



BPM7/2025 SNA

Inter-secretariat
Working Group on
National Accounts

For Global Consultation

Implementation Guidance Note on Negative Equity Positions

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This Implementation Guidance Note (IGN) provides guidance on recording negative equity positions in macroeconomic statistics, elaborating on the recommendations in the Integrated Balance of Payments and International Investment Position Manual, seventh edition (BPM7) and the System of National Accounts 2025 (2025 SNA). It clarifies that negative equity positions should generally be recorded to reflect economic reality. These positions may be set to zero only when investors have strictly limited liability and no exposure beyond their initial investment—typically assumed when ownership is below 10 percent. Negative equity positions in public corporations and central banks must always be recorded to avoid masking potential fiscal exposures or bailout risks. The IGN includes examples covering unlimited and limited liability entities, public corporations, and central banks, and addresses special cases such as bankruptcy, specific investor types, transfer pricing, reinvested earnings, fellow enterprises, and reverse investment. It recommends ensuring conceptual consistency, promoting symmetric cross-border reporting, and enhancing transparency through supplementary disclosures. Participants in the global consultation are invited to comment on the examples and proposed recordings, and to indicate whether they support the recommendations outlined in this IGN.

INTRODUCTION

- This Implementation Guidance Note (IGN) aims to clarify the treatment of negative equity positions in macroeconomic statistics, with a focus on the application of guidance from the *Integrated Balance of Payments and International Investment Position Manual, seventh edition (BPM7)* and the *System of National Accounts 2025 (2025 SNA)*.² It builds on the Issue Note [Treatment of Negative Equity Positions](#) discussed at the joint February 2024 meeting of the IMF Committee on Balance of Payments Statistics (BOPCOM) and the Advisory Expert Group on National Accounts (AEG). It also explains how the guidance provided in Box 7.1 of the [pre-edited BPM7](#) and paragraphs 14.86–14.89 of the [pre-edited 2025 SNA](#) can be operationalized.**
- Negative equity positions are not inherently problematic, but they must be recorded in a consistent and transparent manner to support high-quality macroeconomic statistics.** This IGN provides the conceptual background, illustrative examples, treatment of special cases, and recommendations for implementation.

¹ Prepared by Malik Bani Hani, Mher Barseghyan, Francien Berry, Jannick Damgaard, Maja Gavrilovic, and Topias Leino. The authors are grateful to AEG and BOPCOM members as well as colleagues from the ECB, the OECD, the OECD Working Group on International Investment Statistics, and the IMF Statistics Department, including experts in government finance and monetary and financial statistics, for their helpful comments and suggestions on earlier versions of this IGN.

² Similar guidance is included in the *OECD Benchmark Definition of Foreign Direct Investment, fifth edition (BD5)*.

CONCEPTUAL BACKGROUND

3. **When observed market values of equity are not available, an estimate is required.** *BPM7* and the *2025 SNA* include three recommended methods for valuing unlisted equity.³ These are (i) own funds at book value (OFBV), which is calculated as the sum of paid-up capital, all reserves identified as equity, cumulated retained earnings, and any holding gains or losses included in own funds; (ii) recent transaction prices, which provide direct market-based evidence when available; and (iii) market capitalization proxies, such as applying price-to-book value (P/B) ratios from comparable listed companies.
4. **Some valuation methods—particularly OFBV—can result in negative equity positions, especially in distressed or loss-making units.** While such outcomes may appear counterintuitive, they often reflect economic reality and should not be viewed as fundamentally problematic. However, without clear and harmonized guidance, compilers may treat these positions inconsistently, leading to asymmetries in international statistics and reduced analytical value. Recognizing this, *BPM7* and the *2025 SNA* provide a framework for when and how negative equity positions should be recorded.⁴
5. **For unlimited liability entities, it is recommended to always record negative equity positions if the valuation methods yield such results.** This applies to quasi-corporations and other entities where investors are ultimately liable for all the debts and obligations of the entity. This approach ensures that assets and liabilities are not overstated and that the financial position of the units is accurately reflected.
6. **For limited liability entities, negative equity positions should be recorded as the default option.** Compilers should adjust these positions only in specific cases where shareholders' and their affiliates' liability is strictly limited. In this context, "strictly limited liability" refers to situations in which shareholders would not incur any direct economic losses beyond their existing equity investment in the event of bankruptcy, nor would they be likely to assume new financial obligations due to the absence of implicit guarantees or significant reputational risks. Examples of direct economic losses include loan losses and the realization of guarantees, while the willingness to assume new obligations may stem from reputational, societal, or other considerations.
7. **In operational terms, it can generally be assumed that implicit guarantees or significant reputational risks exist when a shareholder's ownership share is at least 10 percent.** This implies that negative equity positions should not be reduced or eliminated for investors owning at least 10 percent of a corporation, unless it can be demonstrated that the investor has no legally binding economic obligations beyond the existing equity investment and a history of not assuming new financial obligations in cases of bankruptcy or termination of corporations in which they hold such ownership shares. For investors owning less than 10 percent of a corporation, the typical practice is to set negative equity positions to zero. However, if a corporation has a negative equity position and there is evidence that an

