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The Relationship Between International Accounting Standards and Statistical Standards: Background Information on Work Within the IMF's Statistics Department

Prepared by the Statistics Department
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THE RELATIONSHIP BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND STATISTICAL STANDARDS: BACKGROUND INFORMATION ON WORK WITHIN THE IMF'S STATISTICS DEPARTMENT [1]

I. INTRODUCTION

The IMF Statistics Department (STA) is extensively involved in the development and application of macroeconomic statistical methodologies. These include the *System of National Accounts 1993 (1993 SNA), Balance of Payments Manual*, fifth edition (*BPM5*), *External Debt Statistics: Guide for Compilers and Users (ED Guide)*, *Monetary and Financial Statistics Manual 2000 (MSFM 2000)*, *Compilation Guide for Financial Soundness Indicators (FSI Guide)*, and the *Government Finance Statistics Manual 2001 (GFSM 2001).* This short paper describes the relationship between these macroeconomic statistical standards and International Accounting Standards (IAS) and the on-going work of the Fund's Statistics Department to support further harmonization. An appendix is attached that provides an example of the reconciliation work being undertaken. The views in this paper are those solely of the STA of the IMF.

Each of these macroeconomic statistical standards is based firmly within the framework of the *1993 SNA*, although some differences may arise because of the particular purposes for which each standard is used. Common to the statistical standards is the objective of aggregating data for individual units into sectors that respond similarly to economic stimuli. The focus is on describing economic behavior.

Business accounting is designed to assess the financial condition of individual entities, measure their economic result, and determine the interested parties' entitlement to that result. Data for individual entities are consolidated to include activities of units that are controlled by the reporting entity, regardless of their residence or sector of activity. The focus is on solvency and profitability.

One aspect of the application of international accounting standards that impacts directly on the statistical data available is the coverage of the units involved. Macroeconomic statistics aim to cover both listed and unlisted companies. International accounting standards are particularly relevant for listed companies, but may be too onerous, or even unnecessary, for most unlisted companies. Nonetheless, there will be some unlisted companies that may be large enough for the application of the accounting standards to be warranted. Similarly, the question arises as to whether the central bank should be subject to the standards. In this regard, it is interesting to note that the IMF, in its Safeguards Assessment Policy, uses the IAS as the benchmark standard for assessing the reporting practices of the central bank in countries seeking a new borrowing facility.

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[1] Presented to the ECB Statistics Committee at its meeting in July 2003. The document is provided for the Committee's information.

Despite these differences, as is discussed in the national accounts section below, there are distinct advantages in ensuring that statistical and accounting standards are harmonized to the fullest extent possible. In particular, such harmonization will enable the same source data to be used for multiple purposes and reduce the extent of confusion for users of the data. For example, it is clear that the "micro-data" available from accounting systems usually provide the main basis for macroeconomic statistics. Furthermore, the possibility of obtaining reliable supplementary information that do not originate in the underlying accounting system are very limited.

Macroeconomic statistics present data in an integrated framework that provides opening and closing balance sheets (at market values) and data on flows that fully describe the changes in the balance sheet positions during the period. This presentation identifies transactions and other flows (including revaluations) separately. The International Accounting Standards Board (IASB) is considering a similar proposal. As part of its performance reporting project, a comprehensive income statement would distinguish between "income and expenses other than remeasurements" and "remeasurements". This is a welcome development

The IMF encourages the harmonization of statistical and accounting standards, and convergence between them, as much as possible. In recent years, a number of discussions have been held with accounting standard setters in the context of developing statistical standards, such as the *Government Finance Statistics Manual 2001* and the *Compilation Guide on Financial Soundness Indicators*. These discussions are continuing in the context of the review of the *1993 SNA* and possible changes to accounting standards. To the extent that differences remain, which is likely, it would be useful to develop standard reconciliation tables that explain these differences for users.

II. National Accounts Statistics

The IMF's involvement in the international guidelines to compile national accounts mainly take place in the framework of the InterSecretariat Working Group for National Accounts (ISWGNA), in which also Eurostat, the OECD, the United Nations Statistics Division, and the World Bank are represented. The ISWGNA oversees the implementation of the *1993 SNA*, clarifies conceptual issues regarding the national accounts, and has recently begun the process of updating the *1993 SNA*, which is expected to lead to a revised manual by 2008.

As explained in the introduction of the *1993 SNA*,[2] the accounting rules and procedures in the national accounts are based on those long used in business accounting. However, the national accounts also draw heavily on economic theory. When business accounting practices conflict with economic principles, priority is generally given to the latter, as the national accounts are designed primarily for purposes of economic analysis and policy-making. Examples are the valuation of production costs at current rather than at historic prices, and the adoption of a different concept of depreciation. To avoid confusion, in these cases the national accounts

[2] Paragraphs 1.58 through 1.67.

statistics try to avoid using labels that may have a very specific meaning in business accounting.

National accounts statistics have much to gain from the adoption by corporations of international accounting standards, for example:

- Any statistics summarize conditions pertaining to groups rather than individual units. It is therefore essential that the same criteria are used for classification and measurement across all units. If the basic economic data collected from business enterprises use a common set of accounting standards regarding classification, valuation, timing, etc., such will greatly help the statistician prepare the national accounts estimates.

- Often, more or less strict accounting standards are defined for groups of units, for instance by stock security commissions, tax authorities, the central bank, and supervisory boards for insurance. As the national accounts describe the whole economy, it is in the interest of the statistician that the same basic accounting principles are used by all these authoritative agencies.

- Because national accounts data are also widely used for making international comparisons, the more countries accept the same accounting standards the better.

At the same time, it must be recognized that there will remain limits to the usefulness of general accounting standards. The national accounts cover not only corporations but units that do not normally keep accounts, such as most household units. Furthermore, the consistency that has to be maintained across the various sectors in the national accounts may lead to requirements that go beyond the reach of accounting standards, such as consistent valuation of financial assets by both debtors and creditors.

Although statisticians are free to ask whatever they want in their questionnaires, one can only expect more or less reasonable answers if the questions refer to data that are the same, or close to, what enterprises record for their own purposes. Too strict an adherence to asking for the conceptually "right" information may thus lead to nonresponse or bogus answers. In addition, it is widely accepted that the response burden laid on the economy should not be increased, but preferably should be even diminished: the harmonization of statistical and accounting standards will help in this regard. Statisticians may therefore choose to be practical and allow some flexibility from a conceptual point of view. The *1993 SNA* explicitly recognizes the importance of a flexible implementation of its recommendations.

Bringing the national accounts closer to concepts used by individual units has been one of the objectives in preparing the *1993 SNA*. There are several reasons why narrowing the "micro-macro link" is a good thing from a conceptual point of view. It has been forcefully argued that the national accounts should describe economic transactions as closely as possible to the way that the economic transactors themselves see them. This will improve the serviceability

of the statistics, for instance, by assisting the modeling of economic behavior and making the statistical data more understandable to users. It goes without saying that if transactors already use common accounting standards for their own purposes, the chances for successfully establishing the micro-macro link are greatly increased.

For the above reasons, national accountants are highly interested in (standards for) business accounting. An example at the international level is the publication in 2000 of *Links between Business Accounting and National Accounts* by the United Nations Statistics Division.[3] Examples of recent issues in which accounting standards have played an important role in the discussion include the treatment of derivatives, accrual accounting of interest, employee stock option plans, pensions, and nonperforming loans. In many of these issues, the IMF Statistics Department has taken a very active, or even leading, role (for example, as the moderator of electronic discussion groups that, among other things, provide a forum for the exchange of views between statisticians and accountants).

III. Balance of Payments Statistics

A. Discussion of International Accounting Standards

At its 2001 meeting, the IMF Committee on Balance of Payments Statistics (the Committee) addressed the issue of coordination of statistical and accounting standards in the context of impaired loans. In the Committee's 2001 annual report, it was stated:

> The paper by IMF staff pointed out the divergences that appear to be emerging between statistical standards and new international accounting standards. The Committee noted the potential impact that would result from such a divergence and recommended that STA maintain close contact with the IASB to ensure that statistical considerations are part of the IASB's work. (2001 *Annual Report*, page 14)

Fund staff met with IASB representatives in December 2001.

B. Update to the fifth edition of the *Balance of Payments Manual*

At its 2002 meeting, the Committee adopted a plan to update the *BPM5* in 2008. The *BPM5* presents international standards for balance of payments and international investment position statistics. A process of rounds of drafting and consultation with compilers and users was developed. An annotated outline of the new manual has been drafted and circulated for comment to various groups of international agencies, including the Committee and the ISWGNA. Following input from these groups and further discussions, a revised version of the annotated outline will be sent to the wider balance of payments community in early 2004.

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[3] Studies in Methods, Series F, No 76.

Among the issues identified for consideration is the valuation of loans and deposits. The valuation of impaired loans, traded loans, and deposits in banks in liquidation are particular areas of concern. For instance, nominal values of loans can give a quite misleading impression of financial position if there is a high risk of default. As well, when such loans are traded, there are serious differences between transactions values and nominal values. There is also a considerable discontinuity in the valuation of traded loans that are traded in a sufficiently deep market to be classified as a security and those that are not. Preliminary discussions have pointed to the possible solution of adopting nominal values as the primary valuation method in order to ensure symmetry between reporting by debtors and creditors and consistency with existing accounting, in conjunction with supplementary items to show alternative valuations for creditors. Adoption of fair value accounting would make such alternative valuations more readily available and more consistently defined and, so, facilitate such a treatment. However, because of the need for consistent valuation by debtors and creditors, the adoption of fair value as a primary valuation is problematic.

The Committee and Fund staff will monitor other developments in international accounting standards for their implications for statistical standards, such as leases, repos, interest, and derivatives.

IV. External Debt Statistics

The *ED Guide* was published in June 2003 and provides a comprehensive conceptual framework that links external debt statistics to the International Investment Position and *1993 SNA* concepts. In contrast to the *ED Guide*, IAS focuses on liabilities rather than debt per se. But there are similarities in the manner in which the *ED Guide* defines debt and the IAS defines liabilities: both focus on present obligations in contrast to future commitments. Also, both the *ED Guide* and IAS encourage the recording of a distinction between short-term (“current’ in IAS terminology) and long-term debt/liabilities.

