BOPCOM-04/19A

Seventeenth Meeting of the
IMF Committee on Balance of Payments Statistics
Pretoria, October 26–29, 2004

Valuation of Loans

Prepared by the Statistics Department
International Monetary Fund

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BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTEG)

OUTCOME PAPER (BOPTEG) # 4

(1) Topic: **Valuation of Loans**

(2) Issues: See *The Treatment of Nonperforming Loans in Macroeconomic Statistics*, Report of the Electronic Discussion Group Moderator,
http://www.imf.org/external/np/sta/npl/eng/2004/081604.pdf
(A revised version is expected in October.)
The BOPTEG discussion took place by e-mail.

(3) Recommendations:

BOPTEG endorsed Option 2, i.e., the continued use of nominal value as the standard basis, but with the addition of a requirement to show memorandum items with measures of market-equivalent (i.e., realizable) values of loans.[1]

Given the importance of loans across the range of datasets, particularly in national accounts and monetary statistics, this issue will need to be dealt with consistently in the macroeconomic statistics guidelines. The straw poll for the Electronic Discussion Group also showed a majority for Option 2, with a minority wishing to move to Option 4.

[1] Results of the BOPTEG discussion were:

Option	Votes	Comments
1	0	
2	12	of which 3 mentioned Option 4 as a longer term objective, and 3 others stated Option 4 as an attractive ideal.
3	0	
4	3	of which 1 preferred nominal values for bilateral data

[2] [2] Results of the BOPTEG discussion were:

Option	Votes	Comments
1	0	
2	12	of which 3 mentioned Option 4 as a longer term objective, and 3 others stated Option 4 as an attractive ideal.
3	0	
4	3	of which 1 preferred nominal values for bilateral data

Several of the supporters in BOPTEG of Option 2 mentioned their overall preference for market-equivalent values as a general principle, but rejected Option 4 for the valuation of loans because of several reasons, inter alia, the adverse effects of fair valuation related to, for instance, the consequent decrease in outstanding liabilities of less creditworthy debtors (with a subsequent impact on monetary aggregates, financial stability indicators and macro prudential supervision) as well as other practical concerns, including data availability, the variety of methods of calculating market-equivalent values, and uncertainty about the scope of adoption of IAS39. One member suggested use of nominal values for partner data, but market-equivalent values for other cases.

(4) Rejected Alternatives:

Option 1 is close to the current treatment, which uses nominal values alone. Members consistently considered that this treatment gives an incomplete picture of loans, and could be misleading in some cases.

Option 3 is to use nominal values for debtors and market-equivalent values for creditors. Several members mentioned that any technique that was asymmetric would not be acceptable.

Option 4 is to use market-equivalent values, with nominal values as memorandum items. Some BOPTEG members expressed sympathies with this option, but did not support it for the above-mentioned reasons. In particular, some BOPTEG members were concerned that Option 4 would lead to increased asymmetry in practice because of inconsistent estimations made in debtor and creditor countries. The implications for debt forgiveness calculations and, perhaps, for the recording of loan guarantees of adopting the market value approach for loans would need to be investigated.

(5) Questions for the Committee:

(i) *Does the Committee agree with the adoption of nominal values as the primary valuation technique for loans, supplemented by required memorandum items to give a picture of market-equivalent values by taking into account expected losses and other changes to the extent possible?*

(ii) *What are the views of the Committee as regards if and how the new manual should point the way toward making market-equivalent values the primary valuation technique at some stage in the future? In particular, does the Committee foresee any means to overcome the above-mentioned conceptual and practical problems related to the use of fair values for loans in the main accounts?*