Chapter 8

Financial Account

A. Concepts and Coverage

Reference:

2025 SNA, Chapter 12, Financial Account.

8.1 *The financial account records all transactions in financial assets and liabilities that take place between residents and nonresidents*. The financial account indicates the functional categories, sectors, instruments, and maturities used for net international financing transactions. The financial account is classified according to the instrument and functional categories, as discussed in Chapters 5 and 6, respectively. Table 8.1 shows some main headings in the financial account. The left-hand column of Table 8.1 shows the net acquisition of financial assets, and the right-hand column shows the net incurrence of liabilities. In the presentation in Table 8.1, assets are shown before liabilities, in accord with the order used in the IIP and general practice. (However, if the double-entry recording for the balance of payments as a whole needs to be emphasized, the liabilities could be shown in the first column. That presentation would be consistent with corresponding entries being on opposite sides of the accounts—e.g., a current account credit/revenue usually has an increase in financial assets or reduction in liabilities as its corresponding entry.)

8.2 Entries in the financial account can be corresponding entries to goods, services, income, capital account, or other financial account entries. For example, the corresponding entry for an export of goods is usually an increase in financial assets, such as currency and deposits or trade credit. Alternatively, a transaction may involve two financial account entries. Sometimes, the financial account transaction involves the exchange of one asset for another, for example, a bond may be exchanged for currency and deposits. In other cases, the transaction may involve the creation of a new financial asset and corresponding liability.

8.3 The overall balance on the financial account is called net lending/net borrowing. Net lending means that, in net terms, the economy supplies funds to the rest of the world, taking into account acquisition and disposal of financial assets and incurrence and repayment of liabilities. (Net borrowing means the opposite.) Despite the lending-oriented terms, net lending/net borrowing is a balance that takes into account transactions in equity, financial derivatives, and monetary gold, as well as debt instruments. Net lending/net borrowing can be derived from either the sum of the balances on the current and capital accounts (i.e., the sum of credits/revenues less the sum of debits/expenditures) or from the balance on the financial account (i.e., the sum of net acquisitions of financial assets less the sum of net incurrences of liabilities). In concept, the values should be equal.[1] For a surplus of credits/revenues over debits/expenditures in the current and capital accounts, there is a balancing net acquisition of financial assets and/or reduction of liabilities, which is shown in the financial account. Net lending/net borrowing of the external accounts is also equal to the net lending/net borrowing for the sum of the resident sectors of the national accounts.

8.4 It may be of interest to show balances for components of the financial account. For example, analysts may be interested in net transactions for each functional category—such as the balance of direct investment derived as net acquisition of direct investment assets less net incurrence of direct investment liabilities.

8.5 The financial account and the other changes in assets and liabilities account show the contribution to changes between the opening and closing stocks of financial assets and liabilities. (This relationship is represented in the integrated IIP as shown in Table [7.1].) These linkages of the financial account with the IIP and other changes accounts are made more transparent by the use of consistent classifications.

8.6 As shown in Table 8.1, the financial account shows net acquisition of financial assets and net incurrence of liabilities. Net acquisition of financial assets contributes to net changes in financial assets, which is wider in that it includes changes resulting from other flows, as well as transactions. Similarly, net incurrence of liabilities contributes to net changes in liabilities.

[1]In practice, they may not be equal, and the difference should be recorded as a statistical discrepancy (see paragraph [2.24]).

Table ~~8.1 Overview of the Financial Account~~

	Net acquisition of financial assets	Net incurrence of liabilities
Direct investment		
Portfolio investment		
Financial derivatives (other than reserves) and employee stock options		
Other investment		
Reserve assets		
Total		
Of which:		
Equity and investment fund shares		
Debt instruments		
Other financial assets and liabilities		
Net lending / net borrowing (from financial account)		

Note: This table is expository; for standard components, see Annex 14.

Net recording

8.7 Net recording in the financial account means aggregations whereby all acquisitions of a particular asset or incurrences of a particular liability are netted against all disposals in the same asset type or repayments in the same liability type. However, changes in financial assets should not be netted against changes in liabilities, with the possible exception for financial derivatives noted in paragraph [8.34] and in the balancing item. To illustrate the correct use of netting, acquisition of portfolio investment in equity is netted against the sales of that type of equity; new bonds issued are netted against redemption of bonds issued; but acquisition of bond assets is not netted against incurrence of bond liabilities. The net recording principle should be applied at the lowest level of classification of financial instruments, taking into account the functional category, institutional sector, maturity, and currency classifications, where applicable. In contrast to the net recording used in the financial account, the current and capital accounts are recorded on a gross basis, as explained in paragraph [3.113].

