BOPCOM-05/30

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Traded Loans—Criteria to Become Securities

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTEG)

OUTCOME PAPER (BOPTEG) # 13

JANUARY 2005

(1) Topic: **Traded Loans - Criteria to Become Securities**

(2) Issues – see BOPTEG Issues Paper # 13 and Background Paper to Issues # 12/13

(3) Recommendations:

(i) There was a strong view towards not reclassifying traded loans as debt securities. A number of members noted that, because of the contracts between parties, loans have particular characteristics of their own and that their reclassification to debt securities will lose important information on them. Reclassification also raises practical problems. Some members suggested that loans could be broken down into traded and nontraded loans. There were different views on whether this distinction should be based on "ex-ante" or "ex-post" criteria, but some members felt that given the distinction between securities and loans on the basis of ex-ante criteria (see outcome paper # 12), traded loans could also be determined on an ex-ante basis. BOPTEG members also noted a need to clarify the link with loan valuation.

(ii) Noting that the market for traded loans is expanding, some members suggested that restrictions imposed by the lender on whether the borrower can buy back the debt could be considered a key test for determining whether traded loans can become debt securities. However, the issue of symmetry and practical problems was noted for reclassifying traded loans.

(4) Rejected Alternatives:

None.

(5) Questions for the Committee:

(i) *Does the Committee agree that traded loans should not be reclassified to debt securities?*

(ii) *If yes, does the Committee agree that loans should be broken down between traded and nontraded loans?*

(iii) *If yes, what is the view of the Committee on whether the distinction should be based on ex-ante or ex-post criteria?*

See 3(i) above for all questions.

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTEG)

BOPTEG ISSUES PAPER # 13

Traded Loans - Criteria to Become Securities

Prepared by Manik Shrestha
Statistics Department
International Monetary Fund

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BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTEG)

BOPTEG ISSUES PAPER # 13

Traded Loans - Criteria to Become Debt Securities

The main issue is to determine when and under what circumstances loans that are traded become debt securities. This is an important issue because virtually all loans are potentially tradable and trading has increased. Classifying traded loans as securities also has consequences for valuation as positions on debt securities are valued at market prices and those on loans at nominal values.

BOPTEG Background Paper for Issues # 12/13 reviews existing statistical standards and discusses some possible options.

BOPTEG Issues Paper # 12 deals with a related issue of the classification of securities between portfolio investment and other investment within the functional classification of financial assets/liabilities.

1. Current international standards

The *1993 SNA* (para. 11.75) states that "Loans which have become negotiable de facto should also be classified under securities other than shares". *MFSM 2000* uses the same sentence (para. 134).

ESA 95 (para. 5.79) mentions that "Secondary trade in loans exists. However, individual loans are only traded incidentally. In cases where a loan becomes negotiable on an organized market, it is to classify in the category securities other than shares". Para. 5.62.j explains that "loans that have become negotiable de facto" should be interpreted "to mean only if they are traded on an organized secondary market." Describing various types of instruments covered in the category long -term securities other than shares, para. 5.62.k mentions "securities resulting from the conversion of loans" and states that "A conversion involves two financial transactions: the liquidation of the loan and the creation of the new securities". It seems that *ESA95* chose to use the term "conversion" rather than "reclassification" because in para. 5.62.k it suggested to impute two financial transactions.

GFSM 2001 (para. 7.111) states "Loans that have become marketable in secondary markets should be reclassified under securities other than shares and should be valued on the basis of market prices or fair values in the same manner as other types of securities other than shares."

External Debt Guide (para. 3.29) suggests the following. "If a loan becomes tradable and is, or has been, traded in the secondary market, the loan should be reclassified as a debt security. Given the significance of reclassification, there needs to be evidence of secondary market trading before a debt instrument is reclassified from a loan to a security. Evidence of trading on secondary markets would include the existence of market makers and bid offer spreads for the debt instrument. The Guide encourages the separate identification of the outstanding value of any such loans reclassified".

