

## Draft BPM7 Chapter 5

### Classifications of Financial Assets and Liabilities

**Editors:** Definitions of various terms in this chapter may undergo some changes based on the Common Glossary of Macroeconomic Statistics prepared by the Communication Task Team (CMTT).

**5.1** This chapter discusses the classifications of financial assets and liabilities used in the international accounts. These classifications are applied to positions, the associated income, financial account transactions, and other changes involving financial assets and liabilities. Classifications are used to group similar components and to separate components with different characteristics. The international accounts functional categories and their relationship to the instruments classification are discussed in Chapter 6. A discussion of Islamic finance in the context of the national accounts and the external sector statistics, including Islamic banking instruments and the classification of financial assets and liabilities and a discussion of economic ownership in the case of Islamic finance, can be found in Chapter 17, Islamic Finance.

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### A. Definitions of Economic Assets and Liabilities

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References:

2025 *SNA*, Chapter 12, The Financial Account, and Chapter 14, The Balance Sheet.

IMF, *MFSM 2000*, Chapter 4, Classification of Financial Assets.

IMF, *Monetary and Financial Statistics Compilation Guide*, 2008.

IMF, *Financial Soundness Indicators: Compilation Guide*, 2006, Appendix IV, Reconciliation Between the Guide's Methodology and National and Commercial Accounting.

BIS, ECB, and IMF, *Handbook on Securities Statistics*, 2015.

To be updated. Include a reference to Annex 10 on green bonds and Chapter 17 on Islamic Finance instruments.

### 1. Economic assets in general

**5.2** *Economic assets are resources over which ownership rights are enforced and may entitle the owner to economic benefits.* They include fixed assets, such as equipment and intellectual property, that are used repeatedly or continuously in production over more than one year. They also include inventories, valuables, nonproduced nonfinancial assets, and financial assets.

**5.3** Every economic asset has an owner. *The economic owner of the asset is the party who bears the risks and receives the benefits of ownership.* Benefits of ownership usually include the right to use, rent out, or otherwise generate income, or to sell the asset. The risks include the potential losses caused by damage, theft, and holding losses; that management, transfer, or maintenance costs are greater than anticipated; and, in the case of financial assets, default of the counterparty. Ownership may be subject to costs such as maintenance costs and taxes. Usually, the economic owner is the same as the legal owner, but they may differ in cases such as financial leases. Under some legal arrangements, elements of the risks and benefits are split between different parties, so it is necessary to identify which party has the bulk of risks and benefits to identify the economic ownership. Every economic asset has demonstrable value, functioning as a store of value that reflects the amounts of the economic benefits that its owner can derive by holding it, using it, or providing it temporarily to another entity. It may be tangible or intangible.

Different kinds of economic benefits that may be derived from an asset include:

- (a) the ability to use assets, such as buildings or machinery, in production;
- (b) the generation of services, for example, renting out produced assets to another entity;
- (c) the generation of property income (e.g., interest and dividends received by the owners of financial assets);  
and
- (d) the potential to sell and thus realize holding gains.

**5.4** The classification system of economic assets recognized in macroeconomic data sets is shown in Table 5.1. In the international accounts, produced assets are covered in the goods and services account,

nonproduced nonfinancial assets in the capital account, and financial assets and liabilities in the financial account and IIP. This chapter deals with the classification of financial assets and liabilities.

**Table 5.1. Economic Asset Classification**

*(Includes 2025 SNA codes)*

Asset classes	Examples
<b>An nonfinancial assets</b>	
<b>An1 produced assets</b>	
An11 fixed assets	Tangible assets: dwellings; other buildings and structures; machinery and equipment; weapons systems; cultivated biological resources.  Intangible assets: research and development; mineral exploration; computer software and databases; entertainment, literary, and artistic originals.
An12 inventories	Materials and supplies, work-in-progress, finished goods, goods for resale.
An13 valuables	Precious metals and stones, antiques, and other art objects.
<b>An2 nonproduced assets</b>	
An21 natural resources	Land and subsoil assets, noncultivated biological resources, water resources, radio spectra.
An22 contracts, leases, and licenses	Marketable operating leases, permissions to use natural resources, permissions to undertake specific activities, entitlement to future goods and services on an exclusive basis.
An23 Goodwill and marketing assets	Brand names, mastheads, trademarks.
AF financial assets	see Table 5.3

**Editors:** This table will be updated to reflect the 2025 SNA classification of nonfinancial assets (including a separate category for crypto assets without corresponding liability under non-produced nonfinancial assets and marketing assets as produced non-financial assets).

## 2. Financial instruments

*5.5 Financial instruments consist of the full range of financial contracts made between institutional units.* Financial instruments may give rise to financial claims (as discussed in paragraph 5.6) or not (as discussed in paragraphs 5.9-5.14).

### 3. Financial claims

**5.6** *A financial claim is a financial instrument that gives rise to an economic asset that has a counterpart liability.* Financial claims arise from contractual relationships established when one institutional unit promises to provide funds or other resources to another in the future. (Usually, funds or resources are supplied at the beginning of the relationship, but not in the case of forwards contracts in financial derivatives.) Equity is also regarded as a financial claim as it represents property rights on an entity and a claim of the owner on its residual value.

**5.7** Each financial claim is a financial asset that has a corresponding liability. A liability (and a corresponding asset) is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor). The existence of two parties to a financial claim and its corresponding liability means that it can arise in a cross-border situation.

**5.8** Nonfinancial assets do not have a corresponding liability. For example, fixed assets, commodities, and certain types of crypto assets do not have a corresponding liability.

**5.XX** Certain financial instruments (e.g., unallocated gold deposits, crypto deposits, commodity futures, commodity-linked bonds) which are linked to the price of commodities or other nonfinancial assets (e.g., oil, gas, agricultural products, gold, silver, copper, platinum) are also financial claims to the extent that they give rise to an economic asset with a counterpart liability.

### 4. Financial assets

**5.9** *Financial assets consist of financial claims and the gold bullion component of monetary gold.* Financial assets consist of equity and investment fund shares, debt instruments, financial derivatives and employee stock options, and monetary gold (see Table 5.3). Financial assets include crypto assets with a corresponding liability. They should be recorded in relevant financial assets and liabilities (see Chapter 16.XX for discussions on crypto assets). Financial assets can be delineated from financial instruments in that:

- (a) some financial instruments do not give rise to financial assets, as discussed in paragraphs 5.10–5.14. Examples of instruments not recognized as assets are one-off guarantees not yet activated and unrealized commitments such as lines of credit, loan commitments, and letters of credit; and
- (b) when held as monetary gold, gold bullion is a financial asset that is not created by an instrument and that does not represent a claim on another entity. It is considered to be a financial asset because of its role as a means of international payments and store of value for use in reserve assets. (The unallocated gold account component of monetary gold does have a counterpart claim; it is discussed in paragraph 5.74.)

## 5. Other financial instruments not recognized as financial assets

**5.10** *Some assets or liabilities may involve a legal contract but specify that one institutional unit is obliged to provide a payment or series of payments or to provide other objects of value to another unit only if specified conditions prevail. Such assets or liabilities are called contingent assets or liabilities. They are not recognized as financial assets or liabilities prior to the condition(s) being fulfilled. However, by conferring certain rights or obligations that may affect future decisions, they can produce an economic impact on the parties involved. As a result, supplementary information may be provided on significant contingent assets or liabilities.*

**5.11** Although the value of future payments arising from equity, financial derivatives, index-linked instruments, insurance technical reserves, and provisions for standardized guarantees is uncertain, they are recognized as financial assets rather than as contingent assets. In these cases, the liability exists, but the amounts payable depend on subsequent events.

**5.12** One-off guarantees of payment by third parties are contingent because payment is required only if the principal debtor defaults. However, provisions for calls under standardized guarantees are not considered to be contingent because of the more predictable expectation of payment under standardized guarantees. (Definitions of standardized and one-off guarantees are given in paragraph 5.68.)

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**I** Provisions for losses on assets are recorded as liabilities in monetary and financial statistics and are classified under other accounts payable.

**Editors:** Pending. Waiting for the discussion in the SNA community. (2008 SNA 2.29 Transactions in contingent assets and liabilities are not considered transactions in the SNA)

**5.13** Lines of credit, letters of credit, and loan commitments assure that funds will be made available, but no financial asset (i.e., loan) is created until funds are actually advanced. Letters of credit are promises to make payment only when certain documents specified by contract are presented. Note issuance facilities assure that parties will be able to sell short-term securities that they issue and that the financial corporations providing the facility will purchase any notes not sold in the market. Only if the financial corporation providing the facility makes funds available will it acquire an actual asset, to be recorded in its balance sheet. Uncalled share capital is contingent unless there is an obligation to pay the amount.

**5.14** Sums set aside in business accounting to provide for future liabilities or for future expenditures, such as provisions for losses on assets, are not recognized as liabilities. Only actual current liabilities to another party or parties are explicitly included in financial assets and liabilities. When the anticipated liability becomes actual, it is recognized. A future stream of revenue, such as future tax collections or royalties receipts, is not recognized as a financial asset.

