XI THE FINANCIAL ACCOUNT

A. Introduction

11.1 The financial account records transactions that involve financial assets and liabilities and that take place between institutional units and between institutional units and the rest of the world. The left side of the account (table 11.1, Account III.2) records acquisitions less disposals of financial assets, while the right side records incurrence of liabilities less their repayment. Net incurrence of liabilities less net acquisition of financial assets is equal in value, with the opposite sign, to net lending/borrowing, the balancing item in the capital account.

1. The role of the financial account

11.3 The financial account is the second of the accounts that deal with accumulation. From the opening of the accounting period to the close, all balance sheet changes involving financial assets and liabilities must be accounted for by financial transactions (described in this chapter) and by other changes in the volume of financial assets and revaluations covered in chapter XII. The financial account is also the final account, in the full sequence of accounts, that records transactions between institutional units. The financial account does not have a balancing item that is carried forward to another account, as has been the case with all accounts previously discussed. Rather, the net balance of the financial account is equal in magnitude, but with the opposite sign, to the balancing item of the capital account.

11.4 Net saving is the balancing item of the use of income account, and net saving plus net capital transfers receivable/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.

Table 11.1. Account III.2: Financial account

Table 11.2. Classification of transactions in financial assets and liabilities

11.2 This chapter addresses five issues:

(a) the role of the financial account within the SNA;
(b) the nature of financial transactions and special cases;
(c) the accounting rules for financial transactions;
(d) the classification of financial transactions; and
(e) detailed flow-of-funds tables.

2. Counterparts of financial transactions

11.9 While some entries in the financial account have counterparts in other accounts of the SNA, other entries take place entirely within the financial account. In the SNA, most transactions involving the transfer of ownership of a good or non-financial asset, or the provision of a service or labour, entail a counterpart entry in the financial account. This most often takes the form of the exchange of goods, assets, and services for means of payment or claims on future means of payment. As the SNA records transactions on an accrual basis, any transaction expected to lead to eventual payment, either in financial assets or in kind, has a counterpart in the financial account. Even transactions in kind, such as barter sales and transfers in kind, lead to entries in the financial account when all elements of the in-kind transaction are not completed simultaneously.

11.10 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 account receivable/payable. In certain cases, a transaction may have its counterpart in other types of financial assets, such as the provision of fixed assets for long-term indebtedness, and the liability may be evidenced by a loan or security. Thus, counterparts involving changes in financial assets are recorded in the financial account for most transactions recorded in other SNA accounts.

11.11 However, in the SNA, many transactions take place entirely within the financial account. Transactions limited to the financial account occur whenever one financial asset is exchanged for another or when a liability is repaid with an asset. For example, trade credits are extinguished by exchanging means of payment. 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 (a) the creditor reduces his holdings of trade credits and increases his means of payment (currency or transferable deposits); and (b) the debtor reduces his liabilities (in the form of trade credits) and reduces his financial assets (in the form of means of payment).

11.12 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 an existing bond is sold by one institutional unit to another on the secondary market, in his financial account, the seller reduces his holdings of securities and increases equally his holdings of means of payment. The purchaser makes the opposite entries in his financial account. When a new financial asset is created through the incurrence of a liability by an institutional unit, all related entries may also be 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 recomposition of financial assets - reduction in means of payment and an
increase in securities. Transactions that are wholly within the financial account involve the 
exchange of one asset for another or the simultaneous creation or reduction of both assets 
and liabilities. These transactions change the distribution of the portfolio of financial assets 
and liabilities and may change the totals of both assets and liabilities, but they do not change 
the difference between total financial assets and liabilities.

3. Net lending and borrowing

11.5 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 the use of 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.

11.6 The evolution of net lending/borrowing can be seen clearly in table 10.2, Account III.1. 
Capital account. In this example, general government and financial and non-financial 
corporations have a deficit or net borrowing requirement, while households and non-profit 
institutions have surpluses or net lending capacity. In table 11.1, Account III.2. Financial 
account, non-financial corporations are shown to have a net borrowing requirement of 69. 
This requirement is financed by incurring liabilities of 140 and acquiring financial assets of 
71; the difference between the two equals net borrowing. Similarly, the household sector, 
which has a net lending balance of 148, achieves this result by acquiring financial assets of 
181 and incurring liabilities of 33. The financial corporations sector has a net borrowing 
balance of 5, which is financed by incurring liabilities of 232 and acquiring financial assets 
of 237. In comparison with other sectors, financial corporations will generally have small 
amounts of net lending/borrowing. However, their transactions in financial assets and 
liabilities will be comparatively large as a reflection of their primary role of intermediating 
between other borrowers and lenders by incurring liabilities and acquiring financial assets. 
Net borrowers can transact directly with net 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. In many other cases, financial intermediaries have as 
their special function the creation of a financial market that indirectly links lenders and 
borrowers by incurring liabilities to net lenders through taking deposits or issuing securities 
and providing the financial resources thus mobilized to borrowers. An examination of the 
financial transactions of the subsectors of the financial corporations sector, in addition to the 
those of the consolidated financial sector, is often useful.

