

# **Update to the System of National Accounts 1993**

## **New Standards for Financial Derivatives**

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**March 2000**

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## I. Introduction

Over recent years, there have been increasing requests from national statisticians for clarification and amplification of the international standards for the statistical measurement of financial derivatives. In response, the International Monetary Fund (IMF) initiated a process of international discussion which resulted in the paper *The Statistical Measurement of Financial Derivatives*. This paper recommended a revision to the international standards for the statistical measurement of financial derivatives based on the evidence of changes in market practice since the *System of National Accounts 1993 (1993 SNA)* was developed.

The main proposals to clarify and change the *1993 SNA* and fifth edition of the IMF's *Balance of Payments Manual (BPM5)* were approved by the Inter-Secretariat Working Group on National Accounts (ISWGNA), and the IMF Committee on Balance of Payments Statistics (the Committee) in October 1997. Accordingly, the ISWGNA and the Committee agreed to incorporate the main clarifications and changes proposed in the paper into the texts of the *1993 SNA* and the *BPM5*, respectively. The IMF prepared a paper outlining revised sections of the *1993 SNA*, which the ISWGNA at its meeting in September 1998 broadly approved. The paper was updated to incorporate the comments received from the members of ISWGNA after its September 1998 meeting, particularly those from Eurostat and the OECD. According to the agreement reached at the September 1998 ISWGNA meeting, the paper was sent, on December 16, 1998, to the members of the UN Statistical Commission through the United Nations Statistics Division (UNSD) for a thirty day notification period.

The thirtieth session of the UN Statistical Commission during March 1-5, 1999 agreed in principle with the proposed amendments. It asked the ISWGNA to consider specific comments made by member states and to circulate the redrafted text to all national statistical offices and thereafter to the members of the UN Statistical Commission. The ISWGNA at its April 1999 meeting decided that the redrafted text be sent to all national statistical offices with a 60-day notification period. Accordingly, the IMF revised the draft paper to include comments received from the members of UN Statistical Commission on the draft text that was circulated by the UNSD on December 16, 1998. The UNSD sent the revised draft to all national statistical agencies on June 4, 1999 asking them to send their comments by August 15, 1999.

Following the process agreed by the UN Statistical Commission, the draft paper incorporating the comments received from national statistical agencies was circulated, on October 22, 1999, to the members of the UN Statistical Commission. The update to the *1993 SNA* as outlined in the paper was agreed on a consensus position. Accordingly, the UNSD sent, on February 8, 2000, a letter to the members of the UN Statistical Commission informing them that the update to the *1993 SNA* regarding the treatment of financial derivatives has been approved in accordance with the procedures set out by the UN Statistical Commission.

It should be noted that the preparation of this paper was closely coordinated with the similar exercise to revise the *BPM5* and with the work on the *Monetary and Financial Statistics Manual (MFSM)*, being prepared by the IMF.

The new standards for the statistical measurement of financial derivatives are presented in section II. Section III provides the revised text of the *1993 SNA* paragraphs that have been changed to incorporate the new international standards for financial derivatives. The IMF has prepared a separate publication (*The New International Standards for the Statistical Measurement of Financial Derivatives: Changes to the Text of the 1993 SNA*, March 2000, ISBN # 1-55775-897-2), which provides a detailed record of changes outlining both the old text (that are to be deleted) and the new text (that are to be added).

The inclusion of a new category of financial instrument will introduce new codes (numbering) for financial derivatives and change the existing codes for other accounts receivable/payable in the “classification of transactions in financial assets and liabilities” and the “classification of assets” (see revised classifications). This requires that (i) the new classification of financial instruments be followed in all tables that include the financial instrument classification (see, for example, Table 11.1), and (ii) the code for other accounts receivable/payable be corrected in all text and tables where it is mentioned. Such changes are not included in this paper, and should be considered when the *1993 SNA* is reprinted.

## II. New international standards for financial derivatives

In many respects, the key recommendations on the treatment of financial derivatives contained in the *1993 SNA* remain unchanged in the new international standards. The view is still that financial derivatives should be treated as financial assets, and that transactions in them should, in general, be treated as separate transactions, rather than as integral parts of the value of underlying transactions or financial assets to which they may be linked (*1993 SNA*, paragraphs 11.34 and 11.35). In the *1993 SNA*, only those financial derivatives that have market value and are tradable are recognized as financial assets: essentially, exchange-traded futures and options, and over-the-counter options. A consensus emerged among statisticians that a wider range of financial derivative instruments than was explicitly covered in the *1993 SNA* should be regarded as financial assets.

The major international standards for the measurement of the financial derivatives activity set out in the IMF paper and approved by the ISWGNA and the Committee are as follows:

- A more specific description of financial derivatives is introduced. It is as follows:

*Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of the underlying item: the reference price.<sup>1</sup> Unlike debt instruments, no principal amount is advanced to be repaid and no investment income accrues. Financial derivatives are used for a number of purposes, including risk management, hedging, arbitrage between markets, and speculation.*

- No distinction is made between on- and off-exchange “traded” financial derivative instruments. Both are regarded as financial assets. To calculate the value of any financial derivative instrument it is essential that the reference price for the underlying item is observable. In the absence of an observable price for the underlying item, the “financial derivative” cannot be valued, cannot be regarded as store of value, and so cannot be regarded as a financial asset. The new standard recommends that

*Financial derivatives, as described above, should be included in the national accounts as financial assets, regardless of whether they are “traded” on- or off-*

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<sup>1</sup> It should be noted that in the discussion of financial derivatives the term “underlying item” may be taken to refer to indices as well as commodities and other financial variables. Similarly, the term “reference price” may relate to a commodity, a financial asset, an interest rate, an exchange rate, another derivative, a spread between two prices, an index, or a basket of prices.

*exchange. If the financial derivative cannot be valued because a prevailing market price or index for the underlying item is not observable, it cannot be regarded as a financial asset.*

- Interest rate swaps and forward rate agreements (FRAs) are recognized as financial assets, and net cash settlement payments in these contracts classified as financial transactions rather than as property income flows as recommended in the 1993 SNA. This change will affect recorded interest in the national accounts, and hence have implications for national income. The new standard recommends that

*Interest rate swaps and forward rate agreements should be classified as financial assets; and net cash settlement payments in these financial derivatives should be classified as financial transactions rather than as interest.*

- A similar principle is applied to net cash settlement payments on the interest element of cross-currency interest rate swaps. The new standard recommends that

*Net cash settlement payments on the interest element of cross-currency interest rate swaps should be classified as financial account transactions.*

- As a financial derivative is recognized as a financial asset, its exercise is a transaction that should be recorded as such even if the underlying asset is delivered. Thus, the new standard recommends that

*A transaction in an asset underlying a financial derivative contract that goes to delivery should be recorded at the prevailing market price for the asset with the difference between the prevailing price and the price actually paid (times quantity) recorded as a transaction in financial derivatives.*

- In view of the importance and the different nature of financial derivative instruments, they are recognized as a separate financial instrument category. The new standard recommends that

*Financial derivatives should be recognized as a separate instrument category of financial assets in the national accounts and as a separate functional group in the balance of payments reflecting their distinct characteristics.*

The IMF paper *The Statistical Measurement of Financial derivatives* also clarifies the treatment of margin payments in the national accounts. It uses the terms repayable and nonrepayable margin regarding them as more appropriate for statistical purposes than the terms initial and variation margins. The clarification is as follows:

Margin payments that remain under the ownership of the depositor are repayable margins. Repayable margin payments in cash are recorded, as both assets and liabilities, under deposits in the financial account. When repayable margin payments are made in noncash assets, such as securities, no transactions are recorded. A nonrepayable margin reduces a financial liability created under a financial derivative contract. The entity that pays a nonrepayable margin no longer retains ownership of the margin nor has the right to the risks and rewards of ownership, such as the receipt of income or exposure to holding gains and losses. Thus, a payment of nonrepayable margin is normally recorded as a decline in currency and deposits with a counter entry in the reduction in financial derivative liabilities, and the receipt of nonrepayable margin is recorded as an increase of holdings of currency and deposits with a counter entry in the reduction in financial derivative assets.

### **III. Changes to the Text of the 1993 SNA for Incorporating the New International Standards for Financial Derivatives**

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#### **Chapter VII. The primary distribution of income account**

##### **F. Property incomes (D.4)**

##### **3. Interest (D.41)**

###### Introduction

7.93 Interest is a form of property income that is receivable by the owners of certain kinds of financial assets, namely:

Deposits

Securities other than shares

Loans

Other accounts receivable.

These financial assets are all claims of creditors over debtors. Creditors lend funds to debtors that lead to creation of one or other of the financial instruments listed above. The amount of the debtor's liability to the creditor at any point of time may be described as the principal outstanding. It is the amount that the debtor must repay to discharge the liability and thereby extinguish the creditor's claim over the debtor.

Interest may be defined as follows:

Under the terms of the financial instrument agreed between them interest is the amount that the debtor becomes liable to pay to the creditor over a given period of time without reducing the amount of principal outstanding.

