



**Meeting of the Task Force on Finance Statistics**  
World Bank Headquarters, Washington DC, USA  
March 13–14, 2014

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

Prepared by the Eurostat





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05/03/2014

## **1. Balance of Payments (BoP) and International Investment Position (IIP)**

### **1.1 Implementing BPM6 (and SNA2008) in the EU**

The implementation of BPM6 (and of SNA2008/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<sup>1</sup> and Commission Regulation (EU) No 555/2012 was published on 22 June 2012<sup>2</sup>: these two legal acts introduce the reporting based on BPM6. In June 2013 the legal act requiring the adoption of SNA2008/ESA2010 in all Member States was also finally adopted<sup>3</sup>.

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. 2014 will be the year when all the members of the EU will start reporting to Eurostat and to the ECB data based on BPM6 (and ESA2010).

According to the legal acts, the reporting of BPM6-based Monthly and Quarterly BoP and IIP data to Eurostat will start on 24 June 2014, when data related to 2014Q1 and 2014M04 are expected. Complete time series of BPM6-based data are expected in September 2014.

While some Member States may start to disseminate BPM6-based data in the second quarter of 2014, Eurostat and the ECB are planning to disseminate the national and the EU/EA BPM6 based data on 30 October 2014.

Concerning the dissemination of ESA2010 based data, the national data (quarterly and annual) will be disseminated on Eurostat's on-line database as soon as reported by the countries and validated, starting in September 2014.

The first EU and Eurozone ESA2010 based data will be released in mid-October 2014, provided a sufficient coverage of national data will be available.

### **1.2 Developing the new BoP DSD**

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<sup>1</sup> 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;

<sup>2</sup> 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.

<sup>3</sup> 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.

In 2013 Eurostat actively worked, with intense and intensive cooperation with the ECB, IMF and OECD, towards the definition of the Data Structure Definition (DSD) that will support the transmission of BPM6 based data to every International Organisation (IO).

The new BoP DSD has been designed so as to assure maximum consistency with the NAs DSD. Table 1 and 2 show the dimensions and attributes included in the BoP DSD; the dimensions shared with the National Accounts DSD are identified with an asterisk.

Version 1.1 of the BoP DSD was released on 15 January 2014, version 1.2 is planned for 4 April 2014.

The definition of a common set of codes for all concepts required by the different IO allowed for the identification of the common requirements and also for a better specification of the requirements that are slightly different. This resulted in the full integration in a single questionnaire of all the BoP-related data requests of the different IO, with more clarity and substantial simplification in the reporting that will be required from the countries.

**Table 1: BOP Data Structure Definition (version 1.1) - Dimensions**

| Description                            | Mnemonic           | Code list mnemonic |
|--|--------------------|--------------------|
| Frequency *                            | FREQ               | CL_FREQ            |
| Adjustment indicator *                 | ADJUSTMENT         | CL_ADJUSTMENT      |
| Reference country or area *            | REF_AREA           | CL_AREA            |
| Counterpart area *                     | COUNTERPART_AREA   | CL_AREA            |
| Reference sector *                     | REF_SECTOR         | CL_SECTOR          |
| Counterpart sector *                   | COUNTERPART_SECTOR | CL_SECTOR          |
| Flows and stocks indicator *           | FLOW_STOCK_ENTRY   | CL_FSENTRY         |
| Accounting entries *                   | ACCOUNTING_ENTRY   | CL_ACCOUNT_ENTRY   |
| International accounts item            | INT_ACC_ITEM       | CL_ACCOUNTS_ITEM   |
| Functional category                    | FUNCTIONAL_CAT     | CL_FUNCTIONAL_CAT  |
| Instrument and assets classification * | INSTR_ASSET        | CL_INSTR_ASSET     |
| Maturity *                             | MATURITY           | CL_MATURITY        |
| Unit of measure *                      | UNIT_MEASURE       | CL_UNIT            |
| Currency of denomination *             | CURRENCY_DENOM     | CL_CURRENCY        |
| Valuation *                            | VALUATION          | CL_VALUATION       |
| Compilation methodology                | COMP_METHOD        | CL_COMP_METHOD     |