11.7 It is important to note that, for each institutional sector, the financial account indicates the 
types of financial assets 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 the final section of this chapter. 
This analysis illustrates debtor/creditor relationships by type of financial asset.
11.8 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 described in paragraph 11.59 below. 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 11.1 the total economy has acquired financial assets of 641 and incurred liabilities of 603. Net borrowing for the total economy to the rest of the world is therefore 38.

Contingent assets

11.25 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 contingencies, are not actual current financial assets and should not be recorded in the SNA. The principal characteristic of contingencies is that one or more conditions must be fulfilled before a financial transaction takes place. Guarantees of payment by third parties are contingencies since payment is only required if the principal debtor defaults. Lines of credit provide a guarantee that funds will be made available but no financial asset exists until funds are actually advanced. Letters of credit are promises to make payment only when certain documents specified by contract are presented. Underwritten note issuance facilities (NIFs) provide a guarantee that a potential debtor will be able to sell short-term securities (notes) that 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 gives rise to no 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.

11.26 For the purposes of the SNA, the treatment of contingencies is clear. 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 contingencies may be important for financial programming, policy, and analysis. Therefore, where contingent positions are important for policy and analysis, it is recommended that supplementary information be collected and presented as supplementary data in the SNA.

11.27 Country practices vary in determining which instruments are considered contingent and which are considered actual assets to be recorded in the balance sheet. 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 SNA recommends that the banker’s acceptance be treated as an actual financial asset even though no funds may have been exchanged. Flexibility in the
application of this recommendation will be required to take national practices and variations in the nature of these instruments into account.

B. Financial transactions

11.53 The SNA classification of transactions in financial assets and liabilities is presented in table 11.2 above. The same classification is used in the balance sheets for stocks of financial assets and liabilities. This classification scheme is based primarily on two kinds of criteria: the liquidity of the asset and the legal characteristics that describe the form of the underlying creditor/debtor relationship. The concept of liquidity embraces other more specific characteristics - such as negotiability, transferability, marketability or convertibility - and these characteristics play a major role in determining the categories, although they are not separately identified in a systematic way. This classification is designed to facilitate the analysis of transactions of institutional units and is a framework for assessing the sources and uses of financing and degree of liquidity for these units.

11.54 The classification requires reporting of asset categories at the one digit level except for insurance technical reserves (F.6), which must be divided between net equity of households in life insurance reserves and in pension funds (F.61) and prepayments of premiums and reserves against outstanding claims (F.62) and other accounts receivable/payable (F.8), which must be divided between trade credits and advances (F.81) and other (F.89). In the case of currency and deposits, the category can be subdivided between currency, transferable deposits, and other deposits when these subdivisions are useful for analysis. Securities other than shares (F.3) and loans (F.4) may be divided between short- and long-term when such a maturity distinction is useful.

11.55 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 for any institutional units. Consequently, a detailed breakdown may be developed for financial corporations. It should be noted that the SNA classification scheme is considered to be generally applicable as a framework for classifying financial assets and liabilities and provides 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 that include differing institutional arrangements, variety in the extent and nature of national financial markets, varying degrees of complexity of financial assets available, and varying degrees of regulation and other financial control exercised. In all cases, the SNA recommends compiling and presenting data at the first-digit level for asset categories 1 through 5 and 7, and at the two-digit level for categories 6 and 28 (see table 11.2). A substantial amount of flexibility, particularly with regard to further breakdowns, is therefore required to match the classification scheme to national capabilities, resources, and needs. In particular, further breakdowns of these categories are desirable for many countries to distinguish important types of assets within categories (such as short-term securities included in measures of money).
1. The nature of financial transactions and special cases

11.13 All financial transactions between institutional units and between institutional units and the rest of the world are recorded in the financial account. Financial transactions between institutional units and between institutional units and the rest of the world cover all transactions involving change of ownership of financial assets, including the creation and liquidation of financial claims. As noted above in section B of this chapter, the creation or other change in ownership of a financial asset may have its counterpart in other accounts of the SNA, or transactions in the financial account may involve exchanges of financial assets or incurrence of new liabilities for other financial assets; in these latter cases, all counterparts are recorded within the financial account.

