3 Identification of Institutional Sectors and Financial Instruments

Introduction

3.1 In the *Guide*, as in the *2008 SNA* and *BPM6*, institutional units and the instruments in which they transact are grouped into categories so as to enhance the analytical usefulness of the data. Institutional units are grouped into institutional sectors, and financial instruments are classified by their nature into instrument categories. However, the classifications of institutional sectors and financial instruments are determined by the analytical needs of external debt statistics and so can differ from other macroeconomic datasets.

3.2 The institutional sector breakdown groups institutional units with common economic objectives and functions: *general government*, *central bank, deposit-taking corporations except the central bank*, and *other sectors*. These sectors are defined in this chapter, as are the subsectors of *other sectors*: other financial corporations, nonfinancial corporations, and households and nonprofit institutions serving households.

3.3 On the classification of financial instruments, the *Guide* gives prominence to five categories of instruments in particular: debt securities, loans, currency and deposits, trade credit and advances, and special drawing rights (SDRs). There is also another *debt liabilities* category; this would include items such as insurance, pension, and standardized guarantee schemes, and other accounts payable—other. This chapter explains the nature of these types of financial instruments in the context of the *BPM6* functional categories from which they are drawn. Further, Appendix 1 defines specific financial instruments and transactions and provides classification guidance; it therefore should be consulted in conjunction with this chapter.

Institutional Sectors

3.4 The institutional sector presentations below are consistent with the *2008 SNA* and *BPM6*.[1]

3.5 The *central bank* sector is identical to the definition of that subsector in the *2008 SNA*.[2] The central bank is the financial institution (or institutions) that exercises control over key aspects of the financial system. It carries out such activities as issuing currency, managing international reserves, transacting with the IMF, and providing credit to deposit-taking corporations.[3] If an institutional unit is mainly engaged in central banking activities, the entire unit is classified in the central bank sector. The central bank sector includes the following resident units: (1) central banks,[4] which in most economies are separately identifiable institutions that are subject to varying degrees of government control, engage in differing sets of activities, and are designated by various names (e.g., central bank, reserve bank, national bank, or state bank); (2) currency boards or independent currency authorities that issue national currency that is fully backed

[1] Institutional sectors are described in detail in Chapter 4 of both the *2008 SNA* and *BPM6*.

[2] The central bank is a subsector of the financial corporations sector in the *2008 SNA*.

[3] The central bank of a currency union is classified as a central bank in the data for the currency union as a whole; in the data of individual member states, it is part of the rest of the world sector.

[4] Many central banks regulate or supervise other deposit-taking corporations and other financial corporations, and these central bank activities also are included in the central bank sector. However, units that are affiliated with the government or with other sectors and are mainly engaged in regulating or supervising financial units are classified as financial auxiliaries rather than as units in the central bank sector. Private units that perform activities such as check-clearing operations are assigned to the other financial corporations subsector depending on their activities, rather than to the central bank.

by foreign exchange reserves; and (3) government-affiliated agencies[5] that are separate institutional units and primarily perform central bank activities. In economies in which some central banking functions are performed wholly or partly outside the central bank, particularly holding reserve assets, consideration should be given to compiling supplementary data for the monetary authorities.[6]

3.6 The *deposit-taking corporations, except the central bank* sector is identical with the corresponding subsector in the *2008 SNA*.[7] Included are all resident units engaging in financial intermediation as a principal activity and having liabilities in the form of deposits payable on demand, transferable by check, or otherwise used for making payments, or having liabilities in the form of deposits that may not be readily transferable, such as short-term certificates of deposit, but that are close substitutes for deposits. Thus, in addition to commercial banks,[8] the deposit-taking corporations, except the central bank sector encompasses institutions such as savings banks (including trustee savings banks and savings and loan associations), credit unions or cooperatives, traveler's check companies, and specialized banks or other financial institutions if they take deposits or issue close substitutes for deposits. Post office savings banks or other government-controlled savings banks are also included if they are institutional units separate from the government. Deposit-taking corporations that engage exclusively (or almost exclusively) with nonresidents, often called *offshore banks* or *offshore banking units*, are included in the deposit-taking corporations sector, but they may be excluded from the money-issuing sector because their liabilities are not included in broad money.

3.7 The *general government* sector is identical with the definition of that sector in the *2008 SNA*. The government units of a country consist of those authorities and their agencies that are units established by political processes and exercise legislative, judicial, and executive authority over other institutional units within a given territorial area. The principal economic functions of a government are (1) to assume responsibility for the provision of goods and services to the community on a nonmarket basis, either for collective or individual consumption; (2) to redistribute income and wealth by means of transfer payments; and (3) to engage in nonmarket production. An additional characteristic of a government unit is that its activities must be financed primarily by taxation or other compulsory transfers. General government sector consists of government units that exist at each level—central, state, or local—of government within the national economy; all Social Security funds operated at each level of government; all nonmarket nonprofit institutions that are controlled and mainly financed by government units; and government units that are located abroad and are largely exempt from the laws of the territory in which they are located, such as embassies, consulates, and military bases. Public corporations and unincorporated corporations that function as if they were corporations (called *quasi-corporations*) are explicitly excluded from the general government sector and are allocated to the financial corporation or nonfinancial corporation sectors, as appropriate. A quasi-corporation can be owned by a resident or nonresident entity but typically will keep a separate set of accounts from its parent or, if owned by a nonresident, be engaged in a significant amount of production in the resident economy over a long or indefinite period of time.

