



STATISTICS

Treatment of Negative Equity Positions

Balance of Payments Task Team (virtual meeting)

January 24, 2024

Background and Scope

Guidance Note D.2 narrows recommended valuation methods down to three

- Own funds at book value
- Recent transaction price
- Market capitalization (for instance, price-to-book value ratios)

The issue to be tackled

- Valuation methods can generate negative valuations of equity positions.
- Current statistical standards provide no explicit guidance on the treatment of such negative equity positions.
- Negative positions allowed in other cases (e.g., short positions).

Previous Discussions

IMF Committee on Balance of Payments Statistics (2019)

- Allow recording of negative equity positions (except if reporting is erroneous).

Government Finance Statistics Manual 2014

- **Unincorporated entities:** Allow recording of negative equity positions.
- **Incorporated corporations** with limited shareholder liability: Minimum value of equity position is zero.

European System of Central Banks Working Group on Financial Accounts (2019)

- Negative values for equity positions should not be recorded when the liability is limited.

Guidance Note D.2 on *Valuation of Unlisted Equity*

- Recognizes the need for further research.

Main Conclusions from AEG/BOPCOM Discussions

Unlimited Liability Entities

- Full support in both groups for allowing the recording of negative equity

Limited Liability Entities

- AEG: Support for zeroing out negative equity, expect for certain legal and economic exceptions (mixed views on loan guarantees)
- BOPCOM: Support for allowing negative equity in most cases (should be the rule rather than the exception)

Stock-Flow Consistency

- Strong support in both groups for ensuring consistency through revaluations rather than other volume changes if negative equity is zeroed out

Other Issues

- Treatment of negative equity for central banks
- Treatment of implicit guarantees

The Way Forward

BPM and SNA Editorial Teams

- Draft an Issue Note, laying out a compromise solution based on inputs from all key stakeholders.
- Preliminary recommendations
 - ▶ Allow the recording of negative equity positions as the default option and only zero out negative equity positions in specific cases where liability is strictly limited.
 - ▶ Never zero out negative equity in state-owned enterprises and central banks.

Initial Consultation (ongoing)

- OECD Working Group on International Investment Statistics (WGIIS)
- IMF Government Finance Statistics Advisory Committee (GFSAC)

BOPCOM/AEG Consultation (early February)

- Updated Issue Note will be circulated for written consultation.
- **If necessary, the topic will be discussed at the joint AEG/BOPCOM meeting on February 20**