³ Shares in listed companies are typically traded regularly and valued at observed market prices, which generally do not fall below zero. Therefore, this IGN is primarily relevant for unlisted equity, or for listed companies that are not traded regularly.

⁴ The remainder of this section is based on the guidance provided in Box 7.1 of the pre-edited *BPM7* and paragraphs 14.86–14.89 of the pre-edited *2025 SNA*, as well as the Issue Note *Treatment of Negative Equity Positions*.

investor with less than 10 percent ownership would incur losses beyond the existing equity investment in the event of bankruptcy—such as through loans or guarantees extended by the investor to the corporation—a negative equity position, corresponding in absolute terms to the value of the exposures, should be recorded. The recorded negative equity position of each individual investor should nevertheless be limited to the value of its equity participation.

8. **Negative equity positions in public corporations and central banks should always be recorded, regardless of ownership structure.** Recording these positions avoids masking potential fiscal exposures or bailout risks.

9. **If one investor's equity position is adjusted, other shareholders should record negative equity positions only in proportion to their ownership shares.** For example, if a corporation has a value of –100 and one investor owns 20 percent while the remaining 80 percent is held by many retail investors (each below 10 percent), the negative equity position of the 20 percent investor is –20 and will not be adjusted to –100 even if the negative positions of the retail investors are set to zero. As a result, equity positions in the same corporation may be valued differently, reflecting the specific expected loss absorption attributed to each shareholder.

10. **In cases where negative equity positions are reduced or eliminated, adjustments should be recorded as other price changes in the revaluation account to preserve stock-flow consistency.** This is because the adjustment reflects a revaluation rather than a change in the volume of shares.

11. **The decision tree in the Annex can be used to determine the treatment of negative equity positions on a case-by-case basis.** It is fully aligned with the principles described above and adds practical guidance on what to do in cases where evidence of the investor's liability is or is not available.

ILLUSTRATIVE EXAMPLES⁵

12. **This section provides examples illustrating the treatment of negative equity positions in an unlimited liability entity, limited liability entity, public corporation, and central bank.** The decision tree in the Annex has been used to inform the recordings presented in these examples.

EXAMPLE 1: UNLIMITED LIABILITY ENTITY

13. This example illustrates the treatment of negative equity positions for an unlimited liability entity, where investors ultimately are liable for all the debts and obligations of the business.

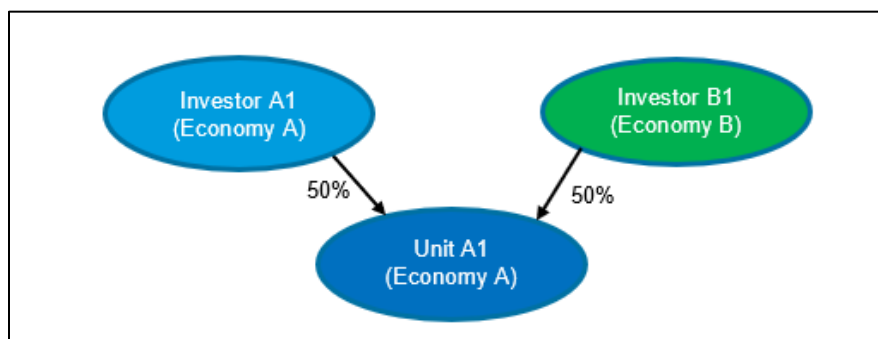
Case Description

14. Unit A1 is an unlimited liability entity located in Economy A. It is jointly owned by two investors: Investor A1, a resident of Economy A, holding a 50 percent ownership stake; and Investor B1, a resident of Economy B, also holding 50 percent (see Figure 1). At the beginning of the period, Unit A1 has an

