TFFS
TASK FORCE ON FINANCE STATISTICS

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Occasional Paper on Recent Eurostat Activities Relating to the Task Force on Finance Statistics (TFFS)

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Occasional Paper on recent Eurostat's activities
relating to the Task Force on Finance Statistics (TFFS)

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Contents

I. BACKGROUND

Eurostat is the European Union's statistical authority. Eurostat collects and disseminates harmonised data related to all Members States of the European Union (EU), for the European Free Trade Association (EFTA) countries and for the candidate countries. The disseminated data are available at http://ec.europa.eu/eurostat/data/database.

II. BALANCE OF PAYMENTS (BOP) AND INTERNATIONAL INVESTMENT POSITION (IIP)

The implementation of BPM6 (and of ESA2010) in the European Union (EU) required the drafting and approval by all Member States of the legal acts that render mandatory the reporting of BPM6-based (and ESA2010 based) data to Eurostat (and to the ECB).

ECB Guideline (ECB/2011/23) was published in the Official Journal on 9 December 2011[1] and Commission Regulation (EU) No 555/2012 was published on 22 June 2012[2]: these two legal acts introduce the reporting based on BPM6. In June 2013 the legal act requiring the adoption of the ESA2010 in all Member States was also adopted.[3]

While translating BPM6 into legal acts, Eurostat and ECB took the opportunity to simplify and rationalise their data requests, so as to avoid double work for the compilers. The Monthly Balance of Payments and the Quarterly BoP and IIP datasets to be reported to Eurostat and ECB will be identical in every detail.

In 2013 all the EU Member States started implementing BPM6 in their data collection and compilation systems. In 2014 all the members of the EU have started reporting to Eurostat and to the ECB data based on the BPM6 (and the ESA2010).

According to the legal acts, the reporting of BPM6-based Monthly and Quarterly BoP and IIP data to Eurostat has started on 24 June 2014, with data related to 2014Q1 and 2014M04. Complete time series of BPM6-based data have been provided from September 2014.

III. EXTERNAL DEBT DATA AVAILABILITY

Eurostat collects and publishes data related to balance of payments, IIP, international trade in services, and direct investment.

The following snapshot (see Figure 1) shows the structure of the tables related to the external sector statistics available from Eurostat's on-line database. Since 2014, BOP statistics on *BPM6* basis are also disseminated. Net and gross external debt statistics are included as subsets of IIP (only the aggregated data of gross and net debt external are disseminated).

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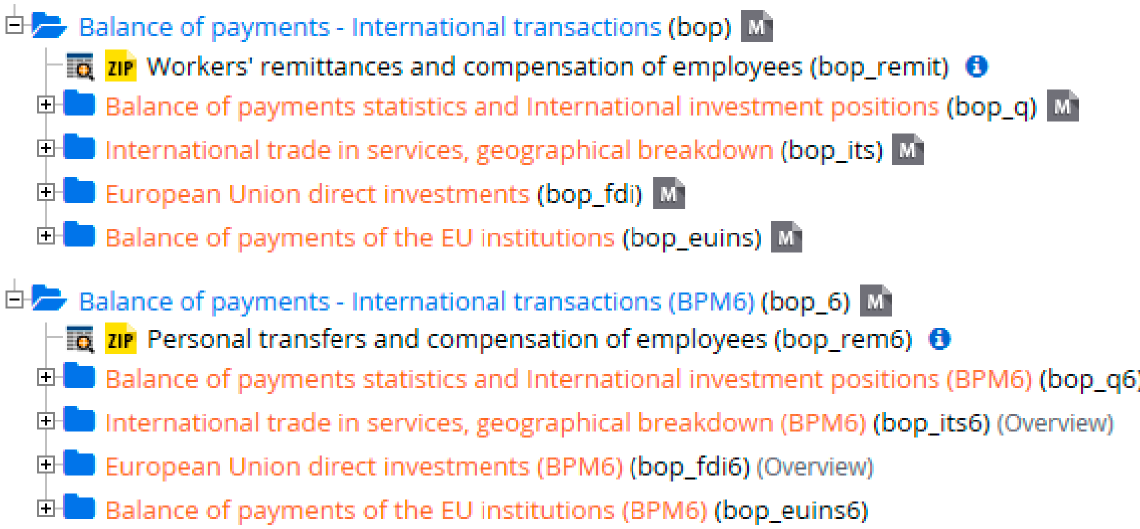
[1] ECB Guideline (ECB/2011/23) of 9 December 2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics;

[2] Commission Regulation (EU) No 555/2012 of 22 June 2012 amending Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements and definitions, OJ L 166, 27.6.2012.

[3] Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union, OJ L 174, 26.6.2013.

Figure 1. Structure of Tables Related to External Sector Statistics Available in Eurostat's on-line Database



As part of the initiatives for strengthening economic governance in the EU, in 2011 a procedure for identifying and addressing macroeconomic imbalances was introduced.[4]

The Macroeconomic Imbalances Procedure (MIP) is a surveillance mechanism that aims to identify potential risks early on, prevent the emergence of harmful macroeconomic imbalances, and correct the imbalances that are already in place.[5] Every year the Commission publishes the Alert Mechanism Report (AMR), which is the initial screening device and the first step of the procedure, whereby the Commission identifies countries warranting detailed scrutiny. A crucial tool in the elaboration of the AMR is the MIP scoreboard, a set of fourteen early warning headline indicators intended to screen internal and external macroeconomic imbalances in the EU Member States. The scoreboard acts as a first filter in a broader process seeking to disentangle the existence and seriousness of macroeconomic imbalances in the EU Member States. For more information on the indicators used to monitor macroeconomic imbalances in the EU, see http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/mip_scoreboard/index_en.htm.

The net international investment position and the net external debt (NED) are included among the MIPs main and auxiliary indicators. The values of gross and net external debt (Gross external debt-GED and Net external debt-NED) disseminated by Eurostat are a subset of the IIP data and follow the definitions included in Table 7.11 and Table 7.14 of 2013 *EDS Guide*.[6]

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[4] http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2011:306:SOM:EN:HTML.

[5] http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm.

1. [6] GED and NED disseminated by Eurostat are calculated as follows (using the coding from the *BPM6*-based BoP DSD):

(continued)

Table 1 and 2 below show how the data on GED and NED can be found in Eurostat's on-line database, for all EU Member States.

Eurostat's Statistics Explained is an official Eurostat website presenting statistical topics in an easily understandable way. Together, the articles make up an encyclopedia of European statistics for everyone, completed by a statistical glossary clarifying all terms used and by numerous links to further information and the latest data and metadata, a portal for occasional and regular users. The information available is presented by themes. See http://ec.europa.eu/eurostat/statistics-explained/index.php/International_investment_position_statistics for IIP and EDS.

Table 1. Data on Gross External Debt from the IIP Tables

International investment position - quarterly and annual data (BPM6) **[bop_iip6_q]**
Last update: 12-11-2015
Table Customization show

TIME | GEO | Currency: Million euro
BOP_item: Gross external debt | SECTOR10: Total economy | SECTPART: Total economy
STK_FLOW: Liabilities - Positions at the end of period | PARTNER: Rest of the world

GEO \ TIME	2013Q2	2013Q3	2013Q4	2014	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2
Euro area (19 countries)	11,614,067.0	11,424,610.0	11,107,324.0	12,038,747.0	11,349,895.0	11,506,168.0	11,849,097.0	12,038,747.0	12,995,033.0	12,649,401.0
Euro area (18 countries)	11,872,126.0	11,667,304.0	11,313,068.0	:	11,535,404.0	11,638,945.0	11,959,040.0	:	:	:
Belgium	1,054,233.0	1,070,288.0	960,780.0	1,019,729.0	980,184.0	1,006,093.0	1,021,446.0	1,019,729.0	1,111,614.0	1,059,342.0
Bulgaria	38,729.3	38,302.4	38,188.5	41,391.3	38,556.5	38,822.3	40,034.4	41,391.3	41,914.6	37,813.0
Czech Republic	97,482.8	96,700.0	99,644.6	102,998.2	97,947.1	100,661.8	102,171.1	102,998.2	105,152.0	106,426.3
Denmark	433,821.8	433,536.1	442,651.6	440,812.5	432,583.3	430,215.8	437,068.8	440,812.5	483,407.0	448,714.5
Germany (until 1990 former t	4,480,115.0	4,372,023.0	4,216,522.0	4,455,168.0	4,285,236.0	4,379,861.0	4,453,648.0	4,455,168.0	4,784,549.0	4,558,137.0
Estonia	:	:	:	18,978.0	:	:	18,985.0	18,978.0	:	:
Ireland	1,561,535.0	1,527,494.0	1,507,234.0	1,615,109.0	1,514,682.0	1,520,284.0	1,571,013.0	1,615,109.0	1,722,335.0	1,719,366.0
Greece	435,893.0	430,625.0	428,753.0	424,455.0	426,555.0	421,996.0	418,945.0	424,455.0	435,208.0	446,687.0
Spain	1,696,538.0	1,656,251.0	1,634,508.0	1,730,234.0	1,683,965.0	1,708,386.0	1,731,939.0	1,730,234.0	1,823,137.0	1,792,934.0
France	4,260,588.0	4,254,738.0	4,119,168.0	4,527,050.0	4,302,939.0	4,404,911.0	4,523,671.0	4,527,050.0	4,879,929.0	4,719,991.0
Croatia	:	:	:	:	:	:	:	:	:	36,902.6
Italy	1,921,904.0	1,922,031.0	1,911,388.0	2,019,158.0	1,929,497.0	1,963,120.0	2,009,844.0	2,019,158.0	2,139,616.0	2,100,048.0
Cyprus	101,028.0	96,926.0	95,940.0	97,327.0	94,283.0	94,861.0	95,687.0	97,327.0	97,774.0	97,946.0
Latvia	31,391.0	30,957.0	30,501.0	33,542.0	30,467.0	32,615.0	33,941.0	33,542.0	35,496.0	34,582.0
Lithuania	25,086.6	25,011.4	24,596.1	25,722.6	25,050.8	25,164.4	25,510.4	25,722.6	29,457.8	28,482.9
Luxembourg	2,568,635.0	2,512,418.0	2,515,421.0	3,025,148.0	2,604,441.0	2,651,507.0	2,766,309.0	3,025,148.0	3,293,363.0	3,141,051.0

Table 2. Data on Net External Debt from the IIP Tables

International investment position - quarterly and annual data (BPM6) **[bop_iip6_q]**
Last update: 12-11-2015
Table Customization show

TIME | GEO | Currency: Million euro
BOP_item: Net external debt | SECTOR10: Total economy | SECTPART: Total economy
STK_FLOW: Net liabilities (liabilities minus assets) | PARTNER: Rest of the world

