Non Performing Loans: A Contribution in Favor of Option 3

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The present paper is a contribution to the EDG on non performing loans organized by the IMF.

The moderator of the EDG, Russel Freeman, posted recently a paper on the EDG discussing four options regarding the treatment of nonperforming loans: *Option 1*: Leave the SNA as it is; *Option 2*: Maintain the primary valuation as nominal, ask for memorandum items on "realizable loan values"; *Option 3*: Primary valuation market equivalent for creditors only, no symmetry between debtor and creditor.; *Option 4*: Primary valuation market equivalent value, but retain symmetry between debtor and creditor.

My present paper argues in favor of **Option 3.** The conclusion of the present paper explains why Option 2, which seems to gather the preference of some participants in the discussion, is not sufficient in my view.

I. Introduction

The present paper argues in favor of introducing three significant changes in the SNA: (1) recognize the existence of provisions for bad debts and incorporate in the core balance sheet accounts lines reflecting these provisions, (2) accept the principle of asymmetry: the value of loans can be different from the point of view of the creditor and from the point of view of the debtor, (2) classify the flows corresponding to the changing value of loans in the reevaluation account of the creditor or, alternatively, in the OCV account of the creditor.

As I am far from being a specialist of financial issues, I have inspired myself of the different papers that very good experts have drafted on this issue. They are available on the IMF EDG on the treatment of non performing loans in macroeconomic accounts:

- [1] The Treatment of Non Performing Loans in Macroeconomic Statistics (A. Bloem, C Gorter)
- [2] Loan review, Provisioning, and Macroeconomic Linkages (L. Cortavarria, C Dziobek, A. Kanaya, I. Song).

II. The economic reality of bad loans.

Financial crisis with important macroeconomic consequences come with massive bad loans. Here are some recent examples (according to [1]): the 1987 savings and loan crisis in the USA, the Nordic countries' bank crisis a few years later, the 1994 Mexican crisis, the 1995 Argentine crisis. The crisis in Japan in the last decade was estimated to be even higher. The public funds used to address the Japanese banking crisis amounted to some 5% of GDP. Realized losses during the Asian crisis amounted to 20 percent of total bank loans in Indonesia, and to 27 percent in Thailand. From this, it is obvious that the issue of bad loans is a major macroeconomic issue.

The ambition of the System of National Accounts is to cover all macroeconomic aspects: production, income, net worth. The SNA 93 has in particular the ambition of delivering to users a complete set of aggregated balance sheets of institutional sectors. This includes the financial sector. Financial crisis are essentially balance sheet crisis of the financial sector and bad loans concern essentially banks. It is therefore essential that the SNA balance sheet for the financial

sector explicitly show the data that is relevant to analyze these crisis, and in particular the data on bad loans[1].

III. The business accounting of bad loans.

According to [2], banking supervision authorities give great importance in the implementation by commercial banks of sound accounting for bad loans. In particular, accounting rules on bad loans have an impact of “capital ratios”, which are indicators used by the banking authorities to monitor the financial soundness of commercial banks.

Not being a specialist of private accounting and even less of banking accounting, I will not try to go into details. Based on [2], one can however confirm those three basic principles of banking accounting for bad loans:

(1) Even if they are not internationally standardized, bank accounting rules systematically include recommendations on the classification of loans, from “standard” to “loss loans” through “doubtful”. Regulations tend to be more and more forward looking, in the sense that banks are asked to recognize as soon as possible in their accounts loans that are becoming problematic.

(2) The recognition of bad loans in the accounts is generally based on the creation of a “provision” in the balance sheet. This provision reflects the estimated loss of the loan value. In banking accounting, the cost of provisions constitutes a normal business expense and reduces bank profit.

(3) While the situation may vary from country to country, it is admitted by economists that provisions for bad loans should be recognized as costs by the tax authorities, to provide a strong incentive for banks to adequately provision and to do so in a timely fashion.

These principles confirm that there is sufficient regulations and experience of accounting for bad loans in bank accounting standards to give confidence to national accountants to base their treatments on the data on bad loans generated by bank accounts. This estimation should be sufficiently reliable for national accounts needs.

IV. The main contradiction of the current SNA.

However, the current SNA completely ignores this information on provisions for bad loans. In that sense, one could say that, from the start, the SNA abandons the ambition of giving a fair picture of the balance sheets of the financial sector, as is it recommended by the banking supervision authorities. Why this contradiction between the ambition of delivering good balance sheet data and the rejection of the information included in the balance sheets of banks?

