Monetary and Financial Statistics Manual and Compilation Guide Revision

Issues Paper

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MONETARY AND FINANCIAL STATISTICS MANUAL AND COMPILATION GUIDE REVISION EXPERTS GROUP MEETING
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ISSUES PAPER
prepared by Financial Institutions Division / Statistics Department / IMF

BACKGROUND

1. IMF staff has identified a number of issues drawing from the experience accrued since the publication of the *Monetary and Financial Statistics Manual (MFSM)* in 2000 and the *Monetary and Financial Statistics (MFS) Compilation Guide* in 2008, and the implementation of Standardized Report Forms for the submission of monetary data to the IMF beginning in 2004.

2. Additionally, there is the need to adapt them to the current international statistical standards, in particular the new *2008 System of National Accounts* (*2008 SNA*) and the *Balance of Payments and International Investment Position Manual*, 6th edition (*BPM6*).

3. To facilitate the discussion and draw preliminary views from participants ahead of the monetary and financial statistics experts group meeting, this paper highlights the identified issues and includes short questionnaires on each of them.

Responses would be welcomed by January 13, 2012
(please, send responses to Messrs. Luca Errico (lerrico@imf.org) and Pierre Papadacci (ppapadacci@imf.org), copying in stafiast@imf.org)

4. The identified issues are presented hereafter following the proposed structure of the future *Monetary and Financial Statistics Manual and Compilation Guide* (*MFSMCG*)[2]. The chapters carrying the same number in *MFSM* and *MFS Compilation Guide* cover the same topic. The same principle will apply to the *MFSMCG*. Thus, for instance, "Classification of Financial Assets" corresponds to chapter 4 in all *MFSM*, *MFS Compilation Guide*, and *MFSMCG*.[3]

CHAPTER 1. INTRODUCTION

5. Chapter 1 will present the purposes of the *MFSMCG*, the relationship of monetary and financial statistics with the other macroeconomic datasets—real sector statistics, external sector statistics, government finance statistics, financial soundness indicators—, the main changes from

[2] See Appendix I – Annotated Outline for *MFSMCG*

[3] However, this principle does not apply to Chapter 2: "Overview" in *MFSM*, "Source Data for Monetary Statistics" in *MFS Compilation Guide*, and "Framework for Monetary Statistics" in *MFSMCG*.

the *MFSM* and *MFS Compilation Guide*, and the structure of the *MFSMCG*. Chapter 1 will also include a brief overview of Chapters 2 to 8.

Questions

1. Based on the Annotated Outline for the *MFSMCG* in Appendix I, do you agree with the proposed structure for the *MFSMCG*?

CHAPTER 2. FRAMEWORK FOR MONETARY STATISTICS

A. The *2008 System of National Accounts*

6. The overarching framework for monetary statistics will continue to be the System of national accounts (SNA). Since the SNA has recently been updated with the publication in 2009 of the *2008 System of National Accounts* (*2008 SNA*), the revised *MFSMCG* will be adapted to this new framework.

B. Scope and Uses of Monetary and Financial Statistics

7. This section will indicate the scope of monetary statistics, namely all financial assets and liabilities of all institutional units within an economy, focusing on the relation between the institutional units of the financial sector vis-à-vis other resident institutional units and the rest of the world.

8. Regarding the uses of monetary statistics, the focus is on the data of the depository corporations sector and the surveys: central bank survey, other depository corporations survey, and depository corporations survey. Expanding from the *MFSM* and the *MFS Compilation Guide*, it will be highlighted the importance of collecting data on other financial corporations, and of compiling a financial corporations survey.

9. A brief discussion on the uses of monetary statistics for monetary policy formulation, and the relevance of monetary statistics in view of the increased reliance on inflation targeting will follow.

C. Principles and concepts

10. This section will summarize the principles and concepts that will be discussed in the following chapters, such as residence, sectoring, classification of financial instruments, valuation, time of recording, aggregation, consolidation, and netting. Rather than going into a description of these concepts, which would be a repetition of what will come later, the section will only touch on general aspects.

11. The section will also contain a general discussion of the underlying accounting principles used to produce the source data used for monetary statistics. There will be a description of the

linkages between stock and flow data of the reporting institutional units, and the data needed by compilers of monetary statistics.

12. Reference will be made to the accounting rules followed by financial corporations, which normally comply with international financial reporting standards (IFRS), and the needs of monetary statistics. Commonalities and differences will be presented.

Questions

2. No question on Chapter 2 at this stage.

CHAPTER 3. INSTITUTIONAL UNITS AND SECTORS

A. Institutional Units

13. The *2008 SNA* contains basically no changes in the definition of institutional units with respect to the *1993 SNA*. Therefore, there will be only minor adjustments in this section in the *MFSMCG*. The revised *MFSMCG* will include a short subsection dealing explicitly with cooperatives and limited liability partnerships, which is missing in the current *MFSM* and the *MFS Compilation Guide*.

14. This section will expand on **special purpose entities** (SPEs). Although the *2008 SNA* does not provide a common definition for SPEs, a general characteristic is that SPEs are created to hold securitized assets or other assets that have been removed from the balance sheets of corporations or government units. The *2008 SNA* lists three categories of SPEs: a) **captive financial institutions**, b) **artificial subsidiaries of corporations**, and c) **special purpose units of general government**. To these three categories, a fourth one should be added: *multi-government SPEs*, being an example of them the recently created European Financial Stability Facility (The decision by Eurostat was to reallocate the debt to the public accounts of the States providing the guarantees, in proportion to their share of the guarantees for each debt issuing operation).