GEO \ TIME	2013Q2	2013Q3	2013Q4	2014	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2
Euro area (19 countries)	1,460,930.0	1,432,040.0	1,270,842.0	965,783.0	1,196,814.0	1,087,843.0	964,069.0	965,783.0	793,604.0	755,599.0
Euro area (18 countries)	1,319,323.0	1,350,978.0	1,116,416.0	:	1,071,109.0	841,819.0	715,490.0	:	:	:
Belgium	-373,336.0	-361,508.0	-346,852.0	-320,532.0	-336,215.0	-329,560.0	-320,969.0	-320,532.0	-318,587.0	-315,049.0
Bulgaria	10,192.7	9,088.7	9,060.2	7,971.0	9,235.6	9,529.8	8,068.8	7,971.0	6,100.3	3,138.5
Czech Republic	-3,834.9	-6,094.1	-7,618.4	-10,919.3	-13,997.1	-10,488.6	-10,162.8	-10,919.3	-16,979.7	-17,728.4
Denmark	21,106.6	24,946.1	21,221.2	1,809.3	8,879.7	9,264.2	4,274.0	1,809.3	-1,811.0	-3,363.6
Germany (until 1990 former t	26,227.0	-24,323.0	-116,413.0	-194,374.0	-128,593.0	-143,134.0	-183,206.0	-194,374.0	-200,611.0	-241,065.0
Estonia	-651.0	-838.0	-1,011.0	-2,143.0	-943.0	-1,148.0	-1,505.0	-2,143.0	-2,274.0	-1,188.0
Ireland	-619,467.0	-630,520.0	-636,362.0	-884,696.0	-731,829.0	-775,051.0	-840,973.0	-884,696.0	-1,017,128.0	-958,350.0
Greece	241,159.0	238,872.0	239,787.0	236,980.0	238,284.0	234,902.0	232,779.0	236,980.0	247,256.0	252,111.0
Spain	996,762.0	988,638.0	970,861.0	1,002,142.0	985,958.0	978,686.0	992,595.0	1,002,142.0	1,033,775.0	1,010,387.0
France	711,137.0	741,901.0	702,488.0	815,313.0	742,337.0	755,085.0	819,609.0	815,313.0	881,388.0	876,354.0
Croatia	:	:	:	:	:	:	:	:	:	29,994.7
Italy	889,051.0	893,918.0	939,555.0	986,857.0	960,540.0	972,071.0	999,499.0	986,857.0	1,055,006.0	1,030,509.0
Cyprus	22,983.0	22,393.0	21,041.0	22,475.0	21,813.0	21,354.0	20,859.0	22,475.0	23,167.0	24,054.0
Latvia	8,833.0	8,780.0	8,336.0	7,546.0	8,182.0	7,906.0	7,764.0	7,546.0	7,756.0	7,131.0
Lithuania	11,197.4	10,890.2	10,223.4	10,446.4	10,243.2	10,667.0	10,975.3	10,446.4	11,691.4	11,307.1
Luxembourg	-1,049,550.0	-1,047,165.0	-1,015,940.0	-1,089,686.0	-1,060,936.0	-1,098,317.0	-1,163,369.0	-1,089,686.0	-1,130,249.0	-1,109,556.0
Hungary	67,237.2	63,549.4	60,383.2	53,903.7	58,141.7	60,880.3	59,787.1	53,903.7	55,981.3	55,082.4
Malta	-31,385.7	-31,008.4	-28,398.7	-25,927.2	-27,516.1	-24,750.6	-25,676.5	-25,927.2	-25,933.5	-23,795.5
Netherlands	292,178.0	302,498.0	310,778.0	271,828.0	321,682.0	310,805.0	314,550.0	271,828.0	222,974.0	193,276.0
Austria	66,844.0	67,237.0	65,036.0	66,066.0	65,836.0	68,425.0	63,745.0	66,066.0	70,787.0	63,746.0

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2. GED Gross external debt = F12+F2+F3+F4+F6+F8+FL (FL=Debt within FDI) (considering only the Liabilities/L)

3. NED Net external debt FNED=F11B+F12+F2+F3+F4+F6+F8+FL (calculated as N=L-A)

Eurostat publishes on line at t+110 data related to BoP, IIP, Gross and Net External Debt (GED and NED) for all the EU member States. These data are also available as share of GDP.

Table 3 below shows how the data on GED and NED can be found in Eurostat's on-line database, accessible at the following address: http://ec.europa.eu/eurostat/data/database

Table 3: Structure of tables related to BoP available in Eurostat's on-line database

- Balance of payments - International transactions (bop)
  - Workers' remittances and compensation of employees (bop_remit)
  - Balance of payments statistics and International investment positions (bop_q)
  - International trade in services, geographical breakdown (bop_its)
  - European Union direct investments (bop_fdi)
  - Balance of payments of the EU institutions (bop_euins)
- Balance of payments - International transactions (BPM6) (bop_6)
  - Personal transfers and compensation of employees (bop_rem6)
  - Balance of payments statistics and International investment positions (BPM6) (bop_q6)
  - International trade in services, geographical breakdown (BPM6) (bop_its6) (Overview)
  - European Union direct investments (BPM6) (bop_fdi6) (Overview)
  - Balance of payments of the EU institutions (BPM6) (bop_euins6)

IV. General government gross debt and financial accounts for general government

In all fields related to debt statistics, Eurostat relies on regulations (legal texts) to collect timely, high quality, and harmonized data from the EU Member States and EFTA countries. Additionally, Eurostat complements data provided under legal obligation by data provided under gentlemen's agreement.

Eurostat collects, verifies, and disseminates complete financial accounts data related to the general government sector and its subsectors (including selected counterpart information) as well as Maastricht debt, both at quarterly and annual frequency.

Maastricht (EDP) debt is general government gross debt at nominal (face) value for the following debt instruments: currency and deposits, debt securities, and loans. Due to the use of the annual Maastricht debt data in the context of the Excessive Deficit Procedure/ Stability and Growth Pact and the extensive verification of these data used for administrative purposes, the data disseminated are highly harmonised and comparable across countries.

The quality of annual Maastricht debt data reported in the context of the Excessive Deficit Procedure is assured by Eurostat and the National Statistical Authorities through an exhaustive set of verifications. These are described in detail on the Eurostat GFS website. http://ec.europa.eu/eurostat/web/government-finance-statistics/eurostat-edp-processes.

Quarterly GFS data, including financial accounts and quarterly general government gross debt follow a lighter and less formalized validation procedure. Nevertheless, quality is assured through transmission reports covering a number of quality/ data validation aspects and through use of the data in the context of the preventive approach of the Excessive Deficit procedure.

Financial accounts and debt data are available at annual and quarterly frequencies.

Eurostat also collects and disseminates (selected) data on contingent liabilities: government guarantees, liabilities related to off-balance sheet PPPs, and liabilities of government controlled entities classified outside general government.

The annual structure of government debt survey (timing of dissemination around t+6months) provides additional detail on Maastricht debt: debt is broken down by initial and remaining maturity, sector of debt instrument holders, and currency denomination of debt. In addition, details on government guarantees and market value of Maastricht debt instruments are provided.

Eurostat not only provides quarterly and annual financial accounts data for its constituency to Commission Services, but also to the IMF and ECB. For many countries, data validated by Eurostat are used to pre-fill the quarterly public sector debt questionnaire.

After extensive verification for annual debt data, and a lighter, but still thorough verification procedure for quarterly data (comprising transmission reports verifying completeness, internal consistency, coherence within the dataset and with other data, coherence of the time series, and revisions), data are disseminated in Eurostat's online databases, in press releases, and in articles on 'Statistics Explained', an official Eurostat website presenting statistical topics in an easily understandable way. Quarterly financial accounts for general government are since July 2015 also disseminated in annualized form. All dissemination of data is accompanied by metadata, including country-specific notes where appropriate.

A. Enhanced dissemination

During July 2015, Eurostat has started publishing counterpart sector information for the quarterly financial accounts of general government. Currently, the provision of counterpart sector information is compulsory for central government and social security funds for debt securities (assets), loans (assets/ liabilities) and equity and investment fund shares (assets). A number of countries send additional detail on a voluntary basis.

At the same time, Eurostat has started to publish annual(ised) quarterly financial accounts of government on its public database. At the moment, the entire information is disseminated on the basis of quarterly data provided. In the future, Eurostat might also publish additional detail not available at quarterly frequency. This data set has proven popular with users, being a dedicated data set for government finance statistics (and thus relatively consistent with data provided under the Excessive Deficit Procedure) and the aggregation of quarterly to annual data being difficult for many general users of the data (due to different approaches for stocks and flows and different appropriate exchange rates when converting to euro).

From the next transmission onwards (May 2016), Eurostat will disseminate, in agreement with EU Member States, all non-confidential information provided in the structure of government debt survey.

In the next transmissions, Eurostat will update the 2014 working paper on net debt.

B. Data sharing

Eurostat shares information provided for Maastricht debt and quarterly GFS with DG ECFIN, IMF and the ECB.

A simplified bridge table to GFSM2014 is used for providing IMF with quarterly financial accounts data, both for the IAG GFS recommendation and the quarterly IMF template.

For the quarterly public sector debt questionnaire, Eurostat pre-fills information provided and validated in the context of the quarterly financial accounts for general government and the quarterly Maastricht debt.

C. Additional data needs in development

In order to serve additional data needs in the context of needs of European partners and the IMF, Eurostat has expanded its transmission templates – in agreement with EU Member States in late 2015.

Additions notably include:

- Possibilities to provide more complete instrument breakdowns in quarterly financial accounts for general government;
- Possibilities to transmit a complete set of counterpart sector information for financial stocks and transactions;
- Possibilities to transmit separately revaluations and other changes in volume.

D. Methodological issues

Notable discussions in recent Eurostat meetings related to debt data include:

- Work on borderline between trade credits and advances and other accounts payable/ receivable excluding trade credits and advances;
- Further discussions on PPPs;
- Some clarifications on the reporting of government guarantees;
- Some further discussions on off-market swaps;
- Sale and leaseback operations;
- Operations related to SDRs;
- Discussion on counterpart information.

On operations related to SDRs, the paper presented to the last Eurostat EDPS WG meeting in December 2015 as well as an extract from the minutes, can be found in Annex 2 and 3 of this document.

In March 2016, a new edition of the 'Manual on government deficit and debt' was issued. Additions/ revisions compared to the previous version (2014) include:

- ‘Concept of a government-controlled institutional unit’,
- ‘The quantitative market/non-market test’,
- ‘Public units in liquidation’,
- ‘Rearranged transactions’ / ‘Specific case of public TV and radio broadcasting’,
- ‘Specific public entities’,
- ‘Central Stock-holding entities’,
- ‘Treatment in national accounts’ on military expenditure,

- ‘Grants from and contributions to the EU budget’ / ‘Contributions of EU Member States to the EU budget’,
- 'Capital injections into public quasi-corporations',
- ‘Impact on government accounts of transfer of decommissioning costs’,
- ‘Contracts with non-government units related to fixed assets’,
- ‘Emission trading allowances’,
- ‘Public-Private-Partnerships’,
- ‘Government guarantees’
- ‘Recording of swaps’.