11.15 The identification of financial transactions has also become more difficult because of financial innovation that has led to the development and proliferation 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. Some of these instruments are tied to prices of commodities, so the distinction between financial and non-financial transactions may be blurred. 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. A substantial degree of flexibility in presentation is therefore appropriate to meet national needs and to reflect national practices.

C. Accounting rules for financial transactions

11.45 Financial transactions with respect to proprietors’ net additions to the accumulation of quasi-corporate enterprises and changes in households’ claims on insurance enterprises and pension funds raise complex issues of valuation that are treated in the relevant item under classification of these categories (paragraphs 11.86 and 11.89 to 11.95 below, respectively).

1. Time of recording

11.47 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 non-financial, the time of recording of financial claims is to be aligned with the time of recording, in the other accounts of the SNA, 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 the entries are made in the relevant non-financial account, i.e., when ownership of the goods is transferred or when the service is provided. Similarly, when accounts receivable/payable arise from transactions related to taxes, compensation 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.

11.48 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
money or some other financial asset is paid by the creditor to the debtor or repaid by the
debtor to the creditor.

11.49 In practice, the two parties of 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/receivable are extinguished by final payments and there is a lag (float)
between the point in time when payments are made and received. There are several stages at
which creditors and debtors could record a transaction. The debtor could record the liability
as being extinguished when the check or other means of payment is issued to the creditor. A
substantial 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. The float, in practice, may be 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 will
be necessary to develop estimates of the size of the float in order to adjust the accounts.

2. **Basis of recording-netting and consolidation**

11.50 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 incurrences and repayments 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 sales of securities other
than shares from all purchases 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.

11.51 In the SNA, transactions are recorded in the financial account as net acquisition of assets and
net incurrence of liabilities. As the financial account is broken down by main categories of
financial assets, the desirable degree of netting would correspond to paragraph 11.50 (c)
above, netting within a given category of assets. 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 paragraph 11.50 (c) above would hinder 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, gross reporting or netting at level paragraph 11.50 (b) above would be desirable, particularly for analysis of securities, but netting at level paragraph 11.50 (c) above would still provide useful information on financial flows.

11.52 Consolidation in the financial account refers to the process of offsetting transactions in assets for a given grouping 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 will be 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. 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.

D. Classification of financial transactions

1. Classification criteria

Asset/liability symmetry

11.59 All financial claims and the associated liabilities constitute financial assets and liabilities. However, financial assets also include certain assets that cannot properly be described as claims over other designated institutional units when there are no matching liabilities. There are three such types of asset:

(a) Monetary gold, i.e., gold owned by monetary authorities and others subject to the authorities’ effective control and held as a financial asset and as a component of foreign reserves;

(b) SDRs, reserve assets issued by the IMF and not considered a liability of the IMF (IMF members, to whom SDRs are allocated, do not have an actual, i.e., unconditional, liability to repay their SDR allocations);

(c) Shares, other corporate equity securities, and capital participation (shares are close substitutes for other financial assets from the point of view of the investor. The SNA treats shares as liabilities by convention. However, these liabilities do not represent fixed redemption values, as is the case for many other assets, but claims on the net worth of the corporation).
2. **Summary descriptions of transactions in financial assets and liabilities**

11.62 Eight main categories of financial assets are distinguished in the SNA and are listed in table 11.2. The contents of each category are described in detail in later sections.

In the SNA, financial assets are classified under eight major categories (the full classification is presented in table 11.2):

- F.1 Monetary gold and special drawing rights (SDRs)
- F.2 Currency and deposits
- F.3 Securities other than shares
- F.4 Loans
- F.5 Shares and other equity
- F.6 Insurance technical reserves
- F.7 Financial derivatives
- F.8 Other accounts receivable/payable.

Depending upon whether they are assets or liabilities of the unit or sector in question, these categories are listed on both sides of the financial account.

**Monetary gold and SDRs (F.1)**

11.63 Monetary gold and SDRs issued by the IMF are assets for which there are no outstanding financial liabilities.

11.64 Transactions in monetary gold consist of sales and purchases of gold among monetary authorities. Monetary gold is owned by monetary authorities or others subject to their effective control. 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 can be a financial asset only for the central bank or central government. 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 of other sectors in gold (including non-reserve gold held by the authorities and all gold held by financial institutions other than the central bank) 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, and/or change in inventories. However, 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.