V. Monetary and Financial Statistics

The Compilation Guide for Monetary and Financial Statistics (*MFS Guide*; in preparation) will contain text and numerical examples on practical procedures for data collection and compilation in accordance with the methodology in the IMF’s *MFSM*, *2000*. The *MFS Guide* will recommend that the source data for the monetary and financial statistics should be obtained, to the maximum extent possible, from a financial corporation’s accounting records, as based on the commercial accounting standards of the country in which the financial corporation has its center of economic interest.

The *MFS Guide* cannot provide explanations, recommendations, and numerical examples that cover the commercial accounting standards of all member countries of the IMF. Therefore, the *MFS Guide* will key on the IASs as representative of national commercial accounting standards, because of:

- *Applicability.* The IASs apply directly to the many countries that have adopted or will adopt the IASs as their national commercial accounting standards, or that are harmonizing their national commercial accounting standards with the IASs.

- *Compatibility.* The IASs contain many asset/liability classifications, valuation principles, and other accounting rules that accord with the *MFSM* methodology.

- *Adaptability.* The IASs provide a foundation for the development of monetary and financial statistics that, though not subsumed within the IAS data requirements for financial statements and disclosures, can be built into an IAS-based accounting system by means of additional data disaggregations, valuation or other data adjustments, and provision of supplementary data.

Development of monetary and financial statistics that accord with the IASs is nonetheless a challenging task, given that major differences exist between macroeconomic statistics and commercial accounting records. For both types of presentation, basic principles such as data quality (including timeliness) apply, with emphasis on the compilation of data that reflect the realities of financial markets. However, the principles for the monetary and financial statistics differ from the IASs with respect to:

- *Periodicity and timeliness*. The *MFS Guide* will specify that the monetary statistics and financial statistics should be compiled on a monthly and quarterly basis, respectively, whereas the IASs call for the presentation of financial statements on an annual basis (with a maximum lag of six months from the balance sheet date), though sub annual data may also be prepared.

- *Sectorization of financial assets and liabilities*. In the *MFSM 2000* methodology, stock and flow data for financial corporations need to be disaggregated into separate categories for the central bank, other depository corporations, other financial corporations, central government, state and local government, public nonfinancial corporations, other nonfinancial corporations, households and nonprofit institutions serving households, and nonresidents. Sectoral disaggregation is not specified in the IASs.

- *Symmetry of debtor/creditor recording*. The *MFSM 2000* methodology specifies that the debtor and creditor's records should agree with respect to the amount and time of recording of all transactions and valuations, including those for financial assets for which fair values are estimated in the absence of market price data. These issues do not arise in the IASs, which focus exclusively on the records of an individual firm.

- *Accounting rules.* The *MFSM 2000* methodology and the IAS differ with respect to some fundamental principles—e.g., valuation of investments that are intended to be held to maturity, treatment of transactions costs, compilation of accrued interest for

some securities, treatment of embedded derivatives, and recognition (by the IASs) of asset/liability hedges.

For the monthly monetary statistics, the *MFS Guide* will recommend that some components of the IAS-based accounting data that differ from the *MFSM 2000* be adjusted in accordance with the *MFSM 2000* methodology (e.g., to value at market prices or fair values holdings of securities in the IAS category " held to maturity for investment"). However, the *MFS Guide* will recommend that other data need not be adjusted for the accounting differences, even though the IAS-based data are not in strict agreement with the most-preferred accounting rules in the *MFSM*. Some data adjustments are viewed as simply too impractical to implement for countries that have adopted the IASs.

For flow of funds and sectoral positions in financial assets and liabilities, the *MFS Guide* will recommend that supplementary data be provided on a quarterly basis. These data will include flow data that are specifically for quarterly accounts and other data that, compared with the monetary statistics, more strictly conform to the *1993 SNA* methodology for flow-of-fund and sectoral financial assets and liabilities outstanding. The supplementary data, in many cases, will be designed for use by compilers in the estimation and adjustment of aggregate data for all other depository corporations (monetary financial institutions) or all other financial corporations, rather for the compilation of data for each financial corporation.

VI. Financial Soundness Indicators

The nature of the financial soundness indicators (FSI) work has led the STA to look at international accounting standards (IASs) in preparing the Draft *Compilation Guide on Financial Soundness Indicators (FSI Guide)*. The reason is that the IASs represent a series of standards that provide concepts that underlie the preparation and presentation of financial statements of commercial, industrial, and business reporting enterprises. Since the objective of these financial statements is to provide information about the financial position, changes in financial position, and performance, of an enterprise, including on a consolidated basis, these statements are a natural source of information for the collection of data on the financial soundness of enterprises, and upon aggregation and consolidation, for the construction of aggregate FSIs.

The methodology of the *FSI Guide,* however, also draws from other measurement frameworks besides the IASs, namely the *1993 SNA* and banking supervisory frameworks. While the analytical needs of IAS/supervisory and national accounts frameworks are not always aligned in that the former is more interested in the individual enterprise on a consolidated basis but the latter is more focused on aggregated sector information on a residence basis, the work on FSIs can make use of both sources of information — because the work encompasses both indicators that emphasize the cross-border consolidation of activities, particularly in relation to capital, and on indicators that emphasize sectoral information on a residence basis.

However, another reason for drawing on different measurement frameworks is that the *FSI Guide* seeks methodological principles that will give rise to FSIs that are most useful for financial soundness analysis. For instance, the *FSI Guide* prefers valuation concepts that can provide, at any given moment, the most realistic assessment of the value of an instrument or item, i.e., in general, market valuation for tradable instruments, which tends to be more in line with *1993 SNA* requirements. On the other hand, the *FSI Guide* also prefers income concepts that include gains and losses on financial instruments and loan loss provisions, which are more in line with IAS/supervisory standards.

To illustrate how IAS and the national accounts frameworks can be used to meet the *FSI Guide's* requirements, the *FSI Guide* provides a detailed appendix that reconciles the income and expense and balance sheet items underlying FSIs with the relevant international accounting and *1993 SNA* standards (reproduced as the Attachment to this note). A representative of the IAS who attended both FSI expert meetings in 2002 confirmed that the reconciliation of the *FSI Guide's* requirements and the relevant IAS standards in the appendix is accurate.

STA supports efforts to adopt IASs as the standard for constructing financial information. Such efforts are particularly useful for FSI data because accounting standards underlying the construction of income and expense and balance sheet items, and of capital adequacy tend to vary across countries, making the data inefficient for constructing FSIs that are comparable across countries. By encouraging common and internationally recognized standards, IASs will greatly facilitate efforts to compile FSIs that are internationally comparable, which will in turn enhance their usefulness for analysis.

VII. PUBLIC FINANCE STATISTICS

Governments prepare accounting data in accordance with national or international generally accepted accounting principles (GAAP). In addition, data on the basis of the international statistical standards are required to meet international statistical reporting requirements.

A. International government finance statistics standard

The international statistical standard for government finance statistics is the IMF's *GFSM 2001*. This standard, which updates the first edition published in 1986, is designed for compilers of government finance statistics, fiscal analysts, and other users of fiscal data. It introduces the accrual basis of recording economic events, integrates balance sheets with transactions and other economic flows, and defines multiple balancing items. The concepts and principles set out in the *GFSM 2001* are harmonized with those of the *1993 SNA* so that fiscal statistics can be utilized jointly with other macroeconomic statistics.

B. International public sector accounting standards

The IASB publishes a series of accounting standards for the private sector called the International Financial Reporting Standards (IFRSs). Upon its inception in 2001, the IASB adopted the body of IASs issued by its predecessor, the Board of the International Accounting Standards Committee (IASC).

The Public Sector Committee of the International Federation of Accountants (PSC IFAC), of which the IMF is a member, is responsible for the development of International Pubic Sector Accounting Standards (IPSASs). In 1996, the PSC IFAC launched a project to develop the IPSASs and in its first phase, they are being developed by adapting the private sector IASs to a public sector context. Twenty IPSASs on an accruals basis, and one on a cash basis, have been released to date. The focus of these standards is on financial reporting, not budgeting. IPSASs apply only to the published financial statements of public sector entities other than government business entities. The PSC IFAC resolved that government business entities should apply the IASs.

C. Harmonization of fiscal statistics and the IPSASs

For countries producing several views of government performance, for example, accounting financial statements and GFS reports, users are sometimes confused by the alternative treatment and presentation of similar items. They are encouraging harmonization and convergence of the accounting and statistical standards. An international project was begun in June 2003 to identify the differences between the IPSASs and *GFSM 2001*.[4] Steps will then be taken to determine whether modifications should be made to either the accounting standards or the *1993 SNA* (and subsequently to the *GFSM 2001* and *European System of Accounts, 1995* to achieve harmonization and convergence between the accounting and statistical standards. The OECD plans to open an Electronic Discussion Group (EDG) for interested parties to contribute to this international debate.

Differences that have been identified between the statistical standards and the IPSASs include the reporting entity, sectorization, recognition of other volume changes in the statistics but not in the IPSASs, treatment of defense weapon platforms, and terminology.

An international task force is set to meet in February 2004, with the objective of improving for all users the comparability, relevance, and availability of data for the public sector. Members of the task force will be from international organizations: IMF, OECD, Eurostat, and PSC IFAC, and interested countries, both OECD and non OECD member countries. It is planned that the task force will meet in early 2004 and 2005. Where differences cannot be

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[4] The initial meeting took place during June 4-5, 2003, in Washington and comprised representatives of the IFAC PSC, IMF, Eurostat, OECD, Australian Accounting Standards Board, United Kingdom Treasury, and United Kingdom Office of National Statistics.

resolved by modifications to the standards, the PSC IFAC is considering the development of reconciliation statements for the key aggregates produced under the IPSASs and *GFSM 2001*.