⁵ The examples in this section are based on OFBV, but the same principles apply when other valuation methods are used. The flows and positions presented in this IGN are expressed in the same currency used by the reporting economy for its compilation, and voting power is proportional to equity shares. None of the investors are affiliated.

OFBV of –300. During the period, the unit has distributable income of –100. No other transactions or valuation events occur during the period. As a result, the OFBV at the end of the period is –400.

Figure 1. Ownership Structure of Unit A1



Recordings

15. The integrated balance sheet of Economy A should reflect the entries for equity liabilities of Unit A1 shown in Table 1.

Table 1. Equity Liabilities of Unit A1 Recorded by Economy A

Liabilities (equity)	Opening position	Transactions	Exchange rate changes	Other price changes	Other changes in volume	Closing position
Vis-à-vis Investor A1 ¹	–150	0	0	–50	0	–200
Vis-à-vis Investor B1 ^{1,2}	–150	–50	0	0	0	–200

¹ Recorded in the national accounts.
² Recorded in the external accounts.

16. Negative equity positions are recorded for Unit A1 to reflect the ongoing liability of investors in unlimited liability entities.⁶ The foreign investor’s (Investor B1) share of distributable income is recorded as reinvested earnings in the income account since no dividends have been declared for distribution. A corresponding financial account transaction, recorded as reinvestment of earnings, appears in the integrated balance sheet as the counter-entry as shown in Table 1, explaining the difference between the opening and closing positions. For the domestic investor (Investor A1), the change in OFBV is recorded as a revaluation under other price changes, as reinvested earnings and reinvestment of earnings are not applicable outside of foreign direct investment (FDI) and investment fund contexts. This approach ensures that the integrated balance sheet remains stock-flow consistent and accurately reflects the economic exposure of each investor.

EXAMPLE 2: LIMITED LIABILITY ENTITY

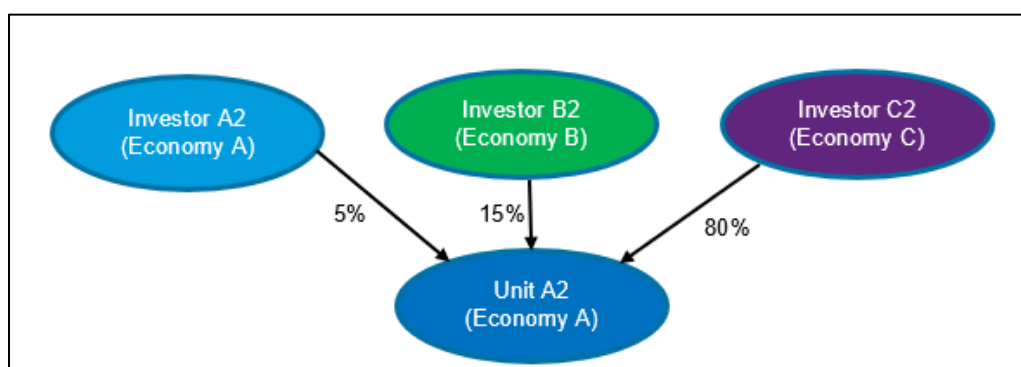
⁶ Corresponding negative asset positions—not positive liability positions—are recorded for Investor A1 and Investor B1.

17. This example illustrates the treatment of negative equity positions for a limited liability entity, where the presence or absence of explicit and implicit exposures influences the recording of negative positions.

Case Description

18. Unit A2 is a limited liability entity located in Economy A. It is jointly owned by three investors (see Figure 2): Investor A2 (a resident of Economy A, owning 5 percent), Investor B2 (a resident of Economy B, owning 15 percent), and Investor C2 (a resident of Economy C, owning 80 percent). At the beginning of the period, Unit A2 has an OFBV of 100. During the period, the unit has distributable income of –200. No other transactions or valuation events occur during this time. As a result, the OFBV at the end of the period would in principle be –100.