15. This section will also distinguish between two quite different types of units that are both often referred to as holding companies. One type is the head office, which exercises some aspects of managerial control over its subsidiaries. Such units are allocated to the non-financial corporations sector unless all or most of their subsidiaries are financial corporations (if so, they are treated by convention as financial auxiliaries). The other type, properly called holding company, is units that hold the assets of subsidiaries corporations but do not undertake any management activities. These units are always allocated to the financial corporations sector as captive financial institutions (*SNA*, par. 4.53-4.54).

16. The section will include a d**escription of ownership** and control of corporations.

B. Residence

17. The treatment of residence will follow the *BPM6* and the *2008 SNA*, elaborating on the concepts of economic territory and center of economic interest. No major revisions are expected from the current text of the *MFSM* and the *Guide.* The *Guide* sets out a number of borderline cases. (paragraphs. 3.16-3.53).

18. The *2008 SNA* and *BPM6* provide now clearer guidance on the treatment of **multiterritory enterprises**, which are enterprises conducting business as a seamless operation over more than one economic territory; and running its activity as an indivisible operation with no separate accounts or decisions, so that no separate branches can be identified. The *BPM5* indicated several criteria to allocate the operations of these enterprises, such as capital contribution, or headquarter location. The *BPM6* recommends to identify separate institutional units for each economy; if that is not feasible, then to prorate the total operations of the enterprise into the individual economic territories (par. 4.43). Recently, the government of Paraguay decided to change the treatment of its multiterritory enterprises from fully nonresidents, to allocating 50 percent of their operations to the national economy and the remaining 50 percent being treated as operations of a nonresident. For monetary statistics, presently the accounts of multiterritory enterprises may be: a) classified as resident of the economy where the accounts are held, b) split between a resident and a non resident institutional unit, either using the 50/50 formula adopted by Paraguay or another allocation criterion.

C. Sectoring of Institutional Units

19. There are no changes in the broad sectoring of institutional units in the *2008 SNA*: a) the nonfinancial corporations sector with its subsectors public nonfinancial corporations, national private nonfinancial corporations, and foreign controlled nonfinancial corporations; b) the financial corporations sector; c) the general government sector with its subsectors central government, state government, local government, and social security funds; d) the households sector; e) the non-profit institutions serving households (NPISH) sector; and f) the rest of the world. The *2008 SNA* contains a very useful diagram (Figure 4.1) with a decision tree to allocate units into institutional sectors, which may be reproduced in the *MFSMCG*.

20. The *MFSMCG* will follow the same sectoring of institutional units. However, as is the case in the current *MFSM* and *Guide*, for monetary statistics it is proposed that the households sector and the NPISH sector be grouped into one sector **Other resident sectors**. Practical issues support this proposal, since financial institutions normally do not distinguish between accounts of households and accounts of non-profit institutions.

21. The *2008 SNA* provides clearer guidance to classify government units as **nonfinancial public corporations** or as part of the general government. For an institutional unit controlled by government to be classified as a market producer and so a public nonfinancial corporation, it must sell its output at economically significant prices (par. 22.28). The expectation is that the value of goods and services sold by such unit average at least half of its production costs over a sustained

multiyear period (par. 22.29). If this is not the case, such unit should be classified as part of general government.

22. The most important change in the sectoring of institutional units, directly affecting the compilation of monetary statistics, is within the **financial corporations sector**. Here, the *2008 SNA* introduced a more detailed classification of the institutional units of the sector, consisting now of nine subsectors: a) central bank, b) deposit-taking corporations except the central bank, c) money market funds, d) non-money market funds, e) other financial intermediaries except insurance corporations and pension funds, f) financial auxiliaries, g) captive financial institutions and money lenders, h) insurance corporations, and i) pension funds.

23. For the subsectoring of the financial corporations sector, the *MFSM* and the *Guide* follow the *1993 SNA*, dealing with three subsectors: a) central bank, b) other depository corporations, and c) other financial corporations. The first two are identical with the subsectors of the *1993 SNA*, while the latter comprises other financial intermediaries except insurance corporations and pension funds, financial auxiliaries, and insurance corporations and pension funds, as defined in the *1993 SNA*.

24. The standardized report forms (SRFs), introduced in 2006, follow the *MFSM* subsectoring of the financial sector. This subsectoring is based on functional criteria. The subsector **central bank** will be identical with the one of the *2008 SNA*. The subsector **other depository corporations** will comprise deposit-taking corporations except the central bank; and money market funds, which issue liabilities fulfilling the definition of broad money. Finally, the subsector **other financial corporations** will consist of all institutional units of the financial corporations sector other than depository corporations. This sectorization is already reflected in Chapter 27 of the *2008 SNA*.

25. The *MFS Compilation Guide* includes a non-exhaustive description of the units that may be covered by the different subsectors of the financial corporations sector (par. 3.78-3.131). The list will be reviewed to be consistent with *2008 SNA*, to be current with the latest development on the financial markets, and to deal with cases not covered in the *Guide* (for instance, credit card institutes).

26. The *Compilation Guide* also provides a description of the different types of insurance corporations and pension funds, which will be retained.

27. The treatment in the *Guide* of **special purpose entities** (SPEs) will be expanded to follow more closely the *2008 SNA*, including the categories listed above. It will be highlighted that the sectoring of SPEs will depend on the level of independence of the unit from its parent corporation, and also on their territory of incorporation.

28. New types of institutional unit to be analyzed are **sovereign wealth funds** (SWFs). Created and owned by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, employing a set of investment strategies. The

BPM6 (par. 6.93-6.98) deals with SWFs and whether their assets should be considered part of the international reserves of a country or not. In terms of sectoring of institutional units, it must be determined the degree of autonomy of these SWFs from the central government. If part of the financial corporations sector, SWFs are more likely to be classified as captive financial institutions than as investment funds.