The reason originates from the systematic rejection of provisions in the SNA.

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[1] I recognize however that I have rarely seen an analysis of the financial sector based on national accounts data. Users tend to prefer aggregated micro business data, probably because they feel more comfortable with their presentation. The importance of the national accounts data for the financial sector should not therefore be overestimated. However, the treatment of bad loans has a direct or indirect impact on the accounts of other sectors, in particular of the government sector. Most bank crisis lead to an intervention of the public sector, which has to take over these bad loans. A clear and correct treatment of bad loans in the SNA remains therefore essential.

Nothing much is said on provisions in the SNA. A thorough scanning of the entire 700 pages of the SNA on the word "provision" (i.e. as an accounting entry) only results in four hits:

- paragraph 10.140 which confirms that provisions for bad debts are not recognized but does not explain why: "*provisions for bad debt are treated as book keeping entries that are internal to the enterprise and do not appear anywhere in the system*".
- Paragraph 13.22 which says "*the only "provision" recognized in the System is accumulated consumption of fixed capital*"[2],
- and paragraphs 12 and 47 of Annex IV which refer to *pension provisions*, but do not discuss them in principle.

We are therefore left with a bit of guessing of why national accountants basically ignore provisions, and in particular provisions for bad debts.

My first guess is that national accountants have been, for a long time, convinced that business accounting provisions are manipulated by CEOs essentially for tax and presentational reasons. However, this seems to me not a good reason. Several experts on business accounting did not confirm this. On the contrary, it seems that provisions are more and more transparent. In particular, it is obvious from the section II of the present paper that provisions for bad loans are closely followed and regulated by banking supervision authorities, and thus must reflect quite well the probable value of the loans. I think this reason for ignoring provisions should therefore be discarded by national accountants.

My second and more solid guess is that the fundamental reason that the SNA does not recognize "provisions for bad debts" is that the SNA states, as a principle, that it wants to record symmetric accounts, seeking "consistency". Examples of this principle are numerous:

Paragraph 2.5: "*the central framework is also consistent. That is, each economic flow or stock is measured identically for both the parties involved*."

Paragraph 2.67: "*again, following the quadruple entry principle, a transaction must be recorded at the same value through all the accounts of both sectors involved. The same principle applies to assets and liabilities*".

In this context, national accountants want to ignore "provisions" because provisions are accounting entries which corresponds to the view of one unit on its assets versus another unit, while the latter may not have the same view on its liability to the former. In other words, provisions are asymmetric by construction.

One can therefore conclude that provisions for bad debts are excluded from the SNA balance sheets for banks because one cannot apply these provisions to the counterpart party who is the debtor. To make it more provocative, one could therefore state the following result: "the SNA does not want to show a fair image of the balance sheet of banks, because this image cannot be applied to the corresponding debtor accounts".

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[2] This sentence is wrong: there is another « provision » which is recognised but not (yet) called « provision » in the SNA: it is all the "non life insurance provisions". See the discussion of the OECD task force on insurance and resulting AEG recommendations.

This situation is unsustainable. The SNA rightly has the ambition of delivering good balance sheets for banks. They should therefore include the provisions for bad loans. The argument of symmetry or consistency of the accounts is not an argument that can be used towards users analyzing bank balance sheets. They do not want to know whether or not the balance sheet of the debtors can de derived symmetrically. In other words, the argument of "consistency", so often used in the national accounts, is not relevant for users.

This argument of consistency is most difficult to understand knowing that it is really easy to construct balance sheet tables that allow for such "inconsistencies" between sectors. A system so complicated as the SNA should be able to allow for such flexibility, which only reflects a complex economic reality. Technically, it should be easy to imagine balance sheet tables for the financial sector (and other sectors) which include special lines (on the asset side) allowing for bad loan provisioning. In principle, there is no reason not to admit that both the nominal values and the provisioned values appear in this balance sheet. The latter lines will forcibly not be consistent with liabilities of the counterpart sector, but this is to be simply admitted.

My first conclusion is therefore that the SNA should recognize provisions for bad banks as part of the integral information necessary to construct a good aggregated balance sheet for banks.

V. What about the value of loans for the debtor?

As can be seen, asymmetry should not impede the compilation of good balance sheets. However, should this asymmetry exist after all?