[5] In some countries, the central government may include units that engage in financial transactions that in other countries would be performed by the central bank. When the units in question remain financially integrated with central government and under the direct control and supervision of central government, they cannot be treated as separate institutional units. Moreover, monetary authority functions carried out by central government are recorded in the government sector and not the financial corporation sector (see *2008 SNA*, paragraph 4.139).

[6] Monetary authorities encompass the central bank and certain operations usually attributed to the central bank but sometimes carried out by other government institutions or commercial banks, such as government-owned commercial banks. Such operations include the issuance of currency; maintenance and management of reserve assets, including those resulting from transactions with the IMF; and operation of exchange stabilization funds.

[7] In the IMF's *MFSM* (2000), other depository corporations are defined to include only those resident financial corporations (except the central bank) and quasi-corporations that are mainly engaged in financial intermediation and that issue deposits and close substitutes that are included in the national definition of broad money, which may exclude (include) institutional units that are included (excluded) within the *2008 SNA* definition of deposit-taking corporations, except the central bank. Rather than as deposit-taking corporations, these excluded institutional units would be classified as other financial corporations (or vice versa). While it is recommended in the *Guide* that the definition of deposit-taking corporations, except the central bank be consistent with the *2008 SNA* and *BPM6*, it is recognized that countries may rely on data from monetary surveys to compile external debt statistics for the banking sector.

[8] Also included are "universal banks" and "all-purpose" banks.

3.8 The *other sectors* category comprises other financial corporations (i.e., other than deposit-taking corporations), nonfinancial corporations, and households and nonprofit institutions serving households (NPISHs) subsectors.

3.9 The *other financial corporations* subsector comprises the following types of institutions, all of which are resident subsectors in the *2008 SNA*:

- Money market funds (MMFs) are collective investment schemes that raise funds by issuing shares or units to the public. Because their proceeds are primarily invested in short-term money market securities such as treasury bills, certificates of deposit, and commercial paper, and they can provide unrestricted check writing privileges, their shares and units may be regarded as close substitutes for deposits.
- Non-MMF investment funds are collective investment schemes that raise funds by issuing shares or units to the public. Because their proceeds are predominantly invested in long-term financial assets and nonfinancial assets (usually real estate), their shares and units are generally not close substitutes for deposits.
- Other financial intermediaries, except insurance corporations and pension funds, consist of financial corporations or quasi-corporations that are engaged in providing financial services by incurring liabilities (in forms other than currency, deposits, or close substitutes for deposits) on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market and that are not included in any other subsector. The following financial intermediaries are classified in this subsector: (1) financial corporations engaged in securitization of assets; (2) underwriters and security and derivatives dealers (on own account); (3) financial corporations engaged in lending, including financial leasing, as well as personal or commercial finance; (4) central clearing counterparties that provide clearing and settlement of market transactions in securities and derivatives; (5) specialized financial corporations that assist other corporations in raising funds in equity and debt markets (sometimes called *investment banks*); and (6) any other specialized financial corporations that provide short-term financing for corporate mergers and takeovers, export and import finance, factoring companies, and venture capital and development capital firms.
- Financial auxiliaries consist of all financial corporations that engage primarily in activities closely related to financial intermediation but that do not themselves perform an intermediation role, such as security brokers, loan brokers, and insurance brokers.[9]
- Captive financial institutions[10] and moneylenders consist of institutional units providing financial services other than insurance, where most of either their assets or liabilities are not transacted on open financial markets.
- Insurance corporations consist of incorporated, mutual, and other entities whose principal function is to provide life, accident, health, fire, and other types of insurance to individual institutional units or groups of units through the pooling of risk or reinsurance services to other insurance corporations.
- Pension funds are those that are constituted in such a way that they are separate institutional units from the units that create them and are established for purposes of providing benefits on retirement for specific groups of employees (and, perhaps, their dependents). These funds have their own assets and liabilities and engage in financial transactions on the market on their own account.

3.10 The *nonfinancial corporations* subsector consists of resident entities whose principal activity is the production of market goods or nonfinancial services. This sector is defined consistently with the definition in the *2008 SNA*. The sector includes all resident nonfinancial corporations; all resident nonfinancial quasi-corporations, including the branches or agencies

[9] Corporations that facilitate financial transactions, such as central clearing counterparties, stock exchanges, derivative exchanges, and repurchase agreement settlement institutions are financial intermediaries, if they generally act as principals to the counterparties to the underlying transactions; otherwise they are financial auxiliaries.

[10] For a list of units included in this subsector, see *BPM6*, paragraph 4.83.

