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New Monetary and Financial Statistics Manual and International Accounting Standards

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The Fund's *Monetary and Financial Statistics Manual (MFSM)*, published in October 2000, provides recommendations on the classification and valuation of financial assets and liabilities. The recommended methodology, along with the *System of National Accounts 1993* and the *Balance of Payments Manual*, fifth edition published in 1993, constitutes international guidelines and standards for macroeconomic statistics.

In the area of commercial accounting, the "Draft Standard and Basis for Conclusions, Financial Instruments and Similar Items" (hereafter, draft standard) was released in December 2000 by the Joint Working Group of Standard Setters (JWG) under the auspices of the International Accounting Standards Committee (IASC). The draft standard contains a comprehensive treatment of far-reaching changes in the valuation of financial instruments. It was developed as part of a long-term project of the IASC. The project followed the publication of a 1997 IASC discussion paper, "Accounting Methods for Financial Assets and Financial Liabilities."

Based on the *MFSM* and the draft standard, this paper researches how far commercial accounting framework may diverge from that of macroeconomic statistics. The draft standard has important implications for macroeconomic statistics, especially, for how loans and deposits are to be valued and presented. Loans and deposits are key elements for the analysis of monetary economy, but their source data are compiled in accordance with each country's accounting framework. These frameworks would need to be modified if international accounting standards were adopted. The draft standard, which would supersede the current standards (IAS 39), is to be finalized after incorporating comments received from countries by mid-2001.

The *MFSM* and the draft standard recommend similar valuation methods for financial instruments, but there are some important differences. Both approaches favor the fair value method over the historical cost method. However, the difference is that the methodology in the *MFSM* makes a distinction based on the tradability of financial instruments, whereas the draft standard does not. Specifically, the draft standard recommends that deposits and loans are valued at market prices or, in the absence of market prices, at fair value. The *MFSM* recommends that loans and deposits be reclassified as securities if they become tradable. Therefore, it is not plausible that financial instruments that are classified as deposits or loans are valued at their market price or fair value.

Loans can be presented at their market prices or fair value if they are not reclassified as securities because of their tradability. The fair valuation method has an advantage in that changes in the value of loans would reflect changes in credit risks and changes arising from movements in interest rates. Recording the revised loan values, based on fair value method, would be consistent with recording securitized instruments and credit derivatives on the basis of market value in macroeconomic statistics. On the other hand, however, historical cost valuation has the advantage of providing data

on the overall financial obligations of borrowers, in the absence of consideration of credit and interest rate risks. Also, compilers in many countries may find it difficult to obtain high-quality data on the fair value of loans. The draft standard recommends that companies value traded loans based on market prices, and nontraded loans based on discounted cash flows, using discount rates adjusted for risk as specified in credit-grading systems.

Applying the fair value method to deposits raises issues that do not arise when applying the fair value method to loans. Deposits are the largest component of the monetary aggregates, which are usually stated in terms of outstanding amounts. Recasting the analysis of monetary aggregates, a new framework would need to be developed for the analysis of such aggregates that incorporate fair-value components, instead of book values of the components of the monetary aggregates, in nominal terms and deflated by a price index.

Compared to loan data, it will be even more difficult for compilers to obtain high-quality information on deposits based on the fair value method specified in the draft standard. According to the draft standard, the value of demand deposits comprises two elements: the value as a means of transaction (medium of exchange) and the value as an investment (store of value). The draft standard recommends that only the latter element be calculated on the basis of fair value. Decomposing demand deposits into these elements and computing the fair value of the investment component would require too many assumptions and approximations.

REFERENCES

International Monetary Fund (2000). Monetary and Financial Statistics Manual.

International Accounting Standards Committee (2001). Joint Working Group of Standard Setters, Draft Standard and Basis for Conclusions, Financial Instruments and Similar Items.

RESUME

Nouvelles propositions pour la comptabilité des instruments financiers ont des implications pour les statistique monétaires et financiers.