VIII. Conclusions

The IMF strongly supports efforts to harmonize accounting and statistical standards. It recognizes that this may require changes to existing statistical standards (through the review of the *1993 SNA*) or to the accounting standards promulgated by the IASB and IFAC. However, it is clear that the analytic needs of commercial accounting and the national accounts are not always aligned. For instance:

- Whereas national accounts (and related macroeconomic statistics) are focused on aggregated sector information, commercial accounting is interested in the individual entity;
- Whereas the national accounts aims to capture all economic activity, the approach of commercial and supervisory accounting is to eliminate some stocks and flows through the consolidation of activities within the same enterprise group; and
- Whereas the national accounts is very concerned about symmetry of recording across sectors because of its economy-wide perspective, the individual entity focus of commercial accounting and supervisory approaches is not.

It is important, therefore, that the basic source data that are recorded by the individual entities are sufficiently detailed to meet both statistical and accounting requirements (e.g., by addressing both financial and statistical reporting requirements in the chart of accounts). In this regard, the IMF is encouraged by the IASB's performance reporting project and, in particular, the proposals for a comprehensive income statement in two columns that would distinguish between "income and expenses other than remeasurements" and "remeasurements". Such a presentation would come closer to that used for macroeconomic statistics.

In addition, there are a number of issues that would benefit from increased dialogue between macroeconomic statisticians and international accounting bodies. The electronic discussion groups established under the auspices of the ISWGNA provide one such forum for contributions to be made by accountants to issues being considered by statisticians (e.g., the electronic discussion groups on non-performing loans and on pensions). Similarly, statisticians could usefully be more active in helping to formulate business accounting standards.

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Appendix IV

Reconciliation between the *Guide*'s methodology and national and commercial accounting

This Appendix explains how the concepts outlined in Chapter 3 and the line-item series defined in Chapter 4 can be reconciled with similar concepts developed in the *1993 SNA* (national accounts), and the International Accounting Standards (2000).[5]

Overview

The framework of national accounts in the *1993 SNA* provides for the construction of a range of tables that begin with production, income, and accumulation accounts as well as balance sheets showing the stock of financial and nonfinancial assets and liabilities for the financial, nonfinancial, household, and general government sectors of an economy. The full sequence of accounts is set in pages 601 to 674 in the *1993 SNA*.

For each group of assets and liabilities, and for net worth, changes between the opening and closing balance sheets results from transactions and other flows recorded in the so-called accumulation accounts. As explained ahead, many of the data series used in constructing FSIs for the other depository corporations' (deposit-takers in the terminology of the *Guide*), the other financial corporations (OFC) subsector, the nonfinancial corporations sector, and the household sector can be obtained from this national accounts framework, or related frameworks such as the monetary statistics. The derivation of FSI data series from the *1993 SNA* framework are set out in Tables 11.8-11.10.

Business accounting is designed to assess the financial condition of individual productive units, measure their economic result, and determine interested parties'—mainly the shareholders and tax authorities—entitlement to that result. There is a focus on two concepts: solvency—the value of net assets (or equity) held by an entity—and profitability—a measure of value added by the entity in the during the reporting period.[6] It relies on specific norms and standards (e.g., as set out in International Accounting Standards (IAS)) to achieve its objectives with fairness, accuracy, and transparency. The International Accounting Standards

[5] Also, account has been taken of IAS 40, which came into effect on January 1, 2002.

[6] The *1993 SNA* also has a concept of value added that is related to the production process.

(2000) prepared by the International Accounting Standards Board (IASB) are utilized in drafting this Appendix.

At the time of writing, the international accounting standards consist of 39 separate standards, numbered IAS 1 to IAS 41 (IAS 25 has been withdrawn and IAS 15 is no longer binding). The references below are to those standards and to the relevant paragraph numbers within the quoted standard. Unlike in the *1993 SNA*, there is no standardized set of tables for the presentation of commercial accounts. Further, while financial statements prepared in accordance with IAS should, at a minimum, present line items in accordance with IAS 1, for banks and similar financial institutions there is a specific standard (IAS 30), and hence the likelihood of more published detail.

Income and expense account

Interest income and expense

In both the *1993 SNA*, and the international accounting standards, it is recommended that interest accrue continuously on debt instruments, consistent with the approach in the *Guide*.

As in the *Guide*, in the *1993 SNA* interest accrues at the contractual rate of interest—the effective rate on issuance. Lines 1(i) and 2 in Table 4.1, lines 4 and 5 in Table 4.3, and part of line 2 in Table 4.4, in concept equate in the *1993 SNA*'s full sequence of accounts to line D.41 in the Primary Income Account and, if financial services indirectly measured (FISIM)[7] is calculated for deposit-takers, part of the Production Account (line P. 11) for deposit-takers; part of the Production Account, intermediate consumption, (line P.2) for enterprises; and part of the Use of Income Account, final consumption (line P.31) for households.

In IAS, interest income is defined as one type of revenue (besides royalties and dividends) arising from the use by others of an enterprise's assets (IAS 18.29-31) (also IAS 32.30-31); interest income is recognized on a time proportion basis based upon the effective yield on the asset, which is defined as the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the *initial* carrying amount of the asset. Interest income includes the amount of amortization of any discount or premium arising from a difference between the issue price and the par value.[8] If debt instruments are traded, and market prices established, then for creditors, there is a difference of approach between the *Guide* and the IAS standard in that the effective rate of interest on acquisition may be different from that on issuance. The greater the variability of market prices, the more significant this difference could be.

[7] FSIM measures the output of the deposit-taking sector arising from the margins earned from the borrowing and lending of funds. See 1993 SNA, paragraphs 6.124 to 6.131.

[8] Since loans are issued at par, the effective rate for loans is the same as the contractual rate. If the issue price of the asset is different from par, the effective yield would be different from the stated interest (coupon) rate.

For creditors, interest on nonperforming assets is treated differently in the *1993 SNA* and in IAS. In the *1993 SNA*, creditors (and debtors) should continue to accrue interest on nonperforming assets unless the asset is written off. In contrast, IAS 39.116 states that impaired assets should be written down to their estimated recoverable amount, and creditors should base the calculation of interest income on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

In Sound Practices for Loan Accounting and Disclosure (1999) number 11, the BCBS recommends that when a loan is identified as impaired, a bank should cease accruing interest in accordance with the terms of the contract. Interest on impaired loans should not contribute to net income if doubts exist concerning the collectability of loan interest or principal. However, in some countries, when impaired loans are carried at the present value of expected future cash flows, interest may accrue at the effective rate implicit in the present value calculation.

The *Guide* follows BCBS in that interest on nonperforming assets should not contribute to net interest income.

Fees and commissions receivable/payable

In the *1993 SNA*, fees and commissions receivable reflect the value of services provided (for deposit-takers, *1993 SNA* paragraph 6.123). In the *1993 SNA*'s full sequence of accounts, line 4 (i) in Table 4.1 in concept equates to the fees and commissions included in the line P.11 in the Production Account.

In IAS, fees and commissions are a form of revenue defined in IAS 18.20 and IAS 18 Appendix 14. The latter distinguishes fees that are an integral part of the effective yield of an instrument from those that are earned on services provided—such as for servicing a loan—and those that are earned on the execution of a significant act—such as commission on the allotment of shares to a client. Fees that are an integral part of the effective yield of a financial instrument—and hence affect the rate at which interest accrues—include commitment fees to originate or purchase a loan where it is probable that the enterprise will enter into a specific lending arrangement, and origination fees relating to the creation or acquisition of a financial instrument that is held by the enterprise as an investment. Such fees are regarded as an integral part of generating an ongoing involvement with the financial instrument, and as such are deferred and recognized as an adjustment to the effective yield. The *Guide* differs from IAS in that it does not adjust the effective yield of an instrument for these fees but records them under fees and commissions.

Gains/losses on financial instruments (including foreign exchange)

Unlike in the *Guide*, trading gains or losses do not appear in the distribution and use of income accounts of the *1993 SNA*. Nonetheless, in concept this line can equate to AF.2 (currency and deposits—partial coverage of foreign currency gains and losses), AF.3 (securities other than shares), AF.5 (shares and other equity) excluding equity investments in

associates and subsidiaries, and AF. 7 (financial derivatives) of the Revaluation Account of the *1993 SNA*'s full sequence of accounts. Holding gains and losses in the *1993 SNA* are all changes in the value of financial assets and liabilities due to changes in market prices and exchange rate movements. The change in value is measured as the difference in the unit of account between the value of an asset or liability at the end of the accounting period and its value at the start of the accounting period or, if acquired during the period, the value at which it was first entered in the balance sheet, or, if sold during the period either the value at the start of the accounting period, or, if purchased during the period, the value when purchased. Within an accounting period, the *1993 SNA* concept of holding gains/losses thus encompasses in general both realized and unrealized gains/losses. As line 4 (ii) in Table 4.1 excludes some, and line 6 in Table 4.3 excludes all, unrealized gains and losses, additional data would need to be requested to extract the required information from the *1993 SNA* data. Line 6 in Table 4.3 also includes the equivalent to the foreign exchange component of AF in the revaluation account.

For banks and similar financial institutions, IAS 30.15 states that gains and losses from the following are normally reported, on a net basis: (a) disposals and changes in the carrying amount of dealing securities; (b) disposals of investment securities; (c) dealings in foreign exchange. These items are consistent with the *Guide* coverage (although unlike the *Guide*, IAS 30.15 makes no reference to financial derivative instruments). Further, IAS 39.103-108 discusses the gains and losses on financial instruments. A gain or loss on a financial asset or liability held for trading should be included in net profit or loss; a gain or loss on an available for sale financial asset can be treated similarly, or recognized in equity through the statement of changes in equity until the financial asset is sold, collected or otherwise disposed of, or until the it is determined to be impaired at which point the cumulative gain or loss should be included in net profit and loss for the period. For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in net profit or loss when the financial asset or liability is derecognized or impaired. Separate guidance is provided for hedging instruments. Clearly, given the different treatment of gains and losses depending on the classification of the instrument leads to a difference with the approach in the *Guide,* however the treatment of instruments held for trading and one of the alternative treatments for available-for-sale financial assets is in line with the *Guide*'s recommendations.