A new edition of the Manual on quarterly financial accounts for general government is in preparation and due to be published in the course of 2016.

E. Contingent liabilities

Contingent assets and contingent liabilities are not considered financial assets and liabilities and are therefore not recorded in the national accounts (see ESA2010, §5.08-5.11 and 7.31, in Annex 1). The exception to this rule are standardised guarantees/F66 and derivatives/F7, treated as giving rise to financial assets and liabilities (see ESA2010 5.10 and Box B5.1.2(b)).

Though contingent assets and liabilities are not recognized on the balance sheets and in macroeconomic statistics prior to the conditions being fulfilled, information on this kind of contractual financial arrangements is considered increasingly important for policy and analysis. Even though no payments may eventually be due for contingent liabilities, a high level of contingencies may indicate an undesirable level of risk on the part of those units offering them.

Under the pressure of the financial crisis Eurostat started collecting and disseminating some information on government`s contingent liabilities related to the financial sector already in 2009. More information on government`s contingent liabilities (covering all sectors) has become available since January 2015.

The relevance of collecting information on contingent liabilities is explicitly recognised by ESA2010 that makes specific references to them in three “Whereas” and in art 11 (See Annex 1). The expansion of the collection of information on contingent liabilities within the EU is for the time being limited to those involving general government.

F. Government`s contingent liabilities

Government`s contingent liabilities towards the financial sector

Since October 2009, Eurostat is regularly collecting (twice a year, as part of each Excessive Deficit Procedure (EDP) notification[7]) information on Government’s contingent liabilities, via the “supplementary tables for the financial crisis”[8] introduced to get a more complete picture of

[7] Concerning EDP notifications, see http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/edp_notification_tables

[8] A « supplementary table » is a table that goes beyond the data collected by Eurostat as part of the standard EDP reporting, based on Article 3 of Council Regulation 479/2009, as amended. For more info see “Eurostat supplementary table for the financial crisis: Background note (October 2013)”

(continued)

the actual and potential impacts on government's deficit and debt of the support provided to financial institutions.

The "supplementary tables for the financial crisis" are divided in two parts. Part 1 covers deficit-impacting government transactions with the financial institutions, including guarantee fees receivable, interest receivable and payable, dividends, calls on guarantees and capital injections recorded as deficit-increasing (capital transfers). Part 2 collects information on stocks of financial assets and liabilities arising from the support for financial institutions, and distinguishes between stocks of actual government liabilities and contingent liabilities.

The information on governments' contingent liabilities collected by Eurostat since 2009 is broken down in the following categories:

- Assets and liabilities of financial institutions guaranteed by government.

- Securities issued by government under liquidity schemes, for instance, repurchase agreements and securities lending.

- Liabilities of special purpose entities created during the crisis, including those to which certain impaired assets of financial institutions were transferred.

Government guarantees on bank deposits are not included.

The information on government`s contingent liabilities linked to the financial sector is published on Eurostat's website[9], for each EU Member State, including a summary table with the aggregated data for the EU and euro area, and covers years 2007- 2014. Information related to year 2015 is due with the EDP notification of 1st April 2016, and will be published on 21st April 2016, alongside the EDP Press Release.

At the most recent Eurostat EDPS WG meeting in December 2015, it has been agreed to revise the format of the tables and to increase the scope to include the reporting of financial transactions on a voluntary basis (not for publication) as well as to include all interventions towards financial institutions regards of whether they are in the context of the financial crisis or not.

Government`s contingent liabilities towards all sectors

In November 2011, the Enhanced Economic Governance package (the so-called "six pack" composed of five Regulations and one Directive) was adopted by the European Parliament and the Council. Among other statistical implications, this package included some legal requirements which enhance the collection/dissemination of contingent liabilities.

Council Directive 2011/85/EU is part of this package and states, under article 14 paragraph 3, that: "For all sub-sectors of general government, Member States shall publish relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof."

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http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Background_note_fin_crisis_Oct_2013_final.pdf

[9] http://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit/supplemtary-tables-financial-crisis

In July 2013, Eurostat released the decision that will enhance the collection of information on contingent liabilities in the EU, and will cover guarantees provided by the government to all sectors[10].

A new questionnaire ("Supplement on contingent liabilities and potential obligations to the EDP related questionnaire") was added to the existing group of EDP related questionnaires.

The new questionnaire includes tables on one-off and standardised guarantees, off-balance sheet public private partnerships (PPPs) and non-performing loans.

Data for the new questionnaire needs to be transmitted annually before 31 December (T+12 months) by the national statistical authority. The first transmission took place on December 2014 and the second transmission took place before 31 December 2015. Eurostat publishes the data collected by the new questionnaire at T+13 months, together with the data on total liabilities of government controlled units classified outside general government[11]. So far, two releases of the dataset have taken place, the latest one on 27 January 2016.[12]

The EU Member States and Eurostat aim to continuously improve the consistency and completeness of the data. In the second release, the completeness of metadata information has significantly improved.

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[10] The decision is available at the following address:
http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/methodology/decisions_for_GFS

[11] Data are annually collected via the Questionnaire on government controlled units classified outside general government since December 2012.

[12] See http://ec.europa.eu/eurostat/web/products-press-releases/-/2-27012016-AP

Annex 1 - Extract from ESA2010 on contingent liabilities

REGULATION (EU) No 549/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 21 May 2013 on the European system of national and regional accounts in the European Union, OJ L 174, 26.6.2013.

Whereas 19

Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (1) requires publication of relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations including the extent thereof. Those requirements necessitate additional publication to that required under this Regulation.

Whereas 20

In June 2012, the Commission (Eurostat) established a Task Force on the implications of Directive 2011/85/EU for the collection and dissemination of fiscal data, which focused on the implementation of the requirements related to contingent liabilities and other relevant information which may indicate potentially large impacts on public budgets, including government guarantees, liabilities of public corporations, Public-Private Partnerships (PPPs), non-performing loans, and government participation in the capital of corporations. Fully implementing the work of that Task Force would contribute to the proper analysis of the underlying economic relationships of PPP contracts, including construction, availability and demand risks, as appropriate, and capture of implicit debts of off balance sheet PPPs, thereby fostering increased transparency and reliable debt statistics.

Whereas 22

Data and information on Member States' contingent liabilities are provided in the context of the work related to the multilateral surveillance procedure in the Stability and Growth Pact. By July 2018, the Commission should issue a report evaluating whether those data should be made available in the context of the ESA 2010.

Article 11

Reporting on implicit liabilities

By 2014, the Commission shall submit a report to the European Parliament and to the Council containing existing information on PPPs and other implicit liabilities, **including contingent liabilities, outside government.**

By 2018, the Commission shall submit a further report to the European Parliament and to the Council assessing the extent to which the information on liabilities published by the Commission (Eurostat) represents the entirety of the implicit liabilities, including contingent liabilities, outside government.

Annex A

Contingent assets and contingent liabilities

5.08 *Definition*: contingent assets and contingent liabilities are agreements whereby one party is obliged to provide a payment or series of payments to another unit only where certain specific conditions prevail.

As they do not give rise to unconditional obligations, contingent assets and contingent liabilities are not considered as financial assets and liabilities.

5.09 Contingent assets and contingent liabilities include:

(a) one-off guarantees of payment by third parties since payment is only required if the debtor defaults;

(b) loan commitments providing a guarantee that funds will be made available but no financial asset exists until funds are actually advanced;

(c) letters of credit which constitute promises to make a payment conditional upon the presentation of certain documents specified by a contract;

(d) lines of credit which are promises to make loans to a specified customer up to a specified limit;

(e) underwritten note issuance facilities (NIFs) providing a guarantee that a potential debtor will be able to sell short-term debt securities known as notes, and that the bank issuing the facility will take up any notes not sold on the market or will provide equivalent advances; and

(f) pension entitlements under unfunded government defined benefit employer pension schemes or social security pension funds. Such pension entitlements are recorded in the supplementary table on accrued-to-date pension entitlements in social insurance, and not in the core accounts.

5.10 Contingent assets and contingent liabilities do not include:

(a) reserves of insurance, pension and standardised guarantee schemes (AF.6);

(b) financial derivatives (AF.7) where the arrangements themselves have a market value because they are tradable or can be offset on the market.

5.11 Although contingent assets and contingent liabilities are not recorded in the accounts, they are important for policy and analysis, and information on them needs to be collected and presented as supplementary data. Even though no payments may turn out to be due for contingent assets and contingent liabilities, a high level of contingencies may indicate an undesirable level of risk on the part of those units offering them.

Box 5.1 — Treatment of guarantees in the system

B5.1.1. *Definition*: guarantees are arrangements whereby the guarantor undertakes to a lender that if a borrower defaults, the guarantor will make good the loss the lender would otherwise suffer.

Often a fee is payable for the provision of a guarantee.

B5.1.2. Three different types of guarantees are distinguished. These apply only to guarantees provided in the case of financial assets. No special treatment is proposed for guarantees in the form of manufacturers' warrantees or other forms of guarantee. The three types of guarantee are:

(a) guarantees provided by means of a financial derivative, such as a credit default swap. Such derivatives are based on the risk of default of reference financial assets and are not linked to individual loans or debt securities;

(b) standardised guarantees are issued in large numbers, usually for fairly small amounts. Examples are export credit guarantees or student loan guarantees. Even though the degree of probability of any one standardised guarantee being called is uncertain, the fact that there are many similar guarantees means that a reliable estimate of the number of calls under the guarantee can be made. **Standardised guarantees are treated as giving rise to financial assets and not contingent assets;**

(c) one-off guarantees, where the associated risk cannot be calculated with any degree of accuracy, due to a lack of comparable cases. The granting of a one-off guarantee is considered a contingent asset or a contingent liability and is not recorded as a financial asset or a liability.

7.31 Contingent assets and contingent liabilities are agreements whereby one party is obliged to provide a payment or series of payments to another unit only if certain specific conditions prevail (paragraph 5.08). They are not financial assets and liabilities.

Annex 2 - Recording of SDRs – extract of December 2016 EDPS WG minutes

Recording of SDRs in government accounts

Eurostat presented a paper discussing the recording of SDR holdings/allocations and other operations linked to IMF membership: ‘quotas’, ‘reserve tranche’, and IMF lending. The issue at stake is whether the related stocks and flows in financial assets and liabilities should be recorded in the accounts of fiscal agents designated by member countries (generally central banks) or of general government (as the principal to the transaction). ESA 2010 and international manuals leave the issue open. This issue has been presented to the GFS TF in November 2015.

These issues came to the attention of Eurostat due to a recent case, where an EU government used SDRs to repay part of its IMF loan. This led to an accounting problem, given that the SDRs were recorded, in the national accounts of the country, within the central bank balance sheet, while the debt redeemed was a government liability. Eurostat advised to record this transaction as lending from the central bank to government, pending a re-examination on whether the SDRs (and the reserve tranche) should not be recorded as government assets.

