STATISTICS

GFSM 2014 update

Proposed Recommendations Document:

2.9 Debt assumption and debt payments on behalf of others

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals: DN 2.9 Debt assumption and debt payments on behalf of others *GFSM 2014*, *2025 SNA (pre-edit)* and *BPM7 (pre-edit)* [1]	
Global Consultation(s):	GFSM: March 2026
Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):	N/A
Discussions at GFSAC Meeting(s):	October 2025

Summary of Proposed Recommendations:

The recommendations propose updating the *GFSM 2014* to align the guidance on debt assumption more closely with that in the *2025 SNA* by replacing the "effective financial claim" / "going concern" tests with an "effective legal claim" and "realistic probability" criterion, defined consistently with IFRS 9[2]. As a result, the same considerations will be made whether or not the beneficiary of the debt assumption is a public corporation.

In cases where the original debtor no longer exists, the recommendation is to adopt *BPM7* guidance which writes off the original debt and records the new debt via a capital transfer between the new debtor and the creditor.

A further recommendation is to distinguish debt assumption from debt payments on behalf of others by treating such cases as debt assumption unless evidence demonstrates that the payment is based on temporary liquidity difficulties rather than more permanent solvency problems.

Finally, for cash-basis reporters, the recommendation is to keep the main system unchanged while requiring memorandum reporting of debt assumptions to support fiscal and debt analysis.

[1] Links are to the pre-edit (or "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.

[2] International Financial Reporting Standard 9 – Financial Instruments (IFRS 9)

Background and Issues

1. Existing guidance in *GFSM 2014* on debt assumption[3] could be seen as inconsistent with guidance for similar transactions (such as capital injections and debt forgiveness) as well as with guidance in other statistical manuals, particularly with respect to scenarios where a government is assuming the debt of a public corporation.

2. Several forms of government financial support, such as capital injections, debt forgiveness, subsidies, and capital transfers, are intended to strengthen the financial position of public corporations, yet they are recorded differently, The current treatment of debt assumption is common to the *PSDSG 2013*[4] (paragraphs 4.56-4.57) and *GFSM 2014* (paragraphs A3.26-A3.29), with Figure A3.1 in *GFSM 2014* depicting a decision tree. Depending on the debt assumption agreement and financial condition of the former debtor, debt assumption can occur: (i) with the new debtor acquiring a financial claim on the former debtor, or (ii) without the new debtor acquiring a financial claim on the former debtor.

Issue A: Treatment of Debt Assumption

3. The treatment in *GFSM 2014* allows governments to assume debt without an impact on the deficit, thereby differing from other forms of support, such as debt forgiveness, which is always recorded as a capital transfer and directly affects government net lending/borrowing. Likewise, while regular support to cover operating losses is classified as subsidies, irregular support to cover accumulated or exceptional losses is recorded as capital transfers. These differences may incentivize governments to assume debt rather than provide other forms of support, reducing transparency around government intervention in the liabilities of public corporations.

4. The current approach also raises conceptual concerns where government is the sole or full owner of a public corporation. In such cases, recording debt assumption as an increase in government equity implies no change in government net worth, whereas treating it as a capital transfer would reduce government net worth and increase that of the public corporation. This distinction is important for interpreting fiscal outcomes and balance sheet effects. While the *2025 SNA* allows acquisitions of equity without the issuance of new shares in limited circumstances, such as investment grants that provide new financing for expansion, those cases differ in substance from debt assumption, which primarily relieves the corporation of existing obligations rather than providing resources for investment.

5. A further source of inconsistency arises from the use in *GFSM 2014* of two key criteria, whether an “effective financial claim” exists and whether the former debtor is a “going concern”, to determine the treatment of debt assumption. These criteria differ from other international standards. The *2025 SNA* relies instead on the concept of an effective legal claim combined with a realistic probability of repayment, and does not apply a “going concern” criteria. Under the *2025 SNA*, debt assumption is normally recorded as a capital transfer, with recognition of a financial asset only in the exceptional case where enforceable legal claims exist and repayment is realistically expected. Eurostat’s *MGDD 2022*[5] takes a different approach again, by treating debt assumption as a capital transfer with a narrowly defined exception for

[3] Debt assumption refers to trilateral arrangements between a creditor, former debtor, and a new debtor (typically a government unit) under which the new debtor assumes the former debtor’s outstanding liability to the creditor and becomes liable for the repayment of the original debt.