BPM5 does not mention traded loans becoming securities. While discussing valuation of loans that are traded (transaction values for creditors and nominal values for debtors) para. 471 mentions that

the use of nominal values for debtors (a departure from market values) is due to "contractual restrictions that are usually applicable to such loans and that prohibit the debtor from buying back the loans in secondary markets unless the restriction are waived". It further notes that "these limitations usually do not apply to bonds or other securities". While positions on debt securities are valued at market prices, non-traded loans are valued at nominal values. For traded loans, *BPM5* para 471 mentions that "on the debtor side, the amounts of principal that debtors are contractually obliged to repay creditors when loans mature are used as the basis of valuation, and this practice represents a departure from the market price principle". It seems that the ability to buy back is regarded in the *BPM5* as a condition for using market value on the debtor side.

2. Concerns/shortcomings of the current treatment

BPM5 does not address the issue of traded loans becoming securities. *ESA95* and *External Debt Guide* provide clear guidance on criteria for traded loans to become securities. While *BPM5* implies that unless the debtor can buy back the loans in secondary markets, the loans should not be reclassified as securities. *ESA95* and *External Debt Guide* do not mention the issue of buying back the securities by the debtor.

Concerning the treatment of flows arising from traded loans becoming securities:

- *ESA95* suggests imputing financial transactions;
- *GFSM 2001* and *External Debt Guide* imply recording in other changes in assets and liabilities account as they use the term "reclassification";
- Even though the *BPM5* does not address the issue of traded loans becoming securities, para. 374 states that the shifts between portfolio and direct investment are reclassifications. Logically, the shifts from one instrument category to another should also be treated as reclassifications.

3. Possible alternative treatments

Concerning the criteria for traded loans to become securities, the *Annotated Outline* noted that "Loans that have been traded will be classified as securities under certain conditions, as stated in the *External Debt Guide* para 3.29. It will be noted that many loans are traded but not sufficiently to become securities" (para. 5.8.f). [1]

A question then arises as to whether trade in secondary markets is sufficient for reclassifying loans to securities or in addition to that there should be no restriction for buying back by the debtor.

When loans become securities, the resulting flows can be recorded as reclassification from loans to securities in the other changes in assets and liabilities account or as imputed transactions in loans and in securities. It seems more appropriate to treat these flows as reclassifications as implied in *GFSM 2001, External Debt Guide,* and *BPM5*. This will be a change to *ESA95*.

[1] It should be noted that, following these criteria, all securities that result from the reclassification of traded loans will be treated as portfolio investment [irrespective of whether portfolio investment is defined according to the *BPM5* or the proposal in BOPTEG Issues Paper # 12 (that portfolio investment cover only securities that are readily tradable on organized financial markets)].

4. Responses to Annotated Outline

Paragraph 5.45(a): *Should the requirement for a tradable loan to become a security include that the debtor is not legally prevented from buying back the debt, which is necessary to ensure that the market value is also relevant to the debtor?*

Total responses	11	
Yes	7	• Elaborate the rationale for this treatment (1).
No	3	
Other	1	• Agree with the idea, but prefer that the focus is placed on "transferable loan" rather than "tradable loan" (1).

6. Questions/points for discussion

1. Do BOPTEG members agree that traded loans are reclassified as securities if a loan becomes tradable and is, or has been, traded in the secondary market?

2. What is the BOPTEG members' view on whether, in addition to being tradable in secondary markets, there should be a requirement that the debtor is not legally prevented from buying back the debt?

3. Do BOPTEG members agree that the flows arising from traded loans becoming securities be treated as reclassifications in other changes in assets and liabilities account?

References

Annotated Outline paras. 3.17.e, 5.8.f, 5.34.a, 5.45.a, 6.16.c.

BPM5 paras. 374, 471.

1993 SNA para. 11.75

Government Finance Statistics Manual 2001 (paras. 7.111).

European System of Accounts 1995 (paras. 5.62, 5.79).

External Debt Statistics: Guide for Compilers and Users (paras. 3.29).