Questions

3. Do you agree with having a special subsection for SPEs in the section of institutional units, including a fourth category for multi-government SPEs?

4. Do you agree with having a special subsection for SWFs in the section of institutional units? Any views on the subsector classification of SWFs?

5. Do you find the current list of borderline cases on residence exhaustive enough? Do you think that other borderline cases should be included?

6. Should the allocation criterion of multiterritory enterprises be consistent with BPM6?

7. Do you agree that for compiling monetary statistics households and NPISHs continue to be grouped into one sector **Other resident sectors**?

8. Do you agree to keep the current sub-sectoring of the financial corporations sector, namely central bank, other depository corporations, and other financial corporations?

9. Do you find the current lists in the *Compilation Guide*, updated for *2008 SNA*, describing other depository corporations, other financial intermediaries, and financial auxiliaries exhaustive enough? Which other institutions would you suggest to be described in these lists?

CHAPTER 4. CLASSIFICATION OF FINANCIAL ASSETS

29. This chapter will (i) define financial assets and liabilities, (ii) enumerate financial assets following the *2008 SNA* classification, (iii) describe financial assets and liabilities with elaboration on relatively new instruments, (iv) discuss subcategories of major assets categories (and further disaggregation by currency, maturity, type of interest rate, etc).

30. The major categories of financial assets classified under *2008 SNA* remain the same as in *1993 SNA*. Revisions in *2008 SNA* relate to new terminology and new categories within the major categories of financial assets as indicated below:

Monetary gold and SDRs
Monetary gold (**new category in *2008 SNA***)
SDRs (**new category in *2008 SNA***)

Currency and deposits

Currency

Transferable deposits

Inter-bank positions (**new in *2008 SNA***)

Other transferable deposits (**new in *2008 SNA***)

Other deposits (s**pecifically includes unallocated gold deposits in *2008 SNA***)

Securities other than shares (**Debt securities in *2008 SNA***)

Loans

Shares and other equity (**Equity and investment fund shares in *2008 SNA***)

Equity (**new in *2008 SNA***)

Investment fund shares/units (**new in *2008 SNA***)

Money market fund shares/units (**new in *2008 SNA***)

Non money market investment fund shares/units (**new in *2008 SNA***)

Insurance technical reserves (**Insurance, pension, and standardized guarantees schemes in *2008 SNA***)

Net equity of households in life reserves (**Life insurance and annuity entitlements in *2008 SNA***)

Net equity of households in pension funds (**Pension entitlements in *2008 SNA***)

Prepayments of premiums and reserves against outstanding claims (**Non-life insurance technical reserves in *2008 SNA***)

Claims of pension funds on pension managers (**new category in *2008 SNA***)

Entitlements to non-pension benefits

Provisions for calls under standardized guarantees (**new in *2008 SNA***)

Financial derivatives (**Financial derivatives and employee stock options in *2008 SNA***)

Financial derivatives

Options (**new category in *2008 SNA***)

Forwards (**new category in *2008 SNA***)

Employee stock options (**new category in *2008 SNA***)

Other accounts receivable/payable

Trade credit and advances

Other

31. In line with the changes in *2008 SNA*, the *MFSMCG* will update or expand the areas as summarized below:

a) **Monetary gold and SDRs**. The current *MFSM* and the *MFS Guide* already contain separate classifications for monetary gold and SDRs in line with *2008 SNA*. The definition of monetary gold has changed in the *2008 SNA*, recognizing that unallocated gold accounts do not give the holder the title to physical gold but generate a claim against the account provider denominated in gold. In effect, therefore, they are deposits denominated in gold, and are thus treated as deposits liabilities in foreign currency.

b) **Securities other than shares** and **shares and other equities.** Renamed as *debt securities* and *equity and investment fund shares,* respectively.

c) **Repurchase Agreements.** The *2008 SNA* continues to treat a repo as a collateralized loan. In case of on selling of a repoed security, a negative asset should be recorded for the lender to avoid double-counting. This treatment is already included in the *MFSM*.

d) **Insurance technical reserves.** The *2008 SNA* distinguishes between five sorts of reserves applicable to insurance, pension, and standardized guaranteed schemes (as shown above). The first four are classified in the as *insurance technical reserves* in the current *MFSM*. The last type is **Provisions for calls under standardized guarantees**.

e) **Employee stock options**. The *2008 SNA* adds separate identification and discussion of employee stock options with financial derivatives. The current *MFS Guide* describes the classification and valuation of employee stock options and includes them in *financial derivatives* indistinguishably.

f) **Investment fund shares/units**. In the *MFSM* and *MFS Guide*, investment fund shares are included indistinguishably in *shares and other equity,* but **money market fund shares** included in the national definition of broad money are classified with *deposits.* Given the inconsistency with *2008 SNA*, consideration may be given to another approach—establish a separate asset category, i.e. *MMFS included in broad money*.

g) **Options and forward contracts**. In the framework of monetary data in the current *MFSM* and *MFS Guide*, the asset/liability accounts for financial derivatives are disaggregated by debtor/creditor sector, but not into separate categories of options and forward contracts.

h) **Asset/Liability classification by currency of denomination**. Although the *2008 SNA* categorically recommends cross-classification by currency of denomination only for *other deposits*, in the framework of monetary data in the *MFSM*, *MFS Guide*, all asset/liability categories are disaggregated, where applicable, into separate categories for those denominated in national currency and those denominated in foreign currency. In this context, the updated *MFSMCG* should also address treatment of foreign-currency-linked instrument in line with the principles discussed in *BPM6*.

i) **Asset/Liability classification by maturity**. The *1993 SNA* and *2008 SNA* contain supplementary classification of loans and debt securities by maturity (short-term and long-term). For monetary statistics, supplementary classification may be pertinent to data on loans disaggregated by short/long term to maturity, and for debt securities disaggregated in separate categories for zero-coupon, other short-term, and long-term securities. The current *MFS Compilation Guide* recommends that disaggregation by original or remaining maturity be based on national practice and/or data availability. The updated *MFSMCG* will address remaining maturity in line with *BPM6*. Loans and securities can also be disaggregated into separated categories for instruments with fixed or variable interest rates in line with the classifications in *BPM6*.