**5.XX** Crypto assets designed to act as a general medium of exchange (or as a medium of exchange only within a platform) that do not have a corresponding liability are treated as nonproduced nonfinancial assets (see paragraphs xx, Chapter 14 a description of this category of crypto assets). Crypto assets are discussed in detail in Chapter 16 (paragraph 16.XX-XX).

## **6. Other issues**

**5.15** *Securities are debt and equity instruments that have the characteristic feature of negotiability.* That is, their 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, securities are designed to be traded, usually on organized exchanges or “over the counter.” (The over-the-counter market involves parties negotiating directly with one another, rather than on a public exchange.) Negotiability is a matter of the legal form of the instrument. Some securities may be legally negotiable, but there is not, in fact, a liquid market where they can be readily bought or sold.

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## **B. Classification of Financial Assets and Liabilities by Type of Instrument**

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### **1. Introduction to classification of particular financial assets and liabilities**

5.17 This *Manual* uses three broad categories of financial assets and liabilities: (1) equity and investment fund shares, (2) debt instruments, and (3) other financial assets and liabilities. The *2025 SNA* and this *Manual* use an additional, more detailed classification of financial assets and liabilities. The classification is based primarily on the legal characteristics that describe the form of the underlying relationship between the parties to an instrument, which are also related to their liquidity and economic purpose. Although financial innovation leads to the emergence of new types of instruments, the classification is intended to provide broad categories that allow for international comparability and the inclusion of new instruments within the existing categories.

Table 5.2. Returns on Financial Assets and Liabilities: Financial Instruments and Their Corresponding Type of Income
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*(Includes 2025 SNA codes)*

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Draft BPM7 Chapter 5 Classifications of Financial Assets and Liabilities

Financial instrument	Type of income receivable/ payable on instrument
Equity and investment fund shares	
AF51 equity	D42 distributed income of corporations D43 reinvested earnings <sup>1</sup> D41 interest <sup>2</sup>
AF511+AF512 listed and unlisted shares	D421 dividends D43 reinvested earnings <sup>1</sup> D41 interest <sup>2</sup>
AF519 equity in international organizations and other equity	D422 Dividends and withdrawals from income of quasicorporations D43 reinvested earnings <sup>1</sup> D41 interest <sup>2</sup>
AF52 investment fund shares/units	D443 investment income attributable to investment fund shareholders (dividends, reinvested earnings, and imputed investment income)
Debt instruments	
AF12 special drawing rights	D41 interest
AF2 currency and deposits	D41 interest
AF3 debt securities	D41 interest
AF4 loans	D41 interest
AF6 insurance, pension, and standardized guarantee schemes	D44 other investment income
AF81 Trade credit and advances	D41 interest
AF89 other accounts receivable/payable	D41 interest
Other financial assets and liabilities	
AF11 monetary gold <sup>3</sup>	D41 interest <sup>2</sup>
AF7 financial derivatives and employee stock options	none

<sup>1</sup>Reinvested earnings—a standard component for direct investment equity. A supplementary item for portfolio investment.

<sup>2</sup>By convention, lending fees on equity securities, gold loans, and gold swaps are classified as interest (see paragraph 11.67).

<sup>3</sup>Monetary gold consists of gold bullion and unallocated gold accounts. Gold bullion has no counterpart liability. However, the counterpart liability of unallocated gold accounts is in deposits.



**5.18** Table 5.2 shows the *SNA* instruments classification and the corresponding type of income they generate. The linking of income with the corresponding assets and liabilities facilitates calculation of rates of return, which are useful for both analysis and data verification. Table 5.3 shows the 2025 *SNA* classification and the corresponding broad categories.

## 2. Equity and investment fund shares

**5.19** Equity and investment fund shares have the distinguishing feature that they represent property rights on the institutional unit that issued the instrument and a residual claim on its assets after having met the obligations vis-à-vis debt holders. Equity represents the owners' 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.

**5.20** Investment fund shares have a specialized role in financial intermediation as a kind of collective investment in other assets, so they are identified separately. Additionally, the treatment of portfolio investment income for investment fund shares differs from that for equity; in that reinvested earnings are imputed for investment fund shares (as shown in paragraphs 11.37–11.39).

### *a. Equity*

**5.21** *Equity consists of all instruments and records that acknowledge ownership rights and 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 (a corporation or other unit).

**5.22** Ownership of equity in legal entities is usually evidenced by shares, stocks, participations, depository receipts, or similar documents. 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. (For nonparticipating preferred shares, see paragraph 5.46.) In addition to the issuance of shares, the value of equity can be affected by a range of factors, such as share premiums, accumulated reinvested or retained earnings, or revaluations. In addition, a direct investor

may increase its equity in an affiliate by providing or paying for goods and services (see paragraph 8.17) consumed by or rendered to an affiliate, or assuming debt (see paragraph 8.45(c)).

**Table 5.3. 2025 SNA Financial Instruments Classification (with Corresponding BPM7 Broad Categories)**

*(Includes 2025 SNA codes)*

2025 SNA financial assets and liabilities classification	broad international accounts category (BPM7)
AF11 monetary gold	
Gold bullion	} other financial assets
unallocated gold accounts	} and liabilities
AF12 special drawing rights	debt instruments
AF2 currency and deposits	} debt instruments
AF21 currency	}
AF221 interbank positions	}
AF229 other transferable deposits	}
AF29 other deposits	}
AF3 debt securities	debt instruments
AF4 loans	debt instruments
AF5 equity and investment fund shares	} equity
AF51 equity	}
AF511 listed shares	}
AF512 unlisted shares	}
AF519 equity in international organizations and other equity	}
AF52 investment fund shares/units	}
AF521 money market fund shares/units	}
AF522 other investment fund shares/units	}
AF6 insurance, pension, and standardized guarantee schemes	} debt instruments
AF61 nonlife insurance technical reserves	}
AF62 life insurance and annuity entitlements	}
AF63 pension entitlements	}
AF64 claims of pension funds on pension managers	}
AF65 entitlements to nonpension benefits	}
AF66 provisions for calls under standardized guarantees	}
AF7 financial derivatives and employee stock options	} other financial assets
AF71 financial derivatives	} and liabilities
AF711 forward-type contracts	}
AF712 option-type contracts	}
AF72 employee stock options	}
AF8 other accounts receivable/payable	} debt instruments
AF81 Trade credit and advances	}
AF89 other accounts receivable/payable	}

**5.23** *Depository receipts are certificates that represent ownership of securities listed in other economies. Depository receipts listed on one exchange represent ownership of securities listed on another exchange,*

and ownership of the depository receipts is treated as if it represents direct ownership of the underlying securities. Depository receipts facilitate transactions in securities in economies other than their home listing. The underlying securities may be equity or debt securities.

**5.24** Equity may be split into:

- (a) listed shares,
- (b) unlisted shares, and
- (c) equity in international organizations and other equity.

Both listed and unlisted shares are equity securities (securities are defined in paragraph 5.15). *Listed shares are those listed on an exchange* and may sometimes be referred to as quoted shares. Unlisted shares may sometimes be referred to as private equity<sup>2</sup> (venture capital often takes this form).

**5.25** The existence of quoted prices of shares listed on an exchange means that current market prices are usually readily available. In addition to the valuation aspects, listed and unlisted shares typically have different regulatory requirements.

**5.26** *Equity in international organizations and other equity are equity that is not classified in direct investment or portfolio investment.* 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 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 (see paragraph A3.44). Other equity 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.

**5.XX** *Subscription rights are the rights for 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 and

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<sup>2</sup>Private equity refers to the source of equity funds being on private markets; however, private equity may be used to invest in listed shares, including to take over publicly listed companies, and delist them.

buying a proportionate number of shares of the issuance, the investor maintains their percentage of ownership in the corporation. If the shareholders choose not to exercise the rights within the specified time frame, their ownership will be diluted. Subscription rights are classified as equity since the sum of the value of the shares after the subscription issuance and that of subscription rights represents the total value of the corporation that issued the subscription rights.

5.27 The general principles of valuation given in paragraphs 3.84–3.91 apply to equity. However, because prices may not be observable for unlisted shares, equity in international organizations, and other equity, other methods are noted in paragraphs 7.15–7.18.

### ***b. Investment fund shares or units***

5.28 *Investment funds are collective investment undertakings through which investors pool funds for investment in financial or nonfinancial assets or both.* These funds issue shares (if a corporate structure is used) or units (if a trust structure is used). Investment funds include money market funds (MMF) and non-MMF investment funds, discussed further in paragraphs 4.73–4.74. Investment fund shares or units refer to the shares issued by mutual funds and unit trusts, rather than the shares they may hold.

5.29 *MMFs are investment funds that invest only or primarily in short-term money market securities such as treasury bills, certificates of deposit, and commercial paper.* MMF shares and units sometimes are functionally close to transferable deposits, for example, accounts with unrestricted check-writing privileges. If MMF shares are included in broad money in the reporting economy, they should be recorded as a separate item to allow reconciliation with monetary statistics. (See also paragraph 4.73 on MMFs as a subsector.)

5.30 Investment funds invest in a range of assets, such as 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 in which investment funds are significant.