Monetary and Financial Statistics Manual 2000 (paras. 134).

Bank of Japan, *Classification and Valuation of Domestic Loans Sold to Non-Residents at a Discount in the Balance of Payments Statistics and International Investment Position*, BOPCOM-00/15.

IMF Committee on Balance of Payments Statistics

Balance of Payments Technical Expert Group (BOPTEG)

BACKGROUND PAPER BOPTEG ISSUES # 12 and 13

BORDERLINE BETWEEN LOANS AND DEBT SECURITIES

Prepared by Pierre Sola[1]

European Central Bank

October 2004

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1 This note has benefited from helpful comments from colleagues in the ECB's Directorate General Statistics, as well as from the Statistics Committee of the ESCB. However, this note should be regarded as reflecting only the views of its authors.

Introduction

1. In the course of the analysis of methodological and practical differences between the balance of payments (b.o.p.) and the flows derived from the MFI consolidated balance sheet, the need has arisen to clarify possible discrepancies in the borderline between debt securities and loans. The main issue at stake is whether a discrepancy exists in the criteria used for classifying these non-negotiable debt securities under portfolio investment or other investment in the b.o.p., and as debt securities or deposits/loans in the MFI consolidated balance sheet.

2. Resolving this issue in a consistent manner for the underlying statistics is of particular relevance in compiling the monetary presentation of the euro area b.o.p. and euro area financial accounts and for a proper compilation of the euro area portfolio investment liabilities[2].

3. In the context of the current review of international statistical standards, it may be appropriate to consider an amendment to the relevant statistical Manuals, in order to clarify the criteria to be applied for this distinction. Furthermore, some specific guidance may be needed at EU level in order to foster a common treatment of borderline cases.

The following recommendations are put forward:

- **the reference to the first criterion in paragraph 25 of this note, i.e. that "legal and technical arrangements related to the instrument are defined by the issuer to allow for a regular trading of the instrument" may be considered for inclusion in the SNA and related Manuals in order to clarify the distinction between a debt security and a loan;**
- **the additional criteria and procedures as proposed in paragraph 26 of this note should also be considered for inclusion in international statistical standards and/or related guidance.**

[2] Euro area positions in portfolio investment liabilities are compiled by consolidating securities issued by euro area residents and held by euro area investors (similarly for transactions). Any bilateral asymmetries in the consideration of instruments either within or outside portfolio investment by the country of the issuer and that of the investor have a direct repercussion on the euro area aggregates.

Current standards and guidance

4. Regarding the international statistical standards, the SNA 93 mentions in paragraph 11.53 that the "classification scheme is based primarily on two kinds of criteria: the liquidity of the asset and the legal characteristics that describe the form of the underlying creditor/debtor relationship. The concept of liquidity embraces other more specific characteristics - such as negotiability, transferability, marketability or convertibility - and these characteristics play a major role in determining the categories, although they are not separately identified in a systematic way." It states that securities other than shares (paragraph 11.74) includes "bills, bonds, certificates of deposit, commercial paper, debentures, tradable financial derivatives, and similar instruments normally traded in the financial markets." By contrast, according to paragraph 11.83, loans include "all financial assets that: (a) are created when creditors lend funds directly to debtors; (b) are evidenced by non-negotiable instruments; or (c) for which the lender receives no security evidencing the transaction."

5. The IMF Balance of Payments Manual, 5th edition (BPM5) provides the following information in relation to the identification and classification of debt securities:

- Paragraph 387 states that "the major portfolio investment components [...] are equity securities and debt securities, both usually traded (or tradable) in organised and other financial markets";
- Paragraph 415 mentions that "an arrangement in which the lender either receives no security evidencing the transaction or receives a non-negotiable document or instrument" should be recorded under other investment;
- Paragraph 421, however, indicates that "non-transferable savings deposits, time deposits, and shares (evidence of deposits) which are legally (or practically) redeemable on demand or on short notice – in savings and loans associations, credit unions, building societies, etc" should be included in other investment.