8.8 Net recording of flows in financial assets and liabilities are recommended in the external accounts for both analytical and pragmatic reasons. Financial markets are typified by large turnover. The focus of the financial account is on the net changes in each category of external financial assets and liabilities due to transactions. Also, gross reporting of data may not be possible for certain classes of units and for some financial instruments.

Gross recording on a supplementary basis

8.9 Data on gross flows are useful for analyzing market turnover and market behavior, and for measuring service fees generated. Often, a small net value may be the outcome of large gross flows. Where practical to do so, data on drawings and repayments on loans or acquisitions or disposals of other instruments could be made available to users on a supplementary basis. The data could be provided comprehensively or only for particular components.

Timing and valuation

8.10 General principles for the time of recording for financial account entries are discussed in paragraphs [3.54–3.59]. Transactions involving financial assets are recorded when economic ownership changes. Some financial liabilities, such as trade credit and advances, are the result of a transaction in nonfinancial items. In these cases, the financial claim is deemed to arise at the time the corresponding nonfinancial flow occurs.

8.11 In some cases, the parties to a transaction may perceive ownership to change on different dates because they acquire the documents evidencing the transaction at different times. This variation usually is caused by the time taken for delivery of documents and processing of transactions. The amounts involved in such "float" may be substantial in the case of transferable deposits and other accounts receivable/payable. If no precise date can be fixed, the date on which the creditor receives payment or some other financial claim can be adopted as a convention.

8.12 Financial account transactions in general are recorded at market prices, as discussed in paragraphs [3.68–3.80]. (Market prices are defined in paragraph [3.70].)

8.13 The price of financial instruments should be recorded exclusive of any commissions, fees, service charges, regulatory levies, and taxes, whether charged explicitly, included in the purchaser's price, or deducted from the seller's proceeds. Commissions and dealers' margins, as discussed in paragraphs [10.120–10.123], are payable in return for the provision of financial services, so they should be excluded from the instrument price and included in services, where applicable. Therefore, the buyer and seller record financial account transactions, at the same mid-price, that is, the midpoint between the buyer's price and the seller's price.

B. Direct Investment

8.14 Direct investment is defined in paragraphs [6.8–6.24]. Specific issues in direct investment are discussed in the following paragraphs. Direct investment from direct investor to direct investment enterprise, reverse investment, and between fellow enterprises are identified separately. Presentation of direct investment financial flows according to the directional principle is discussed in paragraphs [6.42–6.45] and Box [6.4].

1. Reinvestment of earnings

8.15 Reinvestment of earnings arising from a direct investor's equity in its direct investment enterprise is recorded as an imputed financial account entry. It is the corresponding entry and equal to reinvested earnings, which is an item in the earned income account (defined in paragraphs [11.33–11.36]; it is the direct investor's share of the retained earnings or net saving of the direct investment enterprise, before reinvested earnings payable are deemed distributed). The financial account entry is shown separately under direct investment equity.

8.16 Reinvestment of earnings may be negative in some cases, for example, in case of losses by the direct investment enterprise or if dividends payable in a period are larger than net earnings in that period. Just as positive reinvested earnings are treated as being an injection of equity into the direct investment enterprise by the direct investor, negative reinvested earnings are treated as a withdrawal of equity.

2. Dividends and withdrawal of equity

[8.16a] The concept of superdividends does not apply to direct investment in the standard presentation because any distributions paid out of distributable income from the current period and accumulated retained earnings from previous periods are treated as dividends (see paragraphs [8.28a] and [12.XX]). However, distributions beyond that would not be included in dividends and should be recorded as withdrawals of equity (see also paragraphs [12.XX] and [12.XX]. Such distributions could be funded, for example, from the sale of assets. If a direct investment enterprise has more than one investor, the calculations should be made for each investor based on the ownership share.

3. Direct investment flows in kind

8.17 Goods, services, and other resources may be supplied by or to affiliated enterprises at above or below market prices, or with no payment. For example, a direct investor may supply machinery and equipment to its direct investment enterprise. When goods and services are supplied below cost by a direct investor to a direct investment enterprise, if there is no other indication about the motivation, it can be assumed to be for the purposes of building up the direct investor's equity in the direct investment enterprise. As discussed in paragraphs [3.77–3.78, 10.35, and 11.101–11.102], when such flows can be valued, the difference between the market value of the goods and services and the prices actually charged should in principle be recorded as direct investment equity transactions.