## **3. Debt instruments**

Reference:

IMF and others, *External Debt Statistics: Guide for Compilers and Users*, paragraphs 2.3–2.11.

**5.31** *Debt instruments are financial instruments that require the payment of principal and/or interest at some point(s) in the future.* Debt instruments consist of SDRs, currency and deposits, debt securities, loans, insurance technical reserves, pension and related entitlements, provision for calls under standardized guarantees, and other accounts receivable/payable. The term debt instrument is applicable to both the liability and the corresponding asset. Some instruments, such as currency and some deposits, pay no interest. With insurance and pension schemes, the income flow is called investment income attributable to insurance policyholders/investment income payable on pension entitlements, rather than interest.

**5.32** Debt instruments can be contrasted with equity and investment shares in the nature of the liability and risk. Whereas equity gives a residual claim on the assets of the entity, a debt instrument involves an obligation to pay certain amounts of principal and/or interest usually according to a predefined formula, which usually means that the creditor has a more limited risk exposure. Provided that the debtor is solvent, debt obligations are largely fixed or linked by a formula to some other variable, such as a market interest rate or the price of a selected item.<sup>3</sup> In contrast, the return on equity is largely dependent on the economic performance of the issuer. Because of the different nature of risk, debt is an important grouping for analysis.

**5.33** Because debt instruments involve an obligation to repay principal, short- or long-term classification (according to either original or remaining maturity) is of analytical significance. The maturity splits are explained in paragraphs 5.103–5.105.

#### ***a. Special drawing rights***

**5.34** *SDRs are international reserve assets created by the IMF and allocated to members to supplement existing official reserves.* SDRs are held only by the monetary authorities of IMF members and a limited number of international financial institutions that are authorized holders. SDR holdings represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF members. (For more information, see paragraph 7.83.)

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<sup>3</sup> Some pension entitlements (e.g., those in defined contributions schemes) may reflect investment performance of the pension schemes.

**5.35** Holdings of SDRs by an IMF member are recorded as an 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 netted.

5.XX 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.

## ***b. Currency and deposits***

### ***Currency***

**5.36** *Currency consists of notes and coins that are of fixed nominal values and are issued or authorized by the central bank or governments. Currency can also be issued digitally (i.e., central bank digital currencies).*

**5.37** Some countries issue gold coins, which are held for intrinsic value, or commemorative coins, which are held for numismatic value. If not in active circulation, such coins are not classified as financial assets but as goods (except for gold coins that are classified as monetary gold; see paragraph 6.78). Similarly, central bank or central government holdings of unissued or demonetized currency are not financial assets. (Acquisition of unissued currency by a monetary authority from a printer or coin manufacturer is included in goods; see paragraph 10.17(a).)

**5.38** Foreign currency in circulation, including as legal tender, is shown as a currency asset of the resident holder and as a liability of the issuer. Transactions that take place between residents settled in foreign currency in circulation are domestic transactions. Currency is discussed as a financial instrument in this section. The term "currency" is also used to classify the denomination of all kinds of instruments as being denominated in either domestic currency or foreign currency (as discussed further in paragraphs 3.98–3.103).

### ***Deposits***

**5.39** *Deposits include all claims that are (a) on the central bank, deposit-taking corporations other than the central bank, and, in some cases, other institutional units; and (b) represented by evidence of deposit.* A deposit is usually a standard contract, open to the public at large, that allows the placement of a variable amount of money. The nominal value of deposits is usually fixed in terms of the currency in which the deposits are denominated. In some cases, deposits may have their value expressed in terms of an index or linked to a commodity price, for example, gold, oil, or share prices. Unallocated accounts for precious metals are also deposits, except for unallocated gold accounts held by monetary authorities for reserves purposes, for which the asset holding is included in monetary gold (with the counterpart liability being recorded as a deposit—see paragraph 5.77).

**5.40** Deposits are distinguished from loans on the basis of the representation in the documents that evidence them. There may be cases in which the distinction is unclear, because the parties are uncertain or take different views. When one party is a deposit-taking corporation and the other is not, a possible convention is that an asset position of a deposit-taking corporation is classified as a loan by both parties. Similarly, a liability of a deposit-taking corporation to another type of entity is classified as a deposit by both parties. Classification of interbank positions as deposits is discussed in paragraph 5.42.

#### ***Transferable deposits***

**5.41** *Transferable deposits consist of all deposits that are (a) exchangeable for currency on demand at par and without penalty or restriction and (b) directly usable for making payments by check, draft, giro order, direct debit or credit, or other direct payment facility.* Some types of deposit accounts embody only limited features of transferability. 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. An overdraft arising from the overdraft facility of a transferable deposit account is classified as a loan. Transferable deposits include electronic money when they are liabilities of deposit-taking corporations.

#### ***Interbank positions***

**5.42** Interbank positions can be shown as a separate component of deposits. Interbank positions should be classified in the relevant instrument categories. When there is uncertainty between a loan and a deposit, interbank positions should be recorded under deposits.

#### ***Other deposits***

**5.43** *Other deposits consist of all claims, other than transferable deposits, that are represented by evidence of deposit.* Other deposits include savings and fixed-term deposits, and nonnegotiable certificates of deposit. (Negotiable certificates are classified as debt securities.) Restricted deposits, defined as those for which withdrawals are restricted on the basis of legal, regulatory, or commercial requirements, are included in other deposits, as well as shares or similar evidence of deposit issued by savings and loan associations, building societies, credit unions, and the like. Liabilities under securities repurchase agreements that are included in national measures of broad money are also other deposits (while liabilities under other repurchase agreements are included in loans). Similarly, repayable margins for financial derivatives and other cash collateral that are included in national measures of broad money are included in other deposits (while other repayable margins (see paragraph 5.94) for financial derivatives are included in loans or accounts payable/receivable). Reserve position in the IMF (see paragraph 6.85) is included in other deposits.

#### ***Central bank swap arrangements***

5.XX Deposits include assets created under central bank swap arrangements that involve the temporary exchange of deposits between the central banks of two economies (central bank swap arrangements are discussed in paragraphs 6.102-104).

### ***c. Debt securities***

**5.44** *Debt securities are negotiable instruments serving as evidence of a debt.* They include bills, bonds, notes, 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 generally issued at discounts to face value that depend on the rate of interest and the time to maturity and are



usually traded in organized markets. Examples of short-term securities are treasury bills, negotiable certificates of deposit, bankers' acceptances, promissory notes, and commercial paper. Debt securities give the holders the unconditional right to fixed or contractually determined variable payments (i.e., earning of interest is not dependent on earnings of the debtors). Depository receipts whose underlying securities are debt securities are debt securities (see paragraph 5.23).

***Possible reclassification of traded loans as securities***

**5.45** 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.

***Nonparticipating preferred stocks and convertible bonds***

**5.46** Nonparticipating 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. These shares are classified as debt securities. (See also paragraph 5.22 concerning participating preferred shares.) Bonds that are convertible into equity should be classified as debt securities prior to the time that they are converted.

***Asset-backed securities***

**5.47** Asset-backed securities, collateralized debt obligations, and collateralized mortgage obligations are arrangements under which payments of interest and principal are backed by payments on specified assets or income streams. Asset-backed securities are backed by various types of financial assets (e.g., mortgages and credit card loans), pools of leased property, nonfinancial assets, or future income streams—such as the earnings of a musician or a government's future revenue—that are not recognized as economic assets in macroeconomic statistics. Securitization of these assets provides liquidity in assets that are otherwise not so liquid.<sup>4</sup> Asset-backed securities may be issued by a specific holding unit or vehicle, which

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<sup>4</sup>Another term used is "structured finance." This refers to the repackaging of existing financial assets—securities, loans, or other assets—into new instruments that are structured to meet the liquidity, creditworthiness, and return preferences of particular investors. These arrangements may incorporate financial derivatives.

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 direct exposure to the risks of and residual claim on the underlying assets; if they did, the instrument would be equity or investment funds shares.

### ***Bankers' acceptances***

**5.48** *Bankers' acceptances involve 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.* Much international trade is financed this way. Bankers' acceptances are classified under the category of debt securities. Bankers' acceptances represent unconditional claims 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.

### ***Index-linked securities***

**5.49** *Index-linked securities are those for which either the coupon payments (interest) or the principal or both are linked to another item, such as a price index, an interest rate, or the price of a commodity.* These securities are classified as variable-rate instruments (see paragraph 5.113). Issues for the measurement of revaluations and interest are discussed in paragraphs 9.34 and 11.59–11.65, respectively.

### ***Stripped securities***

**5.50** *Stripped securities are securities that have been transformed from a principal amount with coupon payments into a series of zero-coupon bonds (i.e., debt securities that have a single payment at maturity with no coupon payments), with a range of maturities matching the coupon payment date(s) and the redemption date of the principal amount(s).* They are also called strips. The function of stripping is that investor preferences for particular cash flows can be met in ways that are different from the mix of cash flows of the original security. Stripped securities may have a different issuer from the original issuer—in which case new liabilities are created. Following are the two cases of stripped securities:

- 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 a new financial instrument is created.
- When no new funds are raised and the payments on the original securities are stripped and separately marketed by the issuer or through agents (such as strip dealers) acting with the issuer's consent. (Paragraph 11.58 discusses how interest on stripped securities is calculated on an accrual basis.)