IAS 21.15 explains the treatment of foreign exchange differences related to "monetary items," which are in turn defined as money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. The standard states that foreign exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or expense in the period in which they arise, with two exceptions.

The first exception, set out in IAS 21.17, is exchange differences arising on a monetary item that in substance forms part of an enterprise's net investment in a foreign entity. Such exchange differences should be classified as part of equity in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognized

as income or expenses (depending on whether the cumulative amount of the exchange differences which have been deferred and which relate to the foreign entity reflect a gain or a loss (IAS 21.37)).

The second exception, set out in IAS 21.19, is exchange differences arising on a foreign currency liability accounted for as a hedge of an enterprise's net investment in a foreign entity. Such exchange differences should also be classified part of equity in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognized as income or expenses (depending on whether the cumulative amount of the exchange differences which have been deferred and which relate to the foreign entity reflect a gain or a loss (IAS 21.37)).

Both of these exceptions are consistent with the *Guide*'s approach of excluding gains and losses on those foreign exchange instruments related to equity holdings in subsidiaries, although the *Guide* does not recommend inclusion of gains and losses of earlier periods in present period earnings, when these instruments are disposed of.

Rent, rental, and royalty income receivable

In the *1993 SNA*, as in this *Guide*, this item covers income from rents on land or subsoil assets; rentals from buildings, other structures, and equipment; and royalty income from other produced and nonproduced assets. So, part of line 4 (iii) in Table 4.1, line 6 in Table 4.3, and part of line 2 in Table 4.4 in concept most closely equates in the *1993 SNA*'s full sequence of accounts to line D.45 in the Allocation of Primary Income Account (rents), and P.11 in the Production Account (rental and royalty income—classified as services[9]). In concept, line D.45 only covers rent on land and subsoil, but the *1993 SNA* does acknowledge (paragraph 7.131) that in practice a single payment may cover rent on land and rentals on buildings. If a split can be made then under the *1993 SNA*, rentals receivable are classified as the provision of services (line P.11 in the Production Account). There is no specific standard for rent in IAS except in so far as it is mentioned generally in the IAS Framework paragraph 74 that rent is part of the revenues of an enterprise. In IAS 40.66 (d)(i) rental income from investment property should be included in the income statement.

Prorated share of income from associates and subsidiaries

In the *1993 SNA*, for foreign affiliates, the reinvested earnings element within the "other income" line (4 (iii)) in Table 4.1, line 6 in Table 4.3 equates to line D.43. There is no equivalent concept for resident affiliates. The dividends element of the prorated share of income is covered below.

[9] A corporation consuming these services would record them as intermediate consumption (P2) in the Production Account.

In IAS 28.3, under accounting by the equity method, the income statement reflects the investor's share of the results of the operations of the investee. This is applicable to associates, the subject of IAS 28, and is one of the three approaches that can be adopted for unconsolidated, subsidiaries (IAS 27.30). IAS permits the use of the equity method for jointly controlled ventures, if the assets and liabilities of the joint venture are not proportionately consolidated with the venturer's financial statement. (IAS 31.32-34).

Dividends declared

The concept in the *1993 SNA*, and IAS 18.30, is the same as in the *Guide*, that is, property income to be distributed to shareholders in the entity, to be recognized as income when the shareholder's right to receive payment is established. Dividends within the "other income" line (4 (iii)) in Table 4.1, line 6 in Table 4.3, and dividends within "property income receivable," line 2, in Table 4.4, in concept equates to Lines D.421 and D.422 (Resources) in the Allocation of Primary Income Account in the *1993 SNA*'s full sequence of accounts. Dividends paid or payable in Table 4.1 (line 12) and in Table 4.3 (line 11) also equate to D.421 and D. 422 (Uses).

Net gains/losses from sales of fixed assets

In the *1993 SNA*, net gains or losses from the sale of fixed assets is the change in the value of fixed assets due to changes in their market price. These gains and losses are included in line AN.11 (holding gains and losses in respect of fixed assets) in the Revaluation Account in the *1993 SNA*'s full sequence of accounts. The change in price is measured as the difference between the value of the fixed asset at the end of the accounting period and its value at the start of the accounting period or, if acquired during the period, the date on which it was first entered in the balance sheet. This *1993 SNA* concept thus encompasses both realized and unrealized gains/losses. Since net gains/losses on fixed assets within line 4 (iii) in Table 4.1 and line 6 in Table 4.3 covers only realized gains during the period, additional data would need to be requested to extract the required information from the *1993 SNA* data.

IAS 16.56 states that gains or losses "from the retirement or disposal of an item of property, plant, and equipment should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and should be recognized as income or expense in the income statement." This concept is the same as in the *Guide*, although the *Guide* recommends market valuation of fixed assets, while IAS 16 favors historic value. IAS 40 introduced in 2001 permits enterprise to use either the model in IAS 16 or a fair market model for investment property (not owner-occupied property). Under IAS 40, if an enterprise chooses the fair value model, all changes in fair value are recognized in the income statement (IAS 40.28).

Other income

In the *1993 SNA*, miscellaneous current transfer, such as compensation payments received are include in D.75. IAS 8.18 covers income from litigation settlements.

Personnel Costs including wage and salaries

In the *1993 SNA*'s full sequence of accounts the concept of personnel costs in line 6 (i) of Table 4.1 and implicit in line 2 of Table 4.3 equates to D.1, Compensation of Employees in the Generation of Income account, and D.623, unfunded employee social insurance benefits in the Secondary Distribution of Income account. Wages and salaries from employment (line 1 in Table 4.4) equates to line D.11 in the same account. In the *1993 SNA*, (paragraphs 7.21 to 7.47) compensation of employees is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done during the accounting period. Included is remuneration payable to workers away from work for short periods. Compensation of employees can be broken down into:

(a) wages and salaries in cash and in kind;

(b) employers' social contributions, actual and imputed, for such items as post employment benefits.

The *1993 SNA* does not explicitly cover compensation in the form of options to buy the shares of the entity at some future time at an agreed price (stock options).

The IAS 19.4 has a similar concept to the *1993 SNA*, defining employee benefits as including:

(a) short-term employee benefits such as wages and salaries, and social security contributions. These benefits cover paid annual leave and paid sick leave, profit sharing and bonuses, and nonmonetary benefits such as medical care, housing, cars, and free or subsidized goods or services;

(b) post-employment benefits such as pensions, other retirement benefits, post employment life insurance, and post employment medical care;

(c) other long-term employee benefits, including long service leave or sabbatical leave, long-term disability benefits;

(d) termination benefits;

(e) equity compensation benefits, including stock options (although no guidance is provided on recognition nor measurement).

Item (a) above is close to the concept of wage and salaries in cash and in kind in the *1993 SNA*, except for social security contributions, which are included in employers' social contributions in the *1993 SNA*.

Depreciation

In the *1993 SNA*'s full sequence of accounts, the concept of depreciation within line 6 (ii) of Table 4.1, and line 2 of Table 4.3, equates to line K.1 (Consumption of Fixed Capital, CFC). In the *1993 SNA* (paragraphs 6.179-180), CFC is defined as the amount of fixed assets used up, during the period under consideration, as a result of normal wear and tear and foreseeable obsolescence. CFC should be estimated on the basis of the stock of fixed assets, valued at the purchasers' price of the current period, and the probable average economic life of the different categories of those goods. CFC can be calculated according to the straight line method by which the value of a fixed asset is written off at a constant rate over the whole lifetime of the asset or depending on the pattern of decline in the efficiency of a fixed asset, according to a geometric depreciation method (*1993 SNA* paragraphs 6.193-6.197).

IAS 16.41-48 has a similar treatment for depreciation. It states that the depreciable amount of an item of property, plant, and equipment should be allocated on a systematic basis over its useful life. The depreciation method used should reflect the pattern in which the asset's economic value is consumed by the enterprise. These methods could include the straight line method, the diminishing balance method, and the sum-of-the-units methods. Straight line depreciation, as noted above, results in a constant charge over the useful life of the asset. The diminishing balance method results in a decreasing charge over the useful life of the asst. The sum-of-the-units method results in a charge based on the expected output of the asset. IAS 4.7 states that the useful life of a depreciable asset should be estimated after considering (a) the expected physical wear and tear; (b) obsolescence; and (c) legal or other limits on the use of the asset.

The main difference between CFC and the IAS treatment of depreciation is in the valuation of the fixed assets, which tends to be at historical cost under IAS but is required to be the current purchasers' price for the CFC. CFC should also be distinguished from business accounting of depreciation for tax purposes. However, IAS also states that the depreciation method should be reviewed periodically and, if there has been significant change in the expected pattern of economic benefits, there should be a change in the depreciation charge for the current and future periods (IAS16.52). So, the difference in treatments between CFC and IAS can be narrowed.

If there is unforeseen obsolescence, such as through the introduction of new technology, or unforeseen damage, short of the events covered under extraordinary items, the losses are recorded in this item. This is consistent with IAS 16.50 and such losses equate with K.9 in the *1993 SNA* (excluding exceptional losses in inventories, which like depreciation is covered in the line "cost of sales" in Table 4.3).

Other noninterest expenses (such as plant and equipment expenses including rentals, advertising costs, premiums paid for deposit insurance, etc.)

These expenses are all those related to the ordinary operations of the entity other than those otherwise identified elsewhere in this appendix. In the *1993 SNA*'s full sequence of accounts,

the on-going expenses of operating an enterprise, that is covered within line 6 (ii) in Table 4.1 and line 2 in Table 4.3, are included within line P.2, intermediate consumption, together with D.71, net non-life insurance premiums, and D.75 miscellaneous current transfers. Unlike the *Guide*, they do not include estimated costs related to product warranties.

In the IAS Framework 70, 78-79, expenses are defined to encompass expenses that arise in the course of the ordinary activities of the enterprise, although these are not defined in detail. Expenses arising from product warranties are described in IAS Framework 98, and more fully in IAS 37.24. In concept, the IAS approach is consistent with the approach taken in the *Guide* for these expenses. IAS 8.18 covers expenses arising from litigation settlements.