Table 3.1 Standard Components of the IIP: Direct Investment

Assets	Liabilities
Equity and investment fund shares	*Equity and investment fund shares*
Direct investor in direct investment enterprises	Direct investor in direct investment enterprises
Direct investment enterprises in direct investor (reverse investment)	Direct investment enterprises in direct investor (reverse investment)
Between fellow enterprises	Between fellow enterprises
Debt instruments	*Debt instruments*[1]
Direct investor in direct investment enterprises	Direct investor in direct investment enterprises
Direct investment enterprises in direct investor	Direct investment enterprises in direct investor
Between fellow enterprises	Between fellow enterprises

Source: *BPM6.*
[1] Instruments in these categories are debt liabilities to be included in gross external debt position.

of foreign-owned nonfinancial enterprises that are engaged in significant amounts of production on the economic territory on a long-term basis; and all resident nonprofit institutions that are market producers of goods or nonfinancial services.

3.11 The *households and NPISHs* subsector comprises the household subsector, consisting of resident households, and the NPISHs subsector, consisting of such resident entities as professional societies, political parties, trade unions, charities, and so on. A household is defined as a group of persons who share the same living accommodations, who pool some or all of their income and wealth, and who consume certain types of goods and services collectively, mainly housing and food. NPISHs are entities mainly engaged in providing goods and services to households or the community largely free of charge or at prices that are not economically significant (and thus are classified as nonmarket producers). Those NPISHs that are controlled and mainly financed by government units are classified in the general government sector.

3.12 In the presentation of the gross external debt position, *intercompany lending* liabilities under a direct investment relationship are separately identified. These data are not further broken down by institutional sectors. Equity liabilities arising from a direct investment, like all equity and investment fund shares liabilities, are excluded from external debt. These instruments are described in more detail in paragraph 3.18.

Instrument Classification

3.13 This section defines the types of financial instruments to be included in the presentation of the gross external debt position. They are defined in the context of the *BPM6* functional categories[11]—direct investment, portfolio investment, financial derivatives (other than reserves) and ESOs, other investment, and reserve assets—from which they are drawn. This allows the compiler, if necessary, to derive the gross external debt position data from the IIP statement or to reconcile both statements.

3.14 *Direct investment* (Table 3.1) is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy.[12] Control or influence may be achieved directly by owning equity that gives voting power in the enterprise or indirectly by having voting power in another enterprise that has voting power in the enterprise. Accordingly, two ways of having control or influence are identified: (1) immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise,[13] and (2) indirect direct investment relationships arise through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises, i.e., an entity is able to exercise indirect control or influence through a chain of direct

[11] For additional information about *BPM6* functional categories, see *BPM6*, Chapter 6.

[12] The definition of direct investment is the same as in *BPM6* and in the *OECD Benchmark Definition of Foreign Direct Investment*, fourth edition (OECD, 2008, www.oecd.org).

[13] In practice, effective control or influence may arise in some cases with less than this percentage. Nevertheless, these definitions should be used in all cases for international consistency and to avoid subjective judgments.

investment relationships. In addition to direct investment relationships between two enterprises that arise because one enterprise controls or influences the other, there are also direct investment relationships between two enterprises that do not control or influence each other but that are both under the control or influence of the same investor (i.e., fellow enterprises).

3.15 Direct investment is presented on an asset/liability basis and classified according to the relationship between the investor and the entity receiving the investment (direct investment enterprise). The three categories are (1) investment by the direct investor in its direct investment enterprise (whether in an immediate relationship or not), (2) reverse investment by a direct investment enterprise in its own immediate or indirect direct investor, and (3) investment between resident and nonresident fellow enterprises. These three categories reflect different types of relationships and motivations (see more detail in *BPM6*, Chapter 6).[14]

3.16 Once established, all financial claims of the investor on the enterprise and vice versa, and all financial claims on, or liabilities to, affiliated enterprises are included under direct investment with two exceptions: financial derivatives and ESOs, and certain intercompany assets and liabilities between two affiliated financial intermediaries (see paragraph 3.20). Of the direct investment components, debt liabilities, when owed to nonresident affiliates, are included in the gross external debt position, but equity and investment fund shares are not.

3.17 *Debt instruments* cover borrowing and lending of funds—including debt securities and suppliers' credits (e.g., trade credit and advances)—among direct investors and related subsidiaries, branches, and associates.[15] In the gross external debt position tables, debt liabilities are presented as *Direct investment*: *Intercompany lending*.

3.18 *Equity and investment fund shares* (comprising equity and investment fund shares in branches, subsidiaries, and associates—except nonparticipating preferred shares, which are classified as debt instruments—reinvestment of earnings, and other capital contributions such as the provision of machinery) are not debt instruments; hence, they are not included in gross external debt position.