#### ***d. Loans***

**5.51** *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.*<sup>5</sup> This category includes all non-negotiable claims other than deposits entailing fixed cash flows (or cash flows with determined by a formula), including those emerging from overdraft facilities, except accounts receivable/payable, which are treated as a separate category of financial assets. Loans that have become negotiable and been recorded in debt securities (as noted in paragraph 5.45) are also excluded from loans. This category includes installment loans, hire-purchase credit, and loans to finance trade,<sup>6</sup> factoring claims,<sup>7</sup> and cash collateral claims, including repayable margins for financial derivatives, if they are not recorded in deposits or accounts payable/receivable.<sup>8</sup> Claims on or liabilities to the IMF (including use of IMF credit) that are in the form of loans are also included in this category (see also paragraph 6.85 on the treatment of loans provided to the IMF General Resources Account; and Annex 7.1 on loans and credit from the IMF). 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. The distinction between loans and deposits is discussed under deposits in paragraph 5.40.

#### ***Securities repurchase agreements and gold swaps***

Reference:

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<sup>5</sup>Negotiability is defined in paragraph 5.15. Loans may be traded, but their legal form is not designed for negotiability in the same way as debt securities.

<sup>6</sup> These types of loans should not be mistaken for trade credit and advances.

<sup>7</sup> The factoring income is recorded as a fee (see paragraph 12.XX).

<sup>8</sup> Repayable margin payments in cash are classified in deposits if the debtor's liabilities are included in broad money. If not, they are recorded in either loans or accounts payable/receivable.

BIS, *Securities Lending Transactions: Market Development and Implications*, CPSS Publications No. 32, July 1999.

**5.52** *A securities repurchase agreement (repo) is a contractual arrangement involving the sale of securities for cash, at a specified price, 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 an “open” maturity.* The supply and receipt of cash under a securities repurchase agreement is treated as a loan or deposit. It is generally a loan, but it is classified as a deposit if it involves liabilities of a deposit-taking corporation or is included in national measures of broad money. If a securities repurchase agreement does not involve the supply of cash (i.e., there is an exchange of one security for another, or one party supplies a security without collateral), there is no loan or deposit. Cash provided as collateral in margin calls under a repo are also classified as loans or deposits (see paragraph 5.94 on margins for financial derivatives).

**5.53** Repos, securities lending with cash collateral, and sale-buybacks are different terms for arrangements with the same economic effect as a securities repurchase agreement—all involve the provision of securities as collateral for a loan or deposit. A repo is used as a term from the perspective of the security provider, while a reverse repo is used from the perspective of the security taker. Securities repurchase agreements are a subset of reverse transactions (as discussed in paragraphs 7.58–7.61 and Annex 7).

**5.54** The securities provided as collateral under securities lending, including a securities repurchase agreement, are treated as not having changed economic ownership, as discussed in paragraph 7.58. 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. (The same treatment is adopted for repurchase agreements without cash collateral, in which case there is no transaction in the securities and no loan.)

**5.55** *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 taker (cash provider) usually will not record the gold on its balance sheet, while the gold provider (cash taker) usually will not 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.<sup>9</sup>

### ***Financial leases***

References:

2025 SNA, Chapter 17, Cross-Cutting and Other Special Issues, Part 5, Contracts, leases and licenses.

International Accounting Standards Board, *International Financial Reporting Standards*, International Accounting Standard 17, Leases.

**5.56** *A financial lease is a contract under which the lessor as legal owner of an asset conveys substantially all the risks and benefits of ownership of the asset to the lessee.* In other words, the lessee becomes the economic owner of the asset. Under a financial lease, the lessor is shown as making a loan to the lessee with which the lessee acquires the asset. Thereafter the leased asset is shown on the balance sheet of the lessee and not of the lessor; the corresponding loan is shown as an asset of the lessor and a liability of the lessee.

**5.57** Examples of situations that would normally lead to a lease being classified as a financial lease include that:

- (a) the lease transfers legal ownership to the lessee at the end of the lease term; or
- (b) the lease has the option for the lessee to acquire legal ownership at the end of the lease term at a price that is sufficiently low that the exercise of the option is reasonably certain; or
- (c) the lease term is for the major part of the economic life of the asset; or
- (d) at inception, the present value of the lease payments amount to substantially all of the value of the asset; or
- (e) if the lessee can cancel the lease, the lessor's losses are borne by the lessee; or
- (f) gains or losses in the residual value of the residual asset accrue to the lessee; or

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<sup>9</sup>Gold swaps should not be confused with a swap giving rise to a financial derivative. The two types of arrangements have different risk transfer implications; under a gold swap, the economic ownership of the gold does not change hands (see paragraph 5.91).

(g) the lessee has the ability to continue the lease for a secondary period for a payment substantially lower than market value.

These examples may not be conclusive that substantially all of the risks have been conveyed; for example, if the asset is conveyed to the lessee at the end of the lease at its fair value at that time, then the lessor holds substantial risks of ownership. Financial leases are also called finance leases or capital leases, highlighting that the motivation is to finance acquisition of the asset. In addition to financial leases recognized in business accounts, a treatment akin to financial leases is adopted for some public-private partnerships<sup>10</sup> (see 2025 *SNA*, Chapter 30, The General Government and Public Sectors).

**5.58** The treatment of financial leases is designed to move away from the legal arrangements to capture the economic reality of such arrangements, by treating assets under a financial lease as if they were purchased and owned by the user. For example, if a bank leases an aircraft to an aviation company, at the time the company is deemed to take economic ownership of the aircraft, it is shown as an asset in the balance sheet of the aviation company, while the loan is recorded as a liability. That is, the IIP will show a loan between the aviation company and the bank.

**5.59** The debt liability at the inception of the lease is defined as the value of the asset and is financed by a loan of the same value, a liability of the lessee. The loan is repaid through payments during the contract (which consist of interest, principal, and, if a financial intermediary is involved, FISIM (financial intermediation services indirectly measured) elements) and any residual payment at the end of the contract (or alternatively, by the return of the good to the lessor).

**5.60** Financial leases may be distinguished from other kinds of leases identified in macroeconomic statistics because substantially all the risks and benefits of ownership are transferred from the legal owner of the good (the lessor) to the user of the good (the lessee). Other kinds of leases are as follows:

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<sup>10</sup>For example, a build, own, operate, transfer scheme could be found to assign the risks and benefits of ownership to the government, so the private partner would be treated as a provider of a financial lease.

- (a) Operating leases. An operating lease is one in which the legal owner of a produced asset is also the economic owner and has the operating risks and benefits from ownership of the asset. One indicator of an operating lease is that it is the responsibility of the legal owner to provide any necessary repair and maintenance of the asset. Under an operating lease, the asset remains on the balance sheet of the lessor. Operating leases give rise to services, as discussed in more detail in paragraphs 10.153–10.157.
- (b) Resource leases. A resource lease is an agreement whereby the legal owner of a natural resource makes it available to a lessee in return for a regular payment, which is recorded as rent. The resource continues to be recorded on the balance sheet of the lessor even though it is used by the lessee. Other arrangements involving natural resources may amount to an outright sale of a natural resource to the lessee (such as spectrum licenses for a long period; see paragraph 13.9). Some leases of natural resources, such as mining licenses held by nonresidents lead to the imputation of a notional resident unit (see paragraphs 4.34–4.40), so that the lease is between residents, and the international transactions associated with the lease are recorded as being for direct investment equity in the notional unit.

#### ***Financial or finite risk reinsurance***

**5.61** *Financial or finite risk reinsurance is defined as a kind of insurance policy that involves no or very limited transfer of risk.* Depending on how much risk is transferred, it could be classified as a loan or an insurance policy. For example, an insurance company may have a finite risk reinsurance policy that allows it to borrow funds in the event of incurring large values of claims. Because those amounts are repayable, however, the policy has a financing function and amounts drawn under the policy are classified as a loan. In contrast, if the amounts under the policy are not repayable, then risk is transferred to the reinsurer, so it has a risk pooling function and is a part of insurance.

#### ***Factoring***

**5.XX** *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

**Editors:** A few adjustments to this sub-section are possible based on the final/approved version of GN F.14 Treatment of Factoring Transactions.

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 11.XX).<sup>11</sup> The reserve held by a factor is classified as a deposit, a loan, or in accounts receivable/payable, following the recording of other cash collaterals (e.g., repayable margins for financial derivatives).

### ***e. Insurance, pension, and standardized guarantee schemes***

**5.62** *Insurance, pension, and standardized guarantee schemes consist of the following (see paragraph A6c.3 for the characteristics of non-life and life insurance):*

- (a) *nonlife insurance technical reserves;*
- (b) *life insurance and annuity entitlements;*
- (c) *pension entitlements and claims of pension funds on pension managers; and*
- (d) *provisions for calls under standardized guarantees.*

**5.63** These reserves, entitlements, and provisions represent liabilities of the insurer, pension fund, or issuer of standardized guarantees, and a corresponding asset of the policyholders or beneficiaries. The aggregate values of liabilities can be estimated actuarially because the company or fund has a pool of liabilities, but the value is less clear from the perspective of the individual asset holders. The insurers, pension funds, and guarantors usually hold a range of assets to allow them to meet their obligations; however, these are not necessarily equal to the relevant liabilities.