11.65 If authorities add to their holdings of monetary gold by acquiring commodity gold, i.e., newly mined gold or existing gold offered on the private market, or release monetary gold
from their holdings for non-monetary purposes, i.e., for sale to private holders or users, they are deemed to have monetized or demonetized gold, respectively. When the authorities acquire gold, the transaction is recorded in the capital account as a positive entry under acquisition less disposals of valuables or change in inventories, and counterpart entries are recorded in the accounts of the institutional units or the rest of the world supplying the gold. When non-monetary gold is acquired from abroad, the entry is recorded under imports. Monetization or demonetization itself does not give rise to entries in the financial accounts; instead, the change in balance sheet positions is accounted for by entries in the other changes in volume of assets account as a reclassification, i.e., the reclassification of gold in inventories or gold as valuables to monetary gold. Demonetization is recorded symmetrically. If monetary gold is pledged by the authorities or otherwise used as collateral, no transaction is deemed to have taken place, nor has the gold been demonetized simply by the pledging. However, as pledging may affect the gold’s usability as a reserve asset, supplementary information, such as that for contingencies, should be collected. With respect to the treatment of gold swaps, national practices vary. Some favour treating them as actual transfers of ownership while others favour treating such swaps as the creation of a new financial asset, as is recommended for other repurchase agreements. In the SNA, they should be treated as new financial assets and classified as loans.

11.66 Monetary gold normally takes the form of coins, ingots, or bars with a purity of at least 995/1,000; it is usually traded on organized markets or through bilateral arrangements between central banks. Therefore, valuation of transactions is usually not a problem.

11.67 SDRs are international reserve assets created by the IMF and allocated to its members to supplement existing reserve assets. Transactions in SDRs are recorded in the financial accounts of the monetary authorities and the rest of the world, respectively. They are not considered liabilities of the IMF, and IMF members to whom SDRs are allocated do not have an actual (unconditional) liability to repay their SDR allocations. SDRs are held exclusively by official holders, which are normally central banks, and are transferable among participants in the IMF’s Special Drawing Rights Department and other holders designated by the IMF (central banks and certain other international agencies). SDRs represent each holder’s assured and unconditional right to obtain other reserve assets, especially foreign exchange. The value of the SDR is determined daily on the basis of a basket of currencies. The basket and the weights are revised from time to time. Valuation of transactions in SDRs raises no difficulties since they are used only in official transactions with a determined daily exchange rate.

11.68 The mechanism by which SDRs are created (referred to as allocations of SDRs) and extinguished (cancellations of SDRs) is not treated as one that gives rise to transactions in the SNA but rather to entries in the other changes in volume of assets account.

Currency and deposits (F.2)

11.69 The total of currency, transferable deposits, and other deposits should always be calculated. If separate data are considered useful for individual countries, they should be compiled for each component.
Currency (F.21)

11.70 Currency comprises those notes and coins in circulation that are commonly used to make payments. (Commemorative coins that are not actually in circulation should be excluded.) Distinctions should be drawn between national currency and foreign currencies, i.e., currency that is the liability of resident units, such as central banks, other banks and central government, and 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 only financial corporations and government may issue currency.

Transferable deposits (F.22)

11.71 Transferable deposits comprise all deposits that are:

(a) Exchangeable on demand at par, without penalty or restriction;

(b) Freely transferable by check or giro-order; and

(c) Otherwise commonly used to make payments.

Transferable deposits should be cross-classified according to

(a) whether they are denominated in national currency or in foreign currencies, and

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

Other deposits (F.29)

11.72 Other deposits include all claims, other than transferable deposits, on the central bank, other depository institutions, government units, and, in some cases, other institutional units that are represented by evidence of deposit. Typical forms of deposits that should be included under this classification are non-transferable savings deposits, term deposits, and non-transferable deposits denominated in foreign currencies. The category also covers shares or similar evidence of deposit issued by savings and loan associations, building societies, credit unions, and the like; these shares or deposits are legally, or in practice, redeemable on demand or at relatively short notice. 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 (F.4.).) Repayable margin payments in cash related to financial derivative contracts are included in other deposits, as are overnight and very short-term repurchase agreements if they are considered part of national broad money definitions. Other repurchase agreements should be classified under loans. It will often be useful to cross-classify the other deposits category according to: (a) whether the deposits are denominated in national currency or in foreign currencies, and (b) whether they are liabilities of resident institutions or the rest of the world.