Figure 2. Ownership Structure of Unit A2



Initial Recordings

19. The integrated balance sheet of Economy A should reflect the entries for equity liabilities of Unit A2 shown in Table 2A.

Table 2A. Equity Liabilities of Unit A2 Recorded by Economy A (Initial Recordings)

Liabilities (equity)	Opening position	Transactions	Exchange rate changes	Other price changes	Other changes in volume	Closing position
Vis-à-vis Investor A2 ¹	5	0	0	–5	0	0
Vis-à-vis Investor B2 ^{1,2}	15	–30	0	0	0	–15
Vis-à-vis Investor C2 ^{1,2}	80	–160	0	0	0	–80

¹ Recorded in the national accounts.
² Recorded in the external accounts.

20. In the absence of additional information, it is assumed that implicit guarantees or significant reputational risks exist when a shareholder’s ownership share is at least 10 percent. Therefore, the negative equity positions for Investor B2 and Investor C2 are recorded in full. The foreign investors’ (Investor B2 and Investor C2) respective shares of distributable income are recorded as reinvested

earnings in the income account since no dividends have been declared for distribution. Corresponding financial account transactions, recorded as reinvestment of earnings, appear in the integrated balance sheet as the counter-entry as shown in Table 2A, explaining the difference between the opening and closing positions.

21. Because Investor A2 holds less than 10 percent of the shares, the investor is not expected to incur any direct economic losses beyond the value of the existing equity investment in the event of bankruptcy. Consequently, the negative equity position is set to zero, and –5 is recorded under other price changes to maintain stock-flow consistency. If the equity position vis-à-vis Investor A2 had not been adjusted, other price changes would have been –10. Reinvested earnings and reinvestment of earnings are recorded only in FDI and investment fund contexts and thus do not apply to Investor A2.

Updated Recordings Based on Additional Information

22. Compilers in Economy A have investigated the shareholder relationships in more detail and found the following:

- Investor A2 has provided a loan of 3 to Unit A2.
- Investor B2 (or any of its affiliates) has not provided any loans or guarantees and has a history of allowing its FDI enterprises to go bankrupt.
- Investor C2 has provided a loan of 25 and a loan guarantee of 30 to Unit A2.

In practice, compilers may obtain the information in the bullets above by engaging with reporters or consulting publicly available sources.

23. Given this additional information, the integrated balance sheet of Economy A should be updated to reflect the entries for equity liabilities of Unit A2 shown in Table 2B.

Table 2B. Equity Liabilities of Unit A2 Recorded by Economy A (Based on Additional Information)

Liabilities (equity)	Opening position	Transactions	Exchange rate changes	Other price changes	Other changes in volume	Closing position
Vis-à-vis Investor A2 ¹	5	0	0	–8	0	–3
Vis-à-vis Investor B2 ^{1,2}	15	–30	0	15	0	0
Vis-à-vis Investor C2 ^{1,2}	80	–160	0	0	0	–80

¹ Recorded in the national accounts.
² Recorded in the external accounts.

24. Investor A2’s closing position is adjusted to –3 instead of 0 because the investor is exposed to a loss of 3 if Unit A2 defaults on the loan. If the loan from Investor A2 had been 5 or higher, a closing position of –5 would have been recorded under equity, reflecting the full value of Investor A2’s equity participation. Investor B2’s closing position is adjusted to 0 because it is unlikely to incur further losses or provide financial support, based on the lack of additional exposures and its historical behavior. The adjustments are also captured under other price changes to maintain stock-flow consistency.

25. The entries for Investor C2 remain unchanged. Although the combined value of the loan and guarantee (55) is below the equity position (80), the full negative equity position is recorded due to the presumption of implicit guarantees and reputational risk associated with a large ownership share.

