units for ownership of real estate and other natural resources. The equity ownership of many international organizations (e.g., ownership of currency union central banks) is usually not in the form of tradable shares and so is classified in this item. Although equity in some international organizations, such as the Bank for International Settlements (BIS), is in the form of unlisted shares, the equity is not tradable by member countries; therefore, it should also be classified in this item. The ownership of some international organizations is not in the form of shares and so is classified as other equity (although equity in the Bank for International Settlements (BIS) is in the form of unlisted shares).

~~12.89~~12.99 Transactions in equity in the financial account cover three different types of transactions. The first is the recording of the value of shares bought and sold ~~on an exchange~~. From time to time corporations restructure their shares and may offer shareholders a new number of shares for each share previously held. These bonus shares, which are different from subscription rights (see above), are not however treated as transactions but as a form of redenomination since the value of the new number of shares times the new price represents the same proportion of the value of the corporation as the old number of shares times the old price.

~~12.90~~12.100 The second type of transaction concerning equity is capital injections by the owners or, on occasion, withdrawals of equity by the owners. Dividends are recorded in the ~~distribution of primary~~ allocation of earned income account as if they were always paid out of operating surplus earned in the current period. An enterprise, though, usually aims to have a smooth track record of dividend payments and will therefore sometimes pay out more than the ~~current operating surplus~~ net earnings from current production, property income (excluding distributed income in the form of dividends) and transfer income transactions and sometimes rather less, the balance carrying through to the accumulation accounts by way of saving (which might be negative). However, if the dividends paid out are significantly in excess of ~~recent average earnings~~ operational profits excluding holding gains and losses, then the excess should no longer all be recorded in the allocation of ~~primary~~ earned income account but should be ~~regarded~~ recorded as a financial transaction (withdrawal of equity) by the owners ~~akin to the partial liquidation of the enterprise and be reflected under this item~~. Such payments are sometimes referred to as “super dividends” (see paragraph 8.xxx). Withdrawals may take the form of proceeds from sales of fixed or other assets, transfers of fixed and other assets from the quasi-corporation to the owner and funds taken from accumulated retained earnings and reserves for ~~the consumption of fixed capital~~ depreciation. In the case of foreign direct investment relationships, the treatment of these exceptional payments as withdrawals of equity is restricted to those related to non-operating activities (sales of assets, liquidations of branches). For domestic direct investment relationships, such as government controlled public corporations, super dividends may also concern payments out of reserves accumulated in past periods. (The particular case of payments between government and public ~~enterprises~~ corporations is discussed in chapter 2230.) Equally, liquidating dividends paid to shareholders when an enterprise becomes bankrupt should be recorded as withdrawal of equity.

~~12.91~~12.101 Conversely, owners may inject extra finance into an enterprise. If the enterprise is publicly controlled and runs a regular deficit each year as a matter of government economic or social policy that is covered by a receipt from government to match this deficit, the payment is regarded as a subsidy. If the payment from government is irregular but clearly designed to cover accumulated losses, it is treated as a capital transfer. If government makes an investment grant to a public corporation this also is recorded as a capital transfer. However, there may be cases where the owners (public or private) agree to make new finance available to permit expansion, say, and represent not just a reduction of debt but a positive addition to the enterprise’s own funds. The finance consists of funds for use by the enterprise in purchasing fixed assets, accumulating inventories, acquiring financial assets or redeeming liabilities. Transfers by owners of fixed and other assets to the quasi-corporation are also included as addition to equity. Such payments are to be included in this item as an acquisition of equity, even if no new shares are issued in response to the financial contribution.

~~12.92~~12.102 The third type of transaction concerning equity is the special case of equity addition and withdrawal that happens in respect of the reinvestment of earnings of foreign direct investment enterprises. In the ~~distribution of primary~~ earned income account, the share of ~~operating surplus~~ retained earnings (i.e., net earnings from current production, property and transfer income transactions that have not been distributed) proportionate to the foreign direct investor’s share of equity is shown as being withdrawn and distributed to him as reinvested earnings. Because it is not actually withdrawn, it adds to the value of the equity of the enterprise by a recording as reinvestment of earnings in the financial account.