Rentals payable on buildings, other structures, and equipment are included under this item, along rents paid on land and subsoil assets, and royalties payable on the use of other produced and nonproduced assets. See the entry above the entry for rents, rental, and royalty income receivable.

Taxes other than income taxes

In the *1993 SNA*'s full sequence of accounts, those taxes included in line 6 (ii) of Table 4.1 and line 2 in Table 4.3 equate to taxes on production, line D.29, and other current taxes, line D.59. These taxes are compulsory, unrequited payments in cash and kind levied in respect of the production, such as taxes on payroll or work force; and on the ownership or use of land or buildings and on other assets and net wealth, as described in paragraphs 7.70 and 8.53-54 of the *1993 SNA*.

The IAS has no specific definitions for taxes that are not levied on income.

In the *1993 SNA*'s full sequence of accounts, operating subsidies from general government included in line 6 (ii) of Table 4.1 equate to subsidies on production, line D.39. In the IAS 20.29 explains that government grants related to income could be presented as a credit in the income statement or deducted in reporting the related expenses. Either method is regarded by the IAS as acceptable. These grants are defined in IAS 20.3 as assistance by government in the form of a transfer of resources.

Loan loss provisions

The *1993 SNA* does not have a concept of provisions for loan losses—line 7(i) in Table 4.1. However, the writing off of bad debts by creditors (K.10) provides some coverage of loan (and other claims) losses. The distinctions made in the *Guide* for loan loss provisions follows IAS. The *Guide* relies on national practice in identifying provisions.
IAS 30.45 states that for banks, provisions for specific loans (specific provisions) that is losses that have been specifically identified, and provisions for potential losses not specifically identified (general provisions) but which experience indicates are present in the portfolio of loans and advances, should be recognized as expenses. Under IAS 30.51, local circumstances or legislation may require or allow a bank to set aside amounts for general

banking risks, including future losses or other unforeseeable risks. However, such amounts set aside should be accounted for as appropriations of retained earnings and not expenses in determining net profit or loss for the period. A bank may also be required or allowed to set aside amounts for contingencies. Such amounts also do not qualify for recognition as provisions (IAS 37), but should be recognized as appropriations of retained earnings (IAS 30.51) in order not to distort net income and equity.

Other financial asset provisions

As with loans, the *1993 SNA* does not address the concept of provisions for securities nor for any other financial assets—line 7 (ii) in Table 4.1.[10] IAS discusses provisions for losses on financial assets in IAS 39.109-111, where it is stated that when the carrying amount of the impaired asset is greater than its recoverable amount—estimated by discounting the expected future cash flows using the financial instrument's original effective interest rate—the carrying amount of the asset should be reduced to its estimated recoverable amount either directly or through use of an allowance account, with the loss included in net profit or loss for the period.

This concept is not identical to the *Guide* because the market value of investment securities is to be recorded on the balance sheet. Provisions for securities maybe less or greater than the change in the market value, depending on the view on recoverable amounts on securities taken by deposit-takers.

Bad debt recoveries

IAS 39.114 recommends that if there is an improvement in the debtor standing such that the amount of impairment or bad debt loss decreases, such a reversal should be included in net profits or loss for the period and that one approach is adjusting an allowance account. This approach is consistent with that for line 7 of Table 4.1, which allows for provisions to be reduced if there was an overprediction of expected losses in an earlier period.

Extraordinary items

In the *1993 SNA*'s full sequence of accounts, the concept of extraordinary items in line 9 in Table 4.1 and line 8 in Table 4.3 equates to Line K.7 (Catastrophic losses); and K.8 (Uncompensated seizures). IAS 8.11-15 defines an extraordinary item as an event or transaction that is clearly *distinct from the ordinary activities* of an enterprise, and includes them in the net profit or loss for the period (IAS 8.10). Such items are determined by the nature of the event or transaction in relation to the business ordinarily carried out by the enterprise rather than by the frequency with which such events are expected to occur. For

[10] Indeed, both the *Guide* and the *1993 SNA* recommends that securities be valued at market value, and with, in the *Guide*, gains and losses reported under gains and losses on financial instruments, so eliminating the need for provisions on securities, unless such an approach to gains and losses is not feasible for reporters at this time.

example, losses sustained as a result of an earthquake may qualify as an extraordinary item for many enterprises but not for insurance enterprises that insure against such risks. IAS 8.14 suggests that extraordinary items for most enterprises include an earthquake or other natural disaster and the expropriation of assets. The intention is that the concept in the *Guide* is consistent with that in the IAS.

Income tax expense

In the *1993 SNA*'s full sequence of accounts, line 10 in Table 4.1 and line 9 in Table 4.3 equate to taxes on income, line D.51. Consistent with the *Guide*, the *1993 SNA* defines these taxes as those assessed on the incomes, profits, and capital gains of individuals, households, corporations and nonprofit institutions (paragraph 8.52). IAS 12's definition of income tax is in line with this concept i.e., "income taxes include all domestic and foreign taxes which are based on taxable profits." (IAS 12.2).

Revenues from sales of goods and services (Nonfinancial corporations)

In the *1993 SNA*'s full sequence of accounts, line 1 in Table 4.3 equates to line P.1 (Gross Output) less output for own final use (P.12) (P1-P12 equals P. 11), less the value of changes in the inventories of goods produced as outputs (finished goods element of P52) However, as noted in the *1993 SNA* (paragraph 6.43) in the normal situation, the available data are accounting data on sales, and the national accountant is required to adjust sales for changes in inventories to arrive at the data for production. Also, in the *1993 SNA* the system for recording transactions by retailers and wholesalers is not to record purchases of goods for resale but rather to measure the margin on goods purchased for resale (paragraph 3.30). IAS 18.14 and 18.20 recognizes the sale of goods when the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods and the amount of revenue can be reliably estimated; and recognizes the rendering of services when the amount of revenue can be reliably estimated and the stage of completion of the transaction at the balance sheet date can be measured reliably. This is consistent with the change of ownership concept in the *Guide*.

Current transfers (Households)

In the *1993 SNA*'s full sequence of accounts, line 3 in Table 4.4 equates to lines D.62 (Social benefits), and D.7 (Other current transfers) in the Secondary Distribution of Income Account. Social benefits include pensions and unemployment benefit (*1993 SNA* paragraphs 8.75-8.83), and other current transfers (*1993 SNA* paragraph 8.84), such items as settlements of insurance claims. The concept in the *Guide* is the same as in the *1993 SNA*. IAS does not have a specific definition of current transfers.

Other income (Households)

In the *1993 SNA*'s full sequence of accounts, line 4 in Table 4.4 equates to operating surplus, B2, and mixed income, B3 in the Generation of Income account for households

Taxes, social contributions, and other current transfers made (Households)

For income taxes see the entry above. In addition, line 5 in Table 4.4 includes social security taxes and, in the *1993 SNA*'s full sequence of accounts, these taxes equate to lines D.6112 and D.6113, social contributions. IAS 12 defines income tax expense but IAS does not have a specific definition for social security taxes.

Other current transfers made equate to line D.7 (uses) and social benefits other than social benefits in kind (line D.62) in the *1993 SNA*'s full sequence of accounts. As these transfers relate to households they are not covered in the IAS.

Gross disposable income (households)

In the *1993 SNA*'s full sequence of accounts, the concept in the *Guide* is intended to equate to line B.6 in the secondary distribution of income account, gross of any consumption of fixed capital.

Balance sheet

Assets, Liabilities, and Net Worth

In the *1993 SNA*, economic assets are stores of value over which ownership rights are enforced by institutional units, individually or collectively, and from which economic benefits[11] may be derived by its owner by holding it, or using it, over a period of time. Financial assets differ from other assets in the System in that there is a counterpart liability on the part of another institutional unit.[12] Assets and counterpart liabilities that meet the definition are recognized on-balance sheet.

In terms of specific assets and liabilities identified, the *Guide* is very close to the *1993 SNA*, differing only in the presentation of capital on the liabilities side of the balance sheet. Capital and reserves in the *Guide* is the residual interest after taking account of all assets and liabilities, and so is a wider concept than equity and other shares in the *1993 SNA*, as it also includes the *1993 SNA*'s concept of net worth (total assets less total liabilities).

IAS F.49 defines an asset as a resource controlled by an enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise. It defines a liability as a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. The definition of assets and liabilities in IAS 32.5 provides an overview of the categorization of financial assets and liabilities: financial assets comprise (a) cash, (b)

[11] The economic benefits of financial assets can include primary incomes derived from the use of the asset and the possibility of holding gains.

[12] By convention, monetary gold and SDRs are financial assets with no counterpart liability.

a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favorable, (c) an equity instrument of another enterprise, and (d) an equity instrument of another enterprise; financial liabilities comprise contractual obligations to (a) deliver cash or another financial asset to another enterprise, or (b) to exchange financial instruments with another enterprise under conditions that are potentially unfavorable. Equity is defined as the residual interest in the assets of the enterprise after deducting all its liabilities.

There are potential differences with the *Guide* as to what is and what is not an asset or liability. For example, unlike the *Guide*, IAS considers that unpatented know-how may meet its definition of an asset if, by keeping such knowledge secret, the enterprise controls the benefits that are expected to flow from it (IAS F. 57). Similarly, if an enterprise, for good or normal business practice, as a matter of policy rectifies products after the warranty period has expired, the expected costs are liabilities (IAS F.60). But under IAS, on-balance sheet recognition also depends on whether the value of the asset or liability can be measured reliably (IAS F. 89 and 91). Assets and liabilities that meet the IAS definition, but for which value cannot be measured reliably, are captured off-balance sheet. Thus the need for reliable valuation brings the IAS definition of on-balance sheet recognition of assets and liabilities close to the *Guide*.

In the IAS the presentation of assets and liabilities is less prescriptive, and even more dependent upon the activity of the individual enterprise than the *Guide*, and different from the *1993 SNA.* Also, the presentation of instruments is different between the asset and liability sides of the balance sheet, and the focus is more on the liquidity of the enterprise than in the *Guide* or *1993 SNA*.