Some national accountants think that provisions for bad debt can be taken into account, and, at the same time, accounts may remain symmetric. This means that the value of the devaluated loans seen from the point of view of the creditors should be applied to the loans valued in the debtors' balance sheets.

I suppose these experts think that the accounts of the debtor would reflect better the reality of its own situation when using the devaluated liabilities rather than the full liability. The idea would be that the recognition by the creditor that it expects a loss on this loan is more or less recognition that he has already accepted the loss.

I am not a specialist of debt negotiations, and I admit I don't know exactly what happens to a specific loan once it has been provisioned. Obviously, sometimes, it results finally in a write-off of the loan. However, I suspect this is far from the whole story. I suppose banks, even after provisioning the loan, try and sometimes succeed in recuperating the whole amount (which implies that the provision was overestimated).

In this context, I feel much more comfortable with leaving the value of the loan on the debtor's account at its nominal value, even if the loan has been provisioned by the bank. Only when the bank has completely accepted to forget the loan or renegotiates its value (write-off, forgiveness, re-negotiation/rescheduling) should the loan disappear or change in value in the debtor's balance sheet.

A problem inevitably occurs when one discusses this issue with experts of developing countries' external debt. In their view, in no way, should the macro economic data show a discounted amount of loans due by these countries, based on the provisions made by creditor countries. Is this contradictory with my proposals? No: in my proposals, macro accounts of debtors should continue to show loans due, at nominal value.

I know that some then add that it would be imprudent to publicize such information, which could be used by debtors as the recognition by creditors that they have accepted to renegotiate the loans. I think national accounts can discard in confidence such a concern based on the practice that is already implemented at the micro level. Confidentiality rules are probably already applied by banks to avoid such situations. National accounts can inspire themselves from these rules. Some specific confidentiality rules may need to be applicable for aggregated balance sheet data presented by country[3].

VI. Valuation of loans

Once this principle is admitted that provision for bad loans are recognized in the SNA and affect the valuation of a loan seen from the point of view of the creditor, but not forcibly from the point of view of the debtor, the whole discussion on the valuation of loans takes another dimension.

Today, several paragraphs of the SNA can be interpreted as if loans can only have a unique value, equal to their nominal value. A parallel is even made with currency:

Paragraph 14.51: *Those financial items that are not readily transferable among transactors –e.g. loans, deposits, miscellaneous accounts receivable and payable- are to be recorded at nominal value (as is the case of currency) (underlined by FL).*

Paragraph 13.72: *Loans: the value to be recorded in the balance sheets of both creditor and debtor (underlined by FL) are the amount of principal that the debtors are contractually obliged to repay to the creditors when the loan mature (the ESA 7.51 adds: even in cases where the loan was traded at a discount or a premium).*

These paragraphs should be changed, in favor of: (1) confirming that the market value principle of the SNA is applicable for loans as for other assets from the creditor's point of view, (2) accepting the idea that the value of the provisioned loan is the best estimate of the market value, should a market exist (the IAS would say the best approximate of the "fair" value of the loan), (3) allowing for a different valuation from the debtor's point of view.

Such a change would have many advantages. One example of the good implications of the change of accepting that loans can have varying valuations can be found in a recent case treated by Eurostat on financial defeasance. The reference here is Eurostat's "Manual on Deficit and Debt" which is a major interpretative guide to the SNA/ESA for general government accounts. Chapter II.5.2 of this Manual treats the case of financial defeasance. The Manual presents the situation in the following terms:

"*In recent years, there has been instances of public authorities intervening when financial institutions –banks, insurance, corporations or financial groups – have faced difficulties because of their involvement in assets which proved of a bad quality.[…] Intervention of general government may take various forms: […] among which that the government buys directly the bad assets from the financial institutions*."

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[3] This is discussed in the last paragraph of « Treatment of Allowances for Loan Losses and Non Performing Loans: a note for the 14th meeting of the IMF committee on Balance of Payments Statistics", by Art Ridgeway, from Statistics Canada.

The manual describes then what to record when the government buys the bad assets at their face value: "*a capital transfer should be recorded when government buys the assets from the financial institutions. The amount of this transfer, paid by government, is equal to the difference between the amount paid for buying them and their* <u>*true*</u> *value (underlined by FL).*"

The Manual then discusses of the methods to estimate the true value (i.e. the market value) of the different assets (which are real estate, shares and loans) but, of course, is obliged to face the specific problem of loans.