However, the interest may not necessarily be due for payment until a later date and sometimes not until the loan, or other financial instrument matures. Interest may be a predetermined sum of money or percentage of the principal outstanding. If some or all of the interest accruing to the creditor is not paid during the period in question, it may be added to the amount of the principal outstanding or it may constitute an additional, separate liability incurred by the debtor. As explained in chapter XI, there are many different kinds of financial instruments and new instruments are continually being evolved. Interest may therefore be paid in various different ways, not always explicitly described as interest. However, streams of net settlement payments under a swap or forward rate agreement contract (possibly described as "interest" in the contract) are not considered as property income but are to be



recorded as transactions in financial derivatives in the financial account (see paragraphs 11.34 to 11.43).

The sub-heading for paragraphs 7.105 - 7.106 to be deleted.

7.105 Delete the paragraph.

7.106 Delete the paragraph.

## **Chapter X. The capital account**

### **General introduction to the accumulation accounts and balance sheets**

#### **2. Assets**

##### Financial assets

10.4 Most financial assets are financial claims. Financial claims and obligations arise out of contractual relationships between institutional units. A financial claim may be defined as:

An asset that entitles its owner, the creditor, to receive a payment, or series of payments, from the other unit, the debtor, in certain circumstances specified in the contract between them.

The claim is extinguished when the liability is discharged by the debtor paying a sum agreed in the contract. Most financial claims arise when one institutional unit provides funds to another unit. Such claims include not only claims on financial intermediaries in the form of cash and deposits but also loans, advances and other credits and securities such as bills and bonds. For these claims the creditor may be entitled to a series of interest payments: i.e., property income. Financial derivatives, which are another form of financial claim, do not involve the provision of funds but derive their value from changes in the prices of underlying assets or indexes. Therefore, no property income is earned on financial derivatives.

10.5 Financial assets may now be defined as assets in the form of financial claims, monetary gold, Special Drawing Rights (SDRs) allocated by the International Monetary Fund (IMF), and shares in corporations. Monetary gold and SDRs are treated as financial assets even though their holders do not have claims over other designated units. Shares, even though their holders do not have a fixed or predetermined monetary claim on the corporation, are treated as financial assets by convention. For convenience, the term "financial asset" may be used to cover both financial assets and liabilities, except when the context requires liabilities to be referred to explicitly.

## **Chapter XI. The financial account**

### **A. Introduction**

11.1 The financial account records transactions that involve financial assets and liabilities and that take place between institutional units and between institutional units and the rest of the world.<sup>1/</sup> The left side of the account (table 11.1. Account III.2) records acquisitions less disposals of financial assets, while the right side records incurrence of liabilities less their repayment. Net incurrence of liabilities less net acquisition of financial assets is equal in value, with the opposite sign, to net lending/borrowing, the balancing item in the capital account. In the SNA, financial assets are classified under eight major categories (the full classification is presented in table 11.2):

F.1 Monetary gold and special drawing rights (SDRs)

F.2 Currency and deposits

F.3 Securities other than shares

F.4 Loans

F.5 Shares and other equity

F.6 Insurance technical reserves

F.7 Financial derivatives

F.8 Other accounts receivable/payable.

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

### **C. Financial transactions**

#### **1. The nature of financial transactions and special cases**

11.16 As explained in the general introduction to the accumulation accounts and balance sheets in chapter X, economic assets are entities over which ownership rights are enforced and from which economic benefits may be derived by their owners by holding them, or using them, over a period of time. At a minimum, all financial assets fulfil this definition in that they are stores of value; some financial assets generate property income and/or possibilities of holding gains. Currency and transferable deposits are assets because they can be used directly to acquire goods, services, or other assets. Securities and shares are assets because benefits may be derived in the form of property income and holding gains. Most loans generate

property income, and trade credits represent a claim on other financial assets, usually means of payment such as transferable deposits. Most financial assets differ from other assets in the SNA in that there are counterpart liabilities on the parts of another institutional units, i.e., financial assets consist of claims on other institutional units. However, financial assets also include monetary gold, International Monetary Fund (IMF) Special Drawing Rights (SDR), and shares in corporations (which their holders treat much the same as financial claims). There are no liabilities outstanding in respect of monetary gold and SDR, while the SNA treats shares as liabilities by convention.

11.17 Many types of financial arrangements between transactors are possible. Financial claims and obligations arise out of contractual relationships between pairs of institutional units. Many of these will result in a creditor/debtor relationship between the two parties. In most cases, the relationship between the creditor and debtor will be unconditional on the part of both parties. Clearly, in such standard financial assets as deposits, securities, and loans, the creditor has an unconditional legal contract to receive property income and repayment of principal, and the debtor has a symmetric unconditional liability. Forward-type derivative contracts are also unconditional financial contracts imposing symmetrical obligations on creditor and debtor, although the changes in the prices of underlying items may change the size (and even the direction) of the symmetrical relationship (see paragraph 11.37). Options-type derivative contracts are conditional in the sense that the purchaser need not exercise its option (see paragraph 11.39). However, options impose unconditional obligation on the issuer (debtor). Unconditional creditor/debtor relationships do not hold for shares. In this case, liabilities are introduced by convention, even though the "debtor" does not have an unconditional liability. A financial claim:

- (a) Entitles a creditor to receive a payment, or payments, from a debtor in circumstances specified in a contract between them; or
- (b) Specifies between the two parties certain rights or obligations, the nature of which requires them to be treated as financial.

11.28 Delete the paragraph.

## **2. Exceptions to general rules**

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

and there is a commitment to reverse the transaction at a later date, this transaction should be treated as a new financial instrument (a loan from the central bank) and recorded as such in the financial account.

### **3. Financial derivatives**

11.34 Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of the underlying item: the reference price.<sup>1</sup> An observable market price or an index for the underlying item is essential for calculating the value of any financial derivative. If a financial derivative cannot be valued because a prevailing market price or index for the underlying item is not available, it cannot be regarded as a financial asset. Unlike debt instruments, no principal amount is advanced to be repaid and no investment income accrues. Financial derivatives are used for a number of purposes including risk management, hedging, arbitrage between markets, and speculation. Financial derivatives enable parties to trade specific financial risks - such as interest rate risk, currency, equity and commodity price risk, and credit risk, etc - to other entities who are more willing, or better suited, to take or manage these risks, typically, but not always, without trading in a primary asset or commodity. The risk embodied in a derivatives contract can be “traded” either by trading the contract itself, such as with options, or by creating a new contract which embodies risk characteristics that match, in a countervailing manner, those of the existing contract owned. The latter is termed offsetability, and is particularly common in forward markets or where there are no formal exchanges through which to trade derivatives.

11.35 The SNA recommends that financial derivative instruments that can be valued separately from the underlying item to which they are linked should be treated as financial assets, regardless of whether “trading” occurs on- or off-exchange. Transactions in financial derivatives should be treated as separate transactions, rather than as integral parts of the value of underlying transactions to which they may be linked. The two parties to the derivatives may have different motives for entering into the transaction. One may be hedging, while the other may be dealing in derivative instruments or acquiring the derivative as an investment. Even if both parties are hedging, they may be hedging transactions or risks that involve different financial assets or even transactions in different accounts of the SNA. Therefore, if derivative transactions were treated as integral parts of other transactions, such treatment

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<sup>1</sup> It should be noted that in the discussion of financial derivatives the term “underlying item” may be taken to refer to indices as well as commodities and other financial variables. Similarly, the term “reference price” may relate to a commodity, a financial asset, an interest rate, an exchange rate, another derivative, a spread between two prices, an index, or a basket of prices.

would lead to asymmetries of measurement in different parts of the accounts or to asymmetries of measurement between institutional sectors.

11.36 Any commissions paid to or received from brokers or other intermediaries for arranging options, futures, swaps, and other derivatives contracts are treated as payments for services in the appropriate accounts. Financial derivatives transactions may take place between two parties directly, or through an intermediary. In the latter case, implicit or explicit service charges may be involved. However, it is usually not possible to distinguish the implicit service element. Therefore, the SNA recommends that net settlement payments under derivative contracts are recorded as financial transactions. However, where possible, the service charge component should be separately recorded. Financial derivatives contracts are usually settled by net payments of cash. This often occurs before maturity for exchange-traded contracts such as commodity futures. Cash settlement is a logical consequence of the use of financial derivatives to trade risk independently of ownership of an underlying item. However, some financial derivative contracts, particularly involving foreign currency, are associated with transactions in the underlying item. A transaction in an asset underlying a financial derivative contract that goes to delivery should be recorded at the prevailing market price for the asset with the difference between the prevailing price and the price actually paid (times quantity) recorded as a transaction in financial derivatives.