~~12.93~~12.103 Notional resident units are treated in the same manner as quasi-corporations. For example, an extension to a holiday home of a non-resident is recorded as an increase in the value of an asset owned by a resident notional unit with a matching increase in the equity of the non-resident owner. However, the entire income from a holiday home is treated as a withdrawal by the owner of the notional resident unit so there are no earnings left to be reinvested. This ensures that the entire net worth of the notional resident unit is the value of the property in question.

Investment fund shares or units

~~12.94~~12.104 *Investment funds are collective investment undertakings through which investors pool funds for investment in financial or non-financial assets or both.* Those units acquiring shares in the funds thus spread their risk across all the instruments in the fund.

~~12.95~~12.105 In a detailed ~~flow of funds~~ from-whom-to-whom table, the acquisition of instruments by the

investment funds is shown separately from the acquisition of shares in the funds and a full analysis of the from-whom-to-whom transactions captures the holdings of instruments via investment funds without needing to have a separate category for it. However, as noted in connection with the category of inter-bank positions, timely ~~flow of funds from whom to whom~~ tables are not always available. Therefore, in order to distinguish when non-financial units acquire instruments such as securities and equities directly and when they are acquired via investment funds, the latter are shown separately.

~~12.96~~12.106 Investment funds include mutual funds and unit trusts. Investment funds issue shares when a corporate structure is used and units when a trust structure is used. Investment fund shares refer to the shares issued by mutual funds, rather than the shares the mutual fund may hold.

~~12.97~~12.107 Investment funds are divided into money market funds (MMF) and non-MMF investment funds. The fundamental difference between them is that MMFs typically invest in money market instruments with ~~an original-residual~~ maturity of less than one year, ~~are often transferable~~ and are often regarded as close substitutes for deposits. Non-MMF investment funds typically invest in longer-term financial assets ~~or certain non-financial assets and possibly real estate~~. They ~~are not transferable and~~ are typically not regarded as substitutes for deposits.

~~12.98~~12.108 The increase in value of investment fund shares or units other than from holding gains and losses ~~and after any reinvested earnings are deducted~~ is shown in the SNA as distributed to the share or unit holders and reinvested by them in the financial account, ~~after deduction of all implicit and explicit charges for management and operating costs~~.

Money market fund shares or units

~~12.99~~12.109 *Money market funds are investment funds that invest only or primarily in short-term money market securities such as Treasury bills, certificates of deposit and commercial paper.* Money market funds sometimes are functionally close to transferable deposits, for example, accounts with unrestricted cheque-writing privileges. If these fund shares are included in broad money in the reporting economy, they should be recorded as a separate item to allow reconciliation with monetary statistics. *Money market fund shares or units represent a claim on a proportion of the value of an established money market fund.*

~~Other~~ Non-MMF investment fund shares or units

~~12.100~~12.110 *~~Other~~ Non-MMF investment fund shares or units represent a claim on a proportion of the value of an established investment fund other than a money market fund.*

Supplementary classifications of investment fund shares

~~12.101~~12.111 It may be useful to distinguish listed from unlisted investment fund shares.

~~12.102~~12.112 Investment funds invest in a range of assets including debt securities, equity, commodity-linked investments, ~~real estate~~, shares in other investment funds and structured assets. Data on the composition of their assets could be useful in economies where investment funds are significant. [See chapter 29 for more details.](#)

6. Insurance, pension and standardized guarantee schemes

~~12.103~~12.113 Insurance, pension and standardized guarantee schemes all function as a form of redistribution of income or wealth mediated by financial institutions. The redistribution may be between individual institutional units in the same period or for the same institutional unit over different periods or a combination of the two. Units participating in the schemes contribute to them and may receive benefits (or have claims settled) in the same or later periods. While they hold the funds, insurance corporations invest them on behalf of the participants. The part of the investment income that is distributed to the participants as property income is returned as extra contributions. In all cases, ~~net~~ contributions or premiums ~~less service charges~~ are defined

as actual contributions or premiums plus distributed property income less the service charge retained by the financial institution concerned. Entries in the financial account, therefore, reflect the difference between ~~net~~ contributions or ~~net~~ premiums less service charges paid to the schemes less benefits and claims paid out. Significant other additions to the reserves of the schemes come via other changes in the volume of assets and especially holding gains. There is more extensive discussion on the recording of all these schemes in ~~parts 1, 2 and 3 of~~ chapters ~~17~~24 and 25.