32. The *MFSMCG* will also be updated or expanded to stay consistent with *BPM6* and to better reflect recent developments in financial instruments.

a) **SDR allocation**. The *BPM6* changed the treatment of SDR allocation from unilateral transfer to longer term liability. Correspondent report form (1SR) has changed the classification from *shares and other equities* to a longer-term liability of the central bank to nonresident.

b) **Securitization**. When dealing with securities, the revised *MFSMCG* may include a short section on the different forms of securitization, as described in the *Handbook on Securities Statistics* — Part 1.

c) **New financial instruments**. Beyond exotic financial derivatives, new financial instruments will be addressed by the *MFSMCG,* such as *collateralized mortgage obligations* and similar instruments (securities), or *credit default swaps* (derivatives) that became wide spread in recent years.

Annexes

Annex 4.1 – Guidance for Distinguishing between deposits and loans

The *MFS Guide* provides general principles for distinguishing between deposits and loans and discusses specific cases. The updated *MFSMCG* may build on these guidelines and include more specific cases as needed.

Annex 4.2 – Accounts with the IMF

The scope on Accounts with the IMF in the current *MFSM* (Appendix 1) needs to be expanded to address a comprehensive set of issues related to recording in monetary statistics of positions and transactions with the IMF (Quota subscription, SDR holdings, IMF loans, Reserve Positions with the Fund, IMF #1 and IMF #2 Accounts, UFC, IMF Securities, SDR allocation, arrears, New Arrangements to Borrow, other loans to IMF, and any other IMF-related transactions).

Recommendations for recording these IMF records will be in line with those discussed in *BPM6 (Annex 7.1 Positions and Transactions with the IMF)*.

This Annex may describe accounting records of IMF accounts and their classification in monetary statistics. In addition, it should also deal with the treatment of IMF accounts in monetary statistics when the central bank is not the fiscal agent responsible for the financial relationship with the IMF (including when SDRs are allocated to the Ministry of Finance).

Annex 4.3 – Islamic Banking

The *MFSM* (in Appendix 2) discusses briefly main features of Islamic financial institutions and primary types of Islamic financial instruments and provides general guidance on their treatment in monetary statistics. The updated *MFSMCG* may expand the scope on Islamic banking to reflect recent developments in Islamic financial activities and financial instruments.

Questions

1. Do you agree with the proposed structure for the chapter on financial assets classification, including the three Annexes?

2. Do you agree with the proposed scope for financial assets classification in the updated *MFSMCG*? Are there other financial asset-related aspects that you consider useful for inclusion in the updated *MFSMCG*?

3. Do you agree to maintain the current approach of *MFSM* and *MFS Compilation Guide* in classifying money market fund shares (MMFS) included in national definition of broad money with *deposits?* What are your views on adding a separate asset category *MMFS included in broad money?*

4. Do you consider it useful to include a separate section on cross-classification for financial assets, where applicable, by maturity, currency denomination, type of interest rates (fixed or variable), etc? What other cross-classification that you consider useful for the *MFSMCG* to address?

5. What other specific (new) financial instruments that you consider useful for inclusion in the updated *MFSMCG*? For these specific (new) instruments, to what level of details do you want them to be dealt with in the updated *MFSMCG*?

6. The current MFS Guide provides useful guidance for distinguishing between (1) deposits and loans, (2) loans and securities other than shares, and (3) loans and trade credits. What other borderline cases that you consider useful for inclusion in the updated *MFSMCG*?

CHAPTER 5. STOCKS, FLOWS, AND ACCOUNTING PRINCIPLES

33. **Structure of Chapter 5**. The chapter will (i) define and explain stocks, flows, and the different components of flows; (ii) describe the general principles of valuation and explain the valuation rules for all the different financial assets and liabilities; (iii) discuss the main recording principles such as the simultaneous recording of transactions and accrual accounting; (iv) explain the concepts of aggregation, consolidation, and netting. In addition, four annexes will provide numerical examples on estimating transactions and valuation changes, settlement date and trade date accounting, valuation and recording of different types of securities, and valuation and recording of a currency forward contract.

A. Financial Stocks and Flows

34. The *2008 SNA* retains the main framework of **opening stock, flows** (transactions, holding gains and losses, OCVA), **and closing stock**, as well as the **adding-up requirements**. The only change pertains to the list of items under the OCVA account. With a view to giving more structural listing of possible causes for changes in assets other than transactions, the list of items appearing in the OCVA account has changed in the *2008 SNA* and shows changes in the assets/liabilities in six main categories and some subcategories (Table 12.1 in *2008 SNA*). The discussion of the OCVA account in the *MFSMCG* will still focus on those categories and subcategories that are relevant for monetary statistics, but will be aligned with the new categories.

B. Valuation of Assets and Liabilities

35. General principles for valuing financial assets will be presented, mainly as discussed in the *MFSM* and *MFS Guide* (market prices and fair value). In addition, the subsection will discuss other valuation concepts used in practice, such as nominal value, amortized cost, face value, book value and historic cost. The concept of amortized cost—which is IFRS accepted but not MFS recommended—will be elaborated.