11.37 There are two broad classes of financial derivatives: forward-type contracts, including swaps, and option contracts. Under a forward contract, the two counterparties agree to exchange a specified quantity of an underlying item (real or financial) at an agreed contract price - strike price- on a specified date. Futures contracts are forward contracts traded on organized exchanges. Futures and other forward contracts are typically, but not always, settled by the payment of cash or the provision of some other financial instrument rather than the actual delivery of the underlying item and therefore are valued and traded separately from the underlying item. A forward contract is an unconditional financial contract that represents an obligation for settlement on a specified date. At the inception of the contract, risk exposures of equal market value are exchanged and hence the contract has zero value. Some time must elapse for the market value of each party's risk to differ so that an asset (creditor) position is created for one party and a liability (debtor) position for the other. The debtor/creditor relationship may change both in magnitude and direction during the life of the forward contract. Common forward-type contracts include interest rate swaps, forward rate agreements (FRA), foreign exchange swaps, forward foreign exchange contracts, and cross-currency interest rate swaps.

11.38 An interest rate swap contract involves an exchange of cash flows related to interest payments, or receipts, on a notional amount of principal, which is never exchanged, on one currency over a period of time. Settlements are often made through net cash payments by one counterparty to the other. Forward rate agreements are arrangements in which two parties, in order to protect themselves against interest rate changes, agree on an interest rate to be paid, at a specified settlement date, on a notional amount of principal that is never

exchanged. FRAs are settled by net cash payments. The only payment that takes place is related to the difference between the agreed forward rate agreement rate and the prevailing market rate at the time of settlement. The buyer of the forward rate agreement receives payment from the seller if the prevailing rate exceeds the agreed rate; the seller receives payment if the prevailing rate is lower than the agreed rate. A foreign exchange swap is a spot sale/purchase of currencies and a simultaneous forward purchase/sale of the same currencies. Forward foreign exchange contracts involve two counterparties who agree to transact in foreign currencies at an agreed exchange rate in a specified amount at some agreed future date. Cross-currency interest rate swaps, sometimes known as currency swaps, involve an exchange of cash flows related to interest payments and an exchange of principal amounts at an agreed exchange rate at the end of the contract. There might also be an exchange of principal at the beginning of the contract, and, in these circumstances, there may be subsequent repayments, which include both interest and principal, over time according to the predetermined rules. Streams of net settlement payments resulting from swap arrangements are to be recorded as transactions in financial derivatives and repayments of principal are to be recorded under the relevant instrument item in the financial account (see paragraphs 11.40 and 11.44 for the valuation of transactions in underlying assets).

11.39 Options are contracts that give the purchaser of the option the right, but not the obligation, to buy (a "call" option) or to sell (a "put" option) a particular financial instrument or commodity at a predetermined price (the "strike" price) within a given time span (American option) or on a given date (European option). Many options contracts, if exercised, are settled by a cash payment rather than by delivery of the underlying assets or commodities to which the contract relates. Options are sold or "written" on many types of underlying bases such as equities, interest rates, foreign currencies, commodities, and specified indexes. The buyer of the option pays a premium (the option price) to the seller for the latter's commitment to sell or purchase the specified amount of the underlying instrument or commodity on demand of the buyer. While the premium paid to the seller of the option can conceptually be considered to include a service charge, in practice, it is usually not possible to distinguish the service element. Therefore, it is recommended in the SNA that the full price be recorded as acquisition of a financial asset by the buyer and as incurrence of a liability by the seller. However, where possible, the service charge component should be separately recorded. A major difference between forward and option contracts is that, whereas either party to a forward contract is a potential debtor, the buyer of an option contract acquires an asset and the option writer incurs a liability. However, option contracts frequently expire without worth; options are exercised only if settling a contract is advantageous for the option holder.

11.40 The timing of premium payments on options varies. Depending on the type of contract, premiums are paid when the contracts begin, when the options are exercised, or when the options expire. The value of an option at inception should be recorded at the full price of the premium. If the premiums are paid after the purchase of an option, the value of the premium payable is recorded as an asset at the time the derivative is purchased, financed

by a loan from the writer. Subsequent purchases and sales of options are also to be recorded in the financial account. If an option based on a financial asset is exercised or if a commodity based option proceeds to delivery, the acquisition or sale of the underlying asset should be recorded at the prevailing market price in the appropriate accounts with the difference between this amount and the amount actually paid recorded as transactions in financial derivatives.

11.41 Warrants are a form of options that are treated in the financial account in the same way as other options. They are tradable instruments giving the holder the right to buy, under specified terms for a specified period of time, from the issuer of the warrant (usually a corporation) a certain number of shares or bonds. There are also currency warrants based on the amount of one currency required to buy another and cross-currency warrants tied to third currencies. They can be traded apart from the underlying securities to which they are linked and therefore have a market value. The issuer of the warrant incurs a liability, which is the counterpart of the asset held by the purchaser.

11.42 The financial derivatives described in the previous paragraphs are related to market risk, which pertains to changes in the market prices of securities, commodities, interest and exchange rates. Financial derivatives whose primary purpose is to trade credit risk are known as credit derivatives. They are designed for trading in loan and security default risk. Credit derivatives take the form of both forward-type and option-type contracts, and like other financial derivatives, they are frequently drawn up under standard master legal agreements, and involve collateral and margining procedures, which allow for a means to make a market valuation.

11.43 Margins are payments of cash or collateral that cover actual or potential obligations under financial derivatives, especially futures or exchange-traded options. Repayable margins consist of deposits or other collateral deposited to protect a counterparty against default risk, but which remain under the ownership of the unit that placed the margins. Although its use may be restricted, a deposit is classified as repayable if the depositor retains the risks and rewards of ownership, such as the receipt of income or exposure to holding gains and losses. Repayable margin payments in cash are transactions in deposits, not transactions in a financial derivative. The depositor has a claim on the exchange or other institution holding the deposit. Some compilers may prefer to classify these margins within other accounts receivable/payable in order to reserve the term deposits for monetary aggregates. When repayable margin payments are made in noncash assets, such as securities, no entries are required because the entity on whom the depositor has a claim --the issuer of the security-- is unchanged. Nonrepayable margins reduce a financial liability created under a financial derivative contract. The entity that pays a nonrepayable margin no longer retains ownership of the margin nor has the right to the risks and rewards of ownership, such as the receipt of income or exposure to holding gains and losses. A payment of nonrepayable margin is normally recorded as a decline in currency and deposits with a counter entry in the reduction in financial derivative liabilities, and the receipt of nonrepayable margin is recorded as an

increase of holdings of currency and deposits with the counter entry in the reduction in financial derivative assets.

## **D. Accounting rules for financial transactions**

### **1. Valuation**

11.44 Transactions in financial assets are recorded at the prices at which the assets are acquired or disposed of. These prices should exclude service charges, fees, commissions, and similar payments for services provided in carrying out the transactions; these should be recorded as payments for services. Taxes on financial transactions should also be excluded from the values recorded in the financial account and treated as taxes on services within taxes on products. In these respects, care should be taken that the same entry be recorded for both parties to the transaction. When a financial transaction involves a new issue of liabilities, the transaction should be recorded by both creditor and debtor at the amount of the liability incurred, i.e., exclusive of any fees, commissions, etc., and also exclusive of any prepaid interest that may be included in the price. Similarly, when a liability is reduced or extinguished, the entries in the financial account for both creditor and debtor must correspond to the reduction of the liability. When a security is issued at a discount, the proceeds to the issuer at the time of sale, and not the face value, are recorded in the financial account. The difference between the issue price and the face value is treated as interest that is accrued over the life of the instrument. A transaction in financial derivatives is recorded at its market value. When a financial derivative is settled in cash, a transaction in financial derivatives is recorded equal to the cash value of the settlement and no transaction in the underlying item is recorded (see also paragraph 11.36). When the underlying asset is delivered, a transaction in financial derivatives is recorded equal in value to the difference between the prevailing market price of the underlying asset and the strike price indicated in the derivative contract, times the quantity. The underlying asset is valued at the prevailing market price.

## **E. Classification of financial transactions**

### **1. Classification criteria**

11.55 The detail in which the classification is employed depends on the institutional sector to be analysed. The types of financial assets in which households transact are more limited than those for other sectors, and sources of information are generally more limited than those for other sectors. Financial corporations, on the other hand, transact in the full range of instruments, and information on their operations is often the most detailed and timely for any institutional units. Consequently, a detailed breakdown may be developed for financial corporations. It should be noted that the SNA classification scheme is considered to be generally applicable as a framework for classifying financial assets and liabilities and provides a useful basis for international comparison of national data. Presentation of data for individual countries, however, must be tailored to meet their analytical needs and to reflect national practices that include differing institutional arrangements, variety in the extent and nature of



national financial markets, varying degrees of complexity of financial assets available, and varying degrees of regulation and other financial control exercised. In all cases, the SNA recommends compiling and presenting data at the first-digit level for asset categories 1 through 5 and 7, and at the two-digit level for categories 6 and 8 (see table 11.2). A substantial amount of flexibility, particularly with regard to further breakdowns, is therefore required to match the classification scheme to national capabilities, resources, and needs. In particular, further breakdowns of these categories are desirable for many countries to distinguish important types of assets within categories (such as short-term securities included in measures of money).