**Table 2: BOP Data Structure Definition – Attributes**

| Description  | Mnemonic          | Code list mnemonic | Mandatory / Conditional |
|--|-------------------|--------------------|-------------------------|
| Time format *  | TIME_FORMAT       | CL_TIME_FORMAT     | C                       |
| Observation status *                                   | OBS_STATUS        | CL_OBS_STATUS      | M                       |
| Confidentiality status *                               | CONF_STATUS       | CL_CONF_STATUS     | M                       |
| Pre-break value  | PRE_BREAK_VALUE   | Uncoded            | C                       |
| Comments to the observation value *                    | COMMENT_OBS       | Uncoded            | C                       |
| Title complement: Detailed description of the series * | COMMENT_TS        | Uncoded            | C                       |
| Short title *  | TITLE             | Uncoded            | C                       |
| Unit multiplier *                                      | UNIT_MULT         | CL_UNIT_MULT       | M                       |
| Decimals *   | DECIMALS          | CL_DECIMALS        | M                       |
| Time period collection *                               | TIME_PER_COLLECT  | CL_TIME_COLLECT    | M                       |
| Reference period detail *                              | REF_PERIOD_DETAIL | CL_REF_PERIOD_DTL  | C                       |
| Compiling organisation *                               | COMPILING_ORG     | CL_ORGANISATION    | C                       |
| Underlying compilation                                 | DATA_COMP         | Uncoded            | C                       |

## 1.3 External debt data availability

### 1.3.1 Current availability of data on External debt within the IIP framework

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. Data related to year 2013 will be published on 16 April 2014.

Table 3 and 4 below show how the data on GED and NED can be found in Eurostat's on-line database, accessible at the following address:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search\\_database](http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database)

**Table 3 – Data on Gross and Net External Debt from the IIP tables**

International investment position - quarterly data [bop\_q\_intpos]  
Last update: 24-01-2014  
Table Customization [show](#)

TIME: [ ] + GEO: [ ] + CURRENCY: Million euro (from 1.1.1999)/Million ECU (up to 31.12.19) +  
FINPOS: Net position + FIN\_TYP: Gross foreign debt + PARTNER: All countries of the world +

|                               | 2012Q1 | 2012Q2    | 2012Q3    | 2012Q4    | 2013Q1    | 2013Q2    | 2013Q3    | 2013Q4    |
|-------------------------------|--------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Belgium</b>                | 5,612  | 1,034,037 | 1,048,265 | 1,032,163 | 1,004,317 | 1,022,645 | 998,647   | 1,017,167 |
| <b>Bulgaria</b>               | 5,295  | 36,632    | 37,186    | 37,505    | 37,636    | 37,601    | 37,451    | 37,141    |
| <b>Czech Republic</b>         | 3,436  | 93,243    | 91,719    | 91,677    | 92,114    | 92,017    | 92,654    | 91,852    |
| <b>Denmark</b>                | 1,866  | 453,132   | 464,288   | 455,305   | 444,910   | 447,909   | 431,430   | 432,189   |
| <b>Germany (until 1990 fo</b> | 4,485  | 4,334,441 | 4,454,700 | 4,439,753 | 4,332,675 | 4,327,449 | 4,251,293 | 4,120,887 |
| <b>Estonia</b>                | 5,250  | 15,610    | 16,018    | 16,293    | 16,622    | 16,200    | 16,485    | 16,091    |
| <b>Ireland</b>                | 3,904  | 1,672,109 | 1,694,582 | 1,683,571 | 1,645,102 | 1,675,828 | 1,637,948 | 1,618,069 |
| <b>Greece</b>                 | 0,182  | 389,923   | 417,944   | 413,699   | 437,458   | 418,637   | 422,766   | 418,880   |
| <b>Spain</b>                  | 3,877  | 1,758,254 | 1,770,719 | 1,726,178 | 1,726,493 | 1,738,718 | 1,711,747 | 1,664,350 |
| <b>France</b>                 | 7,751  | 4,059,831 | 4,100,721 | 4,092,968 | 4,070,570 | 4,128,410 | 4,130,403 | 4,108,481 |
| <b>Croatia</b>                | 5,832  | 45,964    | 46,747    | 45,672    | 44,800    | 44,978    | 45,974    | 44,927    |