11.73 Transferable and other deposits may be held by all sectors. Deposits are most often accepted as liabilities by financial corporations and general government, but institutional arrangements in some countries permit non-financial corporations and households to accept deposits.
Securities other than shares (F.3)

11.74 The category of securities other than shares includes bills, bonds, certificates of deposit, commercial paper, debentures, 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 traded in organized markets at discounts that depend on the rate of interest and the time to maturity. Examples of short-term securities are Treasury bills, negotiable certificate of deposit, banker’s acceptances, and commercial paper. Bonds and debentures are securities that give the holders the unconditional right to fixed money incomes or contractually determined variable money incomes, i.e., payment of interest is not dependent on earnings of the debtors. With the exception of perpetual bonds, bonds and debentures also give holders the unconditional rights to fixed sums as repayments of principal on a specified date or dates.

11.75 New negotiable securities are often issued backed by existing assets such as loans, mortgages, credit card debt, or other assets (including accounts receivable). This repackaging of assets is often referred to as securitization. The creation of the new assets gives rise to entries in the financial account and the new assets should be classified as securities other than shares. The previously existing assets will continue to be reported on the balance sheet of the institutional units that hold them. Loans which have become negotiable de facto should also be classified under securities other than shares. Preferred stocks or shares that pay a fixed income but do not provide for participation in the distribution of the residual value of an incorporated enterprise on dissolution are included. Mortgages are not classified as bonds; they are included under loans.

11.76 Questions concerning the treatment in the accounts of zero-coupon (and other deep-discounted) bonds and indexed securities may be raised.

11.77 Zero-coupon bonds are long-term securities that do not involve periodic interest payments during the life of the bond; instead, they are sold at a discount from par value and the full return is paid at maturity. Deep-discount bonds pay some interest during the life of the instrument but the amount is substantially below market interest. For both of these assets, the difference between the discounted issue price and the price at maturity is substantial. In the SNA that difference is treated as interest and is recorded as accruing over the life of the bond rather than when due for payment. This treatment requires that the difference between issue price and the price at maturity be converted into a series of payments (quarterly or annual) recorded as interest (property income). The counterpart of this interest flow is entered in the financial account, under securities other than shares, and the effect is that the interest is reinvested. This treatment allows the costs of providing the capital to be matched to the periods for which the capital is provided.

11.78 Index-linked securities are instruments for which either the coupon payments (interest) or the principal are linked to a price index, the price of a commodity, or to an exchange rate index; 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 income, as is the case with any variable interest rate financial asset. When the value of the principal is indexed, 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 securities other than shares in the financial account.
11.32 Repurchase agreements are arrangements whereby an institutional unit sells securities at a specified price to another unit. The sale is made under a commitment to repurchase the same or similar securities at a fixed price on a specified future date (usually very short-term, e.g., overnight or one day) or at a date subject to the discretion of the purchaser. The arrangement appears to involve two separate transactions in financial assets. However, its economic nature is similar to that of a collateralized loan in that the purchaser of the securities is providing to the seller advances backed by the securities for the period of the agreement and is receiving a return from the fixed price when the repurchase agreement is reversed. In most cases, the securities do not change hands and the buyer does not have the right to sell them, so it is unclear even in a legal sense whether a change of ownership has taken place. Therefore, in the SNA, a repurchase agreement is treated as a newly created financial asset that is not related to the underlying securities. Repurchase agreements are to be classified under loans unless they involve bank liabilities and are classified in national measures of broad money; in the latter case, repurchase agreements are classified under other deposits (see paragraphs 11.56 and 11.57 below for a discussion of the relationship of money measures to the SNA).

11.33 Foreign exchange and gold swaps (not to be confused with interest rate or currency swaps discussed in paragraph 11.38 below) are a form of repurchase agreement commonly undertaken between central banks or between a central bank and banking institutions in a country. Central bank to central bank swaps involve an exchange of deposits and, for each of the two parties, the acquisition of a financial asset (the deposit at the foreign central bank) and the incurrence of a liability (the deposit by the foreign central bank). Central bank to central bank swaps should be recorded as transactions in the financial account. When a central bank acquires foreign exchange from a domestic bank in return for a deposit at the central bank and there is a commitment to reverse the transaction at a later date, this transaction should be treated as a new financial instrument (a loan from the central bank) and recorded as such in the financial account.