36. Indexed instruments. The *MFSMCG* will be updated or expanded with respect to the valuation of indexed instruments, following the additions/revisions in *2008 SNA*.

- *Instruments linked to a broad index*. The full amount paid as coupons, after indexation, is accrued as interest. When the value of the principal is index-linked, the difference between the eventual redemption price and the issue price is treated as interest accruing over the life of the instrument.

- *Instrument linked to a narrow index*. Interest accruals are determined by fixing the rate at which interest accrues at the time of issue. Any deviation of the index from the expected path is treated as holding gains or losses.

- *Instrument indexed to a foreign currency*. Debt instruments with both principal and coupon payments indexed to a foreign currency should be classified and treated as though the instrument is denominated in that foreign currency. Examples of such instruments are the IMF-related accounts in the balance sheet of a central bank that are denominated in domestic currency but are linked to SDR (IMF quota, IMF No.1 and No.2 accounts, and IMF securities account).

37. Valuation practices for each type of financial instrument defined in Chapter 4 will be presented, along the lines of the *MFSM* and *MFS Guide* but taking into account respective changes in the *2008 SNA* and *BPM6*. Special attention will be devoted to recent developments in financial markets and instruments.

38. **SDR allocation.** The *2008 SNA* recommends treating SDRs issued by the IMF as being an asset of the country holding the SDR and a claim on the participants in the scheme collectively. In terms of treatment of flows, the resulting recommendation is that the allocation and cancellation of SDRs be recorded as transactions as opposed to inclusion in the OCVA under the former approach. The *MFSMCG* will also elaborate on the treatment of SDR allocations and other transactions with the IMF when these are allocated to the Ministry of Finance.

39. **Debt securities.** The MFS methodology recommends using market price or fair value for valuing debt securities. Practical difficulties arise for those securities that are classified as "held-to-maturity" securities, because the current IFRS recommends valuing such securities on an amortized cost basis. The *MFS Guide* recommends restating stocks of held-to-maturity debt securities at market price or fair value which may be difficult in practice.

40. **Nonperforming Loans**. The *2008 SNA* gives concrete recommendations on the definition of nonperforming loans (NPLs): loans on which payments of interest and/or principal are past due by 90 days or more. NPLs should continue to be recorded at nominal value and interest should be shown accruing until a loan is repaid or the principal is written off by mutual agreement.

41. **Financial derivatives.** The main concepts of valuation of financial derivatives presented in the *MFS Guide* will be retained. Some of the more detailed descriptions will be streamlined and necessary references to relevant materials provided.

42. **Reinsurance.** The stocks and flows for the balance-sheet accounts of all insurance and reinsurance corporations are presented on a gross basis in *2008 SNA*, unlike *1993 SNA* which includes consolidation of reinsurance transactions among resident corporations. The gross approach is already presented in the *MFSM* and *MFS Guide* and will be retained.

43. **Insurance technical reserves.** The *2008 SNA* recognizes that employment-related pension entitlements are contractual engagements that are expected or likely to be enforceable. They should be recognized as liabilities towards households, irrespectively of whether the necessary assets exist in segregated schemes or not. Accordingly, in the *2008 SNA* insurance technical reserves are increased to include pension entitlements even where there is no fund, possible claims on the manager of the pension fund, entitlements to nonpension benefits, and

reserves for standardized guarantees. Actuarial-based estimates of the present values of liabilities for future payments from fully funded, partially funded, and unfunded defined-benefit pension funds are recorded on the balance sheets of employers. Further, the *2008 SNA* recommends that when an obligation to pay pensions passes from one unit to another, this should be recorded as a transaction in pension liabilities even if neither unit has previously recorded such liabilities.

44. **Shares and other equity.** The major difference in terms of the valuation of Shares and other equity on the liabilities side of the balance sheet between *SNA* (both *1993* and *2008*) and the monetary statistics (the *MFSM* and the *MFS Guide)* will be maintained. In the monetary statistics methodology, equity liabilities are recorded at book value and are divided into separate components for Funds contributed by owners (paid-in capital and surplus), Retained earnings, General and special reserves, and Valuation adjustment. The intention is to maintain these subcomponents of equity. In the *1993 SNA* and *2008 SNA*, equity liabilities are valued at market prices (or market price approximations). Equity valuations in the SNA and monetary statistics methodologies will continue to be harmonized through use of memorandum items for the market value of equity (disaggregated by sector of equity holder), which accompany the financial corporations' balance sheets in the monetary statistics.

45. **Unquoted equity shares.** In the *1993 SNA* and the *MFSM*, the present-value and market-capitalization methods are presented for the estimation of fair values of equity shares for which market-price quotations are unavailable. Additional estimation methods are described in the *MFS Guide* and the *2008 SNA* and these descriptions will be retained.

46. **Accumulated Depreciation**. The *MFSM* recommends recording accumulated depreciation as a liability item ("Other Accounts Payable, Other"), which is contrary to accounting standards. The *Guide* recognizes this, and accepts the presentation of nonfinancial assets on a net basis (less accumulated depreciation). However the SRFs still treat accumulated depreciation as a liability item and needs to be revised.

47. **Transaction Costs.** In the methodology of the MFS, transaction costs—services charges, fees, commissions, taxes, etc.—are excluded from the transaction value for the financial asset being created or exchanged. This treatment of transaction costs will be maintained.

C. Recording Principles

48. **Change of Economic Ownership.** The *1993 SNA* did not explicitly define ownership. Often it seemed to imply legal ownership, but in some instances it relied on the concept of change of economic ownership when legal ownership remained unchanged. The *2008 SNA* distinguishes between legal ownership and economic ownership, and recommends that assets be recorded on the balance sheets of the economic rather than the legal owner.