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<sup>11</sup> The indirect financing by the factor to the debtor is treated as a loan, but it does not generate interest or FISIM.



***Nonlife insurance technical reserves***

**5.64** Nonlife insurance technical reserves consist of the following:

- (a) Reserves for unearned insurance premiums, which are prepayment of premiums. Premiums are usually paid at the beginning of the period covered by the policy. On an accrual basis, the premiums are earned through the policy period, so that the initial payment involves a prepayment or advance. It also includes reserves for unexpired risks (estimated payments for unfiled claims during the period for which the premium is earned).
- (b) Reserves against outstanding insurance claims, which are amounts identified by insurance corporations to cover what they expect to pay out arising from events that have occurred but for which the claims are not yet settled. Other reserves, such as equalization reserves, may be identified by insurers. However, these are recognized as liabilities and corresponding assets only when there is an event that gives rise to a liability. Otherwise, equalization reserves are internal accounting entries by the insurer that represent saving to cover irregularly occurring catastrophes, and thus do not represent any existing corresponding claims for policyholders.

Both nonlife direct insurance and reinsurance are included in this item.

Reference: IF.1/Chapter 17 (e.g., Takaful and Re-takaful arrangements)

***Life insurance and annuity entitlements***

Reference:

2025 SNA, Chapter 24, Insurance and pensions (to be updated)

**5.65** This category consists of reserves of life insurance companies and annuity providers for prepaid premiums and accrued liabilities to life insurance policyholders and beneficiaries of annuities. Life insurance and annuity entitlements are used to provide benefits to policyholders upon the expiry of the policy, or to compensate beneficiaries upon the death of policyholders, and thus are kept separate from shareholders' funds. These entitlements are regarded as liabilities of the insurance companies and assets of the policyholders and beneficiaries.

Annuities entitlements are the actuarial calculation of the present value of the obligations to pay future income until the death of the beneficiaries.

### ***Hybrid insurance products***

**5.XX** Hybrid insurance products that have characteristics of both life and nonlife insurance are allocated to life or nonlife insurance depending on which features are predominant, i.e., the saving component (life insurance) or the component whereby claims are paid only if the insured event occurs (nonlife insurance). While some insurance policies may contain hybrid features, there is usually a predominant benefit and purpose for which the policy is intended, and other features are just value-added benefits to make the policy more appealing to the customers.

### ***Pension entitlements***

Reference:

2025 *SNA*, Chapter 24, Insurance and pensions (to be updated)

**5.66** Pension entitlements show the extent of 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. Pension entitlements also arise from autonomous employer-independent pension schemes or funds if accumulated contributions are set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes or funds. The economy of residence of pension schemes may differ from that of some of their beneficiaries, in particular, for border workers, guest workers who return home, people who retire to a different economy, staff of international organizations, and employees of transnational enterprise groups that have a single pension fund for the whole group. In addition to liabilities of funded pension schemes, liabilities of unfunded pension schemes may be included in this category if they are not intertwined with social security schemes. There are assumptions and different methods in the measurement of pension fund entitlements, so the nature of coverage and estimation should be stated in metadata.

**5.67** Pension entitlements related to social security schemes are generally not recognized as financial assets or liabilities, given that they are imposed by a general government law and sometimes subject to retrospective adjustments of the amounts payable. On the other hand, pension entitlements derived from an employer-employee relationship are generally recognized, unless they are intertwined with the social security schemes. This could also apply to pension entitlements of pension schemes where a government or another public unit is the employer. Such entitlements would qualify as financial assets or liabilities if the pension entitlements can be regarded as part of the conditions of employment and the employment contract underlying the scheme limits retrospective adjustments of the amounts payable in a similar way as pension entitlements from an employer-employee relationship with a private employer. This is particularly the case when the pension fund for government employees is clearly separated from the social security schemes.

5.XX An employer may contract with a third party to administer the pension funds for the employees. If the employer 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 sponsor and the unit working under the direction of the pension sponsor is described as the pension administrator. If the agreement between the employer and the third party acting as an administrator 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 sponsor as well as the administrator. A funding deficit or excess of the pension fund to be paid by/to the sponsor is also recorded in this item.

**Issues relating to the treatment of insurance in international accounts are explained in more detail in Appendix 8.**

*Provisions for calls under standardized guarantees*

Reference:

2025 SNA, Chapter 25, Selected issues on financial instruments (to be updated)

**5.68** *Standardized guarantees are defined as those that are not provided by means of a financial derivative (such as credit default swaps), but for which the probability of default can be well established. These*

guarantees cover similar types of credit risk for a large number of cases. Examples include guarantees issued by governments on export credit or student loans. Generally it is not possible to estimate precisely the risk of any one loan being in default, but it is possible to make a reliable estimate of how many out of a large number of such loans will default. It is therefore possible for a guarantor to determine suitable fees to charge for a guarantee working on the same sort of principle as an insurance corporation for which the fees received in respect of many policies cover the losses by a few. Standardized guarantees can be contrasted with two other types of guarantees:

- (a) Guarantees that are financial derivatives (as defined in paragraph 5.80). Guarantees that meet the definition of financial derivatives protect, on a guarantee-by-guarantee basis, the lender against certain types of risk arising from a credit relationship by paying the guarantor a fee for a specified period. The guarantees covered are such that experience in the market allows the guarantor to apply standard master legal agreements or to make a reasonable estimate of the likelihood of the borrower defaulting and to calculate suitable terms for the financial derivative. Credit default swaps are included in financial derivatives as option-type contracts.
- (b) One-off guarantees. *One-off guarantees occur in situations in which the conditions of the loan or of the security that is guaranteed are so particular that it is not possible for the degree of risk associated with it to be calculated with any degree of precision.* These guarantees are not recognized as economic assets until their activation, that is, when the event occurs that makes the guarantor responsible for the liability. These are contingent assets until activated (see paragraph 5.12). (See paragraphs 8.42–8.45 on flows associated with their activation.) However, one-off guarantees granted by governments to corporations in financial distress and that have a very high likelihood of being called are treated as if they were activated at inception (see paragraph 13.34).

**5.XX** Provisions for calls under standardized guarantees consist of prepayments of net fees 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 claims not yet settled.

## ***f. Trade credit and advances***

**5.70** *Trade credit and advances consist of (a) credit extended in the form of deferred payment directly by the suppliers of goods and services to their customers<sup>12</sup> and (b.1) advances for work that is in progress (or is yet to be undertaken) and (b.2) prepayment by the buyers for goods and services not yet provided.*

**5.71** Trade credit and advances arise when payment for goods or services (other than FISIM and prepayment of insurance services)<sup>13</sup> is not made at the same time as the change in ownership of a good or provision of a service. If a payment is made before the change of ownership, there is an advance. For example, down payments or holding deposits (where ownership of the funds changes hands) are included in trade advances. Changes of ownership for high-value capital goods may give rise to trade credit and advances, only if there is a difference in timing between the change of ownership and progress payments (see paragraphs 3.44 and 10.28). If goods or services under barter arrangements do not change ownership at the same time as the corresponding goods or services, an entry is made for trade credit and advances.

**5.72** Trade credit and advances do not include loans to finance trade made by an institutional unit other than the supplier of the good or service, as they are included under loans.<sup>14</sup> Trade bills drawn on an importer and provided to an exporter, which are subsequently discounted by the exporter with a financial institution, might be regarded by the importer as the direct extension of credit by the exporter, but once they are discounted they become a claim by a third party on the importer. In cases in which an instrument is provided to the exporter with such characteristics that it is a negotiable instrument, it should be classified as a security. A supplier may

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<sup>12</sup>Trade credit is sometimes described as supplier credit or supplier's credit.

<sup>13</sup>FISIM accrued but not yet paid is included with the relevant debt instrument, like interest (see paragraph 7.41). Prepayment of insurance premiums is included in insurance technical reserves (see paragraph 5.64).

<sup>14</sup>Trade-related credit is identified as a concept in *External Debt Statistics: Guide for Compilers and Users*, Chapter 6, Further External Debt Accounting Principles. It consists of trade credit as well as trade bills and credit provided by third parties to finance trade. It should be compiled as a supplementary item, where significant.

also sell trade claims other than trade bills to a factoring company, in which the claim is reclassified from trade credit to a loan (see paragraph 5.XX).

### ***g. Other accounts receivable/payable***

**5.73** Other accounts receivable/payable includes accounts receivable or payable such as liabilities for taxes, purchase and sale of securities, securities lending fees, gold loan fees, wages and salaries, dividends, and social contributions that have accrued but not yet paid. It also includes prepayments of those items. Claims arising from cash collateral agreements (including repayable margins for financial derivatives) are also included if they are not recorded in deposits or loans. Interest accrued should be recorded with the financial asset or liability on which it accrues, not as other accounts receivable/payable. However, for securities lending and gold loan fees, which are treated as interest by convention (see paragraphs 11.67–11.68), the corresponding entries are included under other accounts receivable/payable, rather than with the instrument to which they relate.