As government buys back bad loans at their nominal value, this should lead to the recording of a capital transfer equal to the difference between the nominal value and the fair value of the loan (which has generally been provisioned). But, as explained in the Manual (which guidelines can only strictly follow the letter of the ESA) this creates a difficulty because the SNA/ESA states that loans have only one value in the System, the nominal value. The Manual is also obliged to recognize that the SNA/ESA states that "*provisions for bad debts […] do not appear anywhere in the system*". Thus the Manual concludes: "*The notion of "fair value" commonly used in business and banking accounting systems, is not recognized for loans in the system of national accounts*"[4].

The apparent consequence is that national accountants cannot record the transaction for loans in a similar way than the transaction on other assets because of the definition of the valuation of loans, and despite the fact that business information is given on the true value of the loan, through the provision recorded by the financial institutions! The Manual tries then to find a way out, but the absurdity of the situation is obvious.

Recognition of provisions for bad debt and of the possible change in the value of the loans in the SNA/ESA would help getting out of this quagmire.

VII. Where to classify the corresponding flow?

The present SNA contains a number of paragraphs discussing of the possible events that can affect loans and of their implications in the accounts. I have tried to interpret these paragraphs in the annex 1 with the view of finding some ground to propose where to classify in the SNA the flow corresponding to the provision.

On the whole, the SNA distinguishes between three types of situation.

First, it considers that when there is an "agreement" on the part of the creditor to abandon a debt (debt forgiveness), the loan should be cancelled on both sides (creditor and debtor), with the corresponding flow being <u>a capital transfer</u>.

Second, when the abandonment is imposed to the creditor (e.g. bankruptcy of the debtor), then the loan is cancelled on both sides but the corresponding flow is recorded in the <u>OCV accounts</u>, and not as a capital transfer[5].

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[4] In passing, the Manual mentions the traditional lack of confidence of national accountants on provisions, which I commented in section III: "*Practical considerations also forbid taking into account provisions because they may be subject to manipulations*".

[5] The difference in the treatment when the creditor "agrees" and when the creditor is imposed the "write-off" calls for some remarks, as, from the point of view of the financial situation of the creditor, the result is strictly the same. If one focuses on change in net worth as the main balancing item to monitor the creditor's situation, then there is no problem: the two treatments give the same result. But if one focuses on net

Finally, the SNA acknowledges that there can be changes in values of existing loans, when there are secondary markets. But as this appears contradictory with its own ruling that loans can have only one value, the SNA is not clear about what to do with it. However, it does not discard the possibility to record the change in value in the reevaluation accounts.

What conclusion can we make regarding the treatment of provisions? There are three possibilities open to record the corresponding flow: capital transfer, OCV, reevaluation. Obviously, the first is a non starter, as, by construction, a capital transfer would affect the debtor's accounts and I do not recommend changing the value of the debt on the debtor's balance sheet.

I have really no final opinion on whether the corresponding flow should be an OCV or a reevaluation. But it seems to me that it can be easily explained that the provision is an estimate by the creditor of the price of the loan if it was exchanged on a secondary market. In this sense, I would feel comfortable with classifying it in the reevaluation account of the creditor (and only of the creditor).

VIII. Conclusion

Based on the discussion above, my response to the questionnaire disseminated by the moderator of the EDG on non performing loans is "Option 3":

Option 3) ***Primary valuation should be market equivalent value for creditors only, with no symmetry between debtor and creditor.***

Measure loans as assets at market equivalent values (best estimates which might in practice be fair values or nominal values net of expected losses –provisions--) and use memorandum items to show nominal values for loans and interest arrears on NPLs. This is in line with the market value approach and recognizes that nominal values are a poor substitute for market values. Nominal values would continue to be used for liabilities in the debtor accounts.

For: This provides a true financial picture of the creditor's financial position in the primary accounts and the memorandum items. As for option 2, the data should be available. Partly in line with the SNA principle of market valuation in the way it measures loan assets, but loan liabilities are still at nominal values.

Against: The underlying SNA principle of symmetry between the accounts of debtors and creditors is no longer maintained in the main body of the accounts, although it is by way of the memorandum items, and these would be considered to an integral part of the system. This would involve a major revision of the SNA framework.

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lending borrowing, as is the case in Europe with the Maastricht treaty, then the two treatments have different results. The first one decreases the net lending of the creditor *(i.e. the government)*, while the second does not affect it. It looks strange to focus on a balancing item which can treat asymmetrically two situations that are, *from the point of view of the creditor*, strictly equivalent. I have no immediate solution to this paradox.