4. Mergers and acquisitions

8.18 Mergers arise when two or more companies agree to combine into a single operation. Acquisitions involve the purchase of one company or group of companies by another company or group of companies (though not all the shares may be acquired by the purchaser). Mergers and acquisitions data are not identified as standard components within direct investment. Nonetheless, there may be interest in such data because the nature of mergers and acquisitions may differ from other direct investment—for example, they may not provide any new financing for the firms involved but rather represent a change in investors. See *OECD Benchmark Definition of Foreign Direct Investment*, [Annex 9], which discusses the definition and collection of data on merger and acquisition transactions. Mergers and acquisitions can be differentiated from greenfield investment and extension of capacity, which are described in Annex 6.

5. Corporate inversion and other restructuring

8.19 *Corporate inversion describes the corporate restructuring of a multinational enterprise group such that the original ultimate controlling parent company in one economy becomes a subsidiary of the new parent in another economy. In addition, ownership of a group of enterprises may be shifted to the new parent company*. Such arrangements may also be called corporate relocations, headquarters relocations, or corporate restructuring. The process may take place over more than one period. Although corporate inversion has a comparable economic effect to a change of residence of the parent company (as discussed in paragraphs [4.167 and 9.21]), it differs in that inversion is achieved by transactions in assets between different entities, rather than by a single entity changing its residence. So, corporate inversion results in financial transactions being recorded in the financial account. However, some other types of restructuring may involve other changes in volume, for example, if corporations change residence. Corporate inversions are described in further detail in Annex 6, and data may be published on a supplementary basis.

6. Borrowing for fiscal purposes

8.24 Special rules apply to an entity owned or controlled by general government when that entity is resident in another territory and is used for fiscal purposes. Such entities are resident in their economy of incorporation or registration, and not in the economy of their owner (as discussed in paragraphs [4.134–4.135]). For example, a government may use a special purpose or other entity to issue securities to fund its expenditure. Fiscal purposes refers to the distinctive motivation of the general government sector, as discussed in paragraphs [4.91–4.92]. Fiscal purposes can be distinguished from commercial purposes because fiscal purposes are always oriented to serving the objectives for the government's home territory.

8.25 When an entity resident in one economy borrows on behalf of the government of another economy, and the borrowing is for fiscal purposes, the following entries are made:

(a) At the time of borrowing: the borrowing entity records a liability in the instrument in which they borrowed, e.g., borrowing through issuance of bonds would result in an increase in debt security liabilities for the borrowing entity. The borrowing entity's claim on the government is imputed through a transaction creating a debt liability of the government equal to the amount of the borrowing, and in the same financial instrument as the debt incurred by the borrowing entity. The corresponding entry is an increase in the government's equity in the borrowing entity, matched by an increase in equity liabilities for the borrowing entity.

(b) At the time funds (or resources acquired with the funds) are passed to the government (as applicable): the flow of funds is shown as a transaction, matched by a reduction of the government's equity in the borrowing entity by the same amount.

(c) At the time expenses are incurred, revenues are made, or resources or funds are provided by the borrowing entity to a third party (i.e., are not passed to the government), where applicable: a transaction between the government and the entity is imputed, with the matching entry as a withdrawal or increase in the value of the government's equity. The imputed transaction should be recorded according to its nature, e.g., as interest expenditure on the imputed debt of the government, government revenue, current or capital transfer, or acquisition of assets in the government accounts.

These entries are made symmetrically for both the government and the borrowing entity. These entries do not affect the transactions or positions between the borrowing entity and its creditors or other third parties, which are recorded as they occur with no imputations.

8.26 The reason for having a special approach for government entities is that, unlike in the private sector, the nonresident entity undertakes functions at the behest of general government for public policy, not commercial purposes. Without this approach, a misleading picture of government expenditure, revenue, and debt could arise.