## **4. Other financial assets and liabilities**

### ***a. Monetary gold***

**5.74** *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 reserve assets.* Gold includes gold bullion and unallocated gold accounts with nonresidents that give title to claim the delivery of gold. *Gold bullion takes the form of coins, ingots, or bars with a purity of at least 995 parts per 1,000, including such gold held in allocated gold accounts.*

**5.75** All monetary gold is included in reserve assets or is held by international financial organizations. Monetary authorities and reserve assets are discussed further in Chapter 6, Functional Categories, Section F. Gold bullion included in monetary gold is a financial asset for which there is no corresponding liability. Gold bullion not held as reserve assets is not a financial asset and is included in nonmonetary gold, within the goods account, see paragraphs 10.50–10.54. In some cases, a central bank may own gold bullion that is not held as reserves (such as sometimes occurs when it acts as a monopoly reseller of mined gold).

### **Gold accounts**

#### *Allocated gold accounts*

**5.76** *Allocated gold accounts provide ownership of a specific piece of gold.* The ownership of the gold remains with the entity placing it for safe custody. These accounts typically offer the purchasing, storing, and selling of investment-grade bars and coin to order. Accounts of this type constitute full outright ownership of the gold. In a pool allocated gold account, a depository sets aside numbered bars into a segregated pool, which backs the amount of allocated gold the depository owes to their customers. In external sector statistics, pool allocated gold accounts are recorded in the same way as allocated gold accounts. When held as reserve assets, allocated gold accounts are classified as monetary gold. When not held as reserve assets, allocated gold accounts are treated as representing ownership of a good.

#### *Unallocated gold accounts*

**5.77** In contrast, *unallocated gold accounts represent a claim against the account operator to deliver gold.* For these accounts, the account provider holds title to a reserve base of physical (allocated) gold and issues claims to account holders denominated in gold. When held as reserve assets, unallocated gold accounts are classified as monetary gold. Unallocated gold account assets not held as reserve assets, and all unallocated gold account liabilities, are classified as deposits. Gold accounts can be distinguished from accounts that are linked (indexed) to gold but do not give title to claims for the delivery of gold; such accounts are not part of monetary gold. They are classified according to their nature as a financial instrument, usually as deposits.

### **Relationship to nonmonetary gold**

**5.78** In contrast to monetary gold, which is a financial asset, nonmonetary physical gold is a good. (Paragraphs 10.50–10.54 deal with nonmonetary gold in the goods and services account.) Similarly, other precious metals are goods, not financial assets. Monetary gold is treated differently because of its role as a means of international payments and store of value for use in reserve assets. Changes in the classification between monetary and nonmonetary gold are shown in the other changes in assets and liabilities account, as discussed in paragraphs 9.18–9.20.

***b. Financial derivatives and employee stock options (see Annex 7)***

**5.79** Financial derivatives and employee stock options are financial assets and liabilities that have similar features, such as a strike price and some of the same risk elements. However, although both transfer risk, employee stock options are also designed to be a form of remuneration.

***Financial derivatives***

**5.80** *A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk, and so on) can be traded in their own right in financial markets.* Transactions and positions in financial derivatives are treated separately from the values of any underlying items to which they are linked.

**5.81** The risk embodied in a financial derivative contract can be traded either by trading the contract itself, as is possible with options, or by creating a new contract embodying risk characteristics that match, in a countervailing manner, those of the existing contract. The latter practice, which is termed offsetability, occurs in forward markets. Offsetability means that it is often possible to eliminate the risk associated with a derivative by creating a new but “reverse” contract having characteristics that countervail the risk underlying the first derivative. Buying the new derivative is the functional equivalent of selling the first derivative because the result is the elimination of the underlying financial risk. The ability to countervail the underlying risk in the market is therefore considered the equivalent of tradability in demonstrating value. The outlay that would be required to replace the existing derivative contract represents its value; actual offsetting is not required.

**5.82** In many cases, derivatives contracts are settled by payments of net amounts in cash, rather than by the delivery of the underlying items. Once a financial derivative reaches its settlement date, any unpaid overdue amount is reclassified as accounts receivable/payable, as its value is fixed, and thus the nature of the claim becomes debt.

**5.83** The following types of financial arrangements are not financial derivatives:



- (a) A fixed-price contract for goods and services is not a financial derivative unless the contract is standardized so that the market risk therein can be traded in financial markets in its own right. For example, an option to purchase an aircraft from the manufacturer is not classified as a financial derivative.
- (b) Insurance and standardized guarantees are not financial derivatives. Insurance involves the collection of funds from policyholders to meet future claims arising from the occurrence of events specified in insurance policies. That is, insurance and standardized guarantees are used to manage event risk primarily by the pooling, not the trading, of risk. However, some guarantees other than standardized guarantees meet the definition of financial derivatives (as covered in paragraph 5.68).
- (c) Contingent assets and liabilities, such as one-off guarantees and letters of credit, are not financial assets (as discussed in paragraphs 5.10–5.13).
- (d) Instruments with embedded derivatives are not financial derivatives. *An embedded derivative arises when a derivative feature is inserted in a standard financial instrument and is inseparable from the instrument.* If a primary instrument, such as a security or loan, contains an embedded derivative, the instrument is classified according to its primary characteristics—even though the value of that security or loan may well differ from the values of comparable securities and loans because of the embedded derivative.<sup>15</sup> Examples are bonds that are convertible into shares, and securities with options for repayment of principal in currencies that differ from those in which the securities were issued. However, detachable warrants are treated as separate financial derivatives, because they can be detached and sold in financial markets.
- (e) Timing delays that arise in the normal course of business and may entail exposure to price movements do not give rise to financial derivatives. Timing delays include normal settlement periods for spot transactions in financial markets.
- (f) Gold swaps and most central bank swap arrangements are not financial derivatives<sup>16</sup>

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<sup>15</sup>If the owner of the primary instrument subsequently creates a new but reverse financial derivative contract to offset the risk of the embedded derivative, the creation of this new financial derivative contract is recorded as a separate transaction, and it does not affect the recording of transactions and positions in the primary instrument.

<sup>16</sup> Most central bank swap arrangements have different pricing and/or conditions from those for a standard market priced currency swap. If a central bank swap arrangement follows pricing and conditions of a regular market priced swap, it should be recorded as a financial derivative.

(g) Subscription rights are classified as equity, rather than financial derivatives, since the sum of the value of the shares after the subscription issuance and that of subscription rights represents the total value of the corporation that issued the subscription rights.

**5.84** There are two broad types of financial derivatives—option-type contracts and forward-type contracts. Option-type of 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.

**5.85** 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 nonzero 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 a credit default swap;<sup>17</sup> and
- (c) at maturity, redemption is unconditional for a forward-type contract, whereas for an option-type contract it is determined by the buyer of the contract.

#### *Option-type contracts*

**5.86** *In an option-type contract (option), the purchaser acquires from the seller a right to buy or sell (depending on whether the option is a call (buy) or a put (sell)) a specified underlying item at a strike price on or before a specified date. The purchaser of an option pays a premium to the writer of the option. In return, the*

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<sup>17</sup> Credit default swaps are generally regarded as option-type contracts. However, either party of a credit default swap contract can be creditor or debtor.

buyer acquires the right but not the obligation to buy (call option) or sell (put option) a specified underlying item (real or financial) at an agreed-on contract price (the strike price) on or before a specified date. (On a derivatives exchange, the exchange itself may act as the counterparty to each contract.)

**5.87** Warrants are a form of financial derivative option giving the owner the right but not the obligation to purchase from the issuer of the warrant a fixed amount of an underlying asset, such as equities and bonds, at an agreed contract price for a specified period of time or on a specified date. Although similar to other traded options, a distinguishing factor is that the exercise of the warrants can create new securities, thus diluting the capital of existing bond or shareholders, whereas traded options typically grant rights over assets that are already available. If attached to bonds (warrant-linked bonds) to allow for a lower coupon payment, the warrants are not treated as separate financial asset (see 5.83 (d)). Warrants also include covered warrants. A covered warrant gives the holder the right, but not the obligation to buy or sell an underlying asset, at an agreed contract price for a specified period of time or on a specified date. A covered warrant allows the holder to buy or sell a variety of financial or non-financial items (e.g., equities, currencies, and commodities).

**Editors:** Additional explanation about covered warrants.

#### *Forward-type contracts*

**5.88** *A forward-type contract (forward) is an unconditional contract by which two counterparties agree to exchange a specified quantity of an underlying item (financial or nonfinancial) at an agreed-on contract price (the strike price) on a specified date.* Forward-type contracts include futures and swaps (other than as discussed in paragraph 5.91). Forward-type contract is used as a term because the term “forward” is often used more narrowly in financial markets (often excluding swaps). Forward rate agreements and forward foreign exchange contracts are common types of forward-type contracts.