Eurostat recalled the background of SDRs and focused on who controls the dealings with the IMF. Eurostat argued that the traditional criteria of risks and rewards seemed inconclusive in this case, and that the decision to record SDRs on the balance sheet of the central bank or of central government should be based on control as a supplementary criterion (understood as decision making power on the use of such assets/liabilities).

The presentation discussed the recording of the ‘reserve tranche’ (and the contingent liability represented by the domestic currency component of the quota), arguing that quotas should in general be considered owned by government, as representing deliberate government policy.

The issue in whose accounts the loans from the IMF are to be recorded was also considered. Given the conditionality entailed by the IMF lending, which required clear government commitments, it was generally believed that government was the debtor – even when the funds were put at the disposal of the central bank (balance of payment support). It raised questions about the appropriateness of recording an alternative on-lending option.

It was discussed whether different operations related to the IMF could be analysed separately, or whether, in general, all operations relating to the IMF should be recorded on the balance sheet of one public sector unit only. Recording SDRs on the balance sheet of government, while the reserve tranche would be held by the central bank could appear inconsistent. Eurostat recalled, however, that the IMF stresses that SDRs are not a liability of the IMF and are reported separately in the IMF SDR department, whereas the reserve tranche is reported in the General Resources Account department.

Eurostat thought that the SDRs were recorded on the balance sheets of central banks in 26 EU Member States presumably for historical reasons, or because SDRs formed part of the reserve assets, although a more principle-based analysis would be necessary.

Eurostat stressed the importance of the ESA 2010 core principle of "economic ownership", wondering whether the mere wording of "fiscal agent" seemed not to indicate that central banks operated as an agent. The member of the IMF is the country. Also, it is theoretically possible that the designated fiscal agent could be a private bank, instead of the central bank.

The Chair summarised the questions put forward to the EDPS WG: first, decide in which sector the SDRs and the reserve tranche should be recorded, and whether this could be in two different sectors; second, whether control of an asset was a relevant criteria for the case at hand, and to what extent the use by government of SDRs would be an indicator of control.

One Member State explained that, in their case, SDR holdings and allocations are recorded within government. The SDRs form part of the exchange equalisation account, which is owned and controlled by government. Government appoints the Bank to manage the day-to-day activities, but sets a remit annually on what the Bank can do. The Bank receives an administration fee. SDRs interventions are covered by a quite prescriptive service level agreement, and in case of significant transaction, the Bank would be expected to coordinate with the Treasury.

Another Member State also explained that SDRs belonged to government, as evidence by interest on SDRs credited to government in their case. While the SDR liability (AF.12) is recorded in the government account, SDRs were however seen as re-depositing at the central bank (government then recording an AF.2 asset). In their case, all operations with IMF had always been under government control.

A representative of the country where SDRs had been used by government to repay part of its IMF loan mentioned that administrative provisions have been changed, to the effect of transferring ownership to government, thus suggesting a recording of SDRs on the balance sheet of government.

Two Member States wondered if this case of debt repayment could not be recorded as a central bank distribution (withdrawal of equity). While recognising that such an option was coherent from an accounting point of view, Eurostat felt this solution lacking from a principle point of view: if the owner of the central bank could certainly vote a distribution, due process was required (notably where the bank is co-owned by private entities); in addition, the owner picking the type of asset that the subsidiary would pay looked as parent's ownership of the asset.

The ECB questioned the use of control as a determining factor, as control of an asset was not referred in ESA 2010, which centred on 'economic ownership'. The ECB mentioned the Treaty provisions prohibiting monetary financing, and that ESA 2010 5.72 implied that SDRs were only held by central banks. It also suggested determining SDR economic ownership by examining legal and institutional arrangements. The ECB further suggested recording SDR allocations in government, with deposits of government at the central bank, suggesting that SDR holdings and allocations can be recorded separately from each other. In the ECB's view, the debtor sector simply related to who had the obligation to pay.

Eurostat reasoned that if control of an asset was generally not mentioned in ESA 2010/ 2008 SNA, it was nevertheless implicit to economic ownership. If ESA/SNA writers had deliberately wanted to depart from IFRS and IPSAS (that clearly require control), they would have been explicit in doing so. Further, ESA 2010 2.22 does, in fact, refer to "control of assets". Separation of control and risks and rewards would seem very rare, aside from repos and PPPs. In the case of repos, some accounting standards do not even consider that the transferor has 'ceded control' (as the transferee is required to return the asset in question). Regarding PPPs, ESA 2010 20.285 explicitly refers to the 'influence on the nature of the asset' which IFRS and IPSAS call 'control'.

Eurostat argued that ESA 2010 5.72 was inconclusive, presumably referring to the role of central banks as agents, while ESA 2010 5.71 indicates that SDRs were held by monetary authorities, defined in ESA 2010 5.58 as central banks and central governments under certain conditions. The obligation to pay criteria seemed circular, when the genuinely obligated party can instruct an agent to pay on its behalf. Eurostat also stressed the need to distinguish SDR (F.12) from the use of SDR as a unit of account. SDR holdings and allocations are created and assigned to the participant in the IMF together. Transactions in both SDR holdings and allocations thus always have S.2 as a counterpart. Eurostat also stressed the need to ensure a harmonised recording of internationally agreed debt measures other than government (EDP) debt.

The Chair concluded that this was a good starting point for a broader discussion. It noted the heterogeneity of treatment across Europe and the need to address a transaction occurring in 2015 and its impact on the government (EDP) debt. The Chair suggested proceeding with a questionnaire, and sending the issue for further examination to the TF on methodological issues before coming back to the June 2016 EDPS WG meeting.

Annex 3 – SDR recording – paper at December 2016 EDPS WG

EUROPEAN COMMISSION
EUROSTAT

Directorate D - Government Finance Statistics (GFS) and quality
Unit D-1: Excessive deficit procedure and methodology
Unit D-2: Excessive deficit procedure (EDP) 1
Unit D-3: Excessive deficit procedure (EDP) 2
Unit D-4: GFS. Risk and quality management

Excessive Deficit Procedure Statistics Working Group

2 – 4 December 2015

Ampere

Beginning at 1:00 p.m.

<u>Part C</u>

Item 8

Recording of SDRs in government accounts

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1. PURPOSE OF THIS DOCUMENT

The purpose of this document is to launch a discussion on the recording of SDR holdings/ allocations and on several related operations related to membership in the International Monetary Fund (IMF) which impact the financial accounts (such as quotas in the IMF, the IMF reserve tranche as well as any lending operation between the IMF and Member States), notably in the light of the new international manuals and the changes they contain compared to their previous versions.

The main issue to be discussed is whether stocks and flows in financial assets and liabilities related to membership of a country in the IMF should be recorded in the financial accounts of fiscal agencies (central banks in general) designated by member countries or, whether they should be recorded in the financial accounts of general government, then interpreted as the Principal to the transaction.

2. BACKGROUND

Membership of a country in the IMF gives rise to stocks and flows in financial assets and liabilities, which impact the financial accounts of member countries. Included in the operations related to IMF membership are: the quotas and associated reserve positions, the remuneration (interest receivable from the IMF), the movements in the accounts used for administrative payments, and special drawing rights (SDR) allocations and holdings. An example of the financial position of a member country in the fund can be seen in Table 1 below.

In order to conduct its dealings with the IMF, each member country designates a fiscal agency (to conduct financial transactions with the General Department and the Special Drawing Rights Department of the IMF) and a depository (for the IMF's holdings of the member's currency)[13]. According to the bylaws of the IMF, instructions from a member country for the transfer of currency, SDRs or gold, between it and the relevant IMF department, shall be given by the fiscal agency of the member in the IMF. In most (but not all) member countries, the central bank is both the fiscal agency and the depository.

In this context, it is important to examine the nature of the fiscal agency (purely operational or decision-making?).

Another issue is, whether the various stocks and flows related to the IMF should be recorded on the balance sheet of one single public sector unit (government or the central bank) or whether, on the contrary, the stocks and flows can be split, in concept and in practice, leading to a recording of part of them in the balance sheet of the central bank and the remaining part recorded on the balance sheet of government.

[13] See GFSM2014 A3.80

Table 1: Example of 'financial position in the fund' – Austria

Austria: Financial Position in the Fund as of October 31, 2015

Summary of IMF members' quota, reserve tranche position, SDR holdings, outstanding credit, recent lending arrangements, projected payments due to the IMF, and historical transactions with the IMF.

I. Membership Status: Joined: August 27, 1948; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	2,113.90	100.00
IMF's Holdings of Currency (Holdings Rate)	1,865.14	88.23
Reserve Tranche Position	248.76	11.77
Lending to the Fund		
New Arrangements to Borrow	345.26	

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	1,736.31	100.00
Holdings	1,624.26	93.55

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

VI. Overdue Obligations and Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2015	2016	2017	2018	2019
Principal					
Charges/Interest	0.01	0.09	0.09	0.09	0.09
Total	0.01	0.09	0.09	0.09	0.09

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

3. SDR RECORDING

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Nowadays, its value is based on a basket of four key international currencies (euro, Japanese yen, UK pound, US dollar). SDRs can be exchanged between participants for freely usable currencies. This is to be distinguished from the use of SDR as a unit of account.

SDR creation

Under ESA95 and SNA93 as well as in BPM5, SDR holdings were considered a financial asset without a corresponding liability. SDRs appeared in the system through an other change in volume, and thus contributed to the net wealth of the world and of each participant. This anomaly was eliminated with SNA2008 and ESA2010.[14]

According to the definition given in ESA2010 5.69, "*SDRs are international reserve assets created by the International Monetary Fund (IMF) and which are allocated to its members of supplement existing reserves*". They are issued by the SDR department of the IMF (ESA2010 5.70).

According to the IMF factsheet on SDR, "*The SDR is neither a currency, nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for their SDRs in two ways: first, through the arrangement of voluntary exchanges between members; and second, by the IMF designating members with strong external positions to purchase SDRs from members with weak external positions. In addition to its role as a supplementary reserve asset, the SDR serves as the unit of account of the IMF and some other international organizations*."[15]

Finally, SDR holdings/allocations are assigned in proportion to members' quotas in the IMF. Quota subscriptions are based on a member's relative position in the world economy and determine its financial obligations to IMF, voting powers, the size of SDR allocations and its access to IMF financing.[16]

According to the IMF factsheet on SDRs, "*Under its Articles of Agreement (Article XV, Section 1, and Article XVIII), the IMF may allocate SDRs to member countries in proportion to their IMF quotas. Such an allocation provides each member with a costless, unconditional international reserve asset*."[17]

With the SNA2008, ESA2010 and GFSM2014, the counterpart of SDR holdings (AF.12 asset) – the so-called "SDR allocations" (AF.12 liability) – is recognised. At time of allocation, SDR holdings of one particular monetary authority are equal to its SDR allocations. SDR holdings may subsequently be purchased from or sold to other participants or the IMF (see for example GFSM2014 A3.95) or other (15) international organisations 'prescribed' by the IMF. At time of allocations, SDR holdings may also be used to pay quota subscriptions.