[4] *Public Sector Debt Statistics Guide for Compilers and Users 2013 (PSDSG 2013)*

[5] *Manual of Government Deficit and Debt 2022 (MGDD 2022)*

privatization-related cases.

Issue B: Debt Assumption When the Former Debtor No Longer Exists

6. Current GFSM guidance does not address cases where the former debtor no longer exists. In contrast, *BPM6*[6] and *BPM7* specify that in such situations the new debtor should record a capital transfer or grant to the creditor, and the original debt should be written off through other volume changes in assets and liabilities. *GFSM 2014* lacks this guidance and instead treats the capital transfer or grant as always being payable to the former debtor.

Issue C: Treatment of Debt Payments on Behalf of Others

7. The distinction between debt payments on behalf of others and debt assumption is important for fiscal analysis. Debt assumption typically results in a large one-off increase in the debt of the assuming unit, whereas debt payments on behalf of others usually have a smaller and more indirect impact on the debt of that unit. While *GFSM 2014* indicates that debt payments on behalf of others are intended for situations where the debtor faces temporary liquidity difficulties rather than permanent solvency problems, it provides no further guidance on how to determine whether to treat a payment as debt payments on behalf of others or as debt assumption

8. Eurostat's *MGDD 2022* provides a rules-based approach to determine which guidance to apply. It emphasizes that recurrent payments by a public sector guarantor enabling a debtor to meet debt obligations should be carefully assessed, as frequent support may represent a disguised or indirect guarantee call. As practical guidance, the *MGDD 2022* applies the "three consecutive calls rule," under which debt is considered automatically assumed if the guarantor makes payments over three successive calls, normally for the full outstanding amount unless evidence supports a lower expected share. Debt assumption is also identified where public accounts or similar records show a high probability that the guarantor will repay the debt, beyond routine prudential provisioning. An exception applies where there is strong evidence that default is temporary, such as a credible restructuring and business plan indicating the debtor will be able to resume servicing its obligations.

Issue D: Treatment of Debt Assumption Under Cash Basis of Recording

The *GFSM 2014* (paragraph A3.29) advises that no transactions should be recorded for debt assumption in the case of countries following a cash basis of recording; and this hampers debt analysis and fiscal sustainability and vulnerability analysis. While from a pure cash reporting concept this is appropriate, it results in cash reporting countries not reflecting the full fiscal impact of debt operations. In practice, IMF surveillance typically asks for information on debt assumptions regardless of whether countries follow a cash basis of recording

[6] *Balance of Payments Manual Version 6 (BPM6)*

Proposed Recommendations

9. The proposed recommendations to address **Issue A** are to:

- In line with the *2025 SNA* (paragraph 30.116), revise the *GFSM 2014* guidance on debt assumption to use the "effective legal claim" and "realistic probability" criterion, replacing the terms "effective financial claim" and "going concern" currently in the *GFSM 2014*.
- Revise decision tree A3.1 (Decision Tree for the Statistical Treatment of Debt Assumption) in *GFSM 2014* in accordance with the above bullet.
- The concepts of "effective legal claim" and "realistic probability" should be defined in line with the definitions used in IFRS 9.

10. The proposed recommendations to address **Issue B** are to:

- Adopt the *BPM7* guidance (paragraph 8.43(a)) for cases in which the original debtor no longer exists. Specifying that in such situations the new debtor should record a capital transfer or grant to the creditor, and the original debt should be written off through other volume changes in assets and liabilities.
- Revise decision tree A3.1 (Decision Tree for the Statistical Treatment of Debt Assumption) in *GFSM 2014* by adding a node (or footnote) that addresses cases in which the original debtor no longer exists.

11. The proposed recommendation to address **Issue C** is to:

- Maintain the current guidance of *GFSM 2014* as a baseline, while adding guidance for compilers to assess whether the financial situation of the debtor reflects temporary liquidity difficulties or permanent solvency problems. Under this approach, the debt payment on behalf of others is recorded as debt assumption, unless evidence demonstrates that the case involves temporary liquidity difficulties rather than permanent solvency problems.

12. The proposed recommendation to address **Issue D** is to:

- Keep the cash basis of recording in the main reporting system (i.e., no debt assumption recording) while recording debt assumption transactions as a memorandum section.