**5.89** Futures are forward-type contracts traded on organized exchanges. The exchange facilitates trading by determining the standardized terms and conditions of the contract, acting as the counterparty to all trades, and requiring margin to be deposited and paid to mitigate against risk.

**5.90** At the inception of a forward-type contract, risk exposures of equal market value are exchanged, so a contract typically has zero value at that time. As the price of the underlying item changes, the market value will change, although it may be restored to zero by periodic settlement during the life of the forward. Asset and liability position of financial derivative contracts may switch except for those of standard option contracts.

*Swap contracts*

**5.91** *A swap contract involves the counterparties exchanging, in accordance with prearranged terms, financial instruments or cash flows based on the reference prices of the underlying items.* Swap contracts classified as forward-type contracts include foreign exchange swaps, currency swaps, interest rate swaps, and cross-currency interest rate swaps. Under a swap contract, the obligations of each party may arise at different times, for example, an interest rate swap for which payments are quarterly for one party and annual for the other. In such cases, the quarterly amounts payable by one party prior to payment of the annual amount payable by the other party are recorded as transactions in the financial derivative contract. Other types of arrangements also called swaps but not meeting the definition above include gold swaps (see paragraphs 5.55 and 7.58 for a discussion of their treatment), central bank swap arrangements (see paragraphs 6.102–6.104), and credit default swaps (see paragraph 5.93).

**5.92** For foreign currency financial derivative swap contracts, 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 other investment. 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).

5.XX Foreign currency financial derivative contracts (e.g., foreign exchange swaps, currency swaps, and foreign exchange forwards) typically involve the exchange of principle at maturity, but the amount of foreign currency to be delivered (i.e., notional value/amount) is not recorded on balance sheet. To capture these off-balance sheet items, scheduled payments and receipts of foreign currencies associated with these instruments are to be compiled (see A7.43 and A7.45).

*Credit derivatives*

**5.93** *Credit derivatives are financial derivatives whose primary purpose is to trade credit risk.* They are designed for trading in loan and security default risk. In contrast, the financial derivatives described in the previous paragraphs are mainly related to market risk, which pertains to changes in the market prices of securities,

commodities, interest, and exchange rates. Credit derivatives take the form of both forward-type (total return swaps) and option-type contracts (credit default swaps).<sup>18</sup> 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. Like other financial derivatives, credit derivatives 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*

**5.94** *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.<sup>19</sup> When a repayable margin deposit is made in a noncash asset (such as securities), no transaction is recorded because no change in economic ownership has occurred. 5.XX In organized 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. If these are made in cash, 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 the required level (often called a maintenance margin), an additional margin must be paid to meet the requirement. The payment is not to settle a financial derivative contract and should not be recorded in financial derivatives.

These principles for the classification of margins also apply more generally to other cash collateral agreements, including margin calls relating to positions in other financial assets.

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<sup>18</sup> Credit default swaps also have some characteristics for forward-type contracts (e.g., potential switch of the creditor-debtor positions for both parties).

<sup>19</sup> Some compilers may prefer to classify these margins within loans or other accounts receivable/ payable in order to reserve the term "deposits" to monetary aggregates.

*Supplementary detail*

**5.95** Financial derivatives can be further classified in many other ways. They include the following:

1) *By market risk categories*: foreign exchange risk, interest rate risk, equity and commodity price risks and credit risk or risks to other underlying instruments;

2) *By instrument*: options, forwards and related instruments (i.e., futures), swaps, credit derivatives, marketable employee stock options, and other instruments;

3) *By trading venue and clearing status*: exchange traded; over-the-counter (OTC) (cleared); OTC (not cleared)

by market risk categories:

**5.XX** Particularly, the information from the classification by market risk category of the underlying instrument is often used to analyze financial markets and macroeconomy. Each market risk category has distinctive characteristics:

- (a) **Foreign exchange derivatives** involve the exchange of currencies in the forward market. They include all contracts involving exposure to more than one currency, whether in interest rates or exchange rates, and cover outright forwards, foreign exchange swaps, currency swaps (including cross-currency interest rate swaps) and currency options.
  
- (b) **Single currency interest rate derivatives** are restricted to those deals where all the legs are exposed to only one currency's interest rate. These are contracts related to an interest-bearing financial instrument whose cash flows are determined by referencing interest rates or another interest rate contract (e.g., an option on a futures contract to purchase a Treasury bill). They include forward rate agreements, single-currency interest rate swaps and interest rate options, including caps, floors, collars and corridors, but exclude contracts involving the exchange of currencies (e.g., cross-currency swaps and currency options) and other contracts whose predominant risk characteristic is foreign exchange risk.

- (c) **Equity derivatives** contracts have a return, or a portion of their return, linked to the price of a particular equity or to an index of equity prices.
- (d) **Commodity derivatives** are contracts that have a return, or a portion of their return, linked to the price or to a price index of a commodity such as a precious metal, petroleum, lumber or agricultural products.
- (e) **Credit derivatives** are contracts in which the payout is linked primarily to some measure of the creditworthiness of a particular reference asset. They specify an exchange of payments in which at least one of the two legs is determined by the performance of the reference asset. Payouts can be triggered by a number of events, including a default, a rating downgrade, or a stipulated change in the credit spread of the reference asset. Typical credit derivative instruments are credit default swaps, credit-spread forwards and options, credit event or default swaps and total return swaps.
- (f) **Other derivatives** are any other derivative contracts, which do not involve an exposure to foreign exchange, interest rate, equity, commodity or credit risk. They include inflation-indexed derivatives, volatility derivatives, dividend derivatives, weather derivatives, property derivatives or freight derivatives as well as any derivatives with a non-standard underlying item which are developed for a particular client.

**5.XX** In practice, however, individual derivatives may straddle more than one risk category. In such cases, derivatives that are simple combinations of exposures should be reported separately in terms of their individual components. Derivatives that cannot be readily broken down into separable risk components should be reported in only one risk category. The allocation of such products with multiple exposures should be determined by the underlying risk component that is most significant. However, if there is doubt about the correct classification of multiexposure derivatives, the allocation by risk component should be made

according to the order of precedence adopted by the BIS: commodities, equities, foreign exchange, and single-currency interest rate, credit, and other.

### ***Employee stock options***

**5.96** *Employee stock options are options to buy the equity of a company, offered to employees of the company as a form of remuneration.* In a few cases, the company that issues the option is a resident of a different economy from the employee (e.g., where the employer is a branch or subsidiary of the company to which the option relates). Employee stock options have similar pricing behavior to financial derivatives, but they have a different nature—including arrangements for the granting and vesting dates (in general, granted employee stock options are vested once the employee has fulfilled the conditions or the relevant time period)—and purpose (i.e., to motivate employees to contribute to increasing the value of the company, rather than to trade risk). If a stock option granted to employees can be traded on financial markets without restriction, it is classified as a financial derivative.

**5.97** In some cases, stock options may be provided to suppliers of goods and services to the enterprise. Although these are not employees of the enterprise, for convenience they are also recorded under employee stock options because their nature and motivation are similar. (Whereas the corresponding entry for stock options granted to employees is compensation of employees as discussed in paragraph 11.20, the corresponding entry for stock options granted to suppliers is the goods and services supplied.)

**5.98** For transactions associated with the issue of employee stock options, see paragraph 8.41.

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## **C. Classification by Maturity**

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**5.103** The maturity of a debt instrument is classified as either short-term or long-term:

(a) *Short-term is defined as payable on demand or with a maturity of one year or less.* (Payable on demand refers to a decision by the creditor; an instrument where the debtor can repay at any time may be short- or long-term.)



(b) *Long-term is defined as having a maturity of more than one year or with no stated maturity (other than on demand, which is included in short-term).*

This classification provides information on the liquidity dimensions of debt. Currency is included in short-term maturity. Because of the nature of the relationship between the parties, in the case in which the maturity is unknown, all intercompany lending (which is defined in paragraph 6.26) may be classified as long-term maturity by convention. Insurance technical reserves, pension entitlements, and provisions for calls under standardized guarantee can potentially be classified by the maturity; however, if data are not available, a convention that they are all long-term can be adopted. When securities contain an embedded option with a date on which or after which the debt can be put (sold) back to the debtor by the creditor, the maturity is determined without reference to these embedded put options. Financial derivatives could also potentially be classified according to maturity.

**5.104** Maturity may relate to:

(a) original maturity (i.e., the period from issue until the final contractually scheduled payment); or

(b) remaining maturity (i.e., the period from the reference date until the final contractually scheduled payment<sup>20</sup>). This is also called residual maturity.

In this *Manual*, original maturity is used in the standard components, while remaining maturity is used in Table A14-IV of Appendix 14 and is encouraged for some position data. Remaining-maturity measures provide an indication of when payments will fall due, and so of potential liquidity risks facing the economy. Particularly important is information on payments coming due in the near term.<sup>21</sup> The remaining maturity breakdown is recommended in this *Manual* for outstanding debt liabilities to nonresidents by sector and instrument (see Table A14-IV of Appendix 14). It is encouraged to include the currency composition in Table A14-IV (in a similar way to Tables A14-I) given that obligations in foreign and domestic currencies can impact an economy in different ways.