6. According to paragraph 3.8.4 of Chapter 3 of the B.o.p. Book[3], the definition agreed by the Working Group on Balance of Payments and External Reserves Statistics for negotiable securities, i.e. to identify those instruments that should be classified under the portfolio investment account, covers in principle those usually traded in secondary markets ('criterion of tradability'). As an additional criterion, the B.o.p. Book indicates that "this definition includes those instruments structured in the form identical to instruments of a negotiable nature, even though they may not actually be traded in organised (secondary) markets and may be placed directly with investors through – publicly announced – private offerings and held to maturity."

7. As a result, instruments structured in a large number of identical documents of a tradable (negotiable) nature are to be treated and classified under the portfolio investment account, even though they may not

[3] European Union b.o.p./i.i.p. statistical methods, ECB, November 2003.

be traded on secondary markets and may be placed in circulation through private offerings. Only securities incorporating relevant restrictions on the purchase and sale of the instrument would be classified as 'non-negotiable debt securities' and recorded under other investment.

8. ESA 95 provides the following additional information:

- Paragraph 5.50, related to "securities other than shares" mentions that they are "bearer instruments, […] usually negotiable and traded on secondary markets or can be offset on the market." 5.51 adds that "are typically represented by documents intended to circulate".
- Paragraph 5.69, describes loans as financial assets "which are either evidenced by non-negotiable documents or not evidenced by documents"; negotiability (or tradability, or marketability) is therefore the basic distinction criterion as mentioned in 5.77 that states that "the distinction […] can be based on the degree of marketability". Further mentioning to the basic criterion is made in paragraph 5.64b, that states that "transactions in non-negotiable [long term] securities [other than shares and financial derivatives] are classified in [long term] loans", and in paragraph 5.59, which mentions that short term similar securities do not include securities "whose negotiability, while theoretically possible, is very restricted in practice".
- Paragraph 5.79 marks a borderline in terms of trading practices: "Secondary trade in loans exists. However, individual loans are only traded incidentally. In cases where a loan becomes negotiable on an organised market, it is to classify in the category securities other than shares. An explicit conversion of the original loan is normally involved (see paragraphs 5.62. j and 5.62. k)."
- Apart from tradability, additional distinguishing characteristics are set out in paragraph 5.78: "Security issues consist of a large number of identical documents, each evidencing a round sum, which together form the total amount borrowed. Compared with this, loans are evidenced in most cases by a single document and transactions in loans are carried out between one creditor and one debtor. In the case of syndicated loans, however, the loan is granted by several creditors." Also paragraph 5.80 adds: "the conditions of non-standard loans are usually the result of negotiation between the creditor and the debtor. This is an important criterion which facilitates a distinction between non-standard loans and securities other than shares".

9. Regulation ECB/2001/13 concerning the consolidated balance sheet of the MFI sector classifies as loans: "funds lent by reporting agents to borrowers, which are not evidenced by documents, or are represented by a single document (even if it has become negotiable)." This includes in particular "holdings of non-negotiable securities," i.e. "holdings of securities other than shares and other equity which are not negotiable and cannot be traded on secondary markets." Conversely, the Regulation incorporates among securities those instruments "which are negotiable and usually traded on secondary markets or can be offset on the market, and which do not grant the holder any ownership rights over the issuing institution." It includes inter alia "negotiable loans that have been restructured into a large number of identical documents and that can be traded on secondary markets."

10. Furthermore, the IMF Monetary and Financial Statistics Manual (MFSM) states in paragraph 134 that "Securities other than shares are negotiable instruments serving as evidence that units have obligations to settle by means of providing cash, a financial instrument, or some other item of economic value. […] Loans that have become negotiable de facto should be classified under securities other than shares." By contrast, "loans are financial assets that (1) are created when a creditor lends funds directly to a debtor and (2) are evidenced by non-negotiable documents" (paragraph 139)[4].