SDR holdings and allocations are interest-bearing. See for example ESA2010 5.A1.08 or GFSM2014 A3.95.

As a result of the sale or purchase of SDR holdings, a country's SDR holdings and allocations will not necessarily match, but when they are created (see for example ESA 5.71, ESA2010 5.73) they are assets with matching liabilities. The SDR allocation of a participant changes only in case of general allocations, which are treated as transactions, as well as via any revaluation related to the change in the value of the SDR in the national currency. In the absence of transactions in holdings, revaluations of SDR holdings and of allocations are thus expected to be proportional to each other in the financial accounts data as reported in ESA.

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[14] For further details, see for example: https://www.imf.org/external/np/sta/bop/pdf/resteg10.pdf

[15] http://www.imf.org/external/np/exr/facts/sdr.htm

[16] https://www.imf.org/external/np/exr/facts/sdr.htm "Under its Articles of Agreement (Article XV, Section 1, and Article XVIII), the IMF may allocate SDRs to member countries in proportion to their IMF quotas."

[17] http://www.imf.org/external/np/exr/facts/sdr.htm

General SDR allocations are carried out in infrequent intervals. The last one took place in the third quarter of 2009, with the creation of 183 billion SDRs.

The SDR assets (holdings) represent a right to obtain other reserve assets from other IMF members, while the liabilities (allocations) are correspondingly also vis a vis the rest of the world. However, somewhat cryptically, according to ESA2010 5.73, *'SDRs are assets with matching liabilities but the assets represent claims on the participants collectively and not the IMF'*. The claims recorded are nonetheless unconditional (see ESA2010 5.72). Hence SDR assets and liabilities are deemed economic assets and not contingent assets.

Since SDR holdings can only be exchanged with other participants or with international organisations, transactions in SDRs holdings always have as counterparty the rest of the world (following the debtor/creditor principle of ESA). These transactions are distinct from transactions in various instruments where the unit of account is SDR. For instance deposits, loans and other accounts could be denominated in SDR.

In whose balance sheet are SDR holdings and allocations recorded, and in whose balance sheet should they be recorded?

Current situation

Currently, SDR holdings and allocations are recorded on the balance sheet of the central bank (normally designated as fiscal agency) in 26 Member States, while the UK and LV follow a different practice with recordings on the central government balance sheet.

With the advent of the euro area, euro area countries retained their IMF representation, subscriptions, SDR holdings and SDR allocations, and thus these continue to be recorded on the balance sheet of one of the Member States' monetary authorities. This suggests SDRs holdings are not necessarily related to monetary policy tasks. It is also Member States themselves requesting borrowing from the IMF. Such loans must be recorded on the balance sheet of the Member States' institutions.

Accounting provisions in the manuals

While GFSM2014 (with a focus on the public sector) does not conclusively address the issue of who – government or central bank – should be the national counterparty to any dealings with IMF from a statistical point of view, ESA2010 and SNA2008 seem slightly more prescriptive.

GFSM2014 focusses on the legal and institutional settings in a member country to decide in whose accounts stock and flow positions would be recorded (GFSM2014 A3.79, A3.93, 7.133), leaving it open whether SDR holdings and allocations should be recorded on the central banks' balance sheet or that of a central government unit.

ESA2010 and SNA2008 (equivalently) focus on the concept of 'monetary authority', which may also be either the central bank or central government (ESA2010 5.58, 5.71). This seems to be further narrowed down in ESA2010 5.72 ("SDRs are held exclusively by official holders").[18]

[18] Similar provisions in ESA95 and SNA93 included 'normally' before central bank in line with the definition of monetary authorities.

However, ESA2010 5.72 must be read in conjunction with ESA2010 5.58, which includes central government within the concept of monetary authorities, wherever central government exercises functions normally ascribed to central banks.

Aside from the conventions specific to SDR holdings and allocations, it needs to be determined who the economic owner of SDR holdings is.

Control and risk and rewards

In ESA2010, assets are defined in ESA2010 7.15-7.17. Notably ESA2010 7.17 states that the economic owner of an asset is not necessarily the legal owner. Notably the "*economic owner is the institutional unit entitled to claim the benefits associated with the asset by virtue of accepting the associated risks.*"

The rewards associated with financial assets are the remuneration and the holding gains which can result from their fluctuating market value, whereas the risks (and associated holding losses) are usually designed as credit risk (is the main risk and refers to possible default on payments due), market risk (decrease in the value of the portfolio) and counterpart risk. Given the specificity of SDRs, it is a question whether the above criteria are determinant in this case.

At the same time, an important question often forgotten, perhaps because considered implicit, relates to the control of the asset. It is presumed that the economic owner has control over the assets, in such a manner that the owner can reap the benefits associated to the asset and must accept in turn the associated risks.

Under IFRS or IPSAS, control over the asset (for benefit) is a condition for recognising an asset on balance sheet. National accountants cannot ignore this essential reference point. As a result, control should be an essential element to consider when investigating the economic ownership.

Generally, control as well as risks and rewards rest with the same entity. In some cases, however, control and risks and rewards can be analysed separately. This is the case of repos, for instance, at least when the security pledged is actually delivered; in that case the security receiver can on-sell the said security, may receive the coupon, and can often exercise voting rights (e.g. shares).

In the case of repos, ESA has given precedence of risk and rewards over control. However this choice derived from specific circumstantial elements rather than from a general conception that risks and rewards always takes precedence over control[19]. However, the cession of control (if any) is temporary. In addition, the US standard SFAS140 considers that a repo does not imply cession of effective control, even if the cash giver can resale/ re-pledge the security received, because of an repurchase clause (SFAS140 9.1.c), providing that the transferor is protected from a transferee default (SFAS140 47), which merely requires sufficient cash collateral (SFAS140 49).

In the case of SDRs, central governments rather than central banks may in practice exercise control over the use of SDR holdings and influence the level of SDR holdings. In such cases, it should be considered whether central governments rather than central banks (acting as agents on

[19] The absence of an ESA transaction "lending of securities"; this implied that a repo would either be seen as cash lending with a pledge or as an outright sale of security, the latter being the less palatable option.

behalf of central government since it is the countries that are the members of the IMF) are the economic owners of SDR holdings.

If central governments had an influence on SDR holdings going beyond the normal actions as owners of central banks[20], it would be an indication of control. An example of this influence going beyond normal actions as shareholder would be the fact that government would take decisions on single specific assets (SDRs in this case), instead of on the whole balance sheet of the central bank.

Examples of such control would be without doubt whenever government can appropriate the asset when needed.

If government approval is needed for the disposal or purchase of SDR holdings, this also implies that the central bank (which is mostly the designated fiscal agency) does not control SDR holdings.

In general, it also needs to be considered in line with ESA2010 1.78, who is the principal in any dealings with the IMF, i.e. whether central banks carry out transactions on behalf of government. The fact that central banks are the fiscal agent may suggest, from the mere label, that the relationship is between a principal and an agent. The decision on participation to the IMF is essentially a policy decision taken by governmental authorities.

Although the IMF statutes foresee that the IMF can activate the so-called 'designation mechanism', where members are forced to buy or sell SDRs, since September 1987, the SDR "market" has functioned through voluntary SDR trading arrangements. The IMF essentially acts as intermediary between buyers and sellers of SDRs, maintaining a list of willing buyers (committed for 74 billion SDRs as of April 30, 2014) or sellers (33 billion SDS). The designation mechanism however acts as a further guarantee to the SDR perceived liquidity.

In addition to this intermediary role, the IMF is itself counterpart of SDRs transactions. Whilst the IMF encourages all General Resources Accounts (GRA) transactions to be carried out in SDRs, in practice most purchases and repurchases are carried in foreign currencies, while interest payments, fees and also quota subscriptions are paid in SDRs. As the result the IMF itself (the GRA department) holds SDRs.

Property income on SDR

A separate consideration is that SDRs holdings and allocations generate property income – interest (D.41). According to IMF documentation, "*the SDR mechanism is self-financing and levies charges on allocations which are then used to pay interest on SDR holdings. If a member does not use any of its allocated SDR holdings, the charges are equal to the interest received. However, if a member's SDR holdings rise above its allocation, it effectively earns interest on the excess. Conversely, if it holds fewer SDRs than allocated, it pays interest on the shortfall*."[21] If there is an imbalance between SDR holdings and allocations for one participant, there will be consequently an imbalance in the interest receivable and the interest payable – to be recorded gross, irrespective of the payments being netted. This is not just theoretical: as at October 2015,

[20] In some EU Member States the government is not the 100% shareholder of the central bank.
[21] http://www.imf.org/external/np/exr/facts/sdr.htm

every IMF member had this imbalance. It seems obvious that interest on SDRs should impact the B.9 of its economic owner, whether this is government or the central bank.

Aside from the possibility to use SDR holdings instead of incurring debt instrument liabilities[22], the main economic benefit of the SDR holdings is that – like other debt instruments – they generate interest income.

In the case of SDRs, it also has to be considered that central government (which normally holds 100% equity stake in their central bank) has the possibility to withdraw dividends (D.42) based on the net interest income. In this sense, the question of whether the net interest income from SDRs is directly receivable by central governments or whether it transits via the central bank.

The eqtion of property income may be less important than an eventual control over the use of the asset, including its disposal. The notion of control would thus be considered as essential.

Use of SDR

The fact that SDR holdings have been traditionally used, in their capacity as reserve assets in order to manage exchange rates/ external balance problems, may explain why in many countries they are recorded in the balance sheet of the central bank.

While SDRs are traditionally intended to be used in the context of balance of payments problems, as is implicit from the IMF factsheet, in practice SDR holdings could also be used by Member States governments that do not have access to liquidity through debt instruments' issuance, to obtain means of payments.

Where there is a possibility that central governments effectively control these assets, it needs to be examined whether SDR holdings and allocations should in (some) EU countries more appropriately be recorded in the balance sheet of the central government.

Recent case

It has been recently observed in one euro area member state, that an IMF loan to central government had been partially repaid with the use of SDR holdings on the balance sheet of the central bank, on instruction from government (the central bank being in this case the fiscal agency designated by that MS to undertake transactions related to participation in the IMF).

This raised an interesting accounting question, given that the SDR were considered as a NCB asset, while the redeemed loan featured in the government balance sheet. Looking at various accounting possibilities, Eurostat advised that, if SDR holding and allocation would be considered on the NCB balance sheet, then the transaction in SDR should be recorded as lending from the NCB to government – with the effect that government did not reduce its overall debt, merely exchanging a debt against the IMF with a debt against the central bank.