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

- (a) Monetary gold, i.e., gold owned by monetary authorities and others subject to the authorities' effective control and held as a financial asset and as a component of foreign reserves;
- (b) SDRs, reserve assets issued by the IMF and not considered a liability of the IMF (IMF members, to whom SDRs are allocated, do not have an actual, i.e., unconditional, liability to repay their SDR allocations);
- (c) Shares, other corporate equity securities, and capital participation (shares are close substitutes for other financial assets from the point of view of the investor. The SNA treats shares as liabilities by convention. However, these liabilities do not represent fixed redemption values, as is the case for many other assets, but claims on the net worth of the corporation).

## **2. Summary descriptions of transactions in financial assets and liabilities**

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

11.72 Other deposits include all claims, other than transferable deposits, on the central bank, other depository institutions, government units, and, in some cases, other institutional units that are represented by evidence of deposit. Typical forms of deposits that should be included under this classification are non-transferable savings deposits, term deposits, and non-transferable deposits denominated in foreign currencies. The category also covers shares or similar evidence of deposit issued by savings and loan associations, building societies, credit unions, and the like; these shares or deposits are legally, or in practice, redeemable on demand or at relatively short notice. Claims on the IMF that are components of international reserves and are not evidenced by loans should be recorded in other deposits. (Claims on the

IMF evidenced by loans should be included in loans (F.4.) Repayable margin payments in cash related to financial derivative contracts are included in other deposits, as are overnight and very short-term repurchase agreements if they are considered part of national broad money definitions. Other repurchase agreements should be classified under loans. It will often be useful to cross-classify the other deposits category according to: (a) whether the deposits are denominated in national currency or in foreign currencies, and (b) whether they are liabilities of resident institutions or the rest of the world.

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

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

NOTE: Para. 11.82 could be moved to 11.99, and para. 11.83-11.99 re-numbered as 11.82-11.98. However, references to these paragraphs in the Index and in several places in the text would require more corrections (unnecessary at this stage, but should be considered when the *1993 SNA* is reprinted).

Financial Derivatives (F.7) - This heading to be added before paragraph 11.82.

11.82 Transactions in options-type and forward-type financial derivatives, particularly those outside of organized exchange markets, have grown in importance. Classification of financial derivatives as a separate financial instrument category recognizes both this importance and

their different nature compared with other financial instruments. Unlike debt instruments, no principal amount is advanced to be repaid and no investment income accrues. No specific standards for sub-classifications of financial derivatives are recommended. Compilers may select the classifications best suited for their purposes. The distinction may be associated with different market behaviors, different data collection methods, different valuation procedures, etc. In some cases, derivatives are classified by instrument; the basic types of derivatives (forwards and options) or market risk classification (e.g., currency swaps, interest rate swaps, etc.) may serve as the basis for classification.

## **Chapter XIII. The balance sheet**

### **A. Introduction**

#### **1. Structure of the account**

13.9 In addition to non-financial assets, the balance sheet also includes financial assets and liabilities. Most financial assets are matched by a liability; they come into existence by the establishment of a claim on another institutional unit. However, financial assets also include monetary gold, special drawing rights (SDR) of the International Monetary Fund (IMF), and shares in corporations (which their holders treat much the same as financial claims); there are no liabilities outstanding with respect to monetary gold and SDRs, while the System treats shares as liabilities by convention.

#### **2. Main categories of assets: their scope and characteristics**

13.21 The classification of financial assets and liabilities is designed to distinguish types of instruments according to the liquidity of the instrument and the legal characteristics of the instrument that describe the form of the underlying creditor/debtor relationship. On this basis it distinguishes monetary gold and SDR, currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves, financial derivatives and other accounts receivable/payable. A more detailed level of classification is recommended in the case of instruments for which information about the class of debtor or creditor is of particular importance analytically and is feasible to gather, such as liabilities to, and claims on, non-residents.

13.22 Contingent assets or liabilities are not treated as financial assets or liabilities in the System, as discussed in chapter XI. Sums set aside in business accounting to provide for transactors' future liabilities, either certain or contingent, or for transactors' future expenditures generally are not recognized in the System. (The only "provision" recognized in the System is accumulated consumption of fixed capital.) Only actual current liabilities to another party or parties are explicitly included. When the anticipated liability becomes actual -- for example, a tax lien -- it is included.

### **B. The entries in the balance sheets**

#### **3. Financial assets/liabilities (AF.)**

13.66 For currency, the valuation is the nominal or face value of the currency. For deposits, the values to be recorded in the balance sheets of both creditors and debtors are the amounts of principal that the debtors are contractually obliged to repay the creditors under the terms of the deposits when the deposits are liquidated. Repayable margin payments in cash related to financial derivative contracts are included in other deposits.

NOTE: Para. 13.70 and 13.71 could be moved to para. 13.79 and 13.80, and para. 13.72-13.80 re-numbered as 13.70-13.78. (Please see the previous note regarding para 11.82.)

Financial derivatives (AF.7) - This heading to be added before paragraph 13.70.

13.70 The treatment of derivatives is discussed in chapter XI. Financial derivatives should be included in the balance sheets at market value. If market value data are unavailable, other fair value methods to value derivatives, such as options models or discounted present values, may be used. Depending on how margin systems operate, it may be appropriate to enter zero for the value of the option, as any profits (losses) will have been received (paid) daily by the holder. The counterpart of these asset entries should be entered as a liability.

13.71 Options should be valued in the balance sheets as either the current value of the option, if this is available, or the amount of the premium payable. A liability should be entered in the sector of the writer of the option to represent either the current cost of buying out the rights of the option holder or the accrual of a holding gain. A forward is recorded at market value. When payments are effected, the value of the asset and associated liability is amortized and subsequently reflected in the balance sheet value on the appropriate accounting date. The market value of a forward contract can switch between an asset position and a liability position between accounting dates depending on price movements in the underlying item(s). All price changes, including those that result in such switches, are treated as revaluations.

**Annex** *(to chapter XIII)*

**Definitions of assets**

**Financial assets (AF.)**

*1993 SNA, page 311*

Other deposits (AF.29)

Claims, other than transferable deposits, on the central bank, other depository institutions, government units and, in some cases, other institutional units that are represented by evidence of deposit. Examples include non-transferable savings deposits, term deposits and non-transferable deposits denominated in foreign currencies. Also included are shares or similar evidence of deposit issued by savings and loan associations, building societies, credit unions and the like; claims on the International Monetary Fund that are components of international reserves, other than those evidenced by loans; repayable margin payments in

cash related to financial derivative contracts and overnight and very short-term repurchase agreements that are considered part of national broad money definitions.

1993 SNA, page 312

#### Securities other than shares (AF.3)

Financial assets that are normally traded in the financial markets and that give the holders the unconditional right to receive stated fixed sums on a specified date (such as bills) or the unconditional right to fixed money incomes or contractually determined variable money incomes (bonds and debentures). With the exception of perpetual bonds, bonds and debentures also give holders the unconditional right to fixed sums as repayments of principal on a specified date or dates.

Examples include securities such as bills, bonds, debentures, negotiable certificates of deposit, bankers' acceptances, commercial paper, negotiable securities backed by loans or other assets, preferred stocks or shares that pay a fixed income but do not provide for participation in the residual earnings or value of a corporation and bonds that are convertible into shares. Securities other than shares may be subdivided between short-term and long-term, as defined below.

Insert before "Other accounts receivable/payable"

1993 SNA, page 313

#### Financial derivatives (AF.7)

Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative contract derives from the price of the underlying item: the reference price. The reference price may relate to a commodity, a financial asset, an interest rate, an exchange rate, another derivative, or a spread between two prices. The derivative contract may also refer to an index or a basket of prices. Unlike debt instruments, no principal amount is advanced to be repaid and no investment income accrues. Financial derivatives are used for a number of purposes, including risk management, hedging, arbitrage between markets, and speculation. The two broad classes of financial derivatives are forward-type contracts, including swaps, and option contracts.

## **Chapter XIV. The rest of the world (external transactions account)**

### **D. The external accounts of goods and services and primary incomes and current transfers**

#### **2. The external account for primary incomes and current transfers**

14.122 Property income covers income derived from a resident entity's provision of financial capital to a non-resident. The most common types of such income are interest and dividends. (Property income is fully discussed in chapter VII). Interest, including discounts in lieu of interest, comprises income on loans and debt securities, i.e., such financial claims as bank deposits, bills, bonds, notes, and trade advances. Dividends, including stock dividends, are the distribution of earnings in respect of the shares and other forms of participation in the equity of public and private corporations.

### **E. External accumulation account**

#### **3. Financial account**

14.131 Although an extensive discussion of financial assets appears in chapter XI, and is fully applicable to the external financial account, those items of particular importance to the external account will be elaborated upon here. In particular it is appropriate to note that although monetary gold and IMF SDRs are included among foreign financial assets, they have no counterpart liabilities in that they do not represent claims on other units. Also, for corporate equity shares, the liability does not represent a fixed redemption value.