~~12.104~~12.114 There are ~~five~~six sorts of reserves applicable to insurance, pension and standardized guarantee schemes. These are non-life insurance technical reserves, life insurance and annuities entitlements, pension entitlements, claims of pension funds on the pension manager, entitlements to non-pension benefits and provisions for calls under standardized guarantees.

Non-life insurance technical reserves

~~12.105~~12.115 Non-life insurance technical reserves consist of prepayments of ~~net~~ non-life insurance premiums less service charges and reserves to meet outstanding non-life insurance claims. They consist of actual premiums paid but not yet earned (called unearned actual premiums) and claims due but not yet settled, including cases where the amount is in dispute or the event leading to the claim has occurred but has not yet been reported (called claims outstanding). The only transactions for non-life insurance technical reserves recorded in the financial account are accrual adjustments. In this respect, refunded premiums at surrender of an insurance policy should be recorded as a financial transaction (i.e., a decrease of insurance technical reserves).

Life insurance and annuities entitlements

~~12.106~~12.116 Life insurance and annuities entitlements show the extent of financial claims policyholders have against an enterprise offering life insurance or providing annuities. The only transaction for life insurance and annuity entitlements recorded in the financial account is the difference between ~~net~~ premiums less service charges receivable and claims payable.

Pension entitlements

~~12.107~~12.117 Pension entitlements ~~show the extent of~~typically concern financial claims both existing and future pensioners hold against either their employer or a fund designated by the employer to pay pensions earned as part of a compensation agreement between the employer and employee. However, they may also relate to collective arrangements established for selected groups of self-employed persons, if certain conditions are met (see chapter 24 for more details). The only transaction for pension entitlements recorded in the financial account is the difference between ~~net~~ contributions less service charges receivable and benefits payable. The increase in pension entitlements shown in the financial account is equal to the entry in the use of income accounts for the change in pension entitlements plus any transfer of entitlements from a previous pension manager.

Claims of pension funds on pension manager

~~12.108~~12.118 An employer may contract with a third party to administer the pension funds for his employees. If the employer continues to determine the terms of the pension schemes and retains the responsibility for any deficit in funding as well as the right to retain any excess funding, the employer is described as the pension manager, or pension sponsor, and the unit working under the direction of the pension manager is described as the pension administrator. If the agreement between the employer and the third party is such that the employer passes the risks and responsibilities for any deficit in funding to the third party in return for the right of the third party to retain any excess, the third party becomes the pension manager as well as the administrator.

~~12.109~~12.119 When the pension manager, or sponsor, is a unit different from the administrator, with the

consequences that responsibility for any deficit, or claims on any excess, rest with the pension manager, the claim of the pension fund on the pension manager is shown under this heading. (The entry is negative if the pension fund makes more investment income from the pension entitlements it holds than is necessary to cover the increase in entitlements and the difference is payable to the pension manager of the scheme.)

Entitlements to non-pension benefits

~~12.110~~12.120 Funded schemes for social insurance benefits other than pensions are not very common. They may, however, exist in two circumstances. The first is when an employer has a fund for such benefits and accumulates any underspend in one year to pay for possible overspends in future years. Alternatively, an employer may realise that the commitments to make payments in future are such that it is prudent to build reserves to be able to make such payments. An example of such a scheme might be one that provides health cover, invalidity or other (non-longevity) risks to present and past employees. Unlike in the case of pensions, estimates of possible future claims on social insurance benefits other than pensions are generally not included in the SNA. Liabilities are recorded only when and to the extent that they exist in the employer's accounts.

Provisions for calls under standardized guarantees

~~12.111~~12.121 Provisions for calls under standardized guarantees consist of prepayments of ~~net~~ fees less service charges and provisions to meet outstanding calls under standardized guarantees. The transactions for provisions for calls under standardized guarantee schemes recorded in the financial account are similar to the reserves for non-life insurance; they include unearned fees and calls not yet settled.

7. Financial derivatives and employee stock options

Financial derivatives

~~12.112~~12.122 Financial derivatives, including derivative crypto assets (i.e., derivative contracts that rely on cryptography and that can be exchanged peer-to-peer even if the underlying asset is not a crypto asset), are financial instruments that are linked to a specific financial instrument or indicator or commodity, through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of the underlying item: the reference price. The reference price may relate to a commodity, a financial asset, an interest rate, an exchange rate, another derivative or a spread between two prices. The derivative contract may also refer to an index or a basket of prices.