Non-Financial Assets

In the *1993 SNA*'s full sequence of accounts, line 15 in Table 4.1, line 2 in Table 4.2, line 14 in Table 4.3 and line 8 in Table 4.4 equate to non-financial assets (AN) in the balance sheet (excluding purchased goodwill, part of A.N.22).

In the IAS, these lines are closely equivalent to the sum of items identified in IAS 1.66 as property, plant, and equipment, inventories, and intangible assets.

In line with the definition of nonfinancial produced assets adopted in the *Guide*, property, plant, and equipment is defined in IAS 16.6 to include tangible assets that (i) are held by an enterprise for use in the production or supply of goods or services, for rental to others, or for administration purposes; and (ii) are expected to be used during more than one period. Excluded from the scope of the IAS are (i) forests and similar regenerative natural resources—only classified as an asset in the *Guide* if they are cultivated assets; and (ii) mineral rights, the exploration for and the extraction of minerals, oil, natural gas, and similar non-regenerative resources (IAS16.2)—because these activities are so specialized that they give rise to accounting issues that may need to be dealt with in a different way (IAS 38.6).

Inventories are defined in IAS 2 consistently with the *Guide*, and include assets that are (i) held for sale in the ordinary course of business; (ii) in the process of production for such sale; or (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services (IAS 2.4).

Intangibles are defined in IAS 38 as identifiable nonmonetary assets without physical substance held for use in the production or supply of goods or services for rental to others, or for administrative purposes (IAS 38.7). This definition is broadly consistent with the *Guide* but, as noted above, could be interpreted more widely to include “assets,” such as unpatented know-how, when the value of the benefits arising from these “assets” can be reliably measured. Intangibles do not include goodwill (IAS38. 10), which is recognized as an asset in IAS when the cost of acquisition exceeds the acquirer’s interest in the fair value of the assets and liabilities acquired as at the date of the exchange transaction (IAS 22.41). The *Guide* does not recognize goodwill as an asset.

Non-Financial Produced Assets

In the *1993 SNA*’s full sequence of accounts, line 15 in Table 4.3 equate to nonfinancial produced assets (AN.1) in the balance sheet.

In the IAS, these lines equate to the sum of items identified in IAS 1.66 as property, plant and equipment that is produced—that is, excluding land (IAS 2)—inventories (IAS 16), that part of intangible assets (IAS 38) that are produced, such as computer software, and valuables, if included in IAS.

Non-Financial Produced Fixed Assets

In the *1993 SNA*’s full sequence of accounts, line 15 (i) in Table 4.3 equates to nonfinancial produced fixed assets (AN.11) in the balance sheet.

In IAS, produced fixed assets equates to the sum of items identified in IAS 1.66 as property, plant and equipment that is produced—that is, excluding land—and that part of intangible assets that are produced, such as computer software.

Inventories

In the *1993 SNA*’s full sequence of accounts, line 15 (ii) in Table 4.3 equates to inventories (AN.12). In IAS, this line equates to the item identified in IAS 1.66 as inventories (IAS 16) in the balance sheet.

Non-Financial Non-Produced Assets

In the *1993 SNA*’s full sequence of accounts, line 16 in Table 4.3 equate to nonfinancial nonproduced assets (AN.2) in the balance sheet.

In IAS, these lines are closely equivalent to that nonproduced part of the item identified in IAS 1.66 as property, plant and equipment—that is, land—and intangible assets that are non-produced, such as patents and leases and other transferable contracts relating to nonfinancial assets (IAS 38), and goodwill. IAS can also include the value of non-patented know how, if measurable reliably.

Residential and commercial real estate

Residential and commercial real estate, line 9 in Table 4.4, is not explicitly identified in either the *1993 SNA*, nor IAS. Nonetheless, in the *1993 SNA,* dwellings, and other buildings and structures are described in paragraphs 10.69 to 71 and included within nonfinancial produced assets (AN1), and land is described in paragraphs 10.59 to 60, and included within nonfinancial nonproduced assets (AN.2) in the balance sheet. In IAS, real estate is included within the item identified in IAS 1.66 as property, plant and equipment (IAS 16.35).

Financial Assets

In the *1993 SNA*'s full sequence of accounts, line 16 in Table 4.1, line 3 in Table 4.2, line 17 in Table 4.3 and line 11 in Table 4.4 equate with financial assets (AF) in the balance sheet.[13] In IAS, there is a need to distinguish between deposit-takers and other corporate entities. For deposit-takers, IAS 30 sets out the assets that should be covered in their financial statements. These include cash and balances at the central bank; treasury bills and other bills eligible for rediscounting at the central bank; placements with, and loans and advances to, other banks; other money market placements; loans and advances to customers; government and other securities held for dealing purposes; and investment securities (IAS 30.19). IAS is clear that financial statements should include but are not limited to these items. For instance, in the IAS 30 list no reference is made to financial derivatives, which under IAS 39 should be recognized on balance sheet (IAS 39.10 and 39.27). Also, in some instances IAS1 is relevant, such as tax assets (see immediately ahead). With these exceptions, while presented differently, the definition of the items and their coverage of financial assets is closely equivalent with the *Guide*.

For other entities, IAS1.66 is relevant, and like for deposit-takers presents assets on a liquidity basis. While IAS does not prescribe the order or format in which items are to be presented, it does regard the list of items presented as so different in nature or function that they deserve separate presentation on the balance sheet, and should be presented, along with sub-totals necessary to present fairly the enterprise's financial position. The coverage of assets is again close to the *Guide*, but the classification and definition of items is not so close. The financial assets identified by IAS 1.66 are cash and cash equivalents—cash on hand,

[13] To be strictly in conformity with the *Guide*, interest should not accrue on nonperforming assets. However, it is proposed in Chapter 4 that if loan data are only available for deposit-takers inclusive of such interest, the amount of accrued interest on nonperforming loans be reported and included together with specific provisions for loan losses. In principle, the same approach should be taken for other assets.

demand deposits, and short-term, highly liquid investments that are readily convertible to know amounts of cash and which are subject to an insignificant risk of change in value (IAS 7.6); trade and other receivables—assets created by the entity providing money, goods or services directly to a debtor (IAS 39.10); investments accounted for using the equity method—relates to investments in associates (IAS 28) and unconsolidated subsidiaries (IAS 27.30); tax assets (IAS 12.5)—not assets in the *Guide*, except to the extent that taxes have been overpaid and a refund for the general government is owed; and other financial assets—which includes securities.

Liabilities

In the *1993 SNA*'s full sequence of accounts, line 23 in Table 4.1, line 11 in Table 4.2, line 24 in Table 4.3, and line 17 in Table 4.4 equates with liabilities (AF) in the balance sheet.

As with assets, with IAS it is necessary to distinguish deposit-takers from other corporates entities. For deposit-takers, IAS 30 sets out the liabilities that should be reported in their financial statements as follows: deposits from other banks; other money market deposits; amounts owed to other depositors; certificates of deposit; promissory notes and other liabilities evidenced by paper; and other borrowed funds. As with assets, the list should include but not be limited to these items e.g., derivatives and tax liabilities are not covered in the IAS 30 list.

For other corporate entries, as with assets, IAS 1.66 is relevant. The liabilities that should be presented are trade and other payables—short-term liabilities; non-current interest bearing liabilities—long-term liabilities; tax liabilities—liabilities in the *Guide* if tax amounts actually owed to general government but unpaid; and provisions. The latter are recognized when an enterprise has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. These provisions include such items as product warranties, clean-up cost for environmental damage, etc. (IAS 37.19). The *Guide* prefers that provisions for estimated costs related to product warranties be included as a cost of sales and as a general reserve in capital. As with assets, the IAS does not prescribe the order or format in which items are to be presented but regards the list of items so different in nature or function that they deserve separate presentation on the balance sheet, and should be presented, along with sub-totals in such a presentation as is necessary to present fairly the enterprise's financial position.

Currency and Deposits

In the *1993 SNA*'s full sequence of accounts, on the asset side, line 17 in Table 4.1, line 4 in Table 4.2, line 18 in Table 4.3 and line 12 in Table 4.4 equate with financial assets AF.2 in the balance sheet. On the liability side, line 24 in Table 4.1 and line 12 in Table 4.2 equate with liabilities AF.2 in the balance sheet.

In IAS, for deposit-takers the closest equivalent for assets, is the sum of items identified cash and balances with the central bank, and placements with other banks (IAS 30.19, and 30.21 for the separate identification of placements with other banks). For other sectors, the closest equivalent is cash—cash on hand and demand deposits—and, perhaps, some element of cash equivalents—short-term highly liquid investments (IAS 7.6), although overdrafts can be recorded as part of cash and cash equivalents in IAS (IAS 7.8) rather than as loans as recommended in the *Guide*.

In IAS, deposit-takers currency and deposits liabilities equates to the sum of deposits from other banks, and amounts owed to other depositors in IAS 30.19.

Loans

In the *1993 SNA*'s full sequence of accounts, on the asset side, line 18 (i) in Table 4.1, line 5 in Table 4.2 equate with loans (AF.4) in the balance sheet. Similarly, on the liability side, line 25 in Table 4.1, line 13 in Table 4.2, line 25 in Table 4.3 and line 18 in Table 4.4 equate to loans (AF.4) in the balance sheet.

In IAS, for deposit-takers on the asset side, loans most closely equates to the sum of loans and advances to customers and loans and advances to other banks (i.e., other than the central bank) (IAS 30.19). Placements with other banks should be separately identified (IAS 30.21) and excluded from the item "placements with, and loans and advances to, other banks" to provide information on loans. On the liability side, loans would be a sub-item within other borrowed funds. In IAS, specific and general provisions for loan losses can be deducted from the carrying amount of the appropriate category of loans (IAS 30.45). However, deposit-takers should disclose the aggregate amount of provisions for loan losses at the balance sheet date (IAS 30.43c). Loans are defined in IAS 39.10.

For other corporate entities, on the asset side, loans will be a sub-item of other financial assets. On the liability side, overdrafts can be included within cash and cash equivalents (IAS 7.8), while loans are also to be included within non-current interest bearing liabilities (IAS1.66).