C. Portfolio Investment

8.27 Portfolio investment is defined in paragraphs [6.54–6.57].

1. Reinvestment of earnings in investment funds

8.28 Unlike other portfolio investment, the undistributed earnings of portfolio investment in investment funds are imputed as being payable to the owners and then as being reinvested in the fund. The financial account entry for reinvestment of earnings is the corresponding entry to the reinvested earnings of investment funds in the earned income account item (which is covered in paragraphs [11.37–11.39]). The treatment and calculation of earnings are the same as for reinvested earnings of direct investment enterprises. Reinvestment of earnings may be negative, for example, when a fund has paid dividends out of realized holding gains, or when earnings accrued over previous periods are paid as dividends.

2. Superdividends

8.28a In contrast to direct investment, the concept of superdividends applies to portfolio investment in the standard presentation where they are treated as withdrawal of equity. *Superdividends are large and irregular payments made by corporations to their shareholders or owners that are funded from accumulated reserves or sales of assets. If the distributable income is positive, the difference between the payment and the distributable income of the relevant accounting period is recorded as a superdividend under withdrawal of equity. The remainder of the payment (equal to the distributable income) is recorded as a dividend. If the distributable income is negative, the entire dividend payout is recorded as a superdividend under withdrawal of equity.* Distributable income includes net income from the production of goods and services, net property income, and net transfers, and is described in further detail in paragraph [12.XX]. The calculations should be made for each investor based on the ownership share.

3. Convertible bonds

8.29 The classification of convertible bonds is discussed in paragraph [5.45]. When the option to convert the bond into shares is implemented, two entries are shown: (a) redemption of the bond and (b) the issue or acquisition of shares.

4. Debt defeasance

8.30 Debt defeasance allows a debtor (whose debts are in the form generally of debt securities and loans) to remove certain liabilities from the balance sheet by pairing irrevocably assets of equal value to the liabilities.

8.31 Defeasance may be carried out (a) by placing the paired assets and liabilities in a trust account within the institutional unit concerned, or (b) by transferring the assets and liabilities to another institutional unit. In the former case, there are no transactions with respect to defeasance, and the assets and liabilities should not be excluded from the balance sheet of the unit. In the latter case, the transactions by which the assets and liabilities are moved to the second statistical unit are recorded in the financial account of the economies concerned, provided the units are resident of different economies, and are reported in the balance sheet of the second statistical unit. Therefore, debt defeasance sometimes leads to a change in the institutional unit that records those liabilities.

5. Share and debt buybacks

8.32 If a corporation buys its own shares, the transaction is classified as being a reduction in the equity liability, rather than an acquisition of an asset. Because a corporation cannot have a claim on itself, the liability is deemed to be extinguished, even if the shares are not canceled. Similarly, purchase of a debt security by its issuer is treated as redemption of the debt.

6. Bonus shares

8.33 Sometimes corporations restructure their shares and may offer shareholders a number of new shares for each share previously held. This can be called stock splits or the issue of bonus shares. In contrast to when new shares are issued in return for additional funds, in these cases, no new resources are provided and no transaction is recorded.

D. Financial Derivatives (Other Than Reserves) and Employee Stock Options

1. Financial derivatives

8.34 Financial derivatives (other than reserves) and ESOs are defined in paragraphs [6.58–6.60]. Transactions involving financial derivatives may arise at inception, on secondary markets, with ongoing servicing (such as for margin payments), and at settlement. Financial account entries for derivatives preferably should be shown separately for each of assets and liabilities, but recording of transactions on a net basis is acceptable where separate data on transactions in assets and liabilities are not available (see also paragraph [A7.25]. Any explicit or implicit service charges should be deducted from the value of the financial derivative. However, distinguishing implicit service charges is not usually possible, in which case, the entire value of the financial derivative is classified as being for the financial asset. Annex 7 describes financial derivatives in further detail.

8.35 At inception:

(a) The creation of a forward-type contract does not generally require the recording of a transaction in a financial derivative because risk exposures of equal value are usually being exchanged. That is, there is usually zero exposure and zero value for both sides. In some cases, however, there may be a nonzero transaction value at issue. (In addition, there may be a service charge for the issue, as mentioned in paragraph [10.121].)

(b) The purchaser of an option pays a premium to the seller, which is the acquisition price of the instrument. Sometimes a premium is paid after the inception of the contract. In that case, the value of the premium is recorded at the inception of the contract in the same manner as if it had been paid then, but is shown as being financed by accounts receivable/payable between the seller and the purchaser.

8.36 Subsequent changes in the prices of derivatives are recorded as holding gains or losses, not as transactions (included as revaluations, see paragraphs [9.30–9.31]).