14.132 In the determination of which financial assets constitute claims on or liabilities to non-residents, the creditor and debtor (or transactors) must be residents of different economies. The unit in which the claim or liability is denominated -- whether the national currency, a foreign currency, or a unit like the SDR -- is not relevant. Furthermore, assets must represent actual claims that are legally in existence. The authorization, commitment, or extension of an unutilized line of credit or the incurrence of a contingent obligation does not establish such a claim, and the pledging or setting aside of an asset (as in a sinking fund) does not settle a claim or alter the ownership of the asset. Contingent assets and liabilities, as noted above, are excluded from financial items. Financial derivatives are included among financial assets and transactions when they can be valued separately from the underlying item to which they are linked, regardless of whether "trading" occurs on- or off-exchange (see chapter XI).

**F. Relationship between the current external transactions and accumulation accounts and the balance of payments accounts**

14.150 As to the classification of financial items, whereas in the System the primary basis for classification of financial assets is by type of instrument, as reflected in the eight major categories, in the balance of payments accounts the primary basis for classification is by function, i.e., direct (foreign) investment, portfolio investment, financial derivatives, other capital and reserve assets. Within those functional areas, the next level of breakdown is by type of instrument, that breakdown encompassing the eight major categories of transactions in financial assets and liabilities classified in the System. However, "securities other than shares" in the System is subdivided in the balance of payments accounts into bonds and notes and money-market instruments. Also, the two components of insurance technical reserves in the System -- net equity of households in life insurance reserves and pension funds, and prepayments of premiums and reserves against outstanding claims -- are included indistinguishably in the balance of payments accounts under "other investment", other assets.



**Annex V. Classifications and accounts**

**Part I. Classifications**

**B. Classification of transactions and other flows**

*1993 SNA, page 587*

**3. Transactions in financial instruments (F)  
(net acquisition of financial assets/net incurrence of liabilities)**

F.1 Monetary gold and SDRs

F.2 Currency and deposits bc/

F.21 Currency

F.22 Transferable deposits

F.29 Other deposits

F.3 Securities other than shares c/

F.31 Short-term

F.32 Long-term

F.4 Loans cd/

F.41 Short-term

F.42 Long-term

F.5 Shares and other equity d/

F.6 Insurance technical reserves

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

F.611 Net equity of households in life insurance reserves

F.612 Net equity of households in pension funds

F.62 Prepayment of premiums and reserves against outstanding claims

F.7 Financial derivatives

F.8 Other accounts receivable/payable d/

F.81 Trade credits and advances

F.89 Other accounts receivable/payable, except trade credits and advances

NOTE: Code "F.7" is assigned to financial derivatives in the classification of transactions in financial instruments. Accordingly, the codes for other accounts receivable/payable are changed. In all tables and texts where these classification codes are mentioned these codes need to be corrected.

**Annex V. Classifications and accounts**

**Part I. Classifications**

**D. Classification of assets**

*1993 SNA, page 589*

**2. Financial assets/liabilities (AF)**

AF.1 Monetary gold and SDRs

AF.2 Currency and deposits ij/

AF.21 Currency

AF.22 Transferable deposits

AF.29 Other deposits

AF.3 Securities other than shares j/

AF.31 Short-term

AF.32 Long-term

AF.4 Loans j k/

AF.41 Short-term

AF.42 Long-term

AF.5 Shares and other equity k/

AF.6 Insurance technical reserves

AF.61 Net equity of households on life insurance reserves and on pension funds

AF.62 Prepayment of premiums and reserves against outstanding claims

AF.7 Financial derivatives

AF.8 Other accounts receivable/payable k/

AF.81 Trade credits and advances

AF.89 Other accounts receivable/payable, except trade credits and advances trade credits and advances

NOTE: Code "AF.7" is assigned to financial derivatives in the classification of financial assets/liabilities. Accordingly, the codes for other accounts receivable/payable are changed. In all tables and texts where these classification codes are mentioned these codes need to be corrected.

Table 11.1. Account III.2: Financial account

Changes in assets									Changes in liabilities and net worth								
Total	Corresponding entries of the Goods and service account	Rest of the world account	S.1 Total economy	S.15 NPISHs	S.14 Households	S.13 General government	S.12 Financial corporations	S.11 Non-financial corporations	S.11 Non-financial corporations	S.12 Financial corporations	S.13 General government	S.14 Households	S.15 NPISHs	S.1 Total economy	Corresponding entries of the Rest of the world account	Goods and service account	Total
691	50	641	32	181	120	237	71		B.9 Net lending (+)/net borrowing (-)	-69	5	-50	148	4	38	-38	0
	1	-1				-1			F Net acquisition of financial assets/								
									F Net incurrence of liabilities	140	232	170	33	28	603	88	691
130	11	119	12	68	7	15	17		F.1 Monetary gold and SDRs								
37	3	34	2	10	2	15	5		F.2 Currency and deposits 1/		130	2		132	-2	130	
64	2	62	7	41	4		10		F.21 Currency		35			35	2	37	
29	6	23	3	17	1		2		F.22 Transferable deposits		63	2		65	-1	64	
143	5	138	12	29	26	53	18		F.29 Other deposits		32			32	-3	29	
56	2	54	2	22	11	4	15		F.3 Securities other than shares	6	53	64		123	20	143	
87	3	84	10	7	15	49	3		F.31 Short-term	2	34	15		51	5	56	
254	10	244		5	45	167	27		F.32 Long-term	4	19	49		72	15	87	
86	3	83		3	1	63	16		F.4 Loans 2/	71		94	28	217	37	254	
168	7	161		2	44	104	11		F.41 Short-term	16		32	11	17	10	86	
46	2	44		3	36	3	2		F.42 Long-term	55		62	17	141	27	168	
36		36		36					F.5 Shares and other equity 2/	26	13			43	3	46	
33		33		33					F.6 Insurance technical reserves		36			36		36	
22		22		22					F.61 Net equity of households on life insurance reserves and in pension funds		33			33		33	
11		11		11					F.611 Net equity of households in life insurance reserves		22			22		22	
3		3		3					F.612 Net equity of households in pension funds		11			11		11	
									F.62 Prepayment of premiums and reserves against outstanding claims		3			3		3	
82	21	61	8	40	6		7		F.7 Financial derivatives								
36	18	18		11	1		6		F.8 Other accounts receivable/payable 2/	37		10	5	52	30	82	
46	3	43	8	29	5		1		F.81 Trade credits and advances	8		6	4	18	18	36	
									F.89 Other accounts receivable/payable except trade credits and advances	29		4	1	34	12	46	

1/ The following memorandum items related to the elements of the category F.2 "Currency and deposits":

- m11 denominated in national currency
- m12 denominated in foreign currency
- m21 liability of resident institutions
- m22 liability of rest of the world.

2/ Memorandum item: F.m. Direct foreign investment.

**Table 11.2** Classification of transactions in financial assets and liabilities

F.1.	Monetary gold and SDRs
F.2.	Currency and deposits
F.21	Currency
F.22	Transferable deposits
F.29	Other deposits
F.3.	Securities other than shares
F.31	Short-term
F.32	Long-term
F.4.	Loans
F.41	Short-term
F.42	Long-term
F.5.	Shares and other equity
F.6	Insurance technical reserves
F.61	Net equity of households in life insurance reserves and in pension funds
F.611	Net equity of households in life insurance reserves
F.612	Net equity of households in pension funds
F.7	Financial derivatives
F.8	Other accounts receivable/payable
F.81	Trade credit and advances
F.89	Other
Memorandum item:	
Direct foreign investment	
	Equity
	Loans
	Other

Notes - The recommended breakdown of items F.2, F.3, and F.4 into (a), (b), or (c) is optional.

This provides the classification for both transactions in financial assets and liabilities and holding of financial assets and liabilities in balance sheets.

**Annex II. Relationships of the rest of the world account to the balance of payments accounts and the international investment position**

**Tables. Reconciliation of the rest of the world account with the balance of payments accounts**

**Table A.II.4.** Account V.III.2: Financial account (of account V.III: External accumulation accounts)

SNA categories	Correspond to	Balance of payments standard components (items), additional details, and aggregates
Changes in assets		Transactions
F.1 Monetary gold and SDRs		Sum of items 2.B.5.1 monetary gold and 2.B.5.2 special drawing rights (with sign reversed)
F.2 Currency and deposits		Item 2.B.4.2.3 currency and deposits
F.3 Securities other than shares		Item 2.B.1.1.3.2.1 debt securities issued by direct investor plus item 2.B.1.2.3.2.1 debt securities issued by affiliated enterprises plus item 2.B.2.2.2 debt securities (part of portfolio investment)
F.4 Loans		Item 2.B.4.2.2 loans
F.5 Shares and other equity		Sum of items 2.B.1.1.2 equity capital: liabilities to affiliated enterprises (part of direct investment abroad), item 2.B.1.2.1.2 equity capital: liabilities to direct investors (part of direct investment in the reporting economy), item 2.B.1.2.2 reinvested earnings (part of direct investment in the reporting economy), and item 2.B.2.2.1 equity securities (part of portfolio investment)
F.6 Insurance technical reserves		Sum of items 2.B.4.2.4.4.1.1 net equity of households in life insurance reserves and in pension funds and 2.B.4.2.4.4.1.2 prepayments of premium and reserves against outstanding claims
F.7 Financial derivatives		Sum of items 2.B.1.1.4.2 liabilities to affiliated enterprises, 2.B.1.2.4.2 liabilities to direct investors, and 2.B.3.2 liabilities (financial derivatives)
F.8 Other accounts receivable		Sum of items 2.B.1.1.3.2.2 other liabilities of direct investors (part of direct investment abroad), 2.B.1.2.3.2.2 other liabilities to direct investors (part of direct investment in the reporting economy), item 2.B.4.2.1 trade credits (part of other investment), and item 2.B.4.2.4 other liabilities minus items 2.B.4.2.4.4.1.1 net equity of households in life insurance reserves and in pension funds, and 2.B.4.2.4.4.1.2 prepayments of premiums and reserves against outstanding claims (all part of other investment)