On two specific issues, the treatment of securities repurchase agreements (repos) in IAS is consistent with the collateralized loan approach in the *Guide* (see IAS 39.10 and IAS 39.35-39). Also, the IAS treatment of financial leases is substantially the same as loans (IAS 32 A6) is consistent with their classification in the *Guide* as loans.

Interbank loans

In the *1993 SNA*'s full sequence of accounts, in concept Line 18 (i.i) in Table 4.1 equates with loans to deposit-takers (AF.4 S.122) in the balance sheet.

In IAS, this line equates to loans and advances to other banks, and excludes placements with other banks (IAS 30.19). In other words, compared with the item in IAS30.19, placements

with other banks should be separately identified (IAS 30.21) and excluded from the item "placements with, and loans and advances to, other banks" to provide information on loans.

Non-interbank loans

In the *1993 SNA*'s full sequence of accounts, Line 18 (i.ii) in Table 4.1 equates with loans (AF.4) less loans to deposit-takers (AF.4 S.122) in the balance sheet. In IAS, this line equates to loans and advances to customers (IAS 30.19).

Sectoral and geographical distribution of loans

Line 18 (i) in Table 4.1 can be attributed by institutional sector. In the *1993 SNA*'s full sequence of accounts, in concept the sectoral detail equates to items AF.4 S.1 through S.2.

The *1993 SNA* does not specify identification of the geographical location of the debtor, except for the resident and nonresident distinction.

IAS 14 establishes principles for reporting financial information by business and geographic segment. Business segments are determined by the type of products or services produced (IAS 14.9), and so could be considered broadly similar to the industrial classification of lending—one of the possibilities provided in the *Guide*. The geographic segment is based on providing goods and services within a particular economic environment, and could be a single country, a group of two or more countries, or a region within a country (IAS14.9). A country attribution would facilitate the region attribution of lending described in the *Guide*. Also, sectoral and geographic analysis of concentrations of credit risk should be disclosed in accordance with IAS 30.40 and IAS 32.74-32.76. IAS 30.41 suggesting that geographical areas may comprise individual countries or groups of countries, or regions within a country; customer disclosures may deal with sectors such as governments, public authorities, and commercial and business enterprises.

Specific provisions for loan losses

As with nonperforming loans, the *1993 SNA* does not have a concept equivalent to specific provisions (line 18 (ii) in Table 4.1). Loan values are not adjusted for provisions in the *1993 SNA*, so until the loans are written-off provisions for impaired assets are implicitly and indistinguishably included as part of net worth (B.90) in the *1993 SNA*'s full sequence of accounts.

In IAS 30.43c, the aggregate amount of the provision for losses on loans and advances by banks at the balance sheet date should be disclosed, in order that users of financial statements know the impact that losses on loans and advances have on the financial position (IAS 30.47). Unlike the *Guide*, both specific and general loan loss provisions are included in the disclosure (IAS 30.45). (The difference arises because in the *Guide,* the FSI of loans less provisions, nets specific provisions only, whereas in IAS both specific and general provisions are netted against the value of loans.)

Debt securities

In the *1993 SNA*'s full sequence of accounts, on the asset side, line 19 in Table 4.1, line 6 in Table 4.2, line 19 in Table 4.3, and line 13 in Table 4.4 in concept equates with securities other than shares (AF.3) in the balance sheet. Similarly, on the liability side, line 26 in Table 4.1, line 14 in Table 4.2, line 26 in Table 4.3 in concept equates with securities other than shares (AF.3) in the balance sheet.

For deposit-taker on the assets side, line 19 in Table 4.1 in concept equates to the sum of treasury bills and other bills eligible for discount at the central bank, other money market placements, and the debt securities element of government and other securities for dealing purposes, and investment securities (IAS 30.19).[14] Separate identification of debt securities from within these latter two items may not be provided in the main financial statements, but in accordance with IAS 32.60(c) supplementary information should indicate which of the enterprise's financial assets are not exposed to interest rate risk, such as some investments in equity securities. This supplementary information used in conjunction with items on government and other securities for dealing purposes, and investment securities may permit the identification of holdings of debt securities, depending on the level of detail provided in the published accounts (see also IAS 32.64).

For deposit-takers on the liability side, line 25 in Table 4.1 in concept equates to the sum of certificates of deposit, other money market deposits, and promissory notes and other liabilities evidenced by paper (IAS 30.19), and the debt securities element of "other borrowed funds."

For other corporate entities, on the asset side, debt securities in concept equate to the debt securities element of cash equivalents, and financial assets not otherwise identified. Unless further sub-classification is required, debt securities might not be identifiable from IAS.

Insurance technical reserves

In the *1993 SNA*'s full sequence of accounts, on the assets side, line 8 in Table 4.2 equates to AF.6 in the balance sheet. Similarly on the liability side, line 15 equates to AF.6 in the balance sheet. IAS does not make any disclosure requirements specific to insurance technical reserves, but in accordance with IAS 1.67, additional items should be presented on the balance sheet, when such a presentation is necessary to present fairly the enterprise's financial position. IAS 39.5 notes that a project is underway on accounting for rights and obligations arising under insurance contracts.

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[14] In accordance with IAS 32. A20-21, a preferred share that provides for redemption for a fixed or determinable amount on a fixed or determinable future date or at the option of the holder meets the definition of a debt security if the issuer has an obligation to transfer financial assets to the holder of the preferred share. This is consistent with the *Guide*'s definition of a debt instrument as being one on which future payments of interest and/or principal are required.

Trade Credit

In the *1993 SNA*'s full sequence of accounts, on the asset side, line 21 in Table 4.3 in concept equates with trade credit and advances AF.81 in the balance sheet. Similarly on the liability side, line 27 in Table 4.3 in concept equates with AF.81 in the balance sheet.

In IAS, on the asset side, line 20 in Table 4.3 in concept equates most closely with trade and other receivables, and, on the liabilities side, with trade and other payables (IAS1.66).

Shares and other equity

In the *1993 SNA*'s full sequence of accounts, on the asset side, line 20 in Table 4.1, line 7 in Table 4.2, line 20 in Table 4.3, and line14 in Table 4.4 in concept equates with AF.5 in the balance sheet in the balance sheet. However, in practice there may be a difference depending upon how equity investments in associates and, unconsolidated subsidiaries are valued. This issue is briefly discussed in terms of foreign affiliates in paragraph 13.74.

In IAS, in concept for deposit-takers, line 20 in Table 4.1 equates to the equity securities element of government and other securities held for dealing purposes, and investment securities (IAS 30.19). Separate identification of equity securities from within these latter two items may not be provided in the main financial statements, but in accordance with IAS 32.60(c) supplementary information should indicate which of the enterprise's financial assets are not exposed to interest rate risk, such as some investments in equity securities. For other corporates, equity securities are included within investments accounted for using the equity method, and other financial assets (IAS 1.66). Accounting by the equity method, refers to investments in associates (IAS 28.6), and unconsolidated subsidiaries (IAS 27.30), essentially valuing such investments at the investor's share of net assets of the investee (IAS 28.3).

Financial derivatives

In the *1993 SNA*'s full sequence of accounts, on the asset side, line 21 in Table 4.1, line 9 in Table 4.2, line 22 in Table 4.3, and line 15 in Table 4.4 in concept equate with financial derivatives AF.7 in the balance sheet. On the liabilities side, line 29 in Table 4.1, line 18 in Table 4.2, line 30 in Table 4.3, and line 21 in Table 4.4 in concept equate with AF.7 in the balance sheet. [15]

In IAS 39.10, financial derivatives are defined and, with one exception for commodity derivatives (see ahead), this definition, while expressed differently, is consistent with that in the *Guide* (see also IAS 32.9-10). Further, IAS 39.10 makes clear that financial derivatives instruments are to be recognized as financial instruments. While IAS does not make specific recommendations for the separate identification of positions in financial derivatives, under

[15] See *The New International Standards for the Statistical Measurement of Financial Derivatives: Change to the Text of the 1993 SNA*, (2000), IMF.

IAS 39.27, financial derivatives are recognized on-balance sheet.[16] On commodity derivatives, whereas the *Guide* includes such derivative contracts within its definition, in IAS there is some flexibility in that if the contract specifies settlement in cash according to a formula, such contracts are classified as financial derivatives, otherwise not. This is because IAS does not recognize contracts to deliver goods and services as financial instruments. (IAS 32.A9-17)

Other assets

In the *1993 SNA*'s full sequence of accounts, line 22 in Table 4.1, line 10 in Table 4.2, line 23 in Table 4.3, and line 16 in Table 4.4 in concept equates with the sum of insurance technical reserves AF.6 and other accounts receivable AF.8 (excluding trade credits (AF.81) for nonfinancial corporates as it is separately identified in the *Guide*) in the balance sheet.

In IAS, these lines are most closely reconcilable with the trade and other receivables (IAS 1.66 and 39.10), although the trade credit element for nonfinancial corporations is separately identified in the *Guide,* and tax assets (IAS 1.66). However, unlike the *Guide*, when the future economic benefit is the receipt of goods or services—such as if expenses have been prepaid—rather than the right to receive cash or another financial asset (such as prepaid expenses), such benefits are not recognized as a financial asset (IAS 32.12). Nonetheless, if taxes paid exceed the amounts due for the period, the excess should be regarded as an asset (IAS 12.12). Under certain circumstances, unlike the *Guide*, the IAS recognizes deferred tax assets (IAS 12.24)—essentially when it is probable that taxable profits will be available against which tax benefits arising from past losses can be utilized. With regard to obligations under insurance contracts, IAS 32 explicitly excludes them from financial instruments (IAS 32.1) except for certain reinsurance and investment contracts issued by insurance companies (IAS 32.3). IAS 38 notes that contracts involving insurance companies is specialized and give rise to accounting issues that need to be dealt with in a different way (IAS 38.6).