8.37 Sales of options in **secondary markets**—whether exchanges or over the counter—are valued at market prices and recorded in the financial account as transactions in financial derivatives.

8.38 When a contract requires **ongoing servicing** (such as an interest rate swap, where each party meets the servicing obligations that were originally held by the other) and a cash payment is received, there is a decrease (increase) in a financial derivative asset (liability) if, at the time of the payment, the contract is in an asset (liability) position. If compilers are unable to implement this approach because of market practice, all cash receipts should be recorded as reductions in financial assets, and all cash payments should be recorded as decreases in liabilities.

8.39 **Margins** are payments of cash or deposits of collateral that cover actual or potential obligations incurred through financial derivatives—especially futures or exchange traded options. (As discussed in paragraph [5.94], margin payments in cash are classified as deposits (if the debtor's liabilities are included in broad money), loans, or other accounts receivable/payable.)

8.40 **At settlement**, either a cash payment is made or an underlying item is delivered.

(a) When a financial derivative is settled in cash, a transaction equal to the cash value of the settlement is recorded for the derivative. In most instances, when a cash settlement payment is received, a reduction in a financial derivative asset is recorded. When a cash settlement payment is made, a reduction of a financial derivative liability is recorded.

(b) When an underlying item is delivered, two transactions are recorded:

- The transaction involving the underlying item is valued at the market price at the time. The entry for the underlying item is recorded under the relevant heading (goods, financial instrument, etc.).
- The transaction involving the derivative is valued as the difference, multiplied by the quantity, between the market price for the underlying item and the strike price specified in the derivative contract.

(c) When more than one contract is settled—in cash, at the same time, and with the same counterparty—some of the contracts being settled are in asset positions and some are in liability positions. In this situation, transactions involving assets should be recorded separately from those involving liabilities, wherever possible, but net settlements are acceptable when gross reporting is impractical.

2. Employee stock options

8.41 An ESO is created on a given date (the “grant” date), providing that an employee may purchase a given number of shares of the employer’s stock at a stated price (the “strike” price) either at a stated time (the “vesting” date) or within a period of time (the “exercise” period) immediately following the vesting date. Transactions in ESOs are recorded in the financial account as the corresponding entry to the remuneration of employees (as discussed in paragraph [11.20]) or direct investment (paragraph 11.21). When the option is exercised, the transaction in the ESO is recorded in the financial account at a value that reflects the difference between the market price of the equity and the price paid by the buyer for the equity (see also paragraph [8.40(a) and (b)]). Cancellation of ESOs is discussed in paragraph [9.12], while revaluations are discussed in paragraph [9.30]. ESOs do not generally raise separate issues to those for financial derivatives, but one special case occurs when an employee of a subsidiary is issued options for stock in the parent company. Because the parent is not the employer, the subsidiary is shown as acquiring the option from the parent. (If the subsidiary pays nothing or an unrealistic value to the parent, a value may be imputed, possibly direct investment, as discussed in paragraph [11.101] on transfer pricing.)

E. Other Investment

1. One-off guarantees and other debt assumption

8.42 *Debt assumption is trilateral agreement between a creditor, a former debtor, and a new debtor, under which the new debtor assumes the former debtor’s outstanding liability to the creditor, and is liable for repayment of debt*. Debt may be assumed under a preexisting guarantee, or without a guarantee, such as when a government wants to assist a project or a direct investor assumes the liabilities of its direct investment enterprises for reputational reasons. One-off guarantees are defined in paragraph [5.68]. One-off guarantees are recognized only as financial assets and liabilities from the time they are activated.

8.43 The assumption of the debt may not require repayment at once. According to the accrual principle for time of recording, the assumption of the debt should be recorded at the time the guarantee is activated, rather than when actual payments are made by the new debtor. Repayments by the new debtor and interest accrued on the assumed debt should be recorded as these flows occur.

8.44 The recording in the external accounts of debt assumption through the activation of a one-off guarantee or for other reasons varies depending on the circumstances, as discussed in paragraph [8.45].

8.45 In all cases, the debt-assuming party records the creation of a new liability to the creditor (financial account entry). In addition:

(a) If the debt-assuming party does not acquire a claim on the (original) debtor because the original debtor no longer exists (e.g., the original debtor has been liquidated), a capital transfer from the debt-assuming party to the creditor is recorded as the corresponding entry to the creation of the liability. The original debt of the debtor to the creditor is written off in the accounts of both the original debtor and the creditor (other changes in financial assets and liabilities account).