**Table 4 – Data on Net External Debt from the IIP tables**

International investment position - quarterly data [bop\_q\_intpos]  
Last update: 24-01-2014  
Table Customization [show](#)

TIME: [ ] + GEO: [ ] + CURRENCY: Million euro (from 1.1.1999)/Million ECU (up to 31.12.19) +  
FINPOS: Net position + FIN\_TYP: Net external debt + PARTNER: All countries of the world +

|                               | 2012Q1 | 2012Q2   | 2012Q3   | 2012Q4   | 2013Q1   | 2013Q2   | 2013Q3   | 2013Q4   |
|-------------------------------|--------|----------|----------|----------|----------|----------|----------|----------|
| <b>Belgium</b>                | 3,825  | -406,775 | -396,508 | -398,124 | -352,164 | -338,873 | -344,380 | -342,341 |
| <b>Bulgaria</b>               | 3,545  | 13,013   | 13,136   | 11,969   | 11,426   | 11,649   | 10,732   | 9,831    |
| <b>Czech Republic</b>         | 1,331  | 1,646    | -823     | -74      | -2,027   | -3,623   | -1,618   | -4,527   |
| <b>Denmark</b>                | 5,756  | 38,834   | 34,176   | 30,173   | 29,117   | 20,015   | 22,459   | 28,246   |
| <b>Germany (until 1990 fo</b> | 5,944  | -137,362 | -163,204 | -201,272 | -251,574 | -247,625 | -305,317 | -378,621 |
| <b>Estonia</b>                | 815    | 629      | 298      | -105     | -343     | -475     | -496     | -573     |
| <b>Ireland</b>                | 5,479  | -558,870 | -602,614 | -633,381 | -650,357 | -692,439 | -683,143 | -695,637 |
| <b>Greece</b>                 | 5,009  | 226,330  | 231,054  | 230,995  | 235,414  | 239,182  | 240,078  | 238,125  |
| <b>Spain</b>                  | 3,083  | 972,349  | 963,491  | 949,266  | 930,121  | 959,014  | 952,800  | 944,866  |
| <b>France</b>                 | 4,825  | 614,786  | 627,240  | 687,481  | 710,441  | 693,249  | 687,056  | 690,497  |
| <b>Croatia</b>                | 7,113  | 28,211   | 28,346   | 26,297   | 26,120   | 26,955   | 27,247   | 34,741   |
| <b>Italy</b>                  | 1,661  | 842,840  | 832,400  | 866,871  | 886,740  | 907,284  |          |          |

The EU Member States are for the time being only reporting to Eurostat/ECB the aggregated figures related to net and gross external debt (NED and GED), as part of their IIP reporting.

Eurostat investigated if the Member States would be willing to report, on voluntary base, all the Tables included in Chapter 4 of the IMF's *External Debt Statistics Guide*. With few exceptions, Member States declared not to be in a position to report most of the information required by the

Tables 4.1-4.7 and it was concluded that the possibility of reporting these data would be further analysed only after the implementation of BPM6<sup>4</sup>.

The values of gross and net external debt currently disseminated by Eurostat area a subset of the IIP data and follow the definitions included in Table 7.11 (page 66) of *External Debt Statistics Guide (EDSG2003)* and in Table 7.14 of *EDSG2013*; they are calculated as follows (using the coding from the new BoP DSD, that follows the traditional National Accounts coding):

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

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

Their coding, within the new BoP DSD will be the following:

|                            |   |  |
|----------------------------|---|--|
| <b>Gross External Debt</b> | Q.N.#.%.S1.S1.LE.L.FA._T.FGED._Z.\$._T._X.N |  |
| <b>Net External Debt</b>   |   | Q.N.#.%.S1.S1.LE.NE.FA._T.FNED._Z.\$._T._X.N |