**5.105** Data on both original and remaining maturity bases are accommodated by using the following split:

<sup>20</sup> For debt instruments repaid in installments, until the contractual dates of payments of individual payments.

<sup>21</sup> See paragraph 6.6 of the External Debt Statistics Guide for Compilers and Users.

- (a) short-term on an original maturity basis;
- (b) long-term on an original maturity basis, but due for payment within one year or less; and
- (c) long-term on an original maturity basis, and due for payment in more than one year.

Item (b) can be combined with item (a) to derive liabilities due within a year, that is, short-term debt on a remaining maturity basis.

5.XX This suggests that the measure of remaining maturity should split payments of a debt instrument that will fall due in the coming year from those that will fall due in more than one year. At the reference date, the present value of outstanding long-term external debt (original maturity) due to be paid in one year or less is the discounted value of payments to be made in the coming year, for both coupon and principal. To discount the value of payments, the contractual interest rate and the market interest rate should be used for loans and debt securities, respectively. When this approach raises practical difficulties in making the short- and long-term split, one alternative that might be used for analysis is the use of the undiscounted value of principal payments. This alternative measure is incomplete in its coverage of coupon payments but can be compiled using the principals for projecting payments in a debt-service schedule.

#### **BOX 5.1 Example of Calculating Remaining Maturity**

The simple example below sets out the recording for the remaining maturity classification of a loan attributed (i) to the debt payments on a discounted basis, (ii) to debt payments of the principal amount undiscounted, and (iii) to the final scheduled payment of the instrument. Consider a \$200 loan issued at  $t$  with two scheduled repayments of \$100 at  $t+1$  (within one year) and  $t+2$  (more than one year); the contractual coupon rate of the loan is 5 percent a year (interest accrued during the year is paid at the end of the year).

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Debt-service payment schedule of the loan	Principal payments	Interest payments	Loan outstanding position	<i>Present value of principal and interest payments as of end-Dec. 2014</i>
End-Dec 2014			200	200
End-Dec 2015	100	10	100	105
End-Dec 2016	100	5	0	95

As of end-Dec 2014	Classification based on scheduled payments of the loan		Classification based on the final scheduled payment of the loan
	Discounted value of principal and interest payments	Proxy measure based on the undiscounted value of principal payments	
Short-term remaining maturity	105	100	0
Long-term remaining maturity	95	100	200

In this example, as of end-December 2014 (the reference date), the classification based on the debt service payments of the loan provides the appropriate information for liquidity analysis. In this case, the loan would be split into two buckets, one short-term and one long-term based on the due dates for principal and interest payments. Two slightly different remaining maturity values are shown under the classification based on payments of the loan. The first calculation shows the discounted value of payments to be made in the coming year (short-term) and in more than one year (long-term), both interest and principal using the contractual rate of the loan for this calculation. And, the second calculation shows a simpler proxy measure based on the undiscounted value of principal payments due in one year or less (short-term) and in more than one year (one-term).

**Editors:** The reference date of this example should be updated to 2025.

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## D. Classification by Currency

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**5.106** A financial asset or liability may be classified as domestic currency or foreign currency, according to its unit of account, denomination, or settlement. These terms are discussed in paragraphs 3.95–3.97.

**5.107** Table A9-I of Appendix 9 provides a format for presenting the currency composition of outstanding debt claims and liabilities using the currency of denomination. In recognition that for some sectors, such as nonfinancial corporations and households, there may be difficulties in obtaining comprehensive data from reporters, the table includes an “unallocated” row. This table includes a currency breakdown of reserve assets into currencies held that are in the SDR basket and those that are not. In Table A14-I of Appendix 14, by convention, SDR holdings, reserve position in the IMF, and monetary gold are to be classified as reserve assets in the SDR basket.

**5.108** Table A14-I of Appendix 14 also includes forward-type financial derivatives of all resident sectors with nonresidents to receive and to pay foreign currency (e.g. foreign exchange forwards, foreign exchange swaps and currency swaps). A forward-type financial derivatives contract to purchase foreign currency with domestic currency is classified as a financial derivative to receive foreign currency. If instead the contract is to purchase domestic currency with foreign currency at a future date, this is a financial derivative to pay foreign currency. Currency compositions in forward-type financial derivatives are compiled in Table A14-I as memorandum items.

Similarly, an option to buy foreign currency (sell domestic currency) is classified as a financial derivative to receive foreign currency, and vice versa. Currency compositions in option-type contracts are compiled in Table A14-III as supplementary items.<sup>22</sup>

The decisive factor in determining whether the financial derivative is to be classified as to receive or to pay foreign currency is the exposure to currency movements. Thus, if payment of a financial derivatives contract is linked to a foreign currency, even though payment is required in domestic currency, the financial derivative is to be classified as a contract to pay foreign currency, and vice versa. If a single financial derivatives contract both pays and receives foreign currency, the notional amount should be included under both categories (i.e., to pay and to receive foreign currency).<sup>23</sup>

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<sup>22</sup> The premium leg for CDS is predetermined and should be included in the memorandum tables along with the notional values of forward-type contracts.

<sup>23</sup> Paragraph 5.95 provides further detail on the classification of financial derivatives contracts by risk categories when there is doubt about the correct classification of multiexposure derivatives.

<sup>23</sup> Paragraph 5.95 provides further detail on the classification of financial derivatives contracts by risk categories when there is doubt about the correct classification of multiexposure derivatives.

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## E. Classification by Type of Interest Rate

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**5.109** *Debt instruments may be classified as either variable-rate or fixed-rate.* This breakdown may be useful for some analysis, in that variable-rate instruments are subject to fluctuation in income flows in response to changes in market conditions, while fixed-rate securities are more subject to changes in prices. The split may be considered as possible supplementary information, as in *External Debt Statistics: Guide for Compilers and Users*.

**5.110** Variable-rate debt instruments are those for which coupon (and therefore interest) is linked to a reference index—for example, the Secured Overnight Financing Rate (SOFR), or the price of a specific commodity, or the price of a specific financial instrument that normally changes over time in a continuous manner in response to market conditions. All other debt instruments should be classified as fixed-rate. An coupon rate that is adjusted, but only at intervals of more than a year, is considered to be fixed. Coupon that is adjusted each one year or less is considered to be variable.

**5.111** Coupon on debt that is linked to the credit rating of another borrower should be classified as fixed-rate, because credit ratings do not change in a continuous manner in response to market conditions, whereas coupon on debt that is linked to a reference price index should be classified as variable-rate, provided that the prices that are the basis for the reference index are primarily market determined.

**5.112** The classification of a financial asset or liability can change over time, for example, if it switches from fixed- to variable-rate. In the period when a fixed rate is applied, the financial asset or liability is to be classified as fixed-rate debt. After the rate switches to variable, it is classified as variable-rate debt.

**5.113** Index-linked instruments are classified as being variable-rate. For these instruments, the principal or coupons or both are indexed to some variable, for example, to a general or specific price index. Because index-linked instruments have variable aspects, an instrument is classified as variable-rate if the indexation applies to the principal or coupons, or both (notwithstanding the treatment of interest discussed in paragraphs 11.59–11.65). However, a foreign-currency-linked instrument (as discussed in paragraph 11.50(b)) is treated as being denominated in the foreign currency, rather than indexed to it.

**5.114** If coupons are linked to a reference index, commodity price, or financial instrument price but is fixed unless the reference index or price passes a particular threshold, it should be regarded as fixed-rate. But if thereafter

the coupon becomes variable, then it should be reclassified as a variable-rate instrument. Alternatively, if coupon is variable-rate until it reaches a predetermined ceiling or floor, the instrument becomes fixed-rate debt when that ceiling or floor is reached. If the payment stream of a variable-rate instrument is swapped with the payment stream of a fixed-rate instrument, the swap is recorded as giving rise to a financial derivative, while the classification of the original debt instruments is unchanged.

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## F. Arrears

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**5.99** An additional subclassification can be made for instruments in arrears. *Arrears are defined as amounts that are both unpaid and past the due date for payment.* Only the amounts past due are classified as arrears—for example, in the case of overdue installments, only the overdue part is in arrears.

**5.100** Arrears related to exceptional financing are shown as memorandum items in all cases. (Exceptional financing is defined and discussed in Appendix 1.)

**5.101** Arrears not related to exceptional financing may be recorded as a supplementary category in total and under the specific financial asset or liability class affected. Separate data on arrears may be of analytical interest when there is evidence of a high or rapidly rising value of arrears. Measures of other aspects of impairment of loans and other financial claims are discussed in paragraphs 7.45–7.54.

**5.102** Arrears may be associated with either (a) re-classification of an existing instrument when a change in terms is triggered by the provisions of the original contract, or a change of the nature of the claim when the settlement of a financial derivative becomes overdue (see paragraph 5.82); or (b) the creation of a new instrument as a result of renegotiated terms (also discussed in paragraph 8.58). In either case, amounts not paid when due should be included in arrears. A liability ceases to be in arrears if all overdue payments are met. The accrual treatment of arrears is discussed in paragraphs 3.56–3.57.