3.19 In practice, it is sometimes difficult to distinguish whether the claims of a direct investor on a direct investment enterprise are debt instruments, which are classified as external debt, or equity and investment fund shares, which are not. Differentiation is particularly difficult when an enterprise is 100 percent owned by a direct investor, such as when the direct investment enterprise is a branch or an unincorporated enterprise. In these situations, the classification of capital could be the same as used in the direct investment enterprise's accounting records, i.e., when a claim of the direct investor on the direct investment enterprise is considered to be equity or shareholder funds in the accounting records of the direct investment enterprise, this claim is also considered equity and investment fund shares for external debt purposes. Subject to this condition: if liabilities are only to be repaid in the event that a profit is made by the direct investment enterprise, then the liabilities are classified as equity and investment fund shares. Similarly, in some instances the direct investor might fund local expenses directly and also receive directly the income arising from the output of the direct investment enterprise. The *Guide* regards such payments and receipts as the provision and withdrawal of equity and investment fund shares, respectively, in the direct investment enterprise by the direct investor.

3.20 The positions of intercompany assets and liabilities between two affiliated financial intermediaries, including special purpose entities (SPEs), principally engaged in financial intermediation and that are recorded under direct investment are limited to (1) equity and investment fund shares, including reinvestment of earnings, and (2) debt between captive financial institutions and money lenders, insurance corporations, pension funds, and financial auxiliaries. Intercompany debt liabilities between other affiliated financial intermediaries are not classified as direct investment because they are not considered to be so strongly connected to the direct investment

[14] Data on direct investment can also be presented according to the direction of the direct investment relationship (direct investment abroad and direct investment in the reporting economy) (see *BPM6*, paragraph 6.42).

[15] Debt instruments—other than SDRs and interbank positions—can potentially be included in direct investment. Insurance technical reserves are included in direct investment when the parties are in a direct investment relationship. The *Guide* recommends that borrowing for fiscal purposes through a nonresident entity owned or controlled by the government should be included in general government and not direct investment (see Appendix 1, Part 2 and Appendix 8, paragraph 8).

relationship.[16] These debt liabilities are classified as portfolio or other investment by type of instrument, such as loans, debt securities, and so on, and are attributed to the institutional sector of the debtor entity. For this purpose, the affiliated financial intermediaries among whom debt liabilities are not included in direct investment are those grouped in the *2008 SNA* into the following sectors or subsectors, respectively: (1) deposit-taking corporations, except the central bank; (2) MMFs; (3) non-MMF investment funds; and (4) other financial intermediaries, except insurance corporations and pension funds.

3.21 *Portfolio investment* (Table 3.2) includes securities, other than those included in direct investment and reserve assets. These instruments have the characteristic feature of negotiability[17] and are usually traded (or tradable) in organized and other financial markets, including over the counter (OTC) markets. When they are owed to nonresidents, debt securities are included in the gross external debt position. Equity securities, including share investments in mutual funds and investment trusts,[18] are not included in the gross external debt position.

3.22 Debt securities issued with an original maturity of more than one year are classified as long-term securities, even though their remaining maturity at the time of the investment may be less than one year. Long-term securities usually give the holder the unconditional right to a fixed money income or contractually determined variable money income (payment of interest being independent of the earnings of the debtor). With the exception of perpetual bonds, long-term securities also provide the unconditional right to a fixed sum in repayment of principal on a specified date or dates. Included among long-term securities are "asset-backed securities" and "collateralized debt obligations," i.e., securities on which payments to creditors are explicitly dependent on a specific stream of income, e.g., future lottery receipts or a pool of nonnegotiable instruments (e.g., loans or export receivables); see Appendix 1 for more details on asset-backed securities.

3.23 Debt securities issued with an original maturity of one year or less are classified as short-term securities. These instruments generally give the holder the unconditional right to receive a stated, fixed sum of money on a specified date. Short-term securities are usually traded, at a discount, in organized markets; the discount is dependent on the interest rate and the time remaining to maturity. Examples of short-term

Table 3.2 Standard Components of the IIP: Portfolio Investment

Assets	Liabilities
Equity and investment fund shares	*Equity and investment fund shares*
Central bank	Deposit-taking corporations, except the central bank
Deposit-taking corporations, except the central bank	Other sectors
General government	Other financial corporations
Other sectors	Nonfinancial corporations, households, and NPISHs
Other financial corporations	*Debt securities*[1]
Nonfinancial corporations, households, and NPISHs	Central bank
Debt securities	Long-term
Central bank	Short-term
Long-term	Deposit-taking corporations, except the central bank
Short-term	Long-term
Deposit-taking corporations, except the central bank	Short-term
Long-term	General government
Short-term	Long-term
General government	Short-term
Long-term	Other sectors
Short-term	Long-term
Other sectors	Short-term
Long-term	Other financial corporations
Short-term	Long-term
Other financial corporations	Short-term
Long-term	Nonfinancial corporations, households, and NPISHs
Short-term	Long-term
Nonfinancial corporations, households, and NPISHs	Short-term
Long-term	
Short-term	

Source: *BPM6*.
[1] Instruments in these categories are debt liabilities to be included in the gross external debt position.