~~12.113~~12.123 An observable market price or an index for the underlying item is essential for calculating the value of any financial derivative. If a financial derivative cannot be valued because a prevailing market price or index for the underlying item is not available, it cannot be regarded as a financial asset. Unlike debt instruments, no principal amount is advanced to be repaid and no investment income accrues. Financial derivatives are used for a number of purposes including risk management, hedging, arbitrage between markets and speculation. Financial derivatives enable parties to trade specific financial risks (interest rate risk, currency, equity and commodity price risk and credit risk, etc.) to other entities who are more willing, or better suited, to take or manage these risks, typically, but not always, without trading in a primary asset or commodity. The risk embodied in a derivatives contract can be "traded" either by trading the contract itself, such as is possible with options, or by creating a new contract that embodies risk characteristics that match, in a countervailing manner, those of the existing contract owned. The latter is termed offsetability and is particularly common in forward markets or where there are no formal exchanges through which to trade derivatives.

~~12.114~~12.124 Financial derivative instruments that can be valued separately from the underlying item to which they are linked should be treated as financial assets, regardless of whether "trading" occurs on- or off-exchange. Transactions in financial derivatives should be treated as separate transactions, rather than as integral parts of the value of underlying transactions to which they may be linked. The two parties to the derivatives may have different motives for entering into the transaction. One may be hedging, while the other may be dealing in derivative instruments or acquiring the derivative as an investment. Even if both parties

are hedging, they may be hedging transactions or risks that involve different financial assets or even transactions in different accounts. Therefore, if derivative transactions were treated as integral parts of other transactions, such treatment would lead to asymmetries of measurement in different parts of the accounts or to asymmetries of measurement between institutional sectors.

~~12.115~~12.125 Any commissions paid to or received from brokers or other intermediaries for arranging options, futures, swaps and other derivatives contracts are treated as payments for services in the appropriate accounts. Financial derivatives transactions may take place between two parties directly, or through an intermediary. In the latter case, implicit or explicit service charges may be involved. However, it is usually not possible to distinguish the implicit service element. Net settlement payments under derivative contracts are therefore recorded as financial transactions. However, where possible, the service charge component should be separately recorded. Financial derivatives contracts are usually settled by net payments of cash. This often occurs before maturity for exchange-traded contracts such as commodity futures. Cash settlement is a logical consequence of the use of financial derivatives to trade risk independently of ownership of an underlying item. However, some financial derivative contracts, particularly involving foreign currency, are associated with transactions in the underlying item. A transaction in an asset underlying a financial derivative contract that goes to delivery should be recorded at the prevailing market price for the asset with the difference between the prevailing price and the price actually paid (times the quantity of the asset) recorded as a transaction in financial derivatives.

~~12.116~~12.126 There are two broad classes of financial derivatives: option-type contracts (options) and forward-type contracts (forwards). ~~Within each class, a further distinction could be made by market risk categories; foreign exchange, single currency interest rate, equity, commodity, credit and other. Option-type contracts entail two payment streams, a "premium leg", comprising of fixed payments from the buyer to the seller, and a "contingent leg", comprising payments from the seller to the buyer depending on the underlying asset's pricing, whereas forward-type contracts entail contingent payments between the parties involved depending on the underlying asset's pricing. The contingent leg in an option-type contract usually entails a single payment at maturity; the premium leg in standard put and call options consists in a single payment at inception.~~

12.127 Option-type contracts can be contrasted with forward-type contracts in that:

- a. at inception, there is usually no up-front payment for a forward-type contract and the derivative contract begins with zero value, whereas there is usually a premium paid for an option-type contract representing a non-zero value for the contract;
- b. during the life of the contract, for a forward-type contract, either party can be creditor or debtor, and it may change, whereas for an option-type contract, the buyer is always the creditor and the writer is always the debtor except for contracts with multiple payments in the premium leg like credit default swaps; and
- e.—
- ~~d-c.~~ at maturity, redemption is unconditional for forward-type contracts, whereas for standard call and put option contracts it is determined by the buyer of the contract.

~~12.2~~ A major difference between forward and option contracts is that, whereas either party to a forward contract is a potential debtor, the buyer of an option contract acquires an asset and the option writer incurs a liability. However, option contracts frequently expire without worth; options are exercised only if settling a contract is advantageous for the option holder.