I concur strongly with the “For” arguments, and, as explained above, am not convinced by the “against” argument: symmetry is not a major constraint in this context.

The “Option 2” of the questionnaire seems to gather the approval of several participants in this discussion. Option 2 basically says: let’s not change the core accounts but introduce a new memorandum table which would give the true value of loans. This option is prudent, and as such may be seen as more palatable than Option 3. However Option 2 has two main disadvantages in my view:

- By leaving provisions and the recording of the true value of nonperforming loans out of the core accounts, this option does not really give a clear recommendation to national accounts of what to do when there is an exchange of nonperforming loans. For example, the solution to the situation described in my paragraph IV above (exchange of loans in a defeasance context) is not clarified. There will constantly be a difficulty in treating bad loans.
- There are some memorandum items already in the SNA, and the experience has shown that they are not compiled by producers of national accounts, who, obviously and understandably, prefer to focus on the core accounts. The relegation of data on bad loans in a memorandum table will probably result in a situation where no aggregate information will continue to be available on bad loans.

This is why I think Option 3 is a better solution. Certainly, it goes against the “symmetry principle”. But I do not see where the economic rationale for this principle is in this case.

Annex I

This annex tries to summarize and interpret the different paragraphs of the SNA/ESA which discuss the different events that can occur for a loan and their implications in the national accounts.

1/ Provision for bad debts (paragraph 10.140): I have already largely covered this issue. The current SNA treats them as "*bookkeeping entries that are internal to the enterprise and do not appear anywhere in the system*". This is therefore a non event for the current SNA. As explained above, I hope this will change in the next SNA.

2/ Debt forgiveness (paragraph 11.23): "*A debtor and creditor may become parties to a bilateral agreement (often referred to as "debt forgiveness") that a financial claim no longer exists. Such an agreement gives rise in the SNA to the recording of a capital transfer payable/receivable and the simultaneous extinction of the claim [in both debtor and creditor balance sheets]*."

In this paragraph, the SNA acknowledges a typical case of cancellation of the loan, and gives the recommendation to the record the flow as a capital transfer. Paragraph 12.52 extends this treatment to all "*cancellation of debt by mutual agreement",* confirming the importance given to the words "*mutual agreement".* This importance is a bit strange, as it is difficult to imagine a debtor that would not agree…that its debt is cancelled. One must think that the "agreement" is therefore essentially the one of the creditor.

3/ Write-off (paragraphs 11.23, 12.51, 10.140): The SNA defines "write offs" as "*the recognition by a creditor that a financial claim can no longer be collected, due to bankruptcy or other factors, and the consequence removal of that claim from its balance sheet*". As the previous case, the SNA acknowledges a case of suppression of the claim from both the creditor's and the debtor's balance sheets, but, contrary to the previous case, the corresponding flow is to be recorded in the Other Change in Volume account (OCV) and not as capital transfer. Paragraph 10.140 justifies why it is not to be recorded as a capital transfer: *"[because] the writing off of a debt is not a transaction between institutional units*". The definition of a "transaction" in the SNA can be found in paragraph 3.12: "*A transaction is an economic flow that is an interaction between institutional units by mutual agreement (underlined by FL)*". Once more this idea of "*mutual agreement*" comes into the picture. Overall, one can conclude that the write-off has the same impact than debt forgiveness regarding the balance sheet of the debtor and the creditor, but the corresponding flow is not recorded in the same way because, in the case of write-offs, the creditor was "imposed" this cancellation and did not "agree" (therefore it cannot be a capital transfer), while in the case of debt forgiveness he "agreed" to forgive (thus it can be a capital transfer[6]). The line is obviously thin between the two situations.

4/ Write-down: The paragraph 11.23 says: "*Write-downs that reflect the actual market values of financial assets should be accounted for in the reevaluation account. However, write-downs or write-offs that are imposed solely to meet regulatory or supervisory requirements and do not*

[6] Paragraph 103 of Annex I of the SNA is interesting as it explains the history of the treatment of write-offs: *The 1993 SNA, in conformity with the fifth edition of the BPM, treats the write-off of bad debt and expropriation of property without compensation as "other volume changes". These actions affect outstanding claims in the balance sheets but they are not transactions to be included in the capital and financial accounts. In contrast, when the cancellation of a debt involves a voluntary, contractual arrangement (debt forgiveness) between the parties concerned, it is considered a financial transaction and the offsetting entry to the reduction in debt should be treated as a capital transfer. The 1968 SNA treated the write-off of bad debts, etc. as transactions recorded in the second part of the capital finance account with an offsetting entry reflected under current transfers*.