[16] Both affiliated parties must be one of the selected types of financial corporations for which debt positions are excluded from direct investment, but they do not need to be the same type.
[17] Negotiability means that legal ownership can be transferred from one unit to another by delivery or endorsement.
[18] A mutual fund or investment trust liability that requires payment(s) of principal and/or interest by the mutual fund or investment trust to the creditor at some point(s) in the future is to be recorded as a debt instrument and, if owed to nonresidents, included in the gross external debt position. The instrument classification would be dependent on the characteristics of the liability, e.g., as a deposit (see paragraph 3.30).

securities include treasury bills, commercial and financial paper, and bankers' acceptances. Like long-term securities, short-term securities can be "backed" by a specific stream of income or pool of nonnegotiable instruments.

3.24 Further, where an instrument is provided by an importer to an exporter with such characteristics that it is negotiable in organized and other financial markets, such as a promissory note, it should be classified as a debt security—either long-term or short-term, depending on its original maturity—in the gross external debt position. Separate identification of the outstanding value of such instruments is also encouraged because of their role in financing trade (see also the description of trade-related credit in Chapter 6).

3.25 *Equity and investment fund shares* cover all instruments and records acknowledging, after the claims of all creditors have been met, claims to the residual value of the corporation or quasi-corporation. Equity is treated as a liability of the issuing institutional unit. Shares, stocks, preferred stock or shares, participation, or similar documents—such as American Depository Receipts—usually denote ownership of equity. Investment funds shares are collective investment undertakings through which investors pool funds for investment in financial and nonfinancial assets or both. Shares of collective investment institutions (e.g., mutual funds and investment trusts) are also included. These securities are not debt instruments.

3.26 *Financial derivatives (other than reserves) and ESOs* (Table 3.3) are financial assets and liabilities that have similar features, such as a strike price and some of the same risk elements. However, although both transfer risk, ESOs are also designed to be a form of remuneration. A financial derivative contract is a financial instrument that is linked to a specific financial instrument, indicator, or commodity and through which specific financial risks can be traded in financial markets in their own right. ESOs are options to buy the equity of a company, offered to employees of the company as a form of remuneration. As explained in paragraph 2.11, financial derivatives and ESOs are not debt instruments, but information on them can be relevant for external debt analysis.

3.27 There are two broad types of financial derivatives: forward-type and option contracts. Under a *forward-type contract* (forward), the two counterparties agree to exchange an underlying item—real or financial—in a specified quantity, on a specified date, at an agreed contract (strike) price or, in the specific instance of a swap contract, the two counterparties agree to exchange cash flows, determined with reference to the price(s) of, say, currencies or interest rates, according to prearranged rules. The typical requirement under a foreign exchange forward contract to deliver or receive foreign currency in the future can have important implications for foreign currency liquidity analysis and is captured in Table 7.9. Under an *option contract* (option), the purchaser of the option, in return for an option premium, acquires from the writer of the option the right but not the obligation to buy (call option) or sell (put option) a specified underlying item—real or financial—at an agreed contract (strike) price on or before a specified date. Throughout the life of the contract, the writer of the option has a liability and the buyer an asset, although the option can expire worthless; the option will be exercised only if settling the contract is advantageous for the purchaser. Typical derivatives instruments include futures (exchange traded forward contracts), interest and cross-currency swaps, forward rate agreements, forward foreign exchange contracts, credit derivatives, and various types of options.

Table 3.3 Standard Components of the IIP: Financial Derivatives (Other than Reserves) and Employee Stock Options (ESOs)

Assets	Liabilities
Financial derivatives (other than reserves) and ESOs[1]	*Financial derivatives (other than reserves) and ESOs*
Central bank	Central bank
Deposit-taking corporations, except the central bank	Deposit-taking corporations, except the central bank
General government	General government
Other sectors	Other sectors
Other financial corporations	Other financial corporations
Nonfinancial corporations, households, and NPISHs	Nonfinancial corporations, households, and NPISHs

Source: *BPM6.*
[1] Excludes financial derivatives that pertain to reserve assets management and are included in reserves assets data.

3.28 *Other investment* (Table 3.4) covers all financial instruments other than those classified as direct investment, portfolio investment, financial derivatives and ESOs, or reserve assets. When owed to nonresidents, all the components of other investment, except