11. The External Debt Statistics Guide defines loans (paragraphs 3.28) as including "those financial assets created through the direct lending of funds by a creditor (lender) to a debtor (borrower) through an arrangement in which the lender either receives no security evidencing the transactions or receives a non-negotiable document or instrument". It adds in paragraph 3.29 that "if a loan becomes tradable and is, or has been, traded in the secondary market, the loan should be reclassified as a debt security. Given the significance of reclassification, there needs to be evidence of secondary market trading before a debt instrument is reclassified from a loan to security". Portfolio investment is defined in paragraphs 3.19 to 3.22 and refers to instruments "usually traded (or tradable) in organised and other financial markets, including over the counter (OTC) markets".

12. The Financial Terminology Database (created by the Bank of England and currently maintained by the ECB) provides guidance on the treatment to be applied in b.o.p./i.i.p. statistics to a number of instruments "close to the border" and which should be regarded as negotiable, i.e. portfolio-related, instruments. In particular:

- Certificates of deposits: "a small minority of CDs are known to be non-negotiable and should, where material, be classified as other investment";
- Schuldscheine: "are not quoted on any securities exchange", and "should be classified as debt instruments as they are negotiable"; they are part of the sub group of "tradable loans";
- Eurobond "treat as bonds and notes. Some difficulty may be experienced in recording privately placed issues (in particular the so-called "private private placements");"
- Commercial paper: money market instruments in the portfolio investment account;
- Bankers' acceptance: money market instruments in the portfolio investment account.

Some other instruments might call for some clarification, moreover the list changes over time as long as financial innovation plays a role.

13. The instrument classification of financial instruments in international accounting standards is defined mainly in IAS 32 (financial instruments: disclosure and presentation). The main categories of instruments are financial assets, financial liabilities, equity instruments and derivatives financial instruments. The

[4] This wording is nearly identical to that of the IMF Government Finance Statistics Manual, in paragraphs 7.104 and 7.110. The latter manual also uses the word "marketable": "loans that have become marketable in secondary markets" have to be classified as securities other than shares (paragraph 7.111).

Application Guidance to this standard states[5] that “loans receivable and payable” and “bonds receivable and payable” are examples of financial assets/liabilities, but does not provide more detailed definitions.

14. IAS 30, which refers to the disclosures in the financial statements of banks and similar financial institutions, includes a requirement to disclose (inter alia) “government and other securities held for dealing purposes”, “placements with, and loans and advances to, other banks”, “other money market placements”, “loans and advances to customers” and “investment securities”. However, again, no detailed definitions of each of these instruments is provided.

15. At European level, the Council Directive of 8 December 1986 (as amended) on the annual accounts and consolidated accounts of banks and other financial institutions also refers to instruments such as “loans and advances”, “debt securities including fixed-income securities”, or “debts evidenced by certificates”. The distinction between loans and securities seems to be based on articles 15 and 16, which state that “loans and advances represented by debt securities or any other security” must be recorded as debt securities. Furthermore, Article 19 mentions that “savings bonds shall be shown under the corresponding sub-item only if they are not represented by negotiable certificates”. However, these accounting rules do not provide a clear guidance on possible criteria to be used for statistical purposes[6].

Issues arising from the current treatment

Difficulties raised by the definitions in current standards

16. Among the existing definitions, the use of the concepts of “tradability”, “marketability”, and “negotiability” have not proved to be decisive criteria, as any loan may be on-sold, and the legal right to sell an instrument also does also not permit to discriminate between loans and securities.

17. In addition, the above-mentioned definitions are currently not identical in each type of euro area statistics, possibly due to the ambiguity associated with these concepts.

18. In particular, some doubts have been expressed regarding the classification of instruments such as private placements in which the issuer prevents investors from trading without prior authorisation; placement of a single instrument for the total amount of the issue and transferable for the total on OTC markets; registered placements, other than of shares, with restrictive transfer clauses (among a restrictive group of investors, and/or for the total placed); Schuldscheine; instruments which can be bought only by individuals.

[5] Paragraphs 3 and 4 of the “Application Guidance” to this standard.