Where

|    | <b>Dimension</b>   | <b>Code used</b>      |
|----|--------------------|-----------------------|
| 1  | FREQ               | Q                     |
| 2  | ADJUSTMENT         | N                     |
| 3  | REF_AREA           | Reporting country     |
| 4  | COUNTERPART_AREA   | Partner country       |
| 5  | REF_SECTOR         | S1                    |
| 6  | COUNTERPART_SECTOR | S1                    |
| 7  | FLOW_STOCK_ENTRY   | LE=stocks             |
| 8  | ACCOUNTING_ENTRY   | L=Liabilities, NE=L-A |
| 9  | INT_ACC_ITEM       | FA                    |
| 10 | FUNCTIONAL_CAT     | T=all categories      |
| 11 | INSTR_ASSET        | FGED, FNED            |
| 12 | MATURITY           | Z=not applicable      |
| 13 | UNIT_MEASURE       | EUR or USD or ...     |
| 14 | CURRENCY_DENOM     | T=all                 |
| 15 | VALUATION          | X=not specified       |
| 16 | COMP_METHOD        | N                     |

<sup>4</sup> See BP/12/38, "New users' needs for national data: results of the survey and proposal for a way forward", p.29-32.

## 2. 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) will become available in 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.

### 2.2 Government's contingent liabilities

#### 2.2.1 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<sup>5</sup>) information on Government's contingent liabilities, via the "supplementary tables for the financial crisis"<sup>6</sup> introduced to get a more complete picture of 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 already collected by Eurostat is broken down in the following categories:

- Assets and liabilities of financial institutions guaranteed by government.

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<sup>5</sup> Concerning EDP notifications, see

[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/excessive\\_deficit/edp\\_notification\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/edp_notification_tables)

<sup>6</sup> 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)"

[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/documents/Background\\_note\\_fin\\_crisis\\_Oct\\_2013\\_final.pdf](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Background_note_fin_crisis_Oct_2013_final.pdf)

- 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<sup>7</sup>, for each EU Member State, including a summary table with the aggregated data for the EU and euro area, and covers years 2007- 2012. Information related to year 2013 is due with the EDP notification of 1<sup>st</sup> April 2014, and will be published on 23<sup>rd</sup> April 2014, alongside the EDP Press Release.

## **2.2.2 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 impact 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."

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<sup>8</sup>.

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 will be transmitted annually before 31 December (T+12 months) by the national statistical authority. The first transmission will take place in December 2014. Eurostat will publish 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<sup>9</sup>. Hence, the first data in the context of the Directive will be released by Eurostat in January 2015.

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<sup>7</sup>[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/excessive\\_deficit/supplementary\\_tables\\_financial\\_turmoil](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/supplementary_tables_financial_turmoil)

<sup>8</sup> The decision is available at the following address:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/methodology/decisions\\_for\\_GFS](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/methodology/decisions_for_GFS)

<sup>9</sup> Data are annually collected via the Questionnaire on government controlled units classified outside general government since December 2012.



## 2.3 Cross border contingent liabilities

No information on cross-border contingent liabilities is available from Balance of Payments, since this kind of information is not part of the BPM5 (or BPM6) standard presentations.

Information on contingent assets and liabilities of the monetary authority is however collected as part of the ECB's "Reserves template", in the section dedicated to "Contingent short-term net drains on foreign currency assets". The information collected is related to "Contingent liabilities in foreign currency" and "Undrawn, unconditional credit lines" provided by/to Other national monetary authorities, BIS, IMF, and other international organizations, Banks and other financial institutions.

BPM6 standard presentation requires the collection and reporting of data related to "F6=Insurance, pension **and standardized guarantee schemes**", which includes "F66=Provisions for calls under standardized guarantees". No separate reporting of information on F66 is foreseen as part of BPM6-based reporting.

Eurostat/BoP investigated, in 2012, if Member States would be willing to report the data included in Table 4.7 of the IMF's *External Debt Statistics Guide*, "Total guaranteed External Debt Position by sector of the guarantor", but only 3 countries replied in a favourable way to this request, what's more, these three countries declared to be able to provide this kind of data only for general government as guarantor<sup>10</sup>.

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<sup>10</sup> See BP/12/38, "New users' needs for national data: results of the survey and proposal for a way forward", p.32.

## Annex 1 - Extract from ESA2010

### 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' warranties 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.