Table 3.4 Standard Components of the IIP: Other Investment

Assets	Liabilities
Other equity	*Other equity*
Currency and deposits	*Currency and deposits*[1]
Central bank	Central bank
Long-term	Long-term
Short-term	Short-term
Deposit-taking corporations, except the central bank	Deposit-taking corporations, except the central bank
Long-term	Long-term
Short-term	Short-term
General government	General government
Long-term	Long-term
Short-term	Short-term
Other sectors	Other sectors
Long-term	Long-term
Short-term	Short-term
Other financial corporations	Other financial corporations
Long-term	Long-term
Short-term	Short-term
Nonfinancial corporations, households, and NPISHs	
Long-term	
Short-term	
Loans	*Loans*[1]
Central bank	Central bank
Credits and loans with the IMF (other than reserves)	Credits and loans with the IMF (other than reserves)
Other short-term	Other short-term
Other long-term	Other long-term
Deposit-taking corporations, except the central bank	Deposit-taking corporations, except the central bank
Long-term	Long-term
Short-term	Short-term
General government	General government
Credits and loans with the IMF (other than reserves)	Credits and loans with the IMF (other than reserves)
Other short-term	Other short-term
Other long-term	Other long-term
Other sectors	Other sectors
Long-term	Long-term
Short-term	Short-term
Other financial corporations	Other financial corporations
Long-term	Long-term
Short-term	Short-term
Nonfinancial corporations, households, and NPISHs	Nonfinancial corporations, households, and NPISHs
Long-term	Long-term
Short-term	Short-term
Insurance, pension, and standardized guarantee schemes	*Insurance, pension, and standardized guarantee schemes*[1]
Central bank	Central bank
Deposit-taking corporations, except the central bank	Deposit-taking corporations, except the central bank
General government	General government
Other sectors	Other sectors
Other financial corporations	Other financial corporations
Nonfinancial corporations, households, and NPISHs	Nonfinancial corporations, households, and NPISHs
Trade credit and advances	*Trade credit and advances*[1]
Central bank	Central bank
Long-term	Long-term
Short-term	Short-term
Deposit-taking corporations, except the central bank	Deposit-taking corporations, except the central bank
Long-term	Long-term
Short-term	Short-term
General government	General government
Long-term	Long-term
Short-term	Short-term
Other sectors	Other sectors
Long-term	Long-term
Short-term	Short-term
Other financial corporations	Other financial corporations
Long-term	Long-term
Short-term	Short-term
Nonfinancial corporations, households, and NPISHs	Nonfinancial corporations, households, and NPISHs
Long-term	Long-term
Short-term	Short-term
Other accounts receivable—other	*Other accounts payable—other*[1]
Central bank	Central bank
Long-term	Long-term
Short-term	Short-term
Deposit-taking corporations, except the central bank	Deposit-taking corporations, except the central bank
Long-term	Long-term
Short-term	Short-term
General government	General government
Long-term	Long-term
Short-term	Short-term
Other sectors	Other sectors
Long-term	Long-term
Short-term	Short-term
Other financial corporations	Other financial corporations
Long-term	Long-term
Short-term	Short-term
Nonfinancial corporations, households, and NPISHs	Nonfinancial corporations, households, and NPISHs
Long-term	Long-term
Short-term	Short-term
	Special drawing rights (allocations)[1]

Source: *BPM6*.
[1] Instruments in these categories are debt liabilities to be included in the gross external debt position.

other equity, are included in the gross external debt position, i.e., currency and deposits; loans; insurance, pension, and standardized guarantee schemes; trade credit and advances; other accounts payable—other; and SDR allocations.

3.29 *Other equity*, included in other investments, is equity that is not in the form of securities, nor included in direct investment or reserve assets. The ownership of many international organizations is not in the form of shares and so is classified as other equity (although equity in the Bank for International Settlements [BIS] is in the form of unlisted shares and is classified as portfolio investment). Ownership of currency union central banks is included in other equity. Other equity is not a debt instrument.

3.30 *Currency and deposits* consists of notes and coins and deposits (both transferable and other).[19] Notes and coins represent claims of a fixed nominal value usually on a central bank or government; commemorative coins are excluded. Deposits[20] include all claims that are (1) on the central bank; deposit-taking corporations, except the central bank; and, in some cases, other institutional units; and (2) represented by evidence of deposit. Transferable deposits consist of all deposits that are exchangeable for bank notes and coins on demand at par and without penalty or restriction and directly usable for making payments by check, draft, giro order, direct debit/credit, or other direct payment facility. Other deposits comprise all claims, other than transferable deposits, represented by evidence of deposit, e.g., savings and fixed-term deposits; nonnegotiable CDs; sight deposits that permit immediate cash withdrawals but not direct third-party transfers; and shares that are legally (or practically) redeemable on demand or on short notice in savings and loan associations, credit unions, building societies, and so on. Unallocated accounts for precious metals (including unallocated gold accounts) are also deposit liabilities.[21]

3.31 The nominal value of deposits is usually fixed in terms of the currency in which the deposits are denominated. In some cases, deposits may have their value expressed in terms of an index or linked to a commodity price (e.g., gold, oil, or share prices).

3.32 When one party is a deposit-taking corporation and the other is not, and the nature of the liability is unclear, a possible convention is that an asset position of a deposit-taking corporation is classified as a loan by both parties. Similarly, a liability of a deposit-taking corporation to another type of entity is classified as a deposit by both parties. In some cases, the instrument classification of interbank positions may be unclear, e.g., because the parties are uncertain or one party considers it as a loan and the other a deposit. Therefore, as a convention to ensure symmetry, all interbank positions, other than securities and accounts receivable/payable, are classified under deposits.