~~12.117~~—

Option-type contracts (options)

~~12.118~~12.128 *Options are contracts that give the purchaser of the option the right, but not the obligation, to buy (a "call" option) or to sell (a "put" option) a particular financial instrument or commodity at a predetermined price (the "strike" price) within a given time span (American option) or on a given date (European option).* Many options contracts, if exercised, are settled by a cash payment rather than by

delivery of the underlying assets or commodities to which the contract relates. Options are sold or “written” on many types of underlying bases such as equities, interest rates, foreign currencies, commodities and specified indices. The buyer of the option pays a premium (the option price) to the seller for the latter’s commitment to sell or purchase the specified amount of the underlying instrument or commodity on demand of the buyer. While the premium paid to the seller of the option can conceptually be considered to include a service charge, in practice, it is usually not possible to distinguish the service element. The full price should be recorded as acquisition of a financial asset by the buyer and as incurrence of a liability by the seller. However, where possible, the service charge component should be separately recorded.

~~12.119~~12.129 ~~The timing of premium payments on options varies. Depending on the type of contract, premiums are paid when the contracts begin, when the options are exercised, or when the options expire.~~ The value of an option at inception should be recorded at the full price of the premium. ~~If the premiums are paid after the purchase of an option, the value of the premium payable is recorded as an asset at the time the derivative is purchased, financed by an account receivable from the writer. Sometimes a premium is paid after the inception of the contract. In that case, the value of the premium is recorded at the inception of the contract in the same manner as if it had been paid then, but is shown as being financed by accounts receivable/payable between the writer and the purchaser.~~ Subsequent purchases and sales of options are also to be recorded in the financial account. If an option based on a financial asset is exercised or if a commodity based option proceeds to delivery, the acquisition or sale of the underlying asset should be recorded at the prevailing market price in the appropriate accounts with the difference between this amount and the amount actually paid recorded as transactions in financial derivatives.

~~12.120~~12.130 Warrants are a form of options that are treated in the financial account in the same way as other options. Warrants are tradable instruments giving the holder the right to buy, under specified terms for a specified period of time, from the issuer of the warrant (usually a corporation) a certain number of shares or bonds. There are also currency warrants based on the amount of one currency required to buy another and cross-currency warrants tied to third currencies. They can be traded apart from the underlying securities to which they are linked and therefore have a market value. The issuer of the warrant incurs a liability, which is the counterpart of the asset held by the purchaser.

Forward-type contracts (forwards)

~~12.121~~12.131 ~~Under a forward contract, the~~ **Forwards are unconditional contracts by which** two counterparties agree to ~~buy or sell~~**exchange** a specified quantity of an underlying item (~~a particular product or financial or non-financial asset~~) at an agreed-upon contract price (the “strike” price) on a specified date. Futures contracts are forward contracts traded on organized exchanges. ***A forward contract is an unconditional financial contract that represents an obligation for settlement on a specified date. Futures and other forward contracts are typically, but not always, settled by the payment of cash or the provision of some other financial instrument rather than the actual delivery of the underlying item and therefore are valued and traded separately from the underlying item.*** At the inception of the contract, risk exposures of equal market value are exchanged and hence the contract has zero value. Some time must elapse for the market value of each party’s risk to differ so that an asset (creditor) position is created for one party and a liability (debtor) position for the other. The debtor/creditor relationship may change both in magnitude and direction during the life of the forward contract.

~~12.122~~12.132 Common forward-type contracts include interest rate swaps, forward rate agreements (FRA), foreign exchange swaps, forward foreign exchange contracts and cross-currency interest rate swaps.

- a. ***An interest rate swap contract involves an exchange of cash flows related to interest payments, or receipts, on a notional amount of principal, which is never exchanged, in one currency over a period of time.*** Settlements are often made through net cash payments by one counterparty to the other.
- b. ***A forward rate agreement (FRA) is an arrangement in which two parties, in order to protect themselves against interest rate changes, agree on an interest rate to be paid, at a specified settlement date, on a notional amount of principal that is never exchanged.*** FRAs are settled by net cash payments. The only payment that takes place is related to the difference between the agreed

forward rate agreement rate and the prevailing market rate at the time of settlement. ~~The buyer of the forward rate agreement receives payment from the seller if the prevailing rate exceeds the agreed rate; the seller receives payment if the prevailing rate is lower than the agreed rate.~~