11.79 An optional subclassification of securities other than shares by maturity into short-term and long-term should be based on the following criteria:

Short-term (F.31)

11.80 Short-term securities other than shares include those securities that have an original maturity of one year or less; however, to accommodate variations in practice between countries, short-term may be defined to include an original maturity of two years 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 NIFs.

Long-term (F.32)

11.81 Long-term securities other than shares include those securities that have an original maturity of more than one year; however, to accommodate variations in practice between countries, long-term may be defined to include an original maturity in excess of two years. 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.

11.82 Transactions in options-type and forward-type financial derivatives, particularly those outside of organized exchange markets, have grown in importance. Classification of financial derivatives as a separate financial instrument category recognizes both this
importance and their different nature compared with other financial instruments. Unlike debt instruments, no principal amount is advanced to be repaid and no investment income accrues. No specific standards for sub-classifications of financial derivatives are recommended. Compilers may select the classifications best suited for their purposes. The distinction may be associated with different market behaviors, different data collection methods, different valuation procedures, etc. In some cases, derivatives are classified by instrument; the basic types of derivatives (forwards and options) or market risk classification (e.g., currency swaps, interest rate swaps, etc.) may serve as the basis for classification.

Loans (F.4)

11.83 Loans include all financial assets that:

(a) Are created when creditors lend funds directly to debtors;

(b) Are evidenced by non-negotiable documents; or

(c) For which the lender receives no security evidencing the transaction.

This category includes all loans and advances (apart from trade credit and advances receivable or payable, see F.81) extended to business, government, and households, etc., by banks, finance companies, and others. The category includes instalment loans, hire-purchase credit, and loans to finance trade credit. Claims on the IMF that are evidenced by loans should be included in this category. Repurchase agreements not included in national broad money definitions, as well as financial leases and similar arrangements, should also be classified as loans. It is useful to subdivide the category of loans according to the resident sectors and the rest of the world for debtors and creditors, respectively. All sectors may acquire assets and incur liabilities in the form of loans.

11.84 Short-term loans comprise loans that normally have an original maturity of one year or less; however, to accommodate variations in practice between countries, short-term may be
defined to include an original maturity of two years or less. All loans repayable on demand should be classified as short-term even when these loans are expected to be outstanding for more than one year.

*Long-term (F.42)*

11.85 Long-term loans comprise loans that normally have an original maturity of more than one year, except that, to accommodate variations in practice between countries, long-term may be defined to require an original maturity in excess of two years. It may also be useful to distinguish loans secured by mortgages from other long-term loans.

*Shares and other equity (F.5)*

11.86 Shares and other equities comprise all instruments and records acknowledging, after the claims of all creditors have been met, claims to the residual value of corporations. Equity securities do not provide the right to a pre-determined income or to a fixed sum on dissolution of the corporations. Ownership of equity is usually evidenced by shares, stocks, participation, or similar documents. Preferred stocks or shares, which also provide for participation in the distribution of the residual value on dissolution of an incorporated enterprise, are included. It is often useful to compile data separately for shares that are and are not quoted on an exchange.

11.87 Shares and other equity includes proprietors’ net equity in quasi-corporations, as well as shares and equities in corporations. In the SNA, incorporated enterprises may have their own net worth in addition to the owners’ equity in the corporations; for quasi-corporations, all net worth is assumed to be held by the owners. Proprietors’ net additions to the equity of quasi-corporate enterprises are the net additions that owners of such enterprises make to the funds and other resources of these enterprises. The owners make these additions for purposes of the capital investment of the quasi-corporate enterprise. This category is not separately identified under “shares and other equity”. Included under proprietors’ net additions are the net results of actual additions to, and withdrawals from, the capital of quasi-corporations. The capital 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. 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 savings and reserves for the consumption of fixed capital. This category excludes current withdrawals from and contributions to the income of quasi-corporations.

11.88 Financial transactions related to immovable assets and unincorporated enterprises owned by non residents (see paragraph 11.30 above) are classified under shares and other equity. In the case of a quasi-corporation that is a direct investment enterprise wholly owned by non-residents (typically the foreign branch of a corporate or unincorporated enterprise), it is assumed that all of the quasi-corporation’s retained earnings are remitted to the parent enterprise(s) and then reinvested as an addition to the net equity of the quasi-corporation. It is, of course, up to the proprietor(s) to make additional investments in the equity of direct investment enterprises over and above the amount of the retained earnings or, alternatively, to withdraw capital. For a direct investment quasi-corporation partly owned by non-residents, only that portion of the retained earnings proportional to the degree of ownership is imputed to be paid and reinvested. The same assumptions are made for incorporated
enterprises, i.e., retained earnings are assumed to be remitted in proportion to the percentage of the equity owned by foreigners and the reinvestment is recorded in this category.