[6] These rules suggest that the exact borderline in accounting is left to national discretion.

Why this treatment is of importance

19. Euro area b.o.p./i.i.p. compilers apply different compilation methods in portfolio investment and in "other investment": portfolio investment liabilities result from the consolidation of intra-euro transactions and positions[7], while the euro area other investment is built as the sum of extra euro area contributions. As a result, a very clear homogeneous delineation of portfolio investment as opposed to other investment is needed, and therefore of securities as opposed to loans and deposits. Furthermore, as noted in paragraph 1, the monetary presentation of the euro area b.o.p., as well as the compilation of financial accounts of the euro area, make it necessary to apply exactly the same criterion in all euro area statistics, which current international statistical standards in the different areas do not warrant.

20. Within money and banking statistics, the distinction between securities and deposits on the liability side has an impact on the assessment of M2 as compared with M3, as only the latter includes debt securities (with a maturity up to two years). Furthermore, an accurate classification is required to ensure a proper consolidation of both deposits and debt securities issued by euro area MFIs, when compiling monetary aggregates. Taking for granted that an instrument will have the same original maturity irrespective of whether it is classified as debt security or deposit, this distinction should have no impact on the reserve base and hence the minimum reserves requirements. In addition, MIR statistics are produced only regarding loans and deposits.

21. In all financial statistics[8], the distinction between loans/deposits and debt securities has the following consequences:

- Difference in valuation: while securities should be measured at market value, loans are assessed at their nominal or book value[9]. Therefore, beyond the proper classification of instruments, the overall assessment of e.g. the MFI consolidated balance sheet or the international investment position will be affected by the valuation method.
- In this context, it may also be expected that a market price would be available for securities, while this would not be the case for loans. However, (i) a number of securities traded on organised markets do not show a reliable market price, as they are only occasionally traded; (ii) it is possible to calculate a proxy of a market price for instruments for which no reliable market value is available, so that the existence/non-existence of a market price cannot *per se* be a criterion to assess whether or not an instrument is a security[10];
- In the case of securities, issuers very often do not know who are the holders of the instruments, which has in some cases significant practical implications for the collection of the data. In the case of

[7] See footnote 1.

[8] Except MIR statistics.

[9] However, the valuation of loans is being discussed in the context of the review of international statistical standards: see in particular the note entitled "The treatment of non-performing loans in macro-economic statistics", by Russel Freeman (IMF), dated August 2004.

[10] Still, it is expected that most securities would indeed have a market price.

loans and deposits, issuers can usually identify easily their counterpart[11]. This paves the way for the existence of dissimilar compilation methods for these instruments (as is the case for the euro area b.o.p./i.i.p.), which might be determinant for the final results.

- Loans and deposits are usually utilised as a residual category in some statistics (e.g. b.o.p. "other investment", which reflects in many cases the payments of transactions recorded in other items), and may in some cases be difficult to interpret. On the contrary, portfolio investment can be interpreted independently from the other items. In this context, any definition should ensure that payments of other transactions should be excluded from "securities".

Possible options

22. Existing definitions seem to distinguish:

- "Ex ante" characteristics of the instruments, i.e. features known from the day of their issuance, e.g. the legal or technical characteristics of the instruments; and
- "Ex-post" aspects, i.e. criteria which may only be checked in the course of the "life" of the instrument, such as whether securities are traded in practice. While the issuer may know already when issuing a bond that it will be actively traded (e.g. a government bond), this can only be effectively ascertained when looking at the actual trading.

23. From a practical point of view, the "ex post" criterion raises various difficulties:

- When the instrument is issued, it needs to be classified in one category, while the actual use of the security may not yet be clear;
- The use of the instrument may change over time: it may for instance be actively traded for a few weeks, and then be held by one large investor, and never be traded again. It would obviously be very difficult to review the classification of all instruments and reallocate them depending on the latest developments in the (organised and OTC) markets;
- Concepts such as "usually traded", or "actively traded" are difficult to apply in a statistical reporting, as they would need to be characterised by a quantified threshold, which would anyway be difficult to define and costly to apply.