[22] F.12 liabilities are recognised as part of debt measures (D2, including AF.12, AF.2, AF.3 and AF.4) in the public sector debt guide. At the time of the establishment of Maastricht debt, F.12 liabilities did not exist and hence these could not be considered for the definition of Maastricht debt.

This case opened the discussion on whether SDRs (and by extension, other transactions/ stocks related to membership in the IMF) should be recorded in the financial accounts of general government or, instead, in those of the designated fiscal agents (normally central banks although it is possible for other financial institutions, including private ones, to be granted this role). Eurostat provided its advice based on the recording followed for SDR assets and liabilities in the MS concerned at that time (i.e on the balance sheet of the central bank), and indicated an intention to discuss this issue in the GFS TF (of 16 November 2015) and the EDPS WG.

Further considerations

While GFSM2014 leaves it open where SDRs are to be recorded, this is a key issue from an ESA and SNA perspective, as the primary focus is on reporting general government and not on the public sector, the latter including both general government and the central bank.

While the legal institutional setting in EU countries and more notably the harmonised legal setting in the euro area may provide important hints in determining where to appropriately record SDR holdings and allocations, ESA stresses the importance of economic reality over legal form.

As regards the legal provisions, however, article 123 of the Treaty on the Functioning of the European Union (TFEU) prohibits monetary financing of government units. This is reiterated in Article 21 of the ESCB statute annexed to the TFEU. In this context, Article 7 of the ESCB statute ensures the independence of a national central bank within the Eurosystem. Article 14 of the ESCB statute mentions that national central banks within the Eurosystem may undertake tasks other than those laid down in the statute provided that these tasks are not found to interfere with the functioning of the ESCB.

While disposing of the use of reserve assets is central to the functioning of a central bank, notably when independent, it should also be recalled that euro area members retain their subscription in the IMF and the associated SDR holdings and allocations when joining the euro area. This may be an indication that SDR holdings and allocations serve other functions than those connected with the task of central banks.

Another consideration is whether central banks can decide freely which reserve assets to use in monetary policy operations and if this should be an indication on which balance sheets to record. It also needs to be considered that SDR allocations are a consequence of receiving SDR holdings, with their associated risks and rewards. Therefore, and as indicated in ESA 5.71-5.73, SDR holdings and allocations necessarily need to be recorded in the balance sheet of only one unit. Since quotas determine the size of SDR allocations, it could also be considered whether government involvement in quota reviews would not be a relevant indicator for the classification decision of SDRs. Participation to the SDR department is on a voluntary basis, although all IMF members do participate.

There is a strong case for the view that the criteria for the recording of SDR holdings and allocations on the balance sheet of the central bank or the balance sheet of central government should be based on control, understood as decision making power on the use of such assets/liabilities.

1. Does the EDPS WG agree with the fact that control of SDRs is central to the analysis, even if not a prerequisite to (direct) risk and rewards?

2. Does the EDPS WG agree that the use by government of SDR holdings not connected with tasks of the central bank is an indication of lack of central bank control over them, implying to classify SDR holdings and allocations in the balance sheet of central government?

3. The EDPS WG members are invited to comment on the rationale of recording SDR holdings and SDR allocations in a) the balance sheet of the central bank and b) the balance sheet of the central government, as well as the approach chosen in their country.

4. IMF quotas and reserve tranche

Description

The IMF de facto functions very much like a mutual club – rather than as a banker: it provides resources to members by drawing resources from its own members; it does not lend to the public by taking liabilities from the public. Unlike most other international financial institutions, it does not borrow from external sources to lend. The bulk of its lending is carried out by drawing on the capital subscribed by its members (the "**quota**"), which is largely not yet paid in, or via borrowing from members organised in the context of the General Arrangements to Borrow (GAB)/ New Arrangements to Borrow (NAB).

Indeed, the "quota" consists of two components (see GFSM2014 A3.82): the so called "**reserve tranche**", which amounts initially to 25% of the quota and is paid in eligible currencies of other members (or in gold or SDRs); and the remaining 75% - the domestic currency component - to be held on call, in national currency, at the disposal of the IMF for its lending operations. The initial 75% may be represented in the form of a "note" in national currency that pays no interest and that can be converted in deposits at the request of the IMF.

The "reserve tranche" can be mobilised by members (drawn down) to obtain foreign currencies. For this reason, the reserve tranche is considered a reserve asset, being a liquid claim on the IMF, classified as AF.22 asset in ESA 5.81(e). De facto, the reserve tranche merely substitutes a type of reserve asset for another. On the other hand, the 75% domestic currency component is considered as a contingent liability in statistical manuals, with the somewhat "oblique" statement in ESA 5.154 that the equity position excludes the capital investment in the IMF, which presumably refers to the domestic currency part of the quota: if an equity stake was recognised as an asset of member countries, the "note" in domestic currency would need to be recognised as a liability. Nonetheless, some other presentations show the quota on a gross basis.

The reserve tranche decreases (increases) when converted for (from) other reserve assets, at the initiative of the member state. It can also increase/decrease from mobilisation calls organised by the IMF. In those calls, the IMF seeks to exchange the national currency of a participant to provide it to another participant seeking the said currency. Member countries that can be called on this way are those registered on the Financial Transaction Plan (FTP) list, which covers countries deemed to have "useable currencies". In turn, these countries need to convert, upon request, their currencies, when called by the IMF, into one of the four "freely usable currencies" or into SDRs (at its choice).

As the result of this arrangement, in statistics, national authorities do not report in their ESA balance sheet any equity stake representation in the IMF capital ("quota").

Analysis

Quotas are assigned by the IMF on joining the IMF and are dependent on the country's economic size. The size of the quota determines the reserve asset component (or equity in the IMF system as described above), the voting power (in the Board of Governors), the size of the SDR allocations and the access to financing. Quotas are assigned by the board of Governors of the IMF, which is the main decision-making body of the IMF together with the Executive Board.[23]

Since it is countries that are members of IMF and not specific institutions, it seems more realistic to recognise the participation in the IMF within government accounts. However, in practice, in most member states, it is the central bank who pays the reserve tranche. Wherever central banks pay the reserve tranche, the imputation of a loan from the central bank to central government would then need to be considered, unless the central bank would simultaneously debit the treasury account (with associated movements whenever the size of the lending to IMF and its participants changes).

Participants receive interest ("renumeration") on most of the reserve tranche position (see GFSM2014 A3.89).

In a number of countries, governments are in contact with the central bank for the management of the foreign assets/reserve asset, to the effect that the latter manages these assets on behalf of the former. This can take the form of regular transfers to government of the net result on these assets, or in the transfer of those results to a dedicated reserve account. For those countries, the question of the ownership of both the SDRs and the reserve tranche rests within a broader question of the ownership of reserve assets as a whole.

The notion of control of the reserve tranche may also appear somewhat ambiguous. While the first subscription reflects an act of government to participate to the IMF, subsequent movements reflect either national decisions to use the reserve tranche, or IMF calls to provide one's national currency. The latter indicates that members in the IMF have ceded, as a matter of **government** policy, some control over these reserve assets.

However, it should be noted that because the reserve tranche is cashable at any moment, IMF calls resulting from purchase/repurchase from other members may not pose an overriding control problem to national authorities. Nonetheless, significant problems would arise, which would likely so to prevent a Member State to rapidly restore, following a call, the reserve tranche situation it would prefer.

The separation in ESA between SDRs and other IMF operations can find some support by noting that the IMF is keen to completely separate the GRA from the SDR departments, and that participation to the SDR department is on a voluntary basis.

Finally, even when central banks conduct monetary policy in an independent manner, including the use of reserve assets, this independence is in most cases given by government and can also be withdrawn. The general monetary policy goals can be seen to be a result of government policy[24]

[23] http://www.imf.org/external/np/exr/facts/quotas.htm

[24] There are exceptions to this.

1. It seems questionable that the reserve tranche could be considered as economically owned by a national central bank. Such quota should in general be considered as owned by central government.

2. This raises the issue whether the reserve tranche in the IMF and the SDR holdings and allocations could be recorded in different balance sheets or not. While SDRs could perhaps be recorded on the balance sheet of any of the two institutions following the control criterion, concerning the equity stake, recording SDRs as an asset of government seems more reasonable in most cases. A recording of SDRs on the balance sheet of government, while the reserve tranche is held by the central bank may appear inconsistent.

The WG members are invited to provide their view on the 2 issues raised above.

5. Loans

The IMF can grant credit to its country members and vice versa.

Substance of the IMF lending

Letter of intent and features of IMF lending

"*A core responsibility of the IMF is to provide loans to member countries experiencing actual or potential balance of payments problems. This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while undertaking policies to correct underlying problems. Unlike development banks, the IMF does not lend for specific projects.*"[25]

The intention to borrow is signalled by a "**letter of intent"** addressed to the IMF, which is signed by the prime minister or the ministry of finance, as well as the central bank governor. The lending operations take place in the context of a "programme", defined via a detailed Memorandum of Understanding, setting precise macro-economic targets that government commit to. In general, macro-economic targets can be seen as government policy. This includes monetary targets effectively delegated to independent central banks for the reason of credibly signalling to markets, for instance that government will not monetise its debt.

A common denominator of these is the conditionality; that is in practice a commitment to an economic reform programme. In exceptional cases, this conditionality can be achieved ex-ante. For non-euro area countries, this has in the past often been coupled with a commitment to devaluation.

Authorities that draw down on their reserve tranche, while conducting purchases, are not borrowing from the IMF but reducing their claim on it. Only purchases in excess of the reserve tranche, or outside the reserve tranche, constitute IMF lending, with various conditionality and administrative criteria, as mentioned above, according to the circumstances of the mobilisation of IMF funds.

[25] From the IMF factsheet on lending http://www.imf.org/external/np/exr/facts/howlend.htm

Participants in the IMF can obtain loans via different instruments. The non-concessional lending usually available to European countries is available through different instruments: *"Non-concessional loans are provided mainly through Stand-By Arrangements (SBA), the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Extended Fund Facility (which is useful primarily for medium-term needs)."* While the FCL does not formally require conditionality, FCL-qualifying countries must "*have demonstrated track record of implementing appropriate macroeconomic policies*" – as called ex-ante conditionality,

Credit granted[26] by the IMF is recorded as a loan (ESA2010 5.136). ESA2010 and other international manuals actually leave it open, in whose balance sheet a loan from the IMF is recorded.

Initiative to take out a loan

According to ESA2010 5.113, two of the main features of loans are that loans are 'normally taken out at the initiative of the borrower' and that 'a loan is an unconditional debt to the creditor which has to be repaid at maturity and which is interest-bearing'. According to the definition of loans in ESA2010 5.112, "loans are created when creditors lend funds to debtors".

The 'initiative' condition in ESA provides an indication that whoever negotiates the loan is where the loan liability should be recorded.