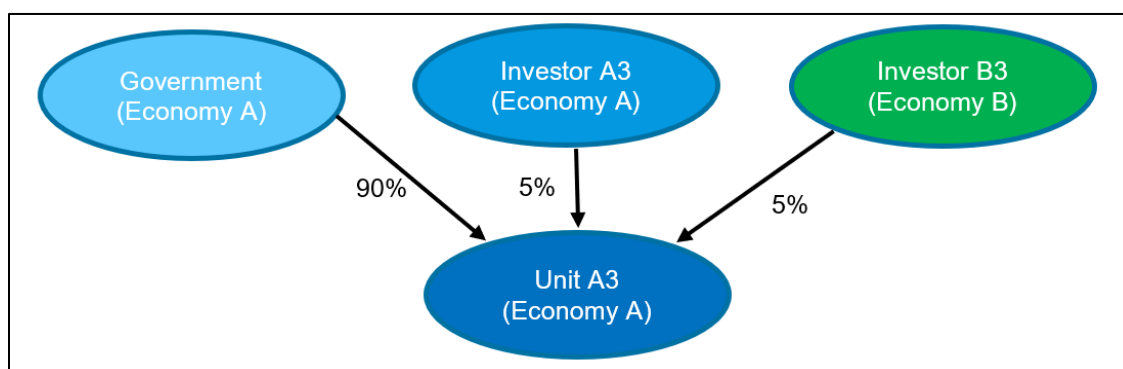
EXAMPLE 3: PUBLIC CORPORATION

26. This example illustrates the treatment of negative equity positions for a public corporation, where fiscal exposure and the recognition of potential bailout risks are key considerations.

Case Description

27. Unit A3 is a public corporation located in Economy A. The government of Economy A is the majority shareholder, holding a 90 percent ownership stake. Investor A3, a resident of Economy A, and Investor B3, a resident of Economy B, each hold a 5 percent ownership share (see Figure 3). At the beginning of the period, Unit A3 has an OFBV of –700. During the period, the unit has distributable income of –200. No other transactions or valuation events occur during this time. As a result, the OFBV at the end of the period is –900.

Figure 3. Ownership Structure of Unit A3



Recordings

28. The integrated balance sheet of Economy A should reflect the entries for equity liabilities of Unit A3 shown in Table 3

Table 3. Equity Liabilities of Unit A3 Recorded by Economy A

Liabilities (equity)	Opening position	Transactions	Exchange rate changes	Other price changes	Other changes in volume	Closing position
Vis-à-vis government of Economy A ¹	–630	0	0	–180	0	–810
Vis-à-vis Investor A3 ¹	–35	0	0	–10	0	–45
Vis-à-vis Investor B3 ^{1,2}	–35	0	0	–10	0	–45

¹ Recorded in the national accounts.

²Recorded in the external accounts.

29. Negative equity positions are recorded in full to reflect the fiscal exposure associated with public corporations. The changes in OFBV are recorded as revaluations under other price changes for each investor. No reinvested earnings or reinvestment of earnings are recorded because these items apply only to FDI and investment fund contexts. No negative equity positions are eliminated or reduced, even for private or nonresident shareholders with equity shares below 10 percent, because Unit A3 is a public corporation.

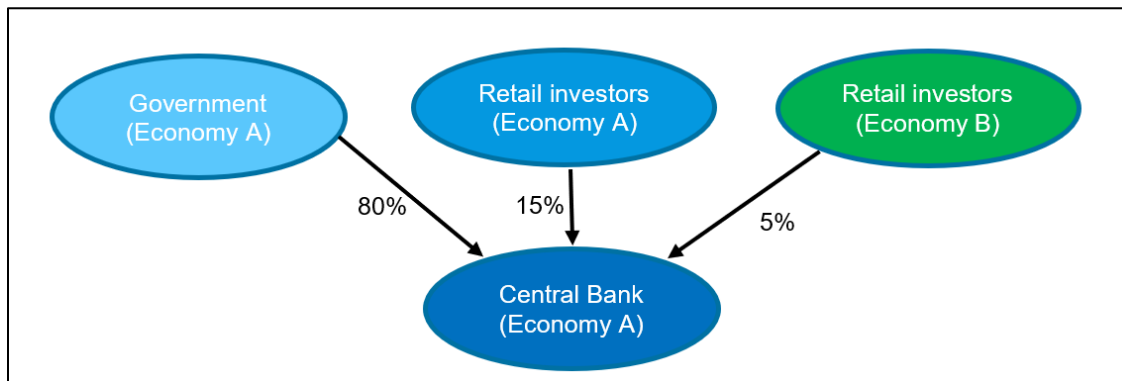
EXAMPLE 4: CENTRAL BANK

30. This example illustrates the treatment of negative equity positions for a central bank, where fiscal exposure and the recognition of potential bailout risks are key considerations.