Rationale for Proposed Recommendations

13. The proposed recommendations strengthen the guidance on debt assumption by improving internal consistency within *GFSM* and aligning the treatment of similar transactions intended to support the finances of public corporations, particularly debt assumption and debt payments on behalf of others. These changes also simplify application by compilers and improve debt analysis.

Proposed Text for GFSM Update[7,8]

A3.26 Debt assumption is a trilateral agreement between a creditor, a former debtor, and a new debtor (typically a government unit), under which the new debtor assumes the former debtor's outstanding liability to the creditor, and is liable for repayment of debt. Calling a guarantee is an example of debt assumption. If the original debtor defaults on its debt obligations, the creditor may invoke the contract conditions permitting the guarantee from the guarantor to be called. The guarantor unit must either repay the debtor assume responsibility for the debt as the primary debtor (i.e., the liability of the original debtor is extinguished). A public sector unit can be the debtor that is defaulting or the guarantor. A government can also, through agreement, offer to provide funds to pay off the debt obligation of another government unit owed to a third party.[7]

A3.27 When a government assumes a debt, in most instances the counterpart transaction of the new government liability is a capital transfer in favor of the defaulting debtor. However, if the government acquires an effective legal claim against the defaulting unit and there is a realistic probability that the claim will be paid, the government may record, as the counterpart transaction of its new liability, the acquisition of a financial asset (most commonly equity) equal to the present value of the amount expected to be received. If this amount is equal to the liability assumed, no further entries are required. If the amount expected to be recovered is less than the liability assumed, the government records a capital transfer for the difference between the liability incurred and any asset acquired. Similarly, if a government has its debt assumed by another government, then it might record a capital transfer receivable, a new debt to the assuming government unit, or a combination of the two. ~~The statistical treatment of debt assumption depends on (i) whether the new debtor acquires an effective financial claim on the original debtor, and (ii) if there is no effective financial legal claim, the relationship between the new debtor and the original debtor and whether the original debtor is bankrupt or no longer a going concern.[8] This implies three possibilities (see Figure A3.1):~~

- ~~The debt assumer (new debtor) acquires an effective financial claim on the original debtor. The debt assumer records an increase in debt liabilities to the original creditor, and an increase in financial assets, such as in the form of loans, with the original debtor as the counterparty. The original debtor records a decrease in the original debt liability to the creditor and an increase in liabilities, such as in the form of a loan, to the debt assumer. The value of the debt assumer's claim on the original debtor is the present value of the amount expected to be received by the assumer. If this amount is equal to the liability assumed, no further entries are required. If the amount expected to be recovered is less than the liability assumed, the debt assumer records an expense in the form of capital transfer/grant to the original debtor for the difference between the liability incurred and the financial asset acquired in the form of loans. For the debt assumer, gross debt increases by the amount of debt assumed.~~
- ~~The debt assumer (new debtor) does not acquire an effective financial claim on the original debtor. This may be the case when the original debtor is bankrupt or no longer a going concern, or when the debt assumer seeks to convey a benefit to the original debtor. The debt assumer records an~~

[7] The proposed text for the updated GFSM remains subject to further review and may not be finalized until the conclusion of the drafting phase of the GFSM update.

[8] Text shown in red indicates proposed additions; text shown with strikethrough indicates proposed deletions; and text shown in blue indicates text moved from elsewhere in the same section.

~~expense in the form of a capital transfer/grant to the original debtor, and an increase in debt liabilities to the original creditor. The original debtor records revenue in the form of a capital transfer/grant, which extinguishes the debt liability on its balance sheet. The exception to this case is when the original debtor is a public corporation that continues to be a going concern, which is discussed next.~~

- ~~The debt assumer (new debtor) does not acquire an effective financial claim and the original debtor is a public corporation that continues to be a going concern. The debt assumption amounts to an increase in the equity owned by the debt assumer in the public corporation (original debtor). The debt assumer records an increase in debt liabilities to the original creditor, and an increase in financial assets in the form of equity and investment fund shares. The public corporation records a decrease in the debt liability to the original creditor, and an increase in nondebt liabilities in the form of equity and investment funds shares.~~

x.x An **effective legal claim** exists when the debt-assuming unit has an enforceable contractual or legal right to receive cash or another financial asset from the former debtor. The claim must be supported by valid contracts, agreements, or other legal instruments that are binding under applicable law, and there must be no material legal impediments, disputes, or conditions that would undermine enforceability.