**Table A.II.4. Account V.III.2: Financial account (of account V.III: External accumulation accounts) (cont.)**

SNA categories	Correspond to	Balance of payments standard components (items), additional details, and aggregates
Changes in liabilities and net worth		Transactions
F.2 Currency and deposits		Sum of items 2.B.4.1.3 currency and deposits (part of other investment) and 2.B.5.3.1 deposits (part of reserve position in the Fund), 2.B.5.4.1 currency and deposits (part of foreign exchange), and 2.B.5.5.1 currency and deposits (part of other reserve claims)
F.3 Securities other than shares		Sum of items 2.B.1.1.3.1.1 debt securities issued by affiliated enterprises (part of direct investment abroad), 2.B.1.2.3.1.1 debt securities issued by direct investors (part of direct investment in the reporting economy), 2.B.2.1.2 debt securities (part of portfolio investment), 2.B.5.4.2.2 bonds and notes (part of foreign exchange), 2.B.5.4.2.3 money market instruments (part of foreign exchange), and 2.B.5.5.2.2 debt securities (part of other reserve claims),
F.4 Loans		Sum of items 2.B.4.1.2 loans (part of other investment) and 2.B.5.3.2 loans (part of reserve position in the Fund)
F.5 Shares and other equity		Sum of items 2.B.1.1.1.1 equity capital: claims on affiliated enterprises (part of direct investment abroad), 2.B.1.1.2 reinvested earnings (part of direct investment abroad), 2.B.1.2.1.1 equity capital: claims on direct investors (part of direct investment in the reporting economy), 2.B.2.1.1 equity securities (part of portfolio investment), and 2.B.5.4.2.1 and 2.B.5.5.2.1 equities (part of reserve assets, foreign exchange, and other claims)
F.6 Insurance technical reserves		Sum of items 2.B.4.1.4.4.1.1 net equity of households in life insurance reserves and in pension funds and 2.B.4.1.4.1.1.1, 2.B.4.1.4.2.1.1, 2.B.4.1.4.3.1.1, and 2.B.4.1.4.4.1.2 prepayments of premiums and reserves against outstanding claims (all part of other investment)
F.7 Financial derivatives		Sum of items 2.B.1.1.4.1. claims on affiliated enterprises, 2.B.1.2.4.1 claims on direct investors, 2.B.3.1 assets (financial derivatives), and 2.B.5.4.3 financial derivatives (part of foreign exchange)
F.8 Other accounts payable		Sum of items 2.B.1.1.3.1.2 other claims on affiliated enterprises (part of direct investment abroad), 2.B.1.2.3.1.2 other claims on direct investors (part of direct investment in the reporting economy), 2.B.4.1.1 trade credits (part of other investment) and 2.B.4.1.4, other assets minus items 2.B.4.1.4.4.1.1, net equity of households in life insurance reserves and in pension funds, and 2.B.4.1.4.1.1.1, 2.B.4.1.4.2.1.1, 2.B.4.1.4.3.1.1, and 2.B.4.1.4.4.1.2, prepayments of premiums and reserves against outstanding claims (all part of other investment)
B.9 <i>Net lending (+)/net borrowing (-)</i>		

Note: The correspondences between the SNA rest of the world accounts, and the BOP and international investment position as shown in the original 1993 SNA Table were incorrect, which have been now corrected.

**Table A.II.5.** Account V.III.3: Other changes in assets account

Account V.III.3.1: Other changes in volume of assets account

SNA categories	Correspond to	International investment position standard components and additional details
<b>Changes in assets</b>		<b>Changes in liabilities</b>
K.7 Catastrophic losses		Catastrophic losses (part of other adjustments)
K.8 Compensated seizures		Uncompensated seizures (part of other adjustments)
K.10 Other volume changes in financial assets and liabilities, n.e.c.,		Other volume changes (part of other adjustments)
K.12 Changes in classifications and structure		Change in classifications and structure (part of other adjustments)
<b>Changes in liabilities and net worth</b>		<b>Changes in assets</b>
K.7 Catastrophic losses		Catastrophic losses (part of other adjustments)
K.12 Changes in classifications and structure		Changes in classification and structure (part of other adjustments)
B.10.2 <i>Changes in net worth due to other changes in volume of assets</i>		

Account V.III.3.2: Revaluation account

SNA Categories	Corresponding to	International investment position standard components and additional details
<b>Changes in assets</b>		<b>Changes in liabilities</b>
K.11 Nominal holding gains/losses in financial assets		Sum of entries in the columns for price and exchange rate changes
K.11.1 Neutral holding gains/losses in financial assets		Sum of entries in the columns for neutral holding gains/losses
K.11.2 Real holding gains/losses in financial assets		Sum or entries in the columns for real holding gains/losses in liabilities
<b>Changes in liabilities and net worth</b>		<b>Changes in assets</b>
K.11 Nominal holding gains/losses in liabilities		Sum of entries in the columns for price and exchange rate changes
K.11.1 Neutral holding gains/losses in liabilities		Sum of entries in the columns for neutral holding gains/losses
K.11.2 Real holding gains/losses in liabilities		Sum or entries in the columns for real holding gains/losses
B.10.3 <i>Changes in net worth due to nominal holding gains/losses</i>		Price and exchange rate changes in assets less price and exchange rate changes in liabilities
B.10.31 <i>Changes in net worth due to neutral holding gains/losses</i>		Neutral holding gains/losses in assets less neutral holding gains/losses in liabilities
B.10.32 <i>Changes in net worth due to real holdings gains/losses</i>		Real holding gains/losses in assets less real holding gains/losses in liabilities

**Table A.II.6.** Account V.IV: External assets and liabilities

Account V.IV.1: Opening balance sheet

SNA categories	Correspond to	International investment position standard components and additional details
AF      Financial assets		Sum of items B.1.1.2 liabilities (equity capital and reinvested earnings) to direct investors (part of direct investment in the reporting economy), B.1.2.2 liabilities (other capital) to direct investors (part of direct investment in the reporting economy), B.1.3.2 1: (financial derivatives) to direct investors (part of direct investment in the reporting economy), A.1.1.2 liabilities (equity capital and reinvested earnings) to affiliated enterprises (part of direct investment abroad), A.1.2.2 liabilities (other capital) to affiliated enterprises (part of direct investment abroad), A.1.3.2 liabilities (financial derivatives) to affiliated enterprises (part of direct investment abroad, B.2 portfolio investment, B.3 financial derivatives, and B.4 other investment
AF      Liabilities		Sum of items A.1.1.1 claims (equity capital and reinvested earnings) on affiliated enterprises (part of direct investment abroad), A.1.2.1 claims (other capital) on affiliated enterprises (part of direct investment abroad), A.1.3.1 claims (financial derivatives) on affiliated enterprises (part of direct investment abroad), B.1.1.1 claims (equity capital and reinvested earnings (part of direct investment in the reporting economy), B.1.2.1 claims (other capital) on direct investors (part of direct investment in the reporting economy), B.1.3.1 claims (financial derivatives) on direct investors (part of direct investment in the reporting economy), A.2 portfolio investment, A.3 financial derivatives, A.4 other investment, and A. 5 reserve assets minus 5.1 monetary gold and 5.2 special drawing rights
<b>B.90      Net worth</b>		

Note: The correspondences between the SNA rest of the world accounts, and the BOP and international investment position as shown in the original *1993 SNA* Table were incorrect, which have been now corrected.