3.33 The allocation of joint bank accounts, or other cases in which an account holder authorizes relatives to withdraw funds from the account, may be unclear. By convention, deposits of emigrant workers in their home economies that are freely usable by family members residing in the home economies are treated as being held by residents of the home economy. Similarly, deposits of emigrant workers in the host economy that are freely usable by family members residing in the home economies are treated as being held by a resident of the host economy. Compilers may adopt another treatment if better information is available.

3.34 *Loans* include 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 nonnegotiable document or instrument. Collateral, in the form of either a financial asset (such as a security) or nonfinancial asset (such as land or a building) may be provided under a loan transaction, although it is not an essential feature. In the gross external debt position, loans include use of IMF credit and loans from the IMF.

3.35 If a loan becomes negotiable, it 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 frequent bid-offer spreads for the debt instrument. The *Guide* encourages the separate identification of the outstanding value of any such loans reclassified.

3.36 Reverse security transactions and financial leases are two types of arrangements for which the change of ownership principle is not strictly adhered to.

3.37 A reverse securities transaction is defined to include all arrangements whereby one party legally acquires securities and agrees, under a legal agreement at inception, to return the same or equivalent securities on or by an agreed date to the same party from whom they acquired the securities initially. If the security taker under such a transaction provides cash funds, and there is agreement to reacquire the same or equivalent securities at a predetermined price at

[19] It is recommended that all currency and deposits are included in the short-term category unless detailed information is available to make the short-term/long-term attribution.
[20] Overnight deposits that are a liability to a nonresident are included in the gross external debt position (see Appendix 1, Part 2).
[21] An unallocated gold account owned by a monetary authority and held as a reserve asset is included within monetary gold.

the contract's maturity, this agreement is a security repurchase agreement (repos). Repos, securities lending with cash collateral, and sale/buybacks are all different terms for arrangements with the same economic purpose and involve the provision of securities as collateral for a loan.[22] The security provider acquires a repo loan liability and the security taker a repo loan asset. If no cash is provided, no loan transaction is reported. Under the collateralized loan approach, the security is assumed not to have changed ownership and remains on the balance sheet of the security provider. A similar recording procedure is adopted for transactions where gold rather than securities is provided as collateral (so-called gold swaps [cash provided] or gold loans [no cash provided]).

3.38 If the security taker sells the security acquired under a reverse security transaction, it records a negative position in that security. This treatment reflects economic reality in that the holder of the negative position is exposed to the risks and benefits of ownership in an equal and opposite way to the party who now owns the security (see also Appendix 2). Onselling of gold by the gold taker, similarly reported as a negative holding, does not affect the gross external debt position because gold is an asset without any corresponding liability.

3.39 A financial lease is a contract under which a lessor as legal owner of an asset conveys substantially all the risks and rewards of ownership of the asset to the lessee. In other words, the lessee becomes the economic owner of the assets (*BPM6*, paragraph 5.56). The lessee contracts to pay rentals for the use of a good for most or all of its expected economic life. The rentals enable the lessor over the period of the contract to recover most or all of the costs of goods and the carrying charges. While there is not a legal change of ownership of the good, under a financial lease the risks and rewards of ownership are, de facto, transferred from the legal owner of the good, the lessor, to the user of the good, the lessee. For this reason, under statistical convention, the total value of the good is imputed to have changed economic ownership. Therefore, the debt liability at the inception of the lease is defined as the value of the good and is financed by a loan of the same value, a liability of the lessee. The loan is repaid through the payment of rentals (which comprise both interest and principal payment elements) and any residual payment at the end of the contract (or alternatively, by the return of the good to the lessor).

3.40 *Insurance, pension, and standardized guarantee schemes* comprises (1) nonlife insurance technical reserves; (2) life insurance and annuity entitlements; (3) pension entitlements, claims of pension funds on pension managers, and entitlements to nonpension funds; and (4) provisions for calls under standardized guarantees. These reserves, entitlements, and provisions represent liabilities of the insurer, pension fund, or issuer of standardized guarantees and a corresponding asset of the policyholders or beneficiaries. The aggregate values of liabilities can be estimated actuarially because the company or fund has a pool of liabilities, but the value is less clear for the asset holders. The insurers, pension funds, and guarantors usually hold a range of assets to allow them to meet their obligations; however, these are not necessarily equal to the provision and entitlement liabilities.[23]

3.41 *Trade credit and advances* consist of claims or liabilities arising from the direct extension of credit by suppliers for transactions in goods and services, and advance payments by buyers for goods and services and for work in progress (or to be undertaken).[24] Long- and short-term trade credits are shown separately. Trade-related loans provided by a third party, such as a bank, to an exporter or importer are not included in this category but under loans (see Chapter 6 for a description of a wider concept of trade-related credit, which also captures other credits provided to finance trade activity, including through banks). Progressive payments (or stage payments) on high-value capital goods—such as ships, heavy machinery, and other structures that may take years to complete—do not give rise to trade credit and advances unless there

[22] Normally, the classification is a loan but can be a deposit if it involves liabilities of a deposit-taking corporation included in national measures of broad money (see also *BPM6*, paragraph 5.53). Appendix 2 provides more details about reverse security transactions.