Proposed guidance

24. Taking into consideration these observations, it is proposed to apply ex ante criteria. The following economically relevant technical and legal characteristics are suggested to identify securities (and to define the borderline with loans)[12]:

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[11] Although there are some exceptions, for instance in the case of syndicated loans.

[12] While recognising the need to take into account various criteria, appropriate prioritisation intends to avoid that their coexistence allows for contradictory conclusions. A decision tree is provided in Annex 1.

25. The general rule, which may be proposed to be incorporated in international standards, would be that legal and technical arrangements related to the instrument are defined by the issuer to allow for a regular trading of the instrument, i.e. the frequent purchase and sale of the instrument by a potentially[13] large number of entities.

26. In order to facilitate the implementation of this general rule, the following guidance may be proposed (see decision tree in Annex 1):

(i) The following conditions could be used by compilers (and, where possible, by reporters)[14], to assess whether an instrument should be classified as a debt security, rather than a loan[15]:

- A sufficient, though not necessary, condition, would be that the instrument would have an ISIN (or a CUSIP) code[16];
- A sufficient, though not a necessary, condition would be that the instrument would be quoted on an organised market[17] [even though in practice it might be only very rarely traded there, so that official prices obtained from that exchange might not be usable for valuation purposes];
- One necessary, though not sufficient, condition would be that the instrument should be structured into a number of identical documents (conversely, a loan is usually contracted on the basis of a single document with no constraints on the format);
- A second necessary condition would be the legal right to transfer instruments without a need for an explicit and ad hoc authorisation from the issuer[18].

(ii) Furthermore, specific guidance should be provided (possibly in a compilation guide, or specific guidance to be agreed at EU level) some specific information on the most common instruments, in order to reduce as much as possible the number of borderline cases. This guidance may be summarised in a single document, e.g. the Financial Terminology Database[19] (FTD). As already pointed out in the ECB publication entitled "EU b.o.p./i.i.p. statistical methods", the following examples may be envisaged, assuming that they would meet the two "necessary" conditions described under (i) above, but neither of the two sufficient conditions listed in the same (i) item:

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[13] I.e. not restricted.

[14] National legislation defining debt securities and loans/deposits could also be used to distinguish these instruments, as long as it is in line with the criteria described below.

[15] This note does not cover the identification of equity securities and/or financial derivatives, and concentrates on cases where compilers and/or reporters may have a doubt between a classification in debt securities or in loans/deposits.

[16] Financial derivatives may also have an ISIN code, but are supposed to be identified separately by compilers and/or reporters: see footnote 15.

[17] Legal experts have mentioned that European legislation does not define "organised markets", but only "regulated markets". However, it is thought that in practice, organised markets should be sufficiently easy to identify by statistics reporters and compilers, on the basis of the availability of quotations to the general public.

[18] Given that some instruments classified as loans may also satisfy this condition, this can only be a "necessary" condition, but not a sufficient one for an instrument to be classified as a security.

[19] This would obviously imply that this document, currently focusing on b.o.p./i..p. classifications, would be amended to reflect the decisions made by the ECB/DGS for the classification of instruments in all euro area statistics. Furthermore, the consultations of the STC regarding additional borderline cases would ensure that appropriate coordination and information exchange takes place within the ESCB.

- Private placements;
- Tradable loans;
- Certificates of deposits.

(iii) As supplementary guidance, the existence of and, if so, the classification proposed by a CFI code – a code defined by the norm ISO10962 and intended for use for equity and debt securities as well as innovative financial products– should be seen as a presumption that the instrument is a security. An overall correspondence of CFI codes with financial instruments may also be provided by a repository (e.g. the FTD). However, this criterion would be only indicative and would not overrule the above-mentioned criteria.

27. The outcome of these criteria might be incorporated into the ESCB's Centralised Securities Database, thus allowing for a full implementation of these criteria, especially in case of security-by-security data collection.

ANNEX 1: DECISION TREE