



STATISTICS

Guidance Note on Recording of Provisions

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GN Recording of Provisions, ready for global consultation?

- Initially prepared by the SEEA-SNA area group within the WSTT
 - Provisions in the context of damage claims resulting from mining operations.
 - Their (possible) effect on resource rents and mineral and fossil energy asset values.
- Eventually, the issue of provisions showed up in various GNs e.g. 'on retained earnings', 'unlisted equity' and 'valuation of loans'.
- In response, it was decided to give the GN on provisions a more general content.

Entity accounting

- The International Financial Reporting Standards/International Accounting Standards (IFRS/IAS) and the International Public Sector Accounting Standards (IPSAS) do recognize provisions in the financial statements.
- Provisions are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle a future obligation.
- Existence of a **'genuine' obligation** is critical. These can be one-off (writing off a loan) or revolving (customer refunds).
- The periodic net change in provisions are recorded in the profit and loss account and stocks are shown in the balance sheet.
- A few examples of circumstances under which provisions can be recognized are:
 - *nonperforming loans* ▫ *customer refunds* ▫ *land contamination* ▫ *removal of oil rigs* ▫

2008 SNA

- The 2008 SNA does not recognize the recording of provisions.
- Research agenda addresses the issue of provisions (paragraphs A4.41 - A4.43).
- Paragraph 11.130 of the 2008 SNA recommends identifying transactions relating to nonperforming loans as memorandum items.
- Paragraph 13.79 of the 2008 SNA explains the recording of provisions for calls under standardized guarantees (e.g. student loans).

What is the problem?

- **Conceptually**

The 2008 SNA may overvalue corporations and government entities with relatively large amounts of provisions in their balance sheets?

- **Practically**

Compilers need data on provisions to overcome the measurement issues as addressed in the guidance notes on 'on retained earnings', 'unlisted equity' and 'valuation of loans'

- **Asymmetry**

The entity accounting standards accept provisions as a liability but not as an asset.
The SNA does not accept a financial liability without a corresponding asset.

- **Terminal costs**

The 2008 SNA explains terminal costs should be (ex ante) depreciated over the service life of the mining operation. This may lead to negatively valued fixed assets (such as oil rigs) and negative capital services.

The entity accounting standards recommend recording terminal costs as provisions?

What is the problem, continued?

Translating corporate data to balance of payments national accounts statistics, an example: Treatment of Retained Earnings (D.16)

- Particularly for financial institutions (the net change in) provisions for bad loans can lead to large differences between the financial and statistical measurement of earnings.
- Suggested solution (D.16): explicate the information on provisions for example as memorandum item

<u>Entity account (foreign affiliate)</u>			<u>2008 SNA account (foreign affiliate)</u>	
Turnover	100	→	Output	100
Production cost	40	→	IC	40
Interest	10	→	Balance PI	10
Δ in Provisions	20	→ ✘		
Earnings	30	→ ≠ →	Retained earnings	50

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This is a source for misinterpretation and errors

Global Consultation Questionnaire

QUESTION 1 – SIGNIFICANCE OF PROVISIONS

1.1 Do you find substantial amounts of provisions (both in number and in size) in your data sources?
(yes/no)

1.2 If yes, please indicate for which industries/sectors this is particularly the case:

Institutional sector	yes	No
Non-financial corporations (i.e., mining companies)		
Financial corporations		
Government		

1.3 If yes, could you please briefly describe the most significant kinds of provisions you encounter (see the examples presented in the GN, Table 1)?

1.4 If yes, following the 2008 SNA methodology, do you sufficiently succeed in removing the figures on net changes in provisions from entity income statements when translating these data to national income? Equally, do you succeed in removing provisions from balance sheet data? If not, what are the main obstacles you experience?

Global Consultation Questionnaire

QUESTION 2 – PRESENTING INFORMATION ON PROVISIONS IN THE NEXT SNA

2.1 Do you agree with the recommendation to add in the upcoming SNA update a supplementary table/account for provisions according to the proposed Table 2 in the guidance note? (yes/no)

2.2 Could you please motivate your choice? If no, do you have alternative suggestions to deal with provisions in the next version of the SNA?

2.3 Do agree that provisions can be recorded as a liability without a corresponding financial asset? (yes/no)

2.4 Could you please motivate your choice?

2.5 Do you agree that the recording of terminal costs should be aligned with the recording of provisions as outlined in this guidance note? (yes/no)

2.6 Could you please motivate your choice?

2.7 How do you regard the feasibility of accounting for provisions according to the guidance in this note (0 to 10, from not feasible at all to highly feasible)?

2.8 Please explain where you see main strengths and challenges.

Global Consultation Questionnaire

QUESTION 3 – STRANDED ASSETS

3.1 Could the problem of stranded assets, as explained in the GN, become significant in your country? (yes/no)

3.2 Do you agree the next SNA should explicitly address how the value loss of stranded assets must be recorded? (yes/no)

3.3 Could you please motivate your choice?

3.4 Do you agree the 2008 SNA/SEEA-CF guidance (i.e., as a revaluation) is correctly interpreted and reflected in the guidance note? (yes/no)

3.5 If not, please explain and elaborate on your preferred recording of stranded assets:

QUESTION 4 – OTHER REMARKS

Only one question to the AEG:

Is this GN ready for global consultation?

Thank you!
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