x.x A **realistic probability** of repayment exists when, based on all available and relevant information, there is a reasonable expectation that the former debtor will repay all or part of the claim. This assessment should consider the former debtor's financial position, payment history, projected cash flows, and prevailing economic conditions, as well as any credit enhancements such as guarantees or collateral.

x.x If the debt-assuming party does not acquire a claim on the (original) debtor because the original debtor no longer exists (e.g., the original debtor has been liquidated), a capital transfer from the debt-assuming party to the creditor is recorded as the corresponding entry to the creation of the liability. The original debt of the debtor to the creditor is written off in the accounts of both the original debtor and the creditor (e.g. recorded as other changes in the volume of assets and liabilities).

A3.28 A special case is where debt assumption involves the transfer of nonfinancial assets (such as fixed assets or land) from, for example, a public corporation (original debtor) to the debt assumer (new debtor). In this case, the debt assumer records an increase in debt liabilities to the original creditor and the acquisition of a nonfinancial asset(s). If the market value of the nonfinancial asset(s) is equal to the value of the liability assumed, no further entries are required. A capital transfer/grant between the debt assumer and original debtor is recorded for any difference between the value of the liability assumed and the market value of the nonfinancial assets.

A3.29 Although no transactions are recorded for debt assumption under the cash basis of recording, the stock positions would change due to the debt assumption. Any subsequent payments in cash relating to the assumed debt would be recorded as interest, and/or transactions in financial assets other than cash and liabilities, as relevant. However, to support fiscal and debt analysis, information on debt assumptions should be reported as memorandum items.

Debt payments on behalf of others

A3.30 Rather than assuming ~~a~~ the entire debt, a public sector unit may decide to repay that debt or make a specific payment on behalf of another institutional unit (original debtor), without a guarantee being called or the debt being taken over. In this case, the recording should be as a debt assumption, unless evidence

demonstrates that the case involves temporary liquidity difficulties rather than permanent solvency problems. ~~the debt stays recorded solely on the balance sheet of the other institutional unit, the only legal debtor. While this activity is similar to debt assumption, as the existing debt remains with unaltered terms, debt payment on behalf of others is not considered debt reorganization. Such a situation may occur where a debtor is experiencing temporary liquidity difficulties rather than permanent solvency problems.~~[9]

x.x Compilers should assess whether the debtor faces temporary liquidity difficulties or permanent solvency problems using a holistic, evidence-based judgment informed by multiple indicators. Temporary liquidity difficulties are typically associated with short-term cash flow mismatches, no material increase in credit risk, temporary operational disruptions, supportive economic conditions, and credible plans or support mechanisms to meet obligations. Permanent solvency problems are indicated by persistent financial distress, repeated defaults or arrears, adverse economic or legal developments, insolvency or restructuring proceedings, weak solvency positions, and the absence of a viable plan to continue operations. Forward-looking information should be used where available, and no single indicator should be considered determinative

~~**A3.31** The treatment of debt payments on behalf of others depends on whether the public sector unit paying the debt acquires an effective financial claim on the debtor.~~

- ~~If the paying unit obtains an effective financial claim on the original debtor, the paying unit records an increase in financial assets (e.g., loans) and a decrease in currency and deposits. The recipient (debtor) records a decrease in the original debt liability and an increase in another liability—which may be debt or nondebt—to the paying unit. If the claim of the paying unit on the debtor is in the form of a debt instrument, gross debt and net debt of the paying unit and recipient (debtor) do not change. However, if the claim of the paying unit on the debtor is in the form of a nondebt instrument—for example, equity:~~
  - ~~For the paying unit, gross debt remains unchanged, but net debt increases (due to the reduction in its financial assets in the form of currency and deposits).~~
  - ~~For the recipient (debtor), gross debt and net debt decrease (due to the reduction in the debt liability).~~
- ~~If the paying unit does not obtain an effective financial claim on the original debtor, the paying unit records an expense in the form of a capital transfer—classified according to the nature of the recipient—and a decrease in financial assets in the form of currency and deposits. Th e receiving unit (debtor) records a revenue in the form of a capital transfer—classified according to the nature of the paying unit—and a decrease in the original debt liability.~~

~~[9] Debt payments on behalf of others are different from the case where debt may be considered to be assumed at inception when a guarantee has a very high likelihood to be called, as described in paragraph 7.258.~~