[23] Insurance, pension, and standardized guarantee schemes liabilities can potentially be classified by maturity; however, if data are not available, a convention that they are all long-term can be adopted (see *BPM6*, paragraph 5.103).

[24] Trade credit and advances may arise from the direct extension of the financing under merchanting (see Appendix 1, Part 2).

is a difference in timing between the change in ownership of these high-value goods and the payments.

3.42 *Other accounts receivable/payable—other* covers items other than other equity; currency and deposits; loans; insurance, pension, and standardized guarantee schemes; trade credit and advances; and SDR allocations. Such assets and liabilities include some arrears (see paragraph 3.43) and accounts receivable and payable, such as in respect of taxes, purchases and sales of securities, securities lending fees, gold loan fees, wages and salaries, dividends, and social contributions that have accrued but not yet been paid.[25]

3.43 Arrears are defined as amounts that are past due-for-payment and unpaid. Arrears can arise both through the late payment of principal and interest on debt instruments (which are recorded in the original debt instrument) as well as through late payments for other instruments and transactions. For instance, a financial derivatives contract is not a debt instrument for reasons explained above, but if a financial derivatives contract comes to maturity and a payment is required but not made, arrears are created and recorded as other debt liabilities in the gross external debt position. Similarly, if goods and/or services are supplied and not paid for on the contract payment date or a payment for goods and/or services is made but the goods and/or services are not delivered on time, then arrears are created. These debt liabilities for late payments or late delivery of goods and/or services should be recorded as trade credit and advances in the gross external debt position.[26]

3.44 A special circumstance may arise when the creditor has agreed in principle to reschedule debt, i.e., reorganize payments that are falling due, but the agreement has yet to be signed and implemented. In the meantime, payments due under the existing agreement are not made, and arrears arise, called *technical arrears*.[27] Such arrears might typically arise in the context of Paris Club agreements between the time of the Paris Club rescheduling session and the time when the bilateral agreements are signed and implemented. If the agreement in principle lapses before the agreement is signed, then any accumulated arrears are no longer technical arrears.

3.45 *Special drawing rights* (*SDRs*) are international reserve assets created by the IMF and allocated to members to supplement existing official reserves. SDRs are held only by the depositories of IMF members; a limited number of international financial institutions that are authorized holders; and the IMF itself, through the General Resources Account. SDR holdings (assets) represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF members. SDRs allocated by the Fund to a member that is a participant in the SDR Department are a long-term liability of the member because upon termination of participation in, or liquidation of, the SDR Department, the member will be required to repay these allocations and because interest accrues. The holdings and allocations should be shown gross, rather than netted. SDR allocations are included in the gross external debt position (see also Appendix 1).

3.46 *Reserve assets* (Table 3.5) are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets

Table 3.5 Standard Components of the IIP: Reserve Assets

Assets
Monetary gold
Gold bullion
Unallocated gold accounts
Special drawing rights
Reserve position in the IMF
Other reserve assets
Currency and deposits
Claims on monetary authorities
Claims on other entities
Securities
Debt securities
Short-term
Long-term
Equity and investment funds shares
Financial derivatives
Other claims

Source: *BPM6*.

[25] Accrued interest costs should be recorded with the financial asset or liability on which they accrue, not in other accounts receivable/payable. Nevertheless, for fees on securities lending and gold loan (which are treated as interest by convention), the corresponding entries are included in other accounts receivable/payable, rather than with the instrument to which they relate.

[26] A detailed discussion about the treatment and typology of arrears is presented in Appendix 7.

[27] If the creditor bills and the debtor pays on the basis of the new agreement, even though it is not signed, no arrears arise.

to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy and serving as a basis for foreign borrowing). Reserve assets must be foreign currency assets and assets that actually exist.[28] By definition, reserve assets are not included in the gross external debt position.

3.47 *Reserve related liabilities* are defined as foreign currency liabilities of the monetary authorities that can be considered as direct claims by nonresidents on the reserve assets of an economy. They include (1) SDR allocations; (2) loans from the IMF to monetary authorities; (3) foreign currency loan and deposit liabilities of the monetary authorities to nonresidents (including those arising from foreign currency swaps with other central banks, loans from the BIS, and from other deposit-takers); (4) foreign currency loan liabilities to nonresidents associated with securities that the monetary authorities have repoed out; (5) foreign currency securities issued by the monetary authorities and owed to nonresidents; and (6) other foreign currency liabilities of the monetary authorities to nonresidents, including foreign currency accounts payable and financial derivatives—recorded on a net basis (liabilities less assets)—settled in foreign currency and associated with, but not within the definition of, reserve assets (see above). Liabilities to residents and liabilities that are both denominated and settled in domestic currency are not included.

[28] In addition to Chapter 6 in *BPM6*, see *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template* (2013), which also provides guidance on the measurement of official reserve assets.