Case Description

31. The central bank of Economy A is owned by the government of Economy A (80 percent), retail investors from Economy A (15 percent), and retail investors from Economy B (5 percent) (see Figure 4). The central bank operates with negative equity due to significant losses on its securities holdings in recent years. At the beginning of the period, the central bank has an OFBV of –2,000. During the period, it records holding gains of 200—split evenly between exchange rate changes and other price changes—and distributable income of 100. No other transactions or valuation events occur during this time. As a result, the OFBV at the end of the period is –1,700.

Figure 4. Ownership Structure of the Central Bank of Economy A



Recordings

32. The integrated balance sheet of Economy A should reflect the entries for equity liabilities of the central bank shown in Table 4.

Table 4. Equity Liabilities of the Central Bank Recorded by Economy A

	Opening position	Transactions	Exchange rate changes	Other price changes	Other changes in volume	Closing position
Liabilities (equity)						

Vis-à-vis government of Economy A ¹	-1,600	0	0	240	0	-1,360
Vis-à-vis retail investors from Economy A ¹	-300	0	0	45	0	-255
Vis-à-vis retail investors from Economy B ^{1,2}	-100	0	0	15	0	-85
¹ Recorded in the national accounts.						
² Recorded in the external accounts.						

33. Negative equity positions are recorded in full to reflect the fiscal exposure associated with central banks. The changes in OFBV are recorded as revaluations under other price changes for each investor. No reinvested earnings or reinvestment of earnings are recorded because these items apply only to FDI and investment fund contexts. Although the central bank records exchange rate changes on the asset side of its balance sheet, these changes are recorded as other price changes on the liability side, together with other changes in OFBV, similar to the [treatment of uncompensated asset seizures](#). No negative equity positions are eliminated or reduced, even for private or nonresident shareholders with equity shares below 10 percent, because the unit is a central bank.

TREATMENT OF SPECIAL CASES

34. **This section provides guidance on how to record and interpret negative equity positions in specific scenarios.** It is based on the guidance provided in the section on the Conceptual Background, as well as the general principles of *BPM7* and the *2025 SNA*.

BANKRUPTCY AND DISSOLUTION

35. **In cases of bankruptcy or legal dissolution of an enterprise, negative equity positions should generally be recorded as indicated in the previous sections until the legal process is finalized.** If, during the bankruptcy proceedings, an investor is expected to incur a smaller or larger loss on its equity position than initially recorded, the position should be adjusted accordingly through other price changes. Once the enterprise is formally dissolved, all equity positions in the enterprise should be set to zero through other changes in volume, as the holdings of shares have effectively been extinguished.

SPECIFIC INVESTOR TYPES

36. This subsection elaborates on the principles for recognizing and recording negative equity positions associated with specific investor types.

International Organizations

37. **International organizations often hold equity for policy or stabilization purposes.** Their negative equity positions should generally be recorded in full, especially when an organization is expected to provide continued financial support or absorb losses. However, such positions may be

adjusted if there is strong evidence that the organization will not incur losses beyond its initial equity investment in the event of bankruptcy.

Investment Funds

38. **Equity positions with negative value held by investment funds are subject to the same principles that apply to all other investors.** If a fund is structured to absorb losses (e.g., a development finance vehicle), negative equity positions should be recorded in full. Negative positions in other units may be set to zero if the investment fund has strictly limited liability.

Individuals

39. **When individuals hold equity positions with negative value, the same principles apply as for other investors.** If the individual has limited liability and no explicit or implicit exposures beyond the initial equity investment, the negative position may be adjusted to zero. Otherwise, negative equity positions should be recorded in the same manner as for other units.