reflect the actual market values of those financial assets should not be recorded in the SNA". The term "Write-down" is in fact not defined in the SNA. This expression is therefore to be understood as a general term meaning a "decrease in the value of the asset" (this is confirmed by the French translation, which uses simply "*diminution*", which is a very general term). How can we interpret this paragraph? My interpretation is that this paragraph only confirms that the SNA does not recognize bad debt provisions except when the loan is exchanged on a secondary market. This is confirmed by the next point.

5/ Secondary market for loans: Paragraphs 14.47, 14.51, 11.75, ESA 5.79 are most interesting as they discuss three things: (1) the acknowledgment of the appearance in some cases of secondary markets for loans (of heavily indebted countries), (2) the possible asymmetry that this situation creates in the SNA, and, (3) the proposal to change in that case the classification of loans and to consider them as securities other than shares.

The SNA recognizes that secondary markets have appeared for the trading of the debt of heavily indebted countries. Therefore, following another basic principle of the SNA, which is to record assets at their market value, these loans should be therefore recorded at this devaluated value. The SNA therefore acknowledges in this case a change in the value of the loan. But, at the same time, paragraph 14.51 recognizes that this value should not be applied to the debtor's debt statistics which should remain at nominal value. In my view, paragraph 14.51 can therefore be considered as an anticipator of my proposal to accept asymmetry. But, strangely, it then proposes several ways to deal with this asymmetry. The result is that this paragraph could also be interpreted by others as in favor of symmetry! Obviously this needs to be clarified. Finally, both the SNA and the ESA resolve the contradiction between the idea that loans have a unique value and the fact that there can be secondary markets for loans, by proposing, to declassify those loans from the category "loans" and "reclassify" them as "securities other than shares" (paragraph 11.75) or "shares and other equity" (paragraph 14.51). I admit I have some difficulty in understanding the usefulness of these reclassifications, except to preserve the dogma of a unique value for loans. On the whole, one can conclude that the SNA is not clear on the case when exist secondary markets for loans. On one hand, it cannot accept to not value the loan at this discounted value, while on the other hand, it acknowledges that the value should not be changed for the debtor, which is contradiction with the dogma of symmetry and unique value.

Paragraph 14.51 explains possible ways of dealing with the asymmetry through recordings that imply the *reevaluation accounts,* which implies in fact that there can be a change in the value of loans. It proposes to "*exchange such loans for equity, with the nominal value of the loan and the lesser value of the equity obtained treated as holding gain/losses"*. 14.51.c proposes "*a rescheduling of the loan, so that a new arrangement in effect replaces the old one, with the new loan's nominal value to be the basis of valuation and a holding gain/loss recorded if the new nominal value is less than the old value*." As can be seen, this allows the recording of a change in the value of loans through the reevaluation accounts. This could be extended to provisions.

Rescheduling: Paragraph 11.23: "*changes in debt resulting from rescheduling should be reflected in the financial accounts when the terms of the debt contract (maturity, interest rate, etc.) change, as this is considered a new arrangement*." This paragraph is not very clear on what happens, as the words 'should be reflected in the financial accounts" do not explain what to do. But paragraph 14.51 proposes to treat the difference between the old and new (rescheduled) value through the reevaluation accounts.

Debt assumption: paragraph 11.23: "*changes in claim resulting from debt assumption should be reflected in the financial accounts when the institutional sector of the debtor or the creditor*

changes, as these are considered new contractual arrangements". As in the previous case, this sentence does say much on what to do. However, here one can assume that in the case of debt assumption by another debtor than the original one, the treatment would result in: (1) disappearance of the loan on the original debtor's balance sheet, (2) appearance of the loan on the liability side of the new debtor, (3) no change on the creditor balance sheet, (4) capital transfer between the new debtor and the old debtor, as there is obviously a "mutual agreement" between the new debtor and the old debtor.

<u>Debt repudiation</u>: paragraph 11.23 says that "*unilateral cancellation of a financial claim by a debtor (debt repudiation) is not recognized in the SNA*". This situation is, I hope, rare because I will not try to imagine the situation of a national accountant which would be confronted to a decision of such sort by its own authorities and would still insist on maintaining the corresponding entry in his national accounts…