**Table A.II.6 Account V.IV: External assets and liabilities (cont.)**

Account V.IV.2: Changes in balance sheets

SNA categories	Correspond to	International investment position standard components and additional details
AF      Total changes in financial assets		Sum of transactions, price and exchange rate changes, and other adjustments in respect of the corresponding international investment position items identified in Account V.IV.1 of the SNA
AF      Total changes in liabilities		Sum of transactions price and exchange rate changes, and other adjustments in respect of corresponding international investment position items identified in Account V.IV.1 of the SNA
B.10 <i>Changes in net worth, total</i>		Total changes in assets - total changes in liabilities

Account V.IV.3: Closing balance sheets

SNA categories	Correspond to	International investment position standard components and additional details
AF      Financial assets		Sum of end of period values of corresponding items in the international investment position and identified in Account V.IV.1 of the SNA
AF      Liabilities		Sum of end of period value of corresponding items in the international investment position and identified in Account V.IV.1 of the SNA

**Table A.II.7** Balance of payments: standard components and additional details

	Credit	Debit
<b>1. Current account</b>		
<b>A. Goods and services</b>		
a. Goods		
1. General merchandise		
2. Goods for processing		
3. Repairs on goods		
4. Goods procured in ports by carriers		
5. Non-monetary gold		
5.1 Held as a store of value		
5.2 Other		
b. Services		
1. Transportation		
1.1 Sea transport		
1.1.1 Passenger		
1.1.2 Freight		
1.1.3 Other		
1.2 Air transport		
1.2.1 Passenger		
1.2.2 Freight		
1.2.3 Other		
1.3 Other transport		
1.3.1 Passenger		
1.3.2 Freight		
1.3.3 Other		
2. Travel		
2.1 Business		
2.2 Personal		
3. Communications services		
4. Construction services		
5. Insurance services		
6. Financial service		
7. Computer and information services		
8. Royalties and license fees		
9. Other business services		
9.1 Merchanting and other trade-related services		
9.2 Operational leasing services		
9.3 Miscellaneous business, professional, and technical services		
10. Personal, cultural and recreational services		
10.1 Audiovisual and related services		
10.2 Other personal, cultural and recreational services		
11. Government services, n.i.e.		
<b>B. Income</b>		
1. Compensation of employees		
2. Investment income		
2.1 Direct investment		
2.1.1 Income on equity		
2.1.1.1 Dividends and distributed branch profits 3		
2.1.1.2 Reinvested earnings and undistributed branch profits 3		
2.1.2 Income on debt (interest)		
2.2 Portfolio investment		
2.2.1 Income on equity (dividends)		
2.2.2 Income on debt (interest)		
2.2.2.1 Bonds and notes		
2.2.2.1.1 Financial intermediation charge indirectly measured*		
2.2.2.1.2 Other interest		
2.2.2.2 Money market instruments		

**Table A.II.7** Balance of payments: standard components and additional details (cont.)

	Credit	Debit
2.3 Other investment		
2.3.1 Financial intermediation charge indirectly measured*		
2.3.2 Other interest		
2.3.3 Imputed income to households from net equity in life insurance reserves and in pension f		
<b>C. Current transfers</b>		
1. General government		
1.1 Current taxes on income,, wealth,, etc.*	xxx	
1.2 Other taxes on production*	xxx	
1.3 Other subsidies on production*		xxx
1.4 Social contributions*	xxx	
1.5 Social benefits*		xxx
1.6 Other current transfers of general government*		
2. Other sectors		
2.1 Workers' remittance		
2.2 Other transfers		
2.2.1 Current taxes on income,, wealth,, etc.*		xxx
2.2.2 Other taxes on production*		xxx
2.2.3 Other subsidies on production*	xxx	
2.2.4 Social contributions*		xxx
2.2.5 Social benefits*	xxx	
2.2.6 Other current transfers of other sectors*		
<b>2. Capital and financial account</b>		
<b>A. Capital account</b>		
1. Capital transfers		
1.1 General government		
1.1.1 Debt forgiveness		
1.1.2 Other		
1.2 Other		
1.2.1 Migrants' transfers		
1.2.2 Debt forgiveness		
1.2.3 Other		
2. Acquisition/disposal of non-produced non-financial assets		
<b>B. Financial account</b>		
1. Direct investmen		
1.1 Abroad		
1.1.1 Equity capital		
1.1.1.1 Claims on affiliated enterprises		
1.1.1.2 Liabilities to affiliated enterprises		
1.1.2 Reinvested earnings		
1.1.3 Other capital		
1.1.3.1 Claims on affiliated enterprises		
1.1.3.1.1 Debt securities issued by affiliated enterprises*		
1.1.3.1.2 Other claims on affiliated enterprises*		
1.1.3.2 Liabilities to affiliated enterprises		
1.1.3.2.1 Debt securities issued by direct investors*		
1.1.3.2.2 Other liabilities of direct investors		
1.1.4 Financial derivatives		
1.1.4.1 Claims on affiliated enterprises		
1.1.4.2 Liabilities to affiliated enterprises		
1.2 In reporting economy		
1.2.1 Equity capital		
1.2.1.1 Claims on direct investors		
1.2.1.2 Liabilities to direct investors		
1.2.2 Reinvested earnings		

**Table A.II.7** Balance of payments: standard components and additional details (cont.)

		Credit	Debit
	1.2.3		
	Other capital		
	1.2.3.1		
	Claims on direct investors		
	1.2.3.1.1		
	Debt securities issued by direct investors*		
	1.2.3.1.2		
	Other claims on direct investors*		
	1.2.3.2		
	Liabilities to direct investors		
	1.2.3.2.1		
	Debt securities issued by affiliated enterprises*		
	1.2.3.2.2		
	Other liabilities to direct investors*		
	1.2.4		
	Financial derivatives		
	1.2.4.1		
	Claims on direct investors		
	1.2.4.2		
	Liabilities to direct investors		
2.	Portfolio investment		
2.1	Assets		
2.1.1	Equity securities		
2.1.1.1	Monetary authorities		
2.1.1.2	General government		
2.1.1.3	Banks		
2.1.1.4	Other sectors		
2.1.2	Debt securities		
2.1.2.1	Bonds and notes		
2.1.2.1.1	Monetary authorities		
2.1.2.1.2	General government		
2.1.2.1.3	Banks		
2.1.2.1.4	Other sectors		
2.1.2.2	Money-market instruments		
2.1.2.2.1	Monetary authorities		
2.1.2.2.2	General government		
2.1.2.2.3	Banks		
2.1.2.2.4	Other sectors		
2.2	Liabilities		
2.2.1	Equity securities		
2.2.1.1	Banks		
2.2.1.2	Other sectors		
2.2.2	Debt securities		
2.2.2.1	Bonds and notes		
2.2.2.1.1	Monetary authorities		
2.2.2.1.2	General government		
2.2.2.1.3	Banks		
2.2.2.1.4	Other sectors		
2.2.2.2	Money-market instruments		
2.2.2.2.1	Monetary authorities		
2.2.2.2.2	General government		
2.2.2.2.3	Banks		
2.2.2.2.4	Other sectors		

**Table A.II.7** Balance of payments: standard components and additional details (cont.)

			Credit	Debit
3.	Financial derivatives			
		3.1 Assets		
		3.1.1 Monetary authorities		
		3.1.2 General government		
		3.1.3 Banks		
		3.1.4 Other sectors		
		3.2 Liabilities		
		3.2.1 Monetary authorities		
		3.2.2 General government		
		3.2.3 Banks		
		3.2.4 Other sectors		
4.	Other investment			
	4.1 Assets			
	4.1.1 Trade credits			
	4.1.1.1 General government			
		4.1.1.1.1 Long-term		
		4.1.1.1.2 Short-term		
	4.1.1.2 Other sectors			
		4.1.1.2.1 Long-term		
		4.1.1.2.2 Short-term		
	4.1.2 Loans			
	4.1.2.1 Monetary authorities			
		4.1.2.1.1 Long-term		
		4.1.2.1.2 Short-term		
	4.1.2.2 General government			
		4.1.2.2.1 Long-term		
		4.1.2.2.2 Short-term		
	4.1.2.3 Banks			
		4.1.2.3.1 Long-term		
		4.1.2.3.2 Short-term		
	4.1.2.4 Other sectors			
		4.1.2.4.1 Long-term		
		4.1.2.4.2 Short-term		
	4.1.3 Currency and deposits			
	4.1.3.1 Monetary authorities			
	4.1.3.2 General government			
	4.1.3.3 Banks			
	4.1.3.4 Other sectors			
	4.1.4 Other assets			
	4.1.4.1 Monetary authorities			
		4.1.4.1.1 Long-term		
			4.1.4.1.1.1	Prepayments of premium and reserves against outstanding claims*
			4.1.4.1.1.2	Other assets*
		4.1.4.1.2 Short-term		
	4.1.4.2 General government			
		4.1.4.2.1 Long-term		
			4.1.4.2.1.1	Prepayments of premiums and reserves against outstanding claims*
			4.1.4.2.1.2	Other assets*
		4.1.4.2.2 Short-term		

**Table A.II.7** Balance of payments: standard components and additional details (cont.)

				Credit	Debit
	4.1.4.3	Banks			
		4.1.4.3.1	Long-term		
			4.1.4.3.1.1		Prepayments of premiums and reserves against outstanding claims*
			4.1.4.3.1.2		Other assets*
		4.1.4.3.2	Short-term		
	4.1.4.4	Other sectors			
		4.1.4.4.1	Long-term		
			4.1.4.4.1.1		Net equity of households in life insurance reserves and in pension funds*
			4.1.4.4.1.2		Prepayments of premiums and reserves against outstanding claims*
			4.1.4.4.1.3		Other assets*
		4.1.4.4.2	Short-term		
4.2	Liabilities				
	4.2.1	Trade credits			
		4.2.1.1	General government		
			4.2.1.1.1	Long-term	
			4.2.1.1.2	Short-term	
		4.2.1.2	Other sectors		
			4.2.1.2.1	Long-term	
			4.2.1.2.2	Short-term	
	4.2.2	Loans			
		4.2.2.1	Monetary authorities		
			4.2.2.1.1	Use of fund credit and loans from the fund	
			4.2.2.1.2	Other long-term	
			4.2.2.1.3	Short-term	
		4.2.2.2	General government		
			4.2.2.2.1	Long-term	
			4.2.2.2.2	Short-term	
		4.2.2.3	Banks		
			4.2.2.3.1	Long-term	
			4.2.2.3.2	Short-term	
		4.2.2.4	Other sectors		
			4.2.2.4.1	Long-term	
			4.2.2.4.2	Short-term	
	4.2.3	Currency and deposits			
		4.2.3.1	Monetary authorities		
		4.2.3.2	Banks		
	4.2.4	Other liabilities			
		4.2.4.1	Monetary authorities		
			4.2.4.1.1	Long-term	
			4.2.4.1.2	Short-term	
		4.2.4.2	General government		
			4.2.4.2.1	Long-term	
			4.2.4.2.2	Short-term	
		4.2.4.3	Banks		
			4.2.4.3.1	Long-term	
			4.2.4.3.2	Short-term	

