

**Review of
Chapter 25:
Selected issues
in financial
instruments**

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**Meeting of the Advisory Expert Group (AEG) on
National Accounts 16 – 18 October 2023**

Agenda item 4. c

Chapter 25: Outline and review process

Chapter Outline

- Part A: Introduction
- Part B: Standardized guarantees
- Part C: Financial derivatives
- Part D: Employee stock options
- Part E: Recording of flows associated with financial assets and liabilities

External reviews

- ECE, Eurostat, OECD, US FRB, Bank of England, Australian Bureau of Statistics, INDEC (statistical agency, Argentina)
- AEG review is pending

Chapter 25: Progress

There were a series of proposed edits and comments that arose from the review. In general, it is fair to say that this chapter benefitted from excellent input from the reviewers. There were a few suggestions in different parts of the chapter that were quite useful, but that seemed to fit better in other chapters, such as Chapters 12 or 29. These suggestions were noted for future reference

- Almost all of the proposed edits were helpful in terms of improving the accuracy and interpretability of the text and were taken on board.
- There were also a number of useful comments, most of which were adapted to the text

The derivatives subsection of the chapter, though different in structure, aligns with the content of BPM Annex 7 on Financial derivatives

Lastly, to respond to a common question: Paragraph cross-references will be added at the end of the process

Chapter 25: Identified issues and their treatment

- **General:** There a few reviewer comments, at different points in the chapter, relating to possibly expanding the scope of the chapter to **include more complex financial instruments/issues** (e.g., repos, gold swaps, general discussion of margin). This suggestion also came up at the time of the AO reviews, but it was decided, to retain the current outline. The specific suggestions have been noted. The current plan remains to cover instruments in Chapters 12 and 14; and, where required, to expand the current discussion on specific instruments in those chapters
- **PART A:** A few reviewers correctly pointed out that the AO had indicated a section on **loan allowances-provisions**. However, it was also included in the AO for Chapter 29. In both cases, this section was put into the AOs as a marker. It has since been decided that **this topic fits better in Chapter 29**. Apologies for not clarifying that as a comment in the distributed draft

Chapter 25: Identified issues and their treatment (cont'd)

- **Part B:** With respect to **standardized guarantees** one or two reviewers asked about the **order of the subsections**, and whether it would make sense to shift a few of these around. For the time being, it is left as is to solicit further input
- **Part B:** A second issue that was raised w/r examples of standardized guarantees was **whether bonds that carry an explicit guarantee constitute standardized guarantees**. In some jurisdictions, all of the bonds of public corporations are (or were) issued with guarantees – that is, issued in large numbers and standardized. This example remains in the text, for now, to solicit further input

Chapter 25: Identified issues and their treatment (cont'd)

- **Part C:** This part of the chapter on **financial derivatives** generated the majority of the comments from reviewers. And external reviewers provided many good suggestions that improved the substance and flow of the material
- **Part C:** There was a general comment on the first two subsections about **duplication with the *Financial Account***. In fact, it had been agreed some months back to **shift most of the *Financial Account* discussion on financial derivatives to chapter 25**. This is perhaps something that should have been made clear in the form of a comment, prior to distribution

Chapter 25: Identified issues and their treatment (cont'd)

- **Part C:** There was a suggestion for an **expanded text on the notional values of derivative contracts**. However, the SNA concept is the market value of derivative contracts, such that the emphasis is on this measure as opposed to notional values. The text remains as is, pending further feedback
- **Part C:** There was one instance where a couple of comments bordered on **compilation, w/r to the gross recording of derivative positions and transactions**. The approach in the text is to present the preferred concept, while admitting that (due to data shortcomings) a second-best option might be required. On this specific issue it will be useful to see what comes from the global consultation

Chapter 25: Identified issues and their treatment (cont'd)

- **Part D:** This part of the chapter on **employee stock options** generated many useful editorial suggestions (precision on terms), but no substantive issues. The **accounting for ESOs was expanded** with an example working through the current accounts and accumulation accounts plus balance sheets
- **Part E:** There were two general comments in the first subsection of **recording of flows on financial assets and liabilities**. The first was to **flesh out the introduction** such that the objectives of this section is clearer; and the second was to **add text on the other changes in assets**. This was done in both cases. A related suggestion was the possibility of **adding text on transfers** related to financial assets and liabilities. This is a possibility, and would involve modifying Figure 25.1

Chapter 25: Identified issues and their treatment (cont'd)

- **Part E:** There were a number of constructive editorial comments on **deposits and loans, as well as debt securities**, which were mostly incorporated
- **Part E:** There were two comments about possibly **expanding the text on equity** (e.g., preferred shares) and the implications for flows. A similar comment was made regarding other assets-liabilities. These, for now, seem like topics for the Financial Account
- **Part E:** There was also some concern expressed about the **use of the term financial institutions as opposed to financial corporations**, as well as a suggestion to **reference insurance and pensions instruments**, so that instrument coverage in the subsection is complete. Both points were tabled for now, pending additional feedback

Chapter 25: Comments ... questions?