(b) If the debt-assuming party does not acquire a claim on the (original) debtor because the debt assumer seeks to give a benefit to the debtor (as is sometimes the case when governments assume debts), then unless the guarantor is in a direct investment relationship with the original debtor (see (c)), a capital transfer from the debt-assuming party to the original debtor is recorded. The claim on the original debtor by the creditor is extinguished (financial account entries).

(c) In other cases, the debt-assuming party acquires a claim on the original debtor as a result of the assumption of the debt (financial account entry). Such a claim may be on the original debtor as a debt[2] or as an

[2] If the value of the debt claim received by the debt assumer is less than the value of the debt liability assumed, as in (b) a capital transfer for the difference is recorded, unless the parties are in a direct investment relationship (see also paragraph [A2.52]).

increase in the guarantor's equity in the original debtor (e.g., assumption of debt owed by a subsidiary will improve the balance sheet of the subsidiary and, hence, the direct investor's equity in the subsidiary). In this case, the claim on the original debtor by the creditor is extinguished (financial account entry).

(The entries are shown in Box 8.1.)

2. Insurance technical reserves, pension fund entitlements, and provisions for calls under standardized guarantees

8.46 Insurance, pension fund, and standardized guarantee transactions need to be broken down into their service, income, transfer, and financial account elements. An overview of the statistical treatment of insurance and pension schemes is given in Annex 8. Insurance technical reserves sometimes may be classified as direct investment, as discussed in paragraph [6.27]. The following paragraphs show the composition of the financial account entries.

8.47 For nonlife insurance, insurance technical reserves consist of prepayments of insurance premiums and outstanding claims. Prepayments of premiums result from the fact that, in general, insurance premiums are paid in advance. Technical reserves against outstanding claims are reserves that insurance enterprises hold to cover the amounts they expect to pay out for claims that have been reported and are not yet resolved and to cover estimates of claims incurred but not yet reported—including equalization reserves that relate to events that have occurred. When nonlife insurance policies are surrendered by mutual agreement between policyholders and nonlife insurers, the insurance technical reserve liabilities of the nonlife insurers will be reduced by the amount of the unearned premiums that is returned to the policyholders and recorded as a transaction. Correspondingly, the insurance technical reserve assets of the policyholders will be reduced by the same amount and recorded as a transaction.

8.48 Similarly, for life insurance, pension schemes, annuity funds, and standardized guarantee schemes, the changes in technical reserves due to transactions are recorded in the financial account and consist of the amounts of the estimated obligations to beneficiaries and holders that accrued during the period. Pension entitlements generally include those under both funded and unfunded schemes, but do not include potential benefits under social security schemes (see paragraph [5.67]). The increase in pension entitlements shown in the financial account matches the entry in the use of income accounts for the adjustment for change in pension entitlements plus any change in pension entitlements due to capital transfers.

8.49 Totals for insurance technical reserves, pension fund entitlements, and provisions for calls under standardized guarantees and related investment income usually can be identified only in the accounts of insurers, funds, and guarantee providers, rather than in the accounts of their customers. For liabilities, these totals relate to resident providers and need to be allocated among resident and nonresident policyholders. In the absence of specific data on the allocation of these values to policyholders, an indicator such as premiums payable may be used. For assets, the reserves, entitlements, and provisions are liabilities of nonresidents and are not observable by residents, so counterpart data or indicators such as ratios of premiums to technical reserves may be necessary. Changes in technical reserves resulting from holding gains or losses are not transactions and therefore are recorded in the revaluation account and not in the financial account.

Box 8.1. Entries Associated with Different Types of Debt Assumption

(Showing different situations, recording party, entry, and counterparty)

If debt-assuming party does not acquire a claim on the (original) debtor because the original debtor no longer exists (paragraph [8.45(a)]):

Original debtor:	other change in volume of debt liability to creditor
Assumer:	increase in debt instrument liability (credit) to creditor capital transfer (debit) to creditor

Creditor: capital transfer (credit) from assumer increase in debt instrument claim (debit) on assumer other change in volume of debt claim on original debtor

If debt-assuming party does not acquire a claim on the (original) debtor because the debt assumer seeks to give a benefit to the debtor (paragraph [8.45(b)]):