It is only governments that can commit to economic reform programmes. The kind of conditionality imposed on the issuance of a loan provides a strong indication in whose balance sheet the loan should be recorded, notably because it can be considered as the strongest signal as to in whose party rests the initiative to take out a loan, which rests always with the borrower according to ESA2010 5.113b. Thus, if an IMF loan is conditional on implementing economic reform programmes, the loan should be recorded as a liability of government.

Foreign exchange policies are also often government prerogatives, although this could be conceived as somewhat contradictory to the notion of independence of monetary policy. The foreign exchange regime is however quintessentially a government decision, even if decided in consultation with the central bank. Active foreign exchange interventions may also be a government prerogative, although this may be shared with the central bank, or the latter even have a leading role. Thus, commitment to a devaluation included in an IMF programme may be a shared decision in some countries between government and independent central banks. In some countries, government seems to have delegated the whole circumstance of foreign exchange policy to the central bank, as part of its independent monetary policy. However, even then, this would seem insufficient to conclude that the central bank is leading in relation to an IMF programme, as the latter generally contains an array of macro-economic or even structural objectives.

Following the above, the initiative condition therefore can be seen as being fulfilled by governments rather than central banks. Also, the possibility to obtain financing is a main benefit of membership in the IMF. Thus, it would make sense that the recording of loans and quotas are in line with each other.

[26] In excess of the reserve tranche and the SDR holdings.

Lending to the IMF

IMF draws its means of financing, to lend to member states, either from the mobilisation of the quota or from separate borrowing agreement with volunteering member states, under the GAB or the NAB. The Resource Mobilization Plan (RMP) aims at distributing the effort evenly among capable member states.

ESA2010 para 5.81(e) indicates that the claim on the IMF is recorded as AF.22 (a change from ESA95 para 5.48, recording these under AF.29[27]). However, ESA2010 para 5.136(l) prescribes AF.4, when "evidenced by loans".

Recording this lending consistently with other instruments seems the more reasonable. Here the initiative rests on the IMF, and it can be debated who provide resources. The more logical supposition is that this lending is provided by the shareholder.

GFSM and practical implementation

GFSM on-lending suggestion

According to GFSM2014, loans from the IMF when paid to the central bank should pass through the central bank's accounts and when proceeds are passed on to government, the central bank is recorded as having granted a loan to government (A3.88).

The recording of on-lending included in GFSM appears to run counter the notion of initiative and the notion of principal as described in ESA2010 1.78. Such on-lending should be considered as 'acting on behalf' and thus only be recorded in the accounts of the principal.

Another argument against the recording of on-lending is that central governments (ministries of finance) and central banks work in conjunction with each other – with separate tasks – fiscal and monetary – but with similar outcome objectives.

An on-lending presumes that the initiative to obtain a loan from the IMF lies with only one party, and that there exists then a separate initiative of the other domestic party to obtain a loan from the first party.

If central banks were considered to be the principal in relations with IMF, there would be an inherent contradiction in the case of loans to be recorded on the balance sheet of government for fiscal purposes and linked to fiscal reform programmes: there would be either a difficulty not to consider the central bank as principal to any loans granted by the IMF (in case of direct recording in the accounts of government with no on-lending), or a difficulty in not following the principle that loans are to be recorded according to 'initiative' and to be directly recorded in the accounts of the principal (in the case of recording on-lending).

Observations from QFAGG

For all euro area countries, loans from the IMF have been recorded on the balance sheet of the central government.

[27] SNA08 continues to prescribe AF.22.

However, for some <u>non-euro area countries</u>, there seem to be examples of loans being partially recorded in the balance sheet of the central bank and partially in the balance sheet of central government. While there have also been instances of loans recorded in the central bank balance sheet for non-euro area European countries, there appear – by looking at QFAGG counterpart information – to be no instances of recording of on-lending, that is: instances where a loan from the IMF is recorded in the balance sheet of the central bank and there is an on-lending to central government of part of, or the whole, amount. From the observation of QFAGG counterpart information, it may be hypothesized that all concerned non-euro area countries currently record the respective loans directly in central government when they are for fiscal purposes, and record them in the central bank (without rerouting) when lending is more for balance of payment purposes. However, there seems to be no particular reasons for differentiating, as the decision making process is undistinguishable.

The concerned EDPS WG members are invited to comment on how the appropriate recording of loans was determined in their case.

The EDPS WG members are invited to comment how to determine the principal in IMF lending.

The acceptance of conditions related to fields of economic policy responsibility seems in itself an indication of initiative to take out a loan. In those cases, the initiative condition can be seen as being fulfilled by governments rather than central banks, with such loans to be recorded on the government balance sheet.

The recording of on-lending foreseen in GFSM appears to be in contradiction with the notion of initiative and the notion of principal as described in ESA.

Eurostat would be interested to discuss, whether the different criteria on where to record a loan - link to quotas, initiative and conditionality (fiscal and/or monetary) can be in contradiction with each other and if yes, which criterion is decisive in the view of the EDPS WG.

6. <u>Accounting entries</u>

It may happen – although it is generally not expected – that the accounting movements related to transactions with the IMF, by the central banks as a fiscal agent, will lead to matching movements within the Treasury account of the Ministry of Finance (Treas.1) at the central bank. When this is the case, it is necessary to record within the government sector SDRs transactions, reserve tranche transactions, and borrowing from or lending to the IMF,– and not doing so would lead to a discrepancy.

In general, such matching movements within the Treasury account are not expected. As a result, the decision of recognising central government as the principal, and the central bank only as an agent in the ESA sense, based on the economic substance of the relationship with the IMF, implies the recording of a number of imputed transactions to appropriately reflect the principal to agent link. One can envisage two recording: gross or net.

The payment of 25% quota (initial reserve tranche) will be settled by delivering to the IMF foreign change (dollars) held by the central bank. When government is perceived to hold the reserve tranche, the central bank acquires a claim on government, in the form of an AF.2 or, perhaps preferably, AF.4 instrument.

1. Subscription of 25% quota of 2000

Central Bank

F.2 dollars -500 F.2/F.4 +500	

Central government

F.2 Reserve Tranche +500	F.2/F.4 +500

The appearance of SDRs in the government accounts is balanced and need no further entries

2. Allocation of SDRs of 1000

Central Bank

Central government

F12 +1000	F12 +1000

When the authorities use the reserve tranche (50) or sell SDRs (80) to acquire foreign exchange, the central bank reduces its claim on government (net approach) or, alternatively, recognises a liability against government, perhaps in the form of an AF.22 instrument (representing an imputed Treasury account, Treas.2) or in the form of a loan.

3. Sale of reserve tranche (50) and SDRs (80) – *gross presentation*

Central Bank

F2 dollars +130	F2 (Treas.2) 130

Central government

F2 Reserve Tranche -30 F12 -80 F2 at CB (Treas.2) 130	

4. Sale of reserve tranche (50) and SDRs (80) – *net presentation*

Central Bank

F2 dollars +130 F2/F4 -130	

Central government

F2 Reserve Tranche -30 F12 -80	F2/F4 -130

When the authorities borrow from the IMF, in the context of a programme, we can presume that the proceeds are passed to government, and the liability appears as a government liability. When the proceeds are not actually credited to the Treasury account (Treas.1), then an amount of deposit is imputed (Treas.2), in analogy to the previous recording (gross reporting).

5. Borrowing of 700 dollars = euro – *credited to government account*

Central Bank

F2 dollars +700	F2 (Treas.1) +700

Central government

F2 at CB (Treas.1) +700	F4 to IMF + 700

6. Borrowing of 700 dollars = euro – *<u>not</u> credited to government account*

Central Bank

Central government

F2 dollars +700	F2 (Treas.2) +700	F2 at CB (Treas.2) +700	F4 to IMF +700

When the authorities lend to the IMF (40) in the context of IMF borrowings supplementing operations on quotas, the recording are similar to reserve tranche. Central government is extending a loan, matched by a liability to the central bank.

7. Lending to the IMF (40)

Central Bank		Central government	
F2 dollars -40 F4 to GG +40		F4 to IMF + 40	F4 from CB +40

Overall, the balance sheet situation can be summarized the following way, using a gross approach.

8. Final position – *gross presentation*

Central Bank		Central government	
AF2 dollars 290	F2 (Treas2.) 830	F12 920	F12 1000
AF4 (CB) 540		AF2 Reserve Tranche 450	AF4 (CB) 540
		AF2 at CB (Treas.2) 830	AF4 (IMF) 700
		AF4 to IMF 40	
		Total 2240	Total 2240

7. Conclusions

SDR holdings and allocations, the reserve tranche and loans from the IMF pose distinctive recording challenges.

Can different operations related to the IMF be analysed separately or should in general all operations relating to the IMF be recorded in the balance sheet of one public sector unit only?

ANNEX - PROVISIONS IN THE IMF GOVERNMENT FINANCE STATISTICS MANUAL 2014

GFSM2014 principles of SDRs are described in paragraph 7.125: On the financial assets side, this category comprises monetary gold and SDRs, and on the liabilities side it comprises only SDRs. The counterparties to this financial asset and liability are non-residents.

paragraph 7.131: Special Drawing Rights (SDRs) are international reserve assets created by the International Monetary Fund (IMF) and allocated to its members to supplement reserve assets. The Special Drawing Rights Department of the IMF allocates SDRs among member countries of the IMF (collectively known as the participants). The allocation of SDRs is a liability of the member country and interest accrues on this liability.[28]

[28] The IMF has also designated a limited number of international financial institutions as holders of SDRs.

paragraph 7.132: SDR holdings represent each holder's unconditional right to obtain foreign exchange or other reserve assets from other IMF members. These financial assets represent claims on the participants in the IMF's SDR Department collectively and not on the IMF. A participant may sell some or all of its SDR holdings to another participant and receive other reserve assets, particularly foreign exchange, in return. Participants may also use SDRs to meet liabilities.

paragraph 7.133: SDR allocations constitute a (debt) liability of the recipients (and part of the public sector's debt liabilities) and the SDR holdings are part of the public sector's financial assets. The allocation and holdings are recorded on a gross basis. The macroeconomic statistical guidelines do not specify on whose balance sheet SDR holdings and allocations should be recorded (e.g., the central bank or a general government entity such as the ministry of finance or treasury). This is because SDR allocations are made to IMF members that are participants in the SDR Department of the IMF, and it is for those members to follow domestic legal and institutional arrangements to determine the ownership and recording of SDR allocations and SDR holdings in the public sector. Given that financial claims on and liabilities to members in the SDR system are attributed on a cooperative basis, a residual partner category — other non-residents — is used as the counterparty to SDR holdings and allocations.

paragraph 7.134: In addition to SDRs as a type of financial instrument, SDRs may also be used as a unit of account in which other debt instruments can be expressed. The value of the SDR is determined daily by the IMF on the basis of a selected basket of currencies. To ensure consistency, the SDR rates against domestic currencies are obtainable from the IMF. Both the basket and the weights of the currencies that make up the SDR basket are revised from time to time

paragraph 9.31: SDRs are held exclusively by participants of the IMF's SDR Department and prescribed holders, and are transferable among them. The creation of SDRs (referred to as allocations of SDRs) and the extinction of SDRs (cancellations of SDRs) are recorded as transactions. Transactions in SDRs also take place when a holder exercises its right to obtain foreign exchange or other reserve assets from other participants and prescribed holders and when SDRs are sold, loaned, or used to settle financial obligations.