Other liabilities

In the *1993 SNA*'s full sequence of accounts, line 27 in Table 4.1, line 16 in Table 4.2, line 28 in Table 4.3 and line 19 in Table 4.4 in concept equates with other accounts payable, AF.8 (excluding trade credits (AF.81) for nonfinancial corporates as it is separately identified elsewhere), and possibly insurance technical reserves AF.6 (except for such liabilities of other financial institutions, which is separately identified elsewhere) in the balance sheet. In IAS, these lines most closely correspond with the trade credit and other payables (excluding those elements include under other items), and tax liabilities to the extent that they are amounts owed on profits already earned (IAS 12.5).

[16] Under IAS 39.23, inter alia, if an instrument with an embedded derivative is not valued at fair value and changes in that value reported in net profit and loss, the embedded derivative should be separately recognized. In the *Guide*, there are no circumstances under which an embedded derivative is separately identified.

Debt

In the *1993 SNA*'s full sequence of accounts, line 28 in Table 4.1, line 17 in Table 4.2, line 29 in Table 4.3, and line 20 in Table 4.4 equate to the sum of liabilities in the form of deposits (AF.2), securities other than shares (AF.3), loans (AF.4), liabilities for insurance technical reserves (AF.6), and other accounts payable (AF.8) in the balance sheet.

In IAS, for deposit-takers debt is the sum of items deposits from other banks, other money market deposits, amounts owed to other depositors, certificates of deposit, promissory notes and other liabilities evidenced by paper, other borrowed funds, (IAS 30.19), and tax liabilities (IAS 1.66), to the extent that they are amounts accrued and unpaid on profits already earned. For other corporate entities, their debt is the sum of trade and other payables, non-current interest-bearing liabilities, and tax liabilities, to the extent that they are amounts accrued and unpaid on profits already earned. (IAS 1.66)

Capital and reserves

In the *1993 SNA*'s full sequence of accounts, line 30 in Table 4.1, line 19 in Table 4.2, line 31 in Table 4.3, and line 22 in Table 4.4 in concept closely equates with the sum of shares and other equity (AF.5) and net worth (B.90) in the balance sheet. There is a difference in that in the *Guide*, unlike the *1993 SNA*, the level of capital and reserves is affected by specific provisions against loans, and, where applicable, other assets, and the exclusion of purchased goodwill. Also, to avoid double counting of deposit-takers' capital and reserves at the sector-level, intra-sector equity investments are excluded. Additionally, a difference may arise from the different valuation approaches used to value equity investments in domestic associates and subsidiaries between the *Guide* and the *1993 SNA*. The sub-categorization of capital and reserves in the *Guide* for deposit-takers and nonfinancial corporations is derived from the IMF's *Monetary and Financial Statistics Manual (MFSM*), page 34, and not the *1993 SNA.* However, beyond the differences with the *1993 SNA* mentioned above, there are differences in coverage between the *Guide* and the *MFSM* at the sub-categorization level e.g., unlike the *MFSM*, the *Guide* excludes general provisions from net income (and so potentially from retained earnings) and includes them in capital and reserves.

In IAS, capital and reserves most closely correspond in concept to total equity, which is the difference between assets and liabilities (and as seen above, there are some differences in coverage of these instruments between the *Guide* and IAS). Equity is the sum of issued capital, retained earnings, reserves representing appropriations of retained earnings, and reserves representing capital maintenance adjustments (IAS F. 65). Under IAS 1.74, information on issued capital should be disclosed. Capital maintenance adjustments are distinguished between financial and physical capital maintenance and are equivalent to holdings gains and losses on financial instruments that are not recorded in the income statement. The minority interest that may arise from consolidating a subsidiary is that part of the net assets of a subsidiary attributable to interests which are not owned directly or indirectly through subsidiaries, by the parent (IAS 27.6). In accordance with IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, a

financial instrument classified as an equity instrument by a subsidiary is eliminated on consolidation when held by the parent, or presented by the parent in the consolidated balance sheet as a minority interest separate from the equity of its own shareholders.

Selected memoranda series

Liquid assets

The *Guide*'s concept of liquid assets as assets that are readily available to an entity to meet a demand for cash do not have equivalence in the *1993 SNA*. So, lines 39 and 40 in Table 4.1, and lines 40 and 41 in Table 4.3 does not conceptually equate to any *1993 SNA* line or lines. Nonetheless, from the *1993 SNA*'s full sequence of accounts, an approximation of the core measure is possible from the sum of currency (AF.21), transferable deposits (AF.22), (very) short term loans (AF.41), and other accounts receivable (AF.8), while adding holdings of short-term (less than one year maturity) securities other than shares (AF.31), and perhaps holdings for shares and other equity (AF.5) provides an approximation of the wider measure. For deposit-takers the *Guide* excludes from liquid assets any nontraded claims on other deposit-takers. These measures of liquid assets will differ from the *Guide* in that (a) the following assets are not covered (i) nontransferable deposits of less than 3 months maturity, and (ii) long-term holdings of securities traded on liquid markets; and (b) the following assets should be excluded but are covered (i) non-tradable short-term securities other than shares, (ii) other non-tradable assets of more than 3 months maturity.

IAS focuses more closely on liquidity than *1993 SNA*. For deposit-takers from IAS 30.19, the following items equate most closely to liquid assets in line 40 in Table 4.1: cash and balances at the central bank, treasury bills and other bills eligible for rediscounting with the central bank, government and other securities held for dealing purposes, and market placements excluding with other banks. However, any money market placements of more than 3 months maturity that cannot readily be converted into cash should be excluded. On the other hand, investment securities that are traded on liquid markets should be included. Further, IAS 30.30–39 requires the disclosure of an analysis of assets (and liabilities) into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date—five maturity bands are suggested, the first two of which include assets with remaining maturities of 3 months or less.

For other corporate entities, the closest equivalence to the concept of liquid assets in the *Guide* is cash and cash equivalents—assets held for the purpose of meeting short-term cash commitments rather than for investment or other purposes (IAS 7.7). For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it is has a short maturity of, say, three months or less from the date of acquisition (IAS 7.6 and 7.7). Equity investments are excluded unless they are in substance cash equivalents. (IAS 7.7) However, bank borrowings in the form of overdrafts which are repayable on demand can be included (deducted) as a component of cash and cash equivalents (IAS 7.8)—in contrast with the *Guide* which classifies overdrafts

as a liability item. Cash and cash equivalents along with trade receivables with three months or less to maturity, are close in concept to the core measure of liquid assets in the *Guide*. Such instruments are covered within other financial assets (IAS 1.66).

Short-term liabilities

The definition of short-term, and of liabilities, is the same in *1993 SNA* as in the *Guide*, but while in the *1993 SNA*'s full sequence of accounts short-liabilities in the form of securities other than shares (AF.31) and loans (AF.41) are identified, this is not the case for deposits, other accounts payable, and financial derivatives.

IAS has a similar, but not identical, over- and under-one year maturity distinction to the *Guide* (IAS 1.60 and the glossary), (unless the enterprise's operating cycle is different from a one year, in which instance the boundary with long-term is different). Disclosure of information on current liabilities in accordance with IAS 1.60 provides a measure of short-term liabilities that is broadly consistent with the *Guide*'s definition. Also, a bank should disclose an analysis of liabilities (and assets) into relevant maturity groupings based on the remaining maturity at the balance sheet date to the contractual maturity date, in accordance with IAS 30.30. While maturity bands are not specified, IAS 30.33 suggests distinguishing financial liabilities that have a maturity of 1 year or less.

Nonperforming loans

As with liquid assets, the *1993 SNA* does not have a concept equivalent to nonperforming loans—line 42 in Table 4.1. From the *1993 SNA*'s full sequence of accounts, such loans are indistinguishably included as part of loans, AF.4. Thus, the stock of nonperforming loans cannot be derived from *1993 SNA*.

IAS 39.110 provides guidance on identifying assets that may be impaired that is broadly consistent with the approach in the *Guide*. Whereas the *Guide* places more focus on a past due payments time limit, guidance of impairment in IAS 39 covers both actual breaches of contract, although no overdue date is recommended, and other evidence of impairment. Further, IAS 30.43d recommends that a bank should disclose the aggregate amount included in the balance sheet for loans and advances on which interest is not being accrued and the basis used to determine the carrying amount of such loans and advances should be disclosed.[17] The basis used to determine when to stop accruing interest may vary across enterprises, and may differ from the 90 day guidelines suggested in the *Guide*.

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[17] There appears a difference between IAS 30 and 39 in that IAS 39 recommends continuing accrual of interest on impaired loans at the discount rate used to value an impaired assets (IAS39.116), whereas IAS 30 discusses loans on which interest has stopped accruing.

Foreign-currency-denominated assets and liabilities

The *1993 SNA* does not define foreign currency assets and liabilities (although it may be available to economic statisticians from the source data used to construct the national accounts).

Under IAS 32.43i, IAS requires disclosure of information that assists users of financial statements in assessing the extent of risks associated with, inter alia, currency risk—the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates However, the standards do not prescribe either the format or level of detail of the information to be disclosed (IAS 32.44-45).

Net open position in foreign exchange

The *1993 SNA* does not provide any equivalent concept. Under IAS 30.40, a bank should disclose the amount of significant net foreign currency exposure.

Large Exposures

Large exposures is a series used in the calculation of one FSI. The *1993 SNA* does not have a concept of large exposures because it is concerned with aggregate economic statistics rather than with the credit risks faced by individual institutional units. Under IAS 30.40, a bank should disclose any significant concentration of its assets, liabilities and off-balance sheet items. Such disclosure should be made in terms of geographical areas, customer or industry groups or other concentration of risk which are appropriate in the circumstances of the bank. IA 32.74 notes that identification of significant concentrations is a matter for the exercise of judgment by management taking into account the circumstances of the enterprise and its debtors. Disclosure of concentrations of credit risk includes a description of the shared characteristic that identifies each concentration and the amount of the maximum credit risk exposure associated with all recognized and unrecognized financial assets sharing that characteristic (IAS 32.76).

Arrears

In the *1993 SNA*'s full sequence of accounts, there is no separate identification of arrears (line 63 in Table 4.1), although such an item can be included as memorandum item (*1993 SNA* 11.101). Arrears are not discussed in IAS.