IMPUTED NEGATIVE EQUITY POSITIONS DUE TO TRANSFER PRICING ADJUSTMENTS

40. **Negative equity positions may arise from adjustments made to correct distorted transfer prices between affiliated enterprises.** These “imputed” negative equity positions should be recorded with caution and only when there is strong evidence to support the adjustment. In such cases, the general principles for recording negative equity positions still apply. These enterprises are typically part of a group, and the 10 percent ownership threshold is relevant for assessing the likelihood of implicit guarantees or reputational risk. As a general rule, negative equity positions should not be set to zero unless there is compelling justification to do so (i.e., a case in which an investor and its affiliates have no legally binding economic obligations beyond the existing equity investment and a history of not assuming new financial obligations in cases of bankruptcy or termination of corporations in which they hold significant ownership of equity).

NEGATIVE EQUITY POSITIONS AND REINVESTED EARNINGS

41. **When an investor holds a negative equity position that is set to zero, reinvested earnings in the income account and corresponding reinvestment of earnings in the financial account should still be recorded as usual in FDI relationships.** If the reinvestment of earnings is not sufficient to bring the equity position into positive territory, an offsetting entry should be recorded under other price changes to preserve consistency between flows and stocks, because the position remains zero. However, if positive reinvestment of earnings is sufficient to move the equity position into positive territory, the offsetting adjustment under other price changes should only match the amount of the initial negative position, in order to maintain stock-flow consistency. These principles are illustrated in the example in Table 5.

Table 5. Equity Liabilities Recorded for a Unit with Opening Negative Equity Position Set to Zero

Liabilities (equity)	Opening position	Trans- actions	Exchange rate changes	Other price changes	Other changes in volume	Closing position
Reinvestment of earnings of –20	0 (–50 based on unadjusted OFBV)	–20	0	20	0	0 (–70 based on unadjusted OFBV)
Reinvestment of earnings of 30	0 (–50 based on unadjusted OFBV)	30	0	–30	0	0 (–20 based on unadjusted OFBV)
Reinvestment of earnings of 70	0 (–50 based on unadjusted OFBV)	70	0	–50	0	20 (No OFBV adjustment necessary)

Notes: The table shows the recording of equity liabilities for a unit vis-à-vis an investor with strictly limited liability. The investor's share of OFBV is –50 at the beginning of the period but is set to zero because of the liability limitation. The table presents the integrated balance sheet under different scenarios, depending on the level of reinvestment of earnings.

FELLOW ENTERPRISES AND REVERSE INVESTMENT

42. **Negative equity positions between fellow enterprises are normally recorded without adjustment.** Since fellow enterprises share a common immediate or indirect foreign direct investor and are therefore considered affiliates, such positions should generally be retained—unless there is a demonstrated history of the group not assuming new financial obligations in cases of bankruptcy or termination of the fellow enterprises. The same principle applies to reverse equity investment (i.e., when a unit holds less than a 10 percent ownership share in its parent corporation). Although the ownership share is below 10 percent, the default approach is not to set a negative equity position in the parent corporation to zero because the two units are affiliated.

RECOMMENDATIONS

43. **To ensure accurate and transparent reporting of negative equity positions, compilers are encouraged to adopt the following practices:**

ENSURE CONCEPTUAL CONSISTENCY

44. **Compilers should align the treatment of negative equity positions with the guidance provided in *BPM7* and the *2025 SNA*, with the elaborations explained in this *IGN*.** This alignment enhances the quality, comparability, and coherence of macroeconomic statistics across economies and statistical domains.

PROMOTE SYMMETRIC REPORTING

45. **When feasible, compilers should exchange information with their counterparts in partner economies.** This helps ensure that negative equity positions—particularly those involving cross-border relationships—are reported symmetrically, reducing discrepancies in global statistics.

ENHANCE TRANSPARENCY THROUGH SUPPLEMENTARY REPORTING

46. **Compilers are encouraged to show negative equity positions as supplementary “of which” items under the relevant equity asset and liability categories.** This supplementary breakdown improves transparency and facilitates analytical use, especially in the context of fiscal risk assessments and financial stability monitoring.

Global Consultation Questions

- 1) *Do you have comments on the examples in this IGN and the proposed recordings?*
- 2) *Do you agree with the recommendations outlined in this IGN?*

ANNEX: DECISION TREE FOR THE TREATMENT OF NEGATIVE EQUITY POSITIONS

