

GFSAC–15/17

Meeting of the IMF Government Finance Statistics
Advisory Committee
Washington, D.C.

Contingent Liabilities

Prepared by Pamela Kelly

March 9–10, 2015



DISCLAIMER: The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Board, or its management.

Contingent Liabilities

Pamela Kelly

Meeting of the
IMF Government Finance Statistics Advisory Committee

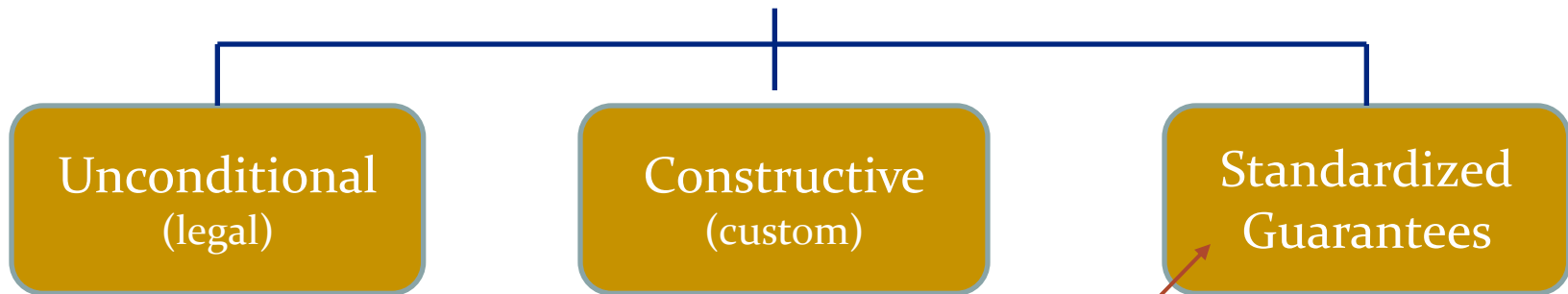
Washington, DC

March 10, 2015

SNA Guidance

- A **liability** is established when one unit (debtor) is obliged, under specific circumstances, to provide a payment or series of payments to another unit (creditor).

Liabilities in the SNA



A type of contingent liability

SNA Guidance

- Contingent liabilities
 - May confer rights or obligations if certain conditions are met
 - Can be important for financial planning, policy, and analysis
 - SNA recommends supplementary presentation of data

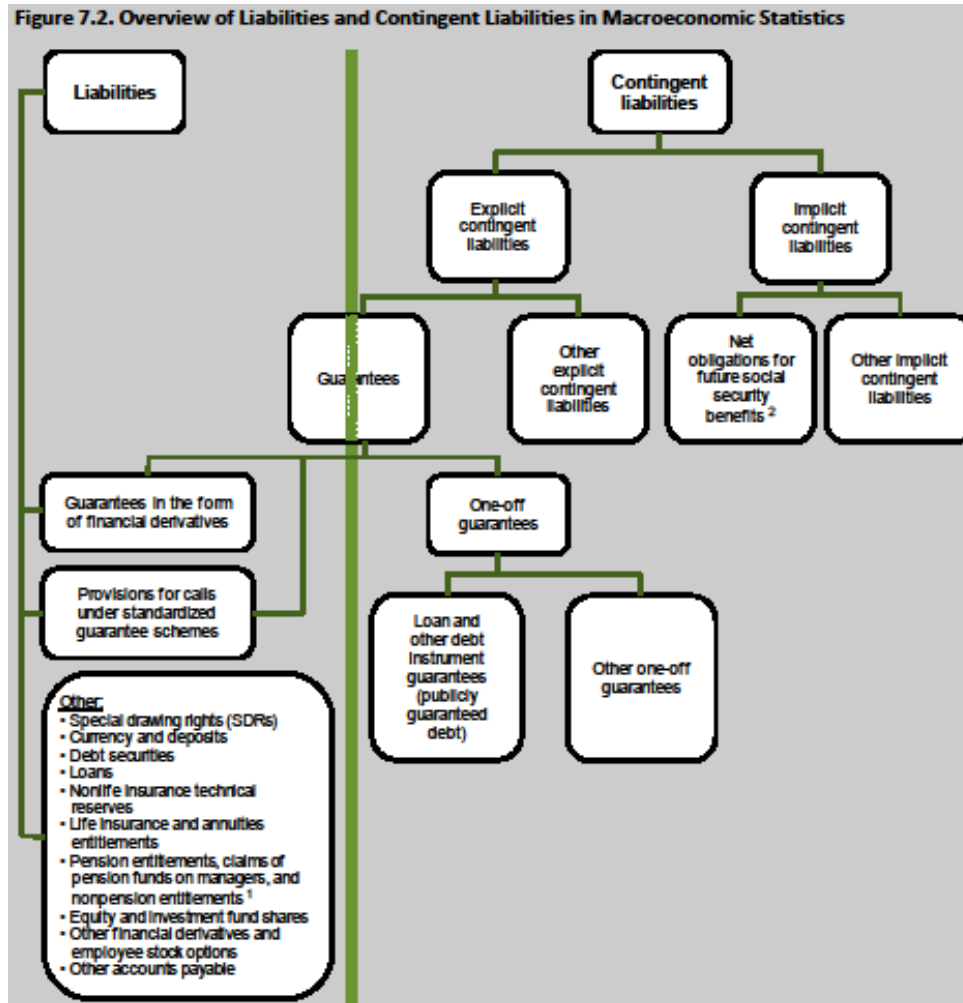
GFS Guidance

- **Contingent liabilities**
 - **Create fiscal risks**
 - Difference between actual and expected fiscal outcomes
 - **Source**
 - Deliberate public policy
 - Unforeseen events

Types of Contingent Liabilities

- **Explicit**
 - Legal or contractual financial arrangements that give rise to conditional requirements to make payment of economic value.
- **Implicit**
 - Not legal or contractual, but recognized after a condition or event is realized.
 - **Examples:**
 - Obligations for social security benefits
 - Banking sector solvency
 - Obligations of sub-national governments
 - Natural disasters, etc.

GFS Boundary



Explicit Contingent Liabilities

- GFSM and PSDSG both recommend supplemental data for balance sheet
 - Publicly guaranteed debt
 - Other one-off guarantees
 - Explicit contingent liabilities, not elsewhere classified
 - Potential legal claims
 - Indemnities
 - Uncalled capital

Issues for Discussion

- Boundary
- Time of recording
 - Eurostat guidance on guaranteed debt
- Measurement
 - *Public Sector Debt Statistics Guide* suggests a number of measurement alternatives

Measurement Options

- Nominal value
 - Maximum potential loss
- Expected present value
 - Discount using a market rate of interest
- Historical experience
 - Probability distribution of defaults based on similar guarantees
- Market value
 - Compare instruments with and without guarantees
- Option pricing
 - Put option on the underlying assets backing a loan