Proposed Recommendations Document:

1.8 Valuation of unlisted equity

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals: D.2 Valuation of unlisted equity SNA/BPM Discussion Note: Negative equity SNA/BPM Issue Note: Treatment of Negative Equity Positions *Draft 2025 SNA* and *Draft BPM7* [1]	
Global Consultation(s):	SNA/BPM: Dec 2021
Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):	AEG/BOPCOM: Feb 2024; Oct 2023; Oct 2021
Discussions at GFSAC Meeting(s):	To be determined
Summary of Proposed Recommendations: Unlisted equity assets can be of significant value on governments' balance sheets. The proposed recommendation for the updated GFSM is to incorporate the three preferred valuation methodologies for unlisted equity described in the draft *2025 SNA* and the draft *BPM7*; to adopt the alternative valuation methods in case the preferred methods cannot be applied; and to include the decision tree for valuation of unlisted equity to guide compilers in using the appropriate method of valuation. Additionally, the treatment of negative valuations of unlisted equities and provisions should be clarified and disclosed as supplementary information.	

Background and Issues

1.   Although market price is the standard valuation principle recommended for valuation of economic flows and stock positions in the *GFSM 2014* (paras. 3.107-3.129, 7.20-7.33, and 7.171) and other statistical manuals, this principle is difficult to apply to unlisted shares/equity, which often lack observable market prices. Actual market prices for the unlisted shares/other equity are not readily observable since they are either not exchanged or are exchanged infrequently in a stock market. Equity assets owned by

---

[1] Links are to the "white cover" versions of the *2025 SNA* and *BPM7*. While technically still considered draft, only editorial amendments will be made between these versions and the final versions.

governments, particularly in public corporations, are often unlisted, listed but illiquid, joint ventures, or unincorporated. In the absence of a market price, a market-equivalent valuation serves as an alternative valuation method that requires estimation.

2.   Consistent with the *2008 SNA* and *BPM6*, *GFSM 2014* (para. 7.173) references six different estimation methods for valuing unlisted shares/other equity. These six methods are: recent transaction price, net asset value, present value/price to earnings ratio, book values reported by enterprises with macro-level adjustment, own funds at book value, and apportioning global value.

3.   Inconsistencies in the implementation of these alternative valuation methods directly impact international comparability. Variations in national practices for valuing unlisted equity lead to these inconsistencies, resulting in bilateral asymmetries in financial reporting. The BPM guidance note (*D2. Valuation of Unlisted Equity*) emphasizes that these alternative valuation methods hinder international comparability and distort the assessment of economic health across different institutional sectors.

4.   The draft *2025 SNA* (paras. 14.82-14.85) and *BPM7* (paras. 7.15-7.18) refocus guidance on valuing unlisted equity to three preferred methods. The three preferred methods are: own funds at book value (OFBV), (recent) transaction prices, and market capitalization (price to book value). In case these methods cannot be applied, for example due to the unavailability of relevant source data, alternatives could be used, namely: net asset value[2], present value/price to earnings ratios, and apportioning global value. While each method has its advantages and disadvantages, the preferred methods were selected based on criteria including: the availability of accessible and timely information, simplicity in deriving equity value, comparability to facilitate cross-country analysis, and accuracy in yielding reliable market value equivalent. Furthermore, the draft *2025 SNA* (Figure 14.1) has introduced a decision tree as a guiding tool for selecting the most appropriate estimation method.

5.   The methodology for estimating the value of unlisted shares can in some cases result in negative values. For instance, OFBV and market capitalization valuation methods can generate negative valuations while recent transaction prices will usually not be negative (although it could be in cases where the investor is liable for any losses exceeding the capital invested in the enterprises). The proposed treatment of negative equity positions should be recorded as the default option for both cases of limited liability and unlimited liability corporations. In the case of a limited liability corporation, the negative equity may be zeroed out only if the shareholder's and its affiliates' liability is strictly limited. The criteria for zeroing out are contingent upon the absence of legally and non-legally binding obligations, implicit guarantees and significant reputation risks. Generally, it can be assumed that legally and non-legally binding obligations, implicit guarantees or significant reputational risks exist when a shareholder owns at least 10% of the entity. This implies that negative equity should not be zeroed out in most circumstances and in particular that negative equity in public corporations, including central banks, should never be zeroed out. In the case of unlimited liability entities, it is recommended to always record negative equity positions. Compilers are encouraged to show all negative equity positions as supplementary information on the relevant equity assets and liabilities.

6.   The GN suggests clarifying the impact of various types of accounting provisions, including loan loss (bad debt) provisions on the estimation of the value of unlisted entities. Provisions for loan losses, impairment of assets, and provisions for future payments are consistently not recognized in the statistical

---

[2] Net asset value is defined as total assets at current value less total liabilities (excluding equity) at market value.

manuals. However, using book-value costs to approximate the unlisted equities valuation may be impacted by these accounting provisions. The *GFSM 2014* includes several references (footnote 14 in chapter 10, and 11 in Appendix 3) noting that provisions are not recognized in macroeconomics statistics. The draft *BPM7* (para. 7.48-7.50) explains that additional information on provisions can serve as an indicator of the impaired value of loans in the business accounts. For the nonnegotiable assets, the nominal value remains the primary valuation method and additional valuations such as the fair value, nonperforming loan, and loan loss (bad debt) provisions are shown as memorandum items, on a supplementary basis.

Proposed Recommendations

7.   Update *GFSM 2014 (*paras. 3.107-3.129, 7.20-7.33, and 7.171, 7.173 and 7.231-7.233, as relevant), to align with the guidance on unlisted shares in *2025 SNA* and *BPM7* by:

- Updating the valuation methods for unlisted shares with the three preferred methods described in the draft *2025 SNA* and *BPM7*. Define and describe the three methods: own funds at book value (OFBV), transaction prices, and market capitalization. Reference information from the draft *2025 SNA* (para. 14.82) and *BPM7* (para 7.16), and the decision tree (Figure 14.1 in the *2025 SNA*) to explain selection criteria.

- Including an additional paragraph briefly describing the alternative methods for situations with inadequate data for the preferred methods. They are net asset value, present value/price to earnings ratios, and apportioning global value, referencing the alternatives in the draft *2025 SNA* (para. 14.83).

- Adopting the draft *2025 SNA* (paras. 14.86-14.89) and *BPM7* (Box 7.1) guidance on the treatment of negative equity estimates for unlisted equity. Remove *GFSM 2014*, footnote 47 regarding negative equities and revise *GFSM 2014* (para. 7.173).

- Editing footnotes 14 in Chapter 10 and 11 in Annex 3 regarding provisions in the GFSM. Amend footnote 14 to reflect the impact of the various provisions on the valuation of unlisted equities, serving as indicators of asset quality and value deterioration. In addition, loan loss provisions to be included in memorandum items.

Rationale for Proposed Recommendations

8.   The proposed recommendations aim to harmonize the updated *GFSM* with the *2025 SNA* and *BPM7*, a key objective of the *GFSM 2014* update process. The correct valuation of unlisted equities is crucial for the sustainability analysis of fiscal policy. Public corporations often engage in quasi-fiscal policy and merely appear on the government balance sheet as financial assets in equity. To determine their impact on the government balance sheet, proper valuation and recording of their equity is essential.