- c. *A foreign exchange swap is a spot sale/purchase of currencies and a simultaneous forward purchase/sale of the same currencies.*
- d. *A forward foreign exchange contract involves two counterparties who agree to transact in foreign currencies at an agreed exchange rate in a specified amount at some agreed future date.*
- e. *A cross-currency interest rate swap, sometimes known as a currency swap, involves an exchange of cash flows related to interest payments and an exchange of principal amounts at an agreed exchange rate at the end of the contract.*

12.133 ~~When a contract requires ongoing servicing (such as payments in an interest rate swap) and a cash payment is received, there is a decrease (increase) in a financial derivative asset (liability) if, at the time of the payment, the contract is in an asset (liability) position. If compilers are unable to implement this approach because of market practice, all cash receipts should be recorded as reductions in financial assets, and all cash payments should be recorded as decreases in liabilities. There might also be an exchange of principal at the beginning of the contract and, in these circumstances, there may be subsequent repayments, which include both interest and principal, over time according to the predetermined rules. Streams of net settlement payments resulting from swap arrangements are to be recorded as transactions in financial derivatives and repayments of principal are to be recorded under the relevant instrument item in the financial account.~~

12.134 ~~For financial derivative contracts involving foreign currency, such as currency swaps, it is necessary to distinguish between a transaction in a financial derivative contract and transactions in the underlying currencies. At inception, the parties' exchange of the underlying financial instruments is usually classified under deposits. At the time of settlement, the difference in the values, as measured in the unit of account at the prevailing exchange rate, of the currencies swapped are allocated to a transaction in a financial derivative, with the values swapped recorded in the relevant other item (usually other investment).~~

Credit derivatives

~~12.123~~12.135 The financial derivatives described in the previous paragraphs are related to market risk, which pertains to changes in the market prices of securities, commodities, interest and exchange rates. Credit derivatives are financial derivatives whose primary purpose is to trade credit risk. They are designed for trading in loan and security default risk. Under a credit default swap, premiums are paid in return for a cash payment in the event of a default by the debtor of the underlying instrument. Credit derivatives take the form of both forward-type and option-type contracts and like other financial derivatives, they are frequently drawn up under standard master legal agreements and involve collateral and margining procedures, which allow for a means to make a market valuation.

Margins

12.136 *Margins are payments of cash or deposits of collateral that cover actual or potential obligations incurred.* The required provision of margin reflects market concern over counterparty risk and is standard in financial derivative markets, especially futures and exchange-traded options. Ownership of the margin remains with the unit that deposited it. Margin payments in cash are classified as deposits (if the debtor's liabilities are included in broad money), loans, or other accounts receivable/payable. When a repayable margin deposit is made in a non-cash asset (such as securities), no transaction is recorded because no change in economic ownership has occurred. In organised exchanges and clearing houses, margins are increased or decreased as a result of settling profits/losses of the derivative contracts by marking them to market value often on a daily or intraday basis; they are recorded as an increase or decrease in deposits, loans, or other accounts receivable/payable with a corresponding entry in a decrease in financial derivative assets or liabilities. If the margin falls short of a required level (often called a maintenance margin), an additional margin must be

~~posted to meet the requirement; this payment is not to settle a financial derivative contract and should not be recorded in financial derivatives. Margins are payments of cash or collateral that cover actual or potential obligations under financial derivatives, especially futures or exchange traded options. Repayable margins consist of deposits or other collateral deposited to protect a counterparty against default risk, but that remain under the ownership of the unit that placed the margins. Although its use may be restricted, a deposit is classified as repayable if the depositor retains the risks and rewards of ownership. Repayable margin payments in cash are transactions in deposits, not transactions in a financial derivative. The depositor has a claim on the exchange or other institution holding the deposit. Some compilers may prefer to classify these margins within other accounts receivable or payable in order to reserve the term deposits for monetary aggregates. When repayable margin payments are made in non-cash assets, such as securities, no entries are required because the entity on whom the depositor has a claim (the issuer of the security) is unchanged. Non-repayable margins reduce a financial liability created under a financial derivative contract. The entity that pays a non-repayable margin no longer retains ownership of the margin nor has the right to the risks and rewards of ownership, such as the receipt of income or exposure to holding gains and losses. A payment of a non-repayable margin is normally recorded as a decline in currency and deposits with a counter entry in the reduction in financial derivative liabilities and the receipt of a non-repayable margin is recorded as an increase of holdings of currency and deposits with the counter entry in the reduction in financial derivative assets.~~

12.137 Financial derivatives should be broken down by type of market risk, as follows:

- foreign exchange derivatives;
- single currency interest rate derivatives;
- equity derivatives;
- credit derivatives; and
- other derivatives.