Insurance technical reserves (F.6)

11.89 Insurance technical reserves are subdivided between net equity of households in life insurance and pension funds (F.61) and prepayments of premiums and reserves against outstanding claims (F.62). The former category comprises reserves against outstanding risks and reserves for with-profit insurance and pension funds; it is subdivided between net equity of households in life insurance reserves (F.611) and net equity of households in pension funds (F.612). F.62 comprises prepayment of premiums and reserves held by insurance enterprises (including automobile, health, term life, accident/injury, income maintenance, and other forms of non-life insurance) against claims. Reserves against outstanding risks, reserves for with-profits insurance, and prepayments of premiums are considered to be assets of policyholders, while reserves against outstanding claims are assets of the beneficiaries. Insurance technical reserves may be liabilities, not only of life or non-life insurance enterprises (whether mutual or incorporated) but also of autonomous pension funds, which are included in the insurance enterprise sub-sector, and non-autonomous pension funds which are included in the institutional sector that manages the funds.

Net equity of households in life insurance reserves and pension funds (F.61)

Net equity of households in life insurance reserves (F.611)

11.90 Life insurance reserves consist of reserves against outstanding risks and reserves for with-profit insurance that add to the value on maturity of with-profit endowments or similar policies. Although held and managed by insurance enterprises, life insurance reserves are considered assets of the insured persons or households and not part of the net worth of the insurance enterprises. Life insurance reserves are collectively described as the net equity of households in life insurance reserves. The financial account of the SNA records changes in the net equity of households in life insurance reserves. Such changes, which result from transactions in which insurance enterprises or households engage, consist of additions less reductions.

11.91 Additions to the equity of households in life insurance funds consist of:

(a) The total value of the actual premiums earned during the current accounting period;

(b) The total value of the premium supplements (equal to the income from the investment of the reserves which is attributed to policy holding households);

(c) Less the service charges for life insurance.

11.92 Reductions in the equity of households in life insurance funds consist of:

(a) The amounts due to holders of endowment and similar insurance policies when they mature, including the bonuses or profits earned on such policies;

(b) The amounts, including bonuses or profits due to beneficiaries, from deaths of insured persons;
(c) Payments due on policies that are surrendered before maturity.

Changes in the net equity of households that occur between the beginning and end of the accounting period and that result from nominal holding gains or losses on the reserves invested by insurance enterprises are recorded in the revaluation account.

Net equity of households in pension funds (F.612)

11.93 Pension funds consist of the reserves held by funds established by employers and/or employees to provide pensions for employees after retirement. These reserves, like reserves against life insurance, are considered to be assets of households - not assets of the institutional units that manage them. Therefore, these reserves are referred to as the net equity of households in pension funds. The financial account of the SNA records change in the net equity of households in pension funds. Such changes, which result from transactions in which the funds or the households may be involved, consist of additions less reductions.

11.94 Additions to the equity in pension funds consist of:

(a) The total value of the actual contributions into pension funds payable by employees, employers, or other institutional units on behalf of individuals or households with claims on the funds;

(b) The total value of the contribution supplements (equal to the income earned from the investment of the reserves of the pension funds which is attributed to participating households);

(c) Less the service charges for managing the funds.

11.95 Reductions in the equity in pension funds consist of:

(a) The total value of the amounts payable to retired persons or their dependants in the form of regular payments each week, month, or other period;

(b) The total value of any lump sums payable to persons when they retire.

11.96 Changes in the net equity of households that occur between the beginning and the end of the accounting period and that result from nominal holding gains or losses on the invested reserves of pension funds are recorded in the revaluation account and are not included in the financial account.

Prepayments of insurance premiums and reserves for outstanding claims (F.62)

11.97 Prepayments of premiums result from the fact that, in general, insurance premiums are paid in advance. Insurance premiums are due to be paid at the start of the period covered by the insurance, and this period does not normally coincide with the accounting period itself. Therefore, at the end of the accounting period when the balance sheet is drawn up, parts of the insurance premiums payable during the accounting period are intended to cover risks in the subsequent period. These prepayments of premiums are assets of the policyholders and form part of the insurance technical reserves. The amounts of premiums recorded in the accounts as transactions between policyholders and insurance enterprises consist of the
premiums earned - those parts of the premiums that are paid in the current period or the preceding period and that are intended to cover risks outstanding during the current period.