49. The principle of change of ownership is central to the determination of the timing of recording of transactions in financial assets. The term "economic ownership" better reflects the underlying reality economic accounts are attempting to measure. Economic ownership takes

account of where the risks and rewards of ownership lie. A change in ownership from an economic point of view means that all risks, rewards, rights and responsibilities of ownership are transferred.

50. There are no changes in the *2008 SNA* concerning the concept of **accrual accounting**. Accrual accounting records flows at the time economic value is created, transformed, exchanged, transferred or extinguished. As stated in the *MFSM,* accrued interest on deposits, loans, and debt securities should be incorporated into the outstanding amount of the financial asset or liability, rather than being treated as part of other accounts receivable/payable.

51. **Tax Credit/Liabilities.** The *2008 SNA* confirms the **accrual basis** of recording of taxes. Therefore, they will appear in government accounts. Currently, the SRFs record tax credit and liabilities under "Miscellaneous Assets/Liabilities Items." The *MFSM* treatment may be revised to record them as "Other Accounts Receivable/Payable – Central/Local Government."

D. Aggregation, Consolidation, and Netting

52. Main principles of aggregation, consolidation, and netting in the MFS context presented in the *MFSM* will be retained. The *MFSMCG* will elaborate on hedge accounting and its reflection in monetary statistics.

Annexes

Annex 5.1-Estimation of transactions and valuation changes

The *MFS Guide* provides numerical examples on estimation of transactions and valuation changes for two cases: in the presence of the OCVA account and in its absence. The updated *MFSMCG* will build on these examples and expand to include more specific cases if needed.

Annex 5.2-Settlement date and trade date accounting

The *MFSMCG* will retain the three numerical examples included in Annex 5.2 of the *MFS Guide*.

Annex 5.3-Valuation and recording of different types of securities

This new annex will provide numerical examples on calculating the nominal and fair values for different types of securities. The examples will include coupon-based bonds, zero-coupon bonds, securities indexed to a broad index, securities indexed to a narrow index, and securities indexed to a foreign currency.

Annex 5.4-Valuation and recording of a currency forward contract.

To facilitate the understanding of the *MFSMCG* recommendations on how financial derivatives should be valued and recorded (the proposed treatment of financial derivatives is the same as in the *MFSM* and *MFS Guide*), a new annex will be prepared on the valuation and recording of a currency forward contract. The annex will include numerical examples on different aspects of recording a currency forward contract in MFS.

Questions

1. Do you agree with the proposed structure for Chapter 5, including the four Annexes?

2. Do you agree with the proposed scope for stocks, flows and accounting rules in the updated *MFSMCG*? Are there other aspects related to accounting and valuation rules that you consider useful for inclusion in the updated *MFSMCG*?

3. Do you think any of the general valuation principles in the *MFSM* and the *MFS Guide* needs to be revisited, in particular valuation for equity and other shares?

4. Do you agree with the intention to maintain the major difference on the valuation of Shares and other equity on the liabilities side of the balance sheet between the *2008 SNA* and the *MFSMCG*?

5. Do you agree to the proposed treatment of accumulated depreciation that is already recognized in the *MFS Guide*? Under this approach the nonfinancial assets are presented on a net basis (less accumulated depreciation).

6. Do you agree that tax credit and liabilities be recorded as "Other Accounts Receivable/Payable – Central/Local Government" rather than under "Miscellaneous Assets/Liabilities Items."?

CHAPTER 6. MONEY, CREDIT, AND DEBT

A. Definition of Money

53. The *MSMF 2000* does not offer a generic definition of money, but offers a list of financial assets that can be considered good candidates for inclusion in broad money. Thus, broad money is defined upfront by extension through the list of its possible components. This is not operational as it does not provide adequate analytical tools when a compiler has to make a decision on whether a "new" financial asset should be included in broad money, or when the current list of components of broad money should be updated when the degree of moneyness for some financial assets changes. This lack must be addressed giving first a definition of money that spells out the characteristics its components should have.

54. A background should be given on why it is useful to compile the amount of "money" in an economy, and what function(s) "money" here should carry out.

55. It can be explained that measuring money is not a precise science and will differ by country. There are characteristics of money aggregates that are generally applicable, and typically a distinction is drawn between (broad) money and wider still liquidity.

56. Money is traditionally described as having four functions: medium of exchange, store of value, unit of account, and standard of deferred payment.

57. The first function of medium of exchange refers to direct use of money for making purchase. This criterion is particularly attractive in that it links the amount of money in an economy to domestic aggregate spending, so that money can be a useful indicator of economic conditions. They can be a link between the amount of money so measured and the monetary base, though the money multiplier. Besides financial assets directly used for payments, resident economic units also holds other financial assets that are close substitutes for the former as they are easily transformable into means of payment at a value that correspond at least to the amount initially invested and this at any time. Such financial assets are not medium of exchange but held as a "store of value". However, as they can be redeemed in cash or in other means of payment, they must be also accounted for when measuring the "capacity of spending" or "potential purchasing power" in an economy.

B. Monetary Aggregates

58. The *MFSMCG* focuses on the measures of (broad) money in an economy. The list of components of money is country specific, but each component should meet the intentional definition of money and as a whole should pass some empirical test of relevance as mentioned below.

Broad Money

59. Measurement of broad money entails a three-dimensional relation: financial assets issued by certain units and held by other units.

Money Issuers/Money neutral/Money holders

60. "Money issuers" are all units incurring some liability meeting the definition of money and included de facto in broad money. Such units are central bank, deposit-taking corporations and money market funds; all together, they are called "depository corporations". All three concepts "(broad) money issuers", "depository corporations", and "units incurring liabilities meeting the definition of "(broad) money" are strictly equivalent.