paragraph 9.32: At the time of the SDR allocation, the amounts recorded as SDR allocations (liabilities) and holdings (financial assets) are identical and on the same public sector unit's balance sheet. This public sector unit—as official holder—may, subsequently, exchange some or all of its SDR holdings (financial asset) with other official holders for a freely usable currency(ies) or to meet its liabilities. Consequently, the SDR allocations and holdings on the balance sheet of that public sector unit would no longer be identical; the SDR holdings would be less than the allocations because they have been exchanged. As a result, interest payable on the SDR allocation of that public sector unit will be larger than interest receivable on its SDR holdings. Interest receivable on the SDR holdings exchanged will accrue to the new holder. These transactions in SDRs (and resulting stock positions) are recorded at their gross amounts.

paragraph 10.22: The value of the SDR is based on a basket of key currencies; therefore, the value of SDRs is always subject to holding gains and losses. From time to time, new allocations of SDRs may be made; when this occurs, the allocation is recorded as a transaction.

paragraph 10.58 The creation of SDRs (referred to as allocations of SDRs) and the extinction of SDRs (cancellations of SDRs) are treated as transactions, not other changes in the volume of assets.

paragraph A1.97: The GFSM 2001 treatment of monetary gold and SDRs (6201/6301) as financial assets without a corresponding financial claim is revised. In the GFSM 2014, only monetary gold in the form of gold bullion is regarded as a financial asset without a corresponding financial claim. Also, recognizing that transactions in SDR holdings may be entered into by two domestic units, the exclusion of SDRs from domestic financial asset flow

Stock Positions and Related Flows with the IMF

A3.82 Member countries are assigned a quota on joining the IMF. A quota is the capital subscription, expressed in SDRs, that each member must pay the IMF on joining and consists of two components:

• Reserve asset component—A member is required to pay 25 percent of its quota in SDRs or in currencies specified by the IMF. This 25 percent portion is a component of the member's reserve assets and is known as the "reserve tranche." In the public sector unit's accounts, subscribing this portion is shown as a transaction involving an increase in external financial assets in the form of currency and deposits — that is, the reserve tranche position, which is a liquid claim on the IMF (debit), off-set by an equal reduction in existing external financial assets (credit).

• Domestic currency component—The remaining 75 percent of the quota is payable in the member's own currency at the designated depository. The payment is made either in domestic currency (IMF No. 1 Account) or if the member country so chooses, by issuance of a promissory note (in the IMF Securities Account). The No. 1 Account is used for the IMF's operational transactions (e.g., purchases and repurchases), and small transfers may be made from this account to the No. 2 Account, which is used for the payment of local administrative expenses incurred by the IMF in the member's currency. The promissory notes are encashable by the IMF on demand. The domestic portion of the quota payment is not recorded in the public sector unit's accounts, because it is considered in economic terms to be of a contingent nature. No interest is payable on either the deposit account or the note.

Remuneration

A3.89: The IMF pays its members "remuneration" quarterly (in SDRs) on the basis of their reserve tranche position, except for a small portion related to prior quota payments in gold that are interest-free resources to the IMF. This remuneration should be recorded on an accrual basis as interest income (revenue) of the public sector unit, which is realized as an increase in its external financial assets in the form of currency and deposits.

Special Drawing Rights (SDRs)

A3.91: The SDR is an international reserve asset created by the IMF in 1969. The SDR is administered by the IMF's SDR Department, which is required by the IMF's Articles of Agreement to keep its accounts strictly separate from those of the General Department. Members participating in the SDR Department incur the financial asset or liability position unto itself. Given that financial claims on and liabilities to members in the SDR system are attributed on a cooperative basis, a residual partner category—other non-residents—is used as the counterparty to SDR holdings and allocations.

A3.92: SDR allocations received by a country are recorded as a liability in the form of SDRs (part of gross debt of the public sector unit) with a corresponding entry for SDR holdings as a financial asset. The calculation of a public sector unit's net debt takes into account SDR holdings and SDR allocations. Interest income on SDR holdings (revenue) and interest expense on SDR allocations are accrued on a gross basis to the outstanding financial asset and liability, respectively.

A3.93: The SDR allocation is debt of the recipient (i.e., the participant in the SDR Department), and forms part of public sector debt. The SDR holdings are part of the public sector's financial assets. However, the international statistical systems do not specify on which balance sheet SDR holdings and allocations should be recorded (e.g., the central bank or a general government entity such as the ministry of finance or treasury). This is because SDR allocations are made to IMF members that are participants in the SDR Department of the IMF, and it is for those members to follow domestic legal and institutional arrangements to determine the ownership and recording of SDR allocations and SDR holdings in the public sector.

A3.94: For GFS and public sector debt statistics, it is particularly relevant in which public sector unit's accounts the SDR holdings and allocations are recorded. If the SDR allocation is recorded on the government's balance sheet, the allocation is part of general government debt. If the SDR allocation is on the central bank's balance sheet, the allocation is not part of general government debt but still part of public sector debt.

A3.95: SDRs are held exclusively by participants, the IMF, through the General Resources Account, and prescribed holders, and are transferable among them. At the time of the SDR allocation, the amounts recorded as SDR allocations (liabilities) and holdings (financial assets) are identical and on the same public sector unit's balance sheet. This public sector unit—as official holder—may, subsequently, exchange some or all of its SDR holdings (financial asset) with other official holders for freely usable currency(ies). In this case, the SDR allocations and holdings on the balance sheet of the public sector unit are no longer identical; the SDR holdings are less than the allocations because they have been converted into freely usable currencies (i.e., currency and deposits). As a result, interest payable on the SDR allocation of public sector unit will be larger than interest receivable on its SDR holdings. Interest receivable on the SDR holdings exchanged will accrue to the new holder.

PROVISIONS IN THE SNA2008

paragraph 11.44: Monetary gold and Special Drawing Rights (SDRs) issued by the International Monetary Fund (IMF) are assets that are normally held only by monetary authorities.

paragraph 11.47: Special Drawing Rights (SDRs) are international reserve assets created by the International Monetary Fund (IMF) and allocated to its members to supplement existing reserve assets. The Special Drawing Rights Department of the IMF manages reserve assets by allocating SDRs among member countries of the IMF and certain international agencies (collectively known as the participants).

paragraph 11.48: The mechanism by which SDRs are created (referred to as allocations of SDRs) and extinguished (cancellations of SDRs) gives rise to transactions. These transactions are recorded at the gross amount of the allocation and are recorded in the financial accounts of the monetary authority of the individual participant on the one part and the rest of the world representing the participants collectively on the other.

paragraph 11.49: SDRs are held exclusively by official holders, which are central banks and certain other international agencies, and are transferable among participants and other official holders. SDR holdings represent each holder's assured and unconditional right to obtain other reserve assets, especially foreign exchange, from other IMF members. SDRs are assets with matching liabilities but the assets represent claims on the participants collectively and not on the IMF. A participant may sell some or all of its SDR holdings to another participant and receive other reserve assets, particularly foreign exchange, in return.

paragraph 12.104: Since the value of the SDR is based on a basket of four key currencies, the value of SDRs is always subject to nominal and real holding gains and losses. From time to time, new allocations of SDRs may be made; when this occurs the allocation is recorded as a transaction.

paragraph 13.56: The value of the SDR is determined daily by the IMF on the basis of a basket of currencies. Rates against domestic currencies are obtainable from the prices in foreign exchange markets; both the basket and the weights are revised from time to time.

paragraph 17.246: SDRs are allocated to the countries and authorities participating in the SDR Department of the IMF. Countries must be members of the IMF; other participants include a number of central banks, intergovernmental monetary institutions and development institutions. Participants may hold more or fewer SDRs than their allocation as a result of transactions in SDRs between participants. SDRs attract interest but no service charge as interest paid by participants holding more than their allocation exactly matches the interest owing to participants holding less than their allocation. Data on the interest rates payable are available regularly from the IMF. Since the value of the SDR is based on a basket of four key currencies, the value of SDRs is always subject to nominal and real holding gains and losses. From time to time, new allocations of SDRs may be made; when this occurs the allocation is recorded as a transaction.

paragraph A3.118: The 2008 SNA recommends to treat special drawing rights (SDRs) issued by the International Monetary Fund as being an asset of the country holding the SDR and a claim on the participants in the scheme collectively. Further, it is recommended that the allocation and cancellation of SDRs be recorded as transactions. The asset and liability aspects of SDRs should be recorded separately. As a result of the changed treatment of SDRs, it recommends that monetary gold and SDRs be shown as separate subitems.

paragraph A3.119: The 1993 SNA classified SDRs as assets without corresponding liabilities.

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paragraph 4.42:……. Income on SDR holdings and allocations and on unallocated gold accounts is treated as interest.

paragraph 5.71: The creation of SDRs through their allocation, and extinguishing them through their cancellations, are transactions. Allocations of SDRs are recorded gross as acquisition of an asset in the financial accounts of the monetary authorities of the individual participant, and as an incurrence of a liability by the rest of the world.

paragraph 5.72: SDRs are held exclusively by official holders, which are central banks and certain international agencies, and are transferable among participants and other official holders. SDR holdings represent each holder's assured and unconditional right to obtain other reserve assets, especially foreign exchange, from other IMF members.

paragraph 5.73: SDRs are assets with matching liabilities but the assets represent claims on the participants collectively and not on the IMF. A participant may sell some or all of its SDR holdings to another participant and receive other reserve assets, particularly foreign exchange, in return.

paragraph 5.81e: the reserve position with the IMF forming the 'reserve tranche', i.e. the SDR or foreign currency amounts that a member country may draw from the IMF at short notice, and other claims on the IMF that are readily available to the member country, including the reporting country's lending to the IMF under the general arrangements to borrow (GAB) and the new arrangements to borrow (NAB).

Holding gains and losses

paragraph 6.47: As the SDRs represent a basket of currencies, its value in national currency terms, and so the value of the holding gains and losses, varies with the exchange rates of the currencies in the basket against the national currency.

paragraph 7.63 The value of SDRs (AF.12) is determined daily by the IMF and the rates against domestic currencies are obtainable from foreign exchange markets.

Annex 71: The financial assets classified in SDRs category have counterpart liabilities in the system

paragraph 8.77 The balance sheets of the rest of the world contain financial assets and liabilities. On the assets side, they also record the total acquisitions less disposals between non-resident and resident units of monetary gold and SDRs.

paragraph 20.124 In most countries, monetary gold and SDRs are managed by the central bank. When they are managed by government, they are recorded in the financial account of government.