11.98 Reserves against outstanding claims are reserves that insurance enterprises hold in order to cover the amounts they expect to pay out in respect of claims that are not yet settled or claims that may be disputed. Valid claims accepted by insurance enterprises are considered due for payment when the eventuality or accident that gives rise to the claim occurs - however long it takes to settle disputed claims. Reserves against outstanding claims are therefore considered to be assets of the beneficiaries and liabilities of the insurance enterprises.

11.99 The financial account of the SNA records changes in prepayments of premiums and reserves for outstanding claims that result from transactions between policyholders and insurance enterprises under the general heading of changes in insurance technical reserves. Changes in these reserves resulting from holding gains or losses are recorded in the revaluation account and not in the financial account.

3. Financial derivatives

11.34 Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and 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. 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 - such as 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 with options, or by creating a new contract which 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.

11.35 The SNA recommends that 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 of the SNA. 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.
11.36 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. Therefore, the SNA recommends that net settlement payments under derivative contracts are 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 quantity) recorded as a transaction in financial derivatives.

11.37 There are two broad classes of financial derivatives: forward-type contracts, including swaps, and option contracts. Under a forward contract, the two counterparties agree to exchange a specified quantity of an underlying item (real or financial) at an agreed contract price - strike price- on a specified date. Futures contracts are forward contracts traded on organized exchanges. 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. A forward contract is an unconditional financial contract that represents an obligation for settlement on a specified date. 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. 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.

11.38 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, on one currency over a period of time. Settlements are often made through net cash payments by one counterparty to the other. Forward rate agreements are arrangements 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. A foreign exchange swap is a spot sale/purchase of currencies and a simultaneous forward purchase/sale of the same currencies. Forward foreign exchange contracts involve two counterparties who agree to transact in foreign currencies at an agreed exchange rate in a specified amount at some agreed future date. Cross-currency interest rate swaps, sometimes known as currency swaps, involve 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. 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 (see paragraphs 11.40 and 11.44 for the valuation of transactions in underlying assets).

11.39 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 indexes. 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. Therefore, it is recommended in the SNA that the full price 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. 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.

11.40 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 a loan from the writer. 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.

11.41 Warrants are a form of options that are treated in the financial account in the same way as other options. They 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.

11.42 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
Financial derivatives whose primary purpose is to trade credit risk are known as credit derivatives. They are designed for trading in loan and security default risk. 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.

11.43 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 which 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, such as the receipt of income or exposure to holding gains and losses. 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/payable in order to reserve the term deposits for monetary aggregates. When repayable margin payments are made in noncash 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. Nonrepayable margins reduce a financial liability created under a financial derivative contract. The entity that pays a nonrepayable 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 nonrepayable 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 nonrepayable margin is recorded as an increase of holdings of currency and deposits with the counter entry in the reduction in financial derivative assets.

Other accounts receivable/payable (F.8)

Trade credit and advances (F.81)

11.100 This category comprises:

(a) Trade credit for goods and services extended directly to corporations, government, NPIs, households, and the rest of the world; and

(b) 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 under category 4 in table 11.2. It may also 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.

Other (F.89)

11.101 This category includes accounts receivable and payable, other than those described previously (e.g., in respect of taxes, dividends, purchases and sales of securities, rent, wages and salaries, and social contributions). Interest that is accruing on financial assets may be recorded under various categories in the classification. In general, interest accruing on exchange rates.
securities other than shares should be recorded as increasing the value of the security. With respect to interest accruing on deposits and loans, the recording of interest may have to follow national practices as to whether the interest is capitalized in the underlying asset. If such interest is not capitalized, it may be classified in this category. When accrued interest is not paid when due on any financial asset, this gives rise to interest arrears. As accrued interest is already recorded in the accounts under the appropriate asset or under this category, no separate entry for such arrears is required. When they are important it may be useful to group all arrears of interest and repayment under a memorandum item. This category does not include statistical discrepancies.

Memorandum item: direct foreign investment

11.102 Transactions in financial assets and liabilities arising from the provision of, or receipt of, direct foreign investment are to be recorded under the appropriate categories listed above in table 11.2, i.e., shares and other equity (category 5), loans (category 4), and other accounts receivable/payable (category 7). However, the amounts of direct foreign investment included within each of those categories should also be recorded separately as memorandum items.