61. "Money holders" are units and sectors for which the "capacity of spending" is worth and possible to compile. Thus, all units holding some claims in the form of money issued by "money issuers" should be covered in the measurement of broad money and thus should be considered as "money holders". However, for three sectors hereafter, the measurement is either irrelevant or impossible to carry out.

62. The balances maintained by **central government** with depository corporations do not accurately reflect the intentions of spending because the inflows are highly irregular in volume and periodicity. Inflows, if they exceed current needs for cash, may be used to reduce

indebtedness rather than for expenses. Vice-versa, inflows, if insufficient, may easily be supplemented by borrowing at very short notice.

63. Similarly, the balances maintained by **nonresidents** with the domestic depository corporations do not represent with certainty the intention of spending in the considered economy because such balances can be easily repatriated to the nonresidents' home countries or, inversely, can be supplemented by transfers from the nonresidents' money holdings abroad.

64. The two sectors—central government and nonresidents—, that are neither "money issuers", nor "money holders", are called "money neutral" sectors.

65. Finally, the balances maintained by **depository corporations** with other depository corporations in the economy or even abroad do not represent the holders' intentions of spending as their level is mainly the result of (i) regulations enacted by monetary and regulatory authorities, and (ii) the need for maintaining working balances in liquid financial assets to be able to satisfy possible requests of such assets from their clients. As a conclusion, depository corporations are "money issuers" (see above), but not "money holders".

66. Then, money holders are all sectors not mentioned so far: non financial corporations, financial corporations other than depository corporations, governments other than central government, households, and non-profit institutions serving the households. The broad money should then include all and only holdings of money by units in the preceding list of money holders sectors.

67. However, the repartition of all units in the three groups "money issuers", "money holders", and "money neutral" that is very strict in the first instance suffers in practice of a number of breaches:
– money issued by money neutral units: central government-treasury issuing coins; treasury taking deposits from money holders;
– money issued by money holder units: post office/giro taking deposits from money holders; non financial corporations issuing travelers checks or electronic money as an ancillary activity;
– holdings by money neutral sectors included in broad money: holdings of national currency by nonresidents and by central government because of the lack of reliable source data to exclude them from broad money measurement.

Broad money aggregates and sub-aggregates

68. The *MFSMCG* will distinguish two levels of broad money:

a) in the first instance, broad money is compiled for all countries from depository corporations data only;

b) at the second instance, countries may elect to further add some components from the balance sheets of units that are not depository corporations. Possible additional components are those listed above in para. 67.

69. While the *MFSMCG* emphasizes on the broad money aggregate, it recognizes that countries can define as many monetary sub-aggregates as they deemed necessary. Monetary sub-aggregates correspond to what the *MFSMCG* identify as national definitions of money. Such aggregates are almost always named from the sequence as follows: M1, M2, M3, etc.

70. The *MFSMCG* will provide adequate analytical tools to help a compiler make a decision on whether a "new" financial asset should be included in broad money or when the current list of components of broad money should be updated when the degree of moneyness for some financial assets changes.

71. While M1 includes usually all immediate means of payment, the content of each of other sub-aggregates M2, M3, etc. may differ largely amongst countries. The *MFSMCG* will include a text box presenting M1 in its most widespread content, the variety of contents of M2, M3, etc., and draw out some common characteristics of monetary measures. The *MFSMCG* will explain that, normally, the higher ranked M aggregate should correspond to broad money as presented in para. 68. b).

72. The list of components of broad money in an economy should be further validated by an empirical approach. The latter seeks to define money, or fine tune the list of its components, by finding the grouping of financial assets whose movements are most closely correlated with the movements of other various macroeconomic variables of interest, such as gross domestic product and prices. For monetary statisticians and monetary policy analysts and decision makers, when moving beyond the basic function of money as medium of exchange, the broad money measure (monetary aggregate) is an artifact whose prominent virtue is to be useful.

Counterparts to broad money

73. The *MFSMCG* will explain that while the components of broad money can be built up from the liability side, the counterparts to money can be built up primarily from the assets side, such as credit to the nonfinancial sector, the financial sector, government and net positions with nonresidents, Such information can indicate the demand factors behind developments in the money supply.

C. Monetary Base

74. No particular issue has been identified for the topic "Monetary Base"

D. Liquidity Aggregates

75. The *MFSM 2000* includes only paragraph 331 (page 65) and box 6.3 (page66) while the *Guide* includes nothing on "Liquidity". The new *MFSMCG* should include some additional developments as the concept of "liquidity" has different meaning and some clarification maybe desirable to this view. The three dimensional relation will be used (financial assets / issuers / holders) as it has been for monetary aggregate.

76. The G20 established a sub-working group for deepening the understanding of the role of global liquidity in the international monetary system. While, the *MFSMCG* deals almost exclusively with domestic statistics, it can be useful to put forward some concepts, definitions, and possible aggregates. The *MFSMCG* may borrow from the note "Possible Indicators to Monitor Global Liquidity."

77. The *MFSMCG* will indicate that although there are common elements underlying the various notions of liquidity, there is no single commonly accepted definition of global liquidity. Recent work in the IMF has emphasized the distinction between a "core" measure of liquidity (primarily deposits) versus a broader measure (that also capture aggregate liabilities in securities (other than shares) and loans), where the latter is more volatile. Moreover, these concepts could be linked to the more detailed institutional classification of the financial sector, described in paragraph 22.

78. Also, a number of countries have, for long, compiled and published one or more liquidity aggregates. A box could give some recent examples without being too prescriptive, while emphasizing that the liquidity is not just a bank-based indicator, but can be measured more broadly (including liquidity issued by non-bank financial corporations and other sectors).