12.138 In addition, the following breakdowns are encouraged as supplementary items:

- By instrument, as follows:
 - forwards;
 - options;
 - credit derivatives; and
 - other and hybrid derivatives
- By trading venue, as follows:
 - exchange-traded derivatives;
 - Over-the-counter derivatives;
 - cleared derivatives; and
 - non-cleared (over-the-counter) derivatives.

~~12.124~~12.139 It may also be considered useful to compile data on the currency composition of the notional values of the derivatives linked to foreign currencies.

Employee stock options (ESOs)

12.140 An employee stock option is an agreement made on a given date (the “grant” date) under which an employee may purchase a given number of shares of the employer’s stock at a stated price (the “strike” price) either at a stated time (the “vesting” date) or within a period of time (the “exercise” period) immediately following the vesting date. The exercise date is the time at which the option is exercised. It cannot be earlier than the vesting date or later than the end of the exercise period. Transactions in employee stock options are recorded in the financial account as the counterpart to the element of compensation/remuneration of employees represented by the value of the stock option. ~~The means of valuing and time of recording ESOs is discussed in part 6 of chapter 17.~~

~~12.125~~12.141 Chapter 25 contains a more detailed discussion on the classifications and (time of) recording of financial derivatives and employee stock options, including related financial instruments.

8. Other accounts receivable or payable

Trade credit and advances

12.142 This category comprises trade credit for goods and services extended to corporations, government, NPISHs, households and the rest of the world, and advances for work that is in progress (if classified as such under inventories) or is to be undertaken. Trade credits and advances do not include loans to finance trade credit, which are classified as loans. It may be valuable to separate short-term trade credits and advances from long-term trade credit and advances by employing the same criteria used to distinguish between other short- and long-term financial assets.

~~12.126~~12.143 For the recording of factoring, see paragraph 12.xxx.

Emission permits

12.144 An emissions permit (cap-and-trade) system is a flexible market mechanism that establishes a maximum level of pollution - a cap. Enterprises must have a permit to cover each unit of pollution they produce. Each permit stipulates the amount of greenhouse gas emissions that can be emitted (quota). Payments for such emission permits are recorded as prepaid taxes on production, with taxes recorded at the time of surrender, at issuance prices. As such, they qualify as a category of other accounts receivable and payable.

Other

12.145 This category includes accounts receivable and payable, other than those described previously, that is the amounts are not related to the provision of goods and services. It covers amounts related to taxes, dividends, purchases and sales of securities, rent, wages and salaries, and social contributions. Interest that accrues but is not paid is included in this item only if the accrued interest is not added to the value of the asset on which the interest is payable (as is usually the case).

~~12.127~~12.146 This category does not include statistical discrepancies.

9. SupplementaryMemorandum items

Foreign direct investment

~~12.128~~12.147 Transactions in financial assets and liabilities arising from the provision of, or receipt of, foreign direct investment are to be recorded under the appropriate categories: debt securities, loans, equity, trade credit or other. However, it is encouraged to also record the amounts of foreign direct investment included within each of those categories ~~should also be recorded~~ separately as memorandum supplementary items. Foreign direct investment is discussed further in chapter 33s-17 and 24.

Non-performing loans

12.148 It is useful to identify transactions relating to non-performing loans as ~~memorandum~~supplementary items. There is a discussion of the definition of and recording for non-performing loans in chapter ~~13~~14. In addition, when they are important it may be useful to group all arrears of interest and repayment under a ~~memorandum~~supplementary item. The recording of provisions, among which those related to non-performing loans, including arrears of interest and repayment, is also discussed in chapter 14.

Sustainable finance

12.149 Two primary types of sustainable finance are defined: ESG (Environmental, Social, Governance) finance and green finance with green finance being a sub-set of ESG finance. ***ESG finance is finance for activities or projects that sustain or improve the condition of the environment or society or governance practices. Green finance is finance for activities or projects that sustain or improve the condition of the environment.***

~~12.129~~12.150 Countries are encouraged to compile measures of ESG finance and green finance as *of which* items for the following financial instruments: debt securities, loans, equity, and investment fund shares/units. For more information, see chapter 35.