Original debtor: capital transfer (credit) from assumer

reduction in debt instrument liability (debit) to creditor

Assumer: increase in debt instrument liability (credit) to creditor capital transfer (debit) to original debtor

Creditor: reduction in debt instrument claim (credit) on original debtor increase in debt instrument claim (debit) on assumer

If debt-assuming party acquires a claim on the original debtor (paragraph [8.45(c)]):

Original debtor: increase in equity or debt liability (credit) from assumer reduction in debt instrument liability (debit) to creditor

Assumer: increase in debt instrument liability (credit) to creditor increase in equity or debt claim (debit) on original debtor

Creditor: reduction in debt instrument claim (credit) to original debtor increase in debt instrument claim (debit) on assumer

In cases in paragraphs [8.45(b) and (c)], three parties are involved in the transaction, so the treatment differs from the standard double-entry system.

3. Special drawing rights

8.50 The allocation of SDRs to IMF members is shown as the incurrence of a liability of the recipient under SDRs in other investment, with a corresponding entry under SDRs in reserve assets.

8.51 Other acquisitions and sales of SDRs are shown as transactions in reserve assets.

4. Securities repurchase agreements and other reverse transactions

8.52 These arrangements are defined in paragraphs [7.58–7.61] and described in further detail in Annex 7. Because the risks and rewards of security ownership stay largely with the original owner, no transaction in the security is recorded. If one party provides cash that is repayable when the security is returned, however, the provision of cash is classified as a loan (except when it is a liability of a deposit-taking corporation and part of broad money, in which case it is classified as other deposits).

5. Currency

8.53 Transactions in issued banknotes and coins are recorded under currency and deposits. Transactions by residents with nonresidents using domestically issued banknotes and coins are recorded as transactions in liabilities, and transactions by residents with nonresidents using foreign-issued banknotes and coins are transactions in assets. As noted in paragraphs [3.7–3.8], transactions in domestically issued liabilities between nonresidents are not recorded in the financial account of the balance of payments, and transactions in foreign-issued assets between residents are also not recorded in the financial account but in the other changes in financial assets and liabilities account as reclassifications between different domestic institutional sectors in cases where the transactions are made between different domestic institutional sectors.

6. Change of contractual terms

8.54 If the original terms of a debt (typically a loan or debt security, but also other debt items) are changed by renegotiation by the parties, then the treatment is that the original liability is repaid and a new liability is created. In contrast, if the original terms of the contract provide that the maturity or interest rate terms or both change as a result of an event such as a default or decline in credit rating, then this involves a reclassification. (This distinction has an effect on net values in practice in cases in which the original and new terms have a different principal, different instrument classification, or different maturity classification; otherwise, the entries cancel out.)

F. Reserve Assets

8.55 Transactions involving monetary gold are recorded in the financial account only if they occur between two monetary authorities for reserve purposes or between a monetary authority and an international financial organization. (Monetary gold is discussed in paragraphs [5.74–5.78]; and gold in the context of reserve assets is discussed in paragraphs [6.78–6.83].)

8.56 All transactions in gold bullion other than those included in monetary gold are recorded as nonmonetary gold in the goods account (discussed in paragraphs [10.50–10.54]). When a monetary authority acquires gold bullion from, or sells gold bullion to, an institutional unit other than a monetary authority or international financial organization, the gold is monetized or demonetized, as discussed in paragraphs [9.18–9.20].

8.56a Similarly, transactions involving unallocated gold accounts are recorded in the financial account under reserve assets only if they occur between two monetary authorities for reserve purposes or between a monetary authority and an international financial organization. Otherwise, they are classified as currency and deposits.

8.57 Financial account transactions with the IMF involve reserve assets, reserve-related liabilities, other investment, and off-balance-sheet liabilities. They are dealt with in detail in Annex 9.

G. Arrears

8.58 The accumulation of arrears related to exceptional financing (when it occurs) needs to be included as a memorandum item to the financial account. Exceptional financing is defined and discussed in Annex 1. Incurring arrears does not involve a transaction, because it is a unilateral act of one party. Therefore, it is not shown as giving rise to entries in the standard presentation of the financial account. However, if the debt is renegotiated, then the original instrument is extinguished and a new instrument is created, which should be recorded as transactions in the financial account.

8.59 In addition to arrears related to exceptional financing, other arrears indicate potential, or actual, problems servicing debt, and so may be shown as supplementary items.