E. Credit

79. The *MFSMCG* will reproduce the corresponding section from the *MFSM 2000*, § 334 (page 66) to § 347 (page 69).

80. The *MFSMCG* will also mention that to domestic credit can be added borrowing from nonresidents to monitor more accurately a possible excess in credit growth. Data on borrowing from non residents are normally available within the International Investment Position framework.

F. Debt

81. The *MFSMCG* will reproduce the corresponding section from the *MFSM 2000*, § 348 (page 69) to § 361 (page 71) and ensure consistency with *External Debt Guide* and *Public Sector Debt Statistics Guide.*

G. Seasonal Adjustment of Economic Time Series

82. This section will be copied from *MFS Compilation Guide*, § 6.64 (page 184) to § 6.88 (page 189).

Questions

1. Do you agree that a definition of money should be spelled out in the *MFSMCG*?

2. Do you agree that emphasis should be put on the function “medium of exchange”, then on the function “store of value”?

3. Do you agree that the importance of measuring the “capacity of spending” or “potential purchasing power” in an economy should be spelled out?

4. Do you agree that the discussion on monetary aggregates be drafted along the lines as follows:
   Monetary base, and broader monetary aggregates including media of exchange (usually: national currency holdings and transferable deposits in national currency), and other financial assets “easily” transformable in media of exchange without any risk of “significant” loss of the capital initially invested.

5. Do you agree with the sequence used above to continue to discuss the concepts “money issuers”, then “money neutral”, and finally “money holders”?

6. Do you think the list of breaches is complete in para 67? Can you suggest other possible breaches?

7. Do you agree that the *MFSMCG* should provide adequate analytical tools to help a compiler make decisions on the composition of monetary aggregates as economic and financial conditions evolve?

8. Should an item on the counterparts to broad money be included?

9. Do you agree that some development mention the “empirical” approach besides the “functional” approach to the end of establishing the list of components of money?

10. Do you agree that the *MFSMCG* should elaborate more on the liquidity aggregates?

11. Do you agree that the *MFSMCG* include, for reference, a text box featuring examples of nationally defined M_ aggregates and draw out some common characteristics of monetary measures?

12. Do you suggest some particular additional development for the sections on credit, debt and seasonal adjustment of economic time series?

CHAPTER 7. COMPILATION AND DISSEMINATION OF MONETARY STATISTICS

83. Chapter 7 will present practical issues in the collection of source data, compilation and dissemination of monetary statistics, describe submission of monetary data to the IMF using Standardized Report Forms (SRFs), and explain use of monetary surveys.

84. This section will address issues of source data related to the IFRS that are relevant for the collection and compilation of monetary statistics.

85. The proposed classification of MMFs for monetary statistics (as part of the ODC sector) will differ from the classification followed by the *BPM6* (MMFs are included within other financial corporations) because the *MFSM* subsectors are based on functional criteria. To allow users to compare data compiled by both macroeconomic statistical systems, it will be recommended that report form 2SR contain information on both, deposit-taking corporations other than the central bank, and MMFs.

86. Due to the growing relevance of nonbank financial intermediaries—in particular insurance corporations, pension funds, structured finance vehicles, and hedge funds—subcategories covering some of these institutions and some instruments might be introduced as memorandum items in the SRFs. The Financial Stability Board report *Shadow Banking: Strengthening Oversight and Regulation* of October 2011 stressed the importance of obtaining information on the links between banks and nonbank financial intermediaries (page 10, and footnote 18).

Questions

1. Do you agree to submit to the IMF, additionally to the aggregated report form 2SR for ODCs, two supplementary SRFs 2SR: one for deposit-taking corporations and one for money market funds (MMFs)?

2. Do you agree to add to the SRFs of the central bank, ODCs, and OFCs some memorandum items with more detailed subsector information on nonbank financial intermediaries for selected instruments? If so, which information do you think is needed and relevant for the analysis?

CHAPTER 8. BEYOND MONETARY STATISTICS

A. Financial Statistics

87. This section will result from *MFSM* pages 94 to 99 and *MFS Compilation Guide* Chapter 8, revisited as requested to reflect methodological and other changes in chapters above.

B. Balance Sheet Approach Matrix

88. This will be a new section, building on the standardized report forms. The balance sheet approach matrix aims at analyzing the sectoral financial vulnerabilities and their transmission mechanisms between sectors of the economy, starting from the balance sheets of each sector. This is a stock analysis, different from the flow analysis of financial programming.

89. The matrix presents debtor and creditor positions of each institutional sector vis-à-vis other sectors of the economy, including the rest of the world, by instrument, currency (local and foreign), and maturity (short- and long-term). Data contained in the SRFs (if they also cover the other financial corporations sector) can populate approximately 70 percent of the data needed to construct a balance sheet matrix (however, the SRFs do not contain data on the maturity of the instruments). The remaining data may be obtained from external sector sources (International Investment Position, Quarterly External Debt Statistics) and government finance statistics. Some cells of the matrix cannot be calculated from monetary, external, or fiscal sources, in particular the financing of households to the nonfinancial corporations.

90. This section will present the structure of a balance sheet approach matrix, and how to construct it from the data contained in the SRFs. It will also discuss additional data sources for the matrix. The importance of intersectoral consistency will be emphasized.

Annexes

Annex 8.1 – Top to bottom sectoral accounts

Annex 8.2 – Illustrated Sectoral Balance Sheets

Questions

1. Do you agree to keep developments on "Financial Statistics" similar to those in *MFSM* and *MFS Compilation Guide*, or do you suggest reconsidering content and scope? If yes, in what sense and to what extent?

2. Do you agree to include a section on the balance sheet approach matrix and its derivation from the standardized report forms?