**Table A.II.7** Balance of payments: standard components and additional details (cont.)

				Credit	Debit
	4.2.4.4	Other sectors			
		4.2.4.4.1	Long-term		
			4.2.4.4.1.1		Net equity of households in life insurance reserves and in pension funds*
			4.2.4.4.1.2		Prepayments of premiums and reserves against outstanding claims*
			4.2.4.4.1.3		Other liabilities*
		4.2.4.4.2	Short-term		
5.	Reserve assets				
5.1	Monetary gold				
5.2	Special drawing rights				
5.3	Reserve position in the Fund				
	5.3.1	Deposits*			
	5.3.2	Loans*			
5.4	Foreign exchange				
	5.4.1	Currency and deposits			
		5.4.1.1	With monetary authorities		
		5.4.1.2	With banks		
	5.4.2	Securities			
		5.4.2.1	Equities		
		5.4.2.2	Bonds and notes		
		5.4.2.3	Money-market instruments		
	5.4.3	Financial derivatives			
5.5	Other claims				
	5.5.1	Currency and deposits*			
	5.5.2	Securities*			
		5.5.2.1	Equities*		
		5.5.2.2	Debt securities		

\* Details needed to reconcile with the classifications used in the rest of the world account of the SNA.

1 See table A.II.8 for components.

2 Memorandum items: 5.1 Gross premiums 5.2 Gross claims.

3 If distributed branch profits are not identified, all branch profits are considered to be distributed.

**Table A.II.9.** International investment position: standard components and additional details

		Position at beginning of year	Changes in position due to:			Position at end of year
			Transactions	Price changes *a *b	Exchange rate changes *a *b	
<b>A. Assets</b>						
1.	Direct investment abroad 1					
1.1	Equity capital and reinvested earnings					
1.1.1	Claims on affiliated enterprises					
1.1.2	Liabilities to affiliated enterprises					
1.2	Other capital					
1.2.1	Claims on affiliated enterprises					
1.2.2	Liabilities to affiliated enterprises					
1.3	Financial derivatives					
1.3.1	Claims on affiliated enterprises					
1.3.2	Liabilities to affiliated enterprises					
2.	Portfolio investment					
2.1	Equity securities					
2.1.1	Monetary authorities					
2.1.2	General government					
2.1.3	Banks					
2.1.4	Other sectors					
2.2	Debt securities					
2.2.1	Bonds and notes					
2.2.1.1	Monetary authorities					
2.2.1.2	General government					
2.2.1.3	Banks					
2.2.1.4	Other sectors					
2.2.2	Money-market instruments					
2.2.2.1	Monetary authorities					
2.2.2.2	General government					
2.2.2.3	Banks					
2.2.2.4	Other sectors					
3.	Financial derivatives					
3.1	Monetary authorities					
3.2	General governments					
3.3	Banks					
3.4	Other sectors					
4.	Other investment					
4.1	Trade credits					
4.1.1	General government					
4.1.1.1	Long-term					
4.1.1.2	Short-term					
4.1.2	Other sectors					
4.1.2.1	Long-term					
4.1.2.2	Short-term					



**Table A.II.9.** International investment position: standard components and additional details (cont.)

		Changes in position due to:				
		Position at	Price	Exchange	Other	Position at
		beginning	changes	rate	adjust-	end of
		of year	*a *b	*a *b	ments	year
			Transactions			
4.2	Loans					
4.2.1	Monetary authorities					
4.2.1.1	Long-term					
4.2.1.2	Short-term					
4.2.2	General government					
4.2.2.1	Long-term					
4.2.2.2	Short-term					
4.2.3	Banks					
4.2.3.1	Long-term					
4.2.3.2	Short-term					
4.2.4	Other sectors					
4.2.4.1	Long-term					
4.2.4.2	Short-term					
4.3	Currency and deposits					
4.3.1	Monetary authorities					
4.3.2	General government					
4.3.3	Banks					
4.3.4	Other sectors					
4.4	Other assets					
4.4.1	Monetary authorities					
4.4.1.1	Long-term					
4.4.1.1	Short-term					
4.4.2	General government					
4.4.2.1	Long-term					
4.4.2.2	Short-term					
4.4.3	Banks					
4.4.3.1	Long-term					
4.4.3.2	Short-term					
4.4.4	Other sectors					
4.4.4.1	Long-term					
4.4.4.2	Short-term					
5.	Reserve assets					
5.1	Monetary gold					
5.2	Special drawing rights					
5.3	Reserve position in the Fund					
5.4	Foreign exchange					
5.4.1	Currency and deposit					
5.4.1.1	With monetary authorities					
5.4.1.2	With banks					
5.4.2	Securities					
5.4.2.1	Equities					
5.4.2.2	Bonds and notes					
5.4.2.3	Money-market instruments					
5.4.3	Financial derivatives					
5.5	Other claims					

**Table A.II.9.** International investment position: standard components and additional details (cont.)

		Position at beginning of year	Changes in position due to:			Position at end of year
			Transactions	Price changes *a *b	Exchange rate changes *a *b	
<b>B. Liabilities</b>						
1	Direct investment in reporting economy 1					
1.1	Equity capital and reinvested earnings					
1.1.1	Claims on direct investors					
1.1.2	Liabilities to direct investors					
1.2	Other capital					
1.2.1	Claims on direct investors					
1.2.2	Liabilities to direct investors					
1.3	Financial derivatives					
1.3.1	Claims on direct investors					
1.3.2	Liabilities to direct investors					
2	Portfolio investment					
2.1	Equity securities					
2.1.1	Banks					
2.1.2	Other sectors					
2.2	Debt securities					
2.2.1	Bonds and notes					
2.2.1.1	Monetary authorities					
2.2.1.2	General government					
2.2.1.3	Banks					
2.2.1.4	Other sectors					
2.2.2	Money-market instruments					
2.2.2.1	Monetary authorities					
2.2.2.2	General government					
2.2.2.3	Banks					
2.2.2.4	Other sectors					
3.	Financial derivatives					
3.1	Monetary authorities					
3.2	General governments					
3.3	Banks					
3.4	Other sectors					
4.	Other investment					
4..1	Trade credits					
4..1.1	General government					
4..1.1.1	Long-term					
4..1.1.2	Short-term					
4..1.2	Other sectors					
4..1.2.1	Long-term					
4..1.2.2	Short-term					

**Table A.II.9.** International investment position: standard components and additional details (cont.)

		Changes in position due to:				
		Position at	Price	Exchange	Other	Position at
		beginning	changes	rate	adjust-	end of
		of year	*a *b	*a *b	ments	year
			Transactions			
4.2	Loans					
	4.2.1 Monetary authorities					
	4.2.1.1 Use of Fund credit and loans from the Fund					
	4.2.1.2 Other long-term					
	4.2.1.3 Short-term					
	4.2.2 General government					
	4.2.2.1 Long-term					
	4.2.2.2 Short-term					
	4.2.3 Banks					
	4.2.3.1 Long-term					
	4.2.3.2 Short-term					
	4.2.4 Other sectors					
	4.2.4.1 Long-term					
	4.2.4.2 Short-term					
4.3	Currency and deposits					
	4.3.1 Monetary authorities					
	4.3.2 Banks					
4.4	Other liabilities					
	4.4.1 Monetary authorities					
	4.4.1.1 Long-term					
	4.4.1.2 Short-term					
	4.4.2 General government					
	4.4.2.1 Long-term					
	4.4.2.2 Short-term					
	4.4.3 Banks					
	4.4.3.1 Long-term					
	4.4.3.2 Short-term					
	4.4.4 Other sectors					
	4.4.4.1 Long-term					
	4.4.4.2 Short-term					

\* Details needed to reconcile with the classifications used in the rest of the world account of the SNA (a = neutral holding gains/losses; b = real holding gains/losses).

1 Because direct investment is classified primarily on a directional basis -- abroad under the heading "Assets" and in reporting economy under the heading "Liabilities" --claims/liabilities breakdowns are shown for the components of each, although these sub-items do not strictly confirm to the overall heading of "Assets" and "Liabilities".