GFSAC 2025/10/06

STATISTICS

Debt valuation issues

Discussion Note

GFSAC MEETING
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Mike Seiferling and Marc Wermuth
Task Team 2

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Background

- Origin of research project: PID
- Approach taken in developing discussion note: Approach as outlined by IMF
- Editorial team involved in preparing the discussion note: Co-authors (see Slide 1)

Nominal Value of Debt Liabilities

Non universal terminology

- Slightly different descriptions across the different statistical manuals on how to calculate the nominal value
- Clarification and clear definition of nominal value would be an improvement to GFSM

Varying definitions across manuals

- Comparing between GFSM 2014, PSDSG and 2025 SNA there is not a consistent definition

Insufficient concrete examples?

- Further guidance on how to calculate the nominal value for different debt instruments with different types of characteristics?

Options to address

Option A1: Maintain current GFSM 2014 definition in §3.115

Option A2: Modify GFSM 2014 definition and **add the following elements a figure** which explains that **nominal value** reflects the amount the debtor owes the creditor at any point in time while the **market value** reflects the value at which that debt is being traded in secondary markets.

Option A3: Modify GFSM 2014 definition to **align better with the 2025 SNA definition** and **add a figure** which explains that **nominal value** reflects the amount the debtor owes the creditor at any point in time while the **market value** reflects the value at which that debt is being traded in secondary markets.

Task Team 2 Recommendations

Recommends **Option A3:**

- Support of **alignment with 2025 SNA** and maintaining consistency in the definition between other manuals (HSS, BPM7, PSDSG).
- Support of further principle-based explanations of the **relationship between nominal value and market value**, including a graphical depiction which highlight the **different valuation methods**: nominal value, face value and market value.
- Better explanation of how nominal value is calculated, especially **which components** (e.g. discount/premium, accrued coupon interest, change in exchange rates, transaction costs) are **included or excluded**.

Interest Accrual on Debt Securities

<u>Variety of legitimate/useful ways to calculate accrued interest on debt securities</u>

- Approaches are well documented for simple issuances (for example, zero coupon discounted bonds), but for debt securities with more varied characteristics (for example, coupon payments issued at premia/discount) there are different ways to calculate accrued interest.

<u>Breadth and depth of bond characteristics covered in GFSM</u>

- How far GFSM should go in providing clear methodological guidelines that go beyond zero-coupon issued at discount
- Useful to clarify different approaches and explain the differences

<u>Discussion of debt metrics for public policy</u>

- There are different metrics that are useful for policy purposes including effective (or implied) interest rate

Options to address

Option B1: Maintain the current guidance in GFSM 2014 and the rather theoretical discussion in 6.62-6.83 and in 9.37 – 9.43. However, more principle-based guidance should be provided on the different methods of calculation accrued interest and to explain the differences.

Option B2: Attempt to compile a **list of all the different types of debt securities** that are issued by public sector entities. Based on this compile a **list of the different ways interest would accrue** (issued at premium/discount, deep discount, index linked, stripped securities, securities repayable in a foreign currency, ABS, etc.).

Option B3: Same as option B2 but with an appendix or section that provides **analytical guidance** to compilers so that they can hands on **compute accrued interest** for themselves or can follow steps to arrive at estimates for accrued interest.

Task Team Recommendations

A **majority** of Task Team 2 members supports **Option B1:**

- GFSM is not the adequate place to add specific examples.
- GFSM should not incorporate references to other guidance but rather stand on its own.

A **minority** of Task Team 2 members saw at least **partial merit for Option B2**:

- Provide at least some high-level examples which in their view better serves in the interest of compilers to adequately apply the guidance.
- A balance needs to be struck between self-contained and non-exhaustive.

Full support by Task Team 2 for:

- **Amending GFSM 2014, 6.73** to remove the split of the face value and premium (which is not consistent with overall effective interest rate calculation of HSS).

Asset-backed Securities

ABS not well covered in GFSM

- Coverage in GFSM is largely focused on definitions and types of securitization with limited practical advice for how they should be valued and or what types of ABS are used by public sector entities (the examples mentioned in GFSM 2014 of mortgages and credit card loans are limited).

Estimating nominal value of asset backed securities

- The range of debt securities continues to evolve with some linked to future income streams from government assets.
- ABS are difficult to value as they are dependent on the value of underlying asset(s) which may not be easily observable and can change over time.

Limited practical guidance

- Additional guidance is especially missing on how to approach the valuation of these instruments in those scenarios where there may be uncertainty regarding the value of the underlying assets and the discounted future income streams from those assets

Asset-backed Securities *(cont)*

What can and cannot be securitized in GFSM 2014 is not clear.

GFSM defines securitization in A3.59 as “debt securities for which coupon or principal payments (or both) are backed by specific financial or nonfinancial assets or future revenue streams”…. A3.60 goes on to note that ”A general government unit may issue debt securities backed by specific earmarked revenue.”, but “In macroeconomic statistical systems, the ability to raise taxes or other government revenue is not recognized as a government asset that could be used for securitization. Nevertheless, the earmarking of future revenue, such as receipts from toll roads, to service debt securities issued by a general government (or public sector) unit may resemble securitization (see paragraphs A3.64* and A3.66)

* For example, A3.64 begins with “No asset securitization involves securitization of future revenue streams. As mentioned in paragraph A3.60, the ability to raise taxes or other government revenue is not recognized as a government asset that could be used for true-sale securitization.” But some future revenue streams can be securitized as noted in 3.60.

Note on A3.64: The creation of securitization units (i.e., SPVs) should be divided into its own paragraph and clarified.

Options to address

Option C1: Not significantly expand the current guidance in GFSM **but align it with the 2025 SNA**. This paragraph will particularly have to be **assessed against the current wording in GFSM 2014, 7.151.**

Option C2: Align the guidance with 2025 SNA in accordance with option C1 (similarly to option B2) and **additionally attempt to compile a list of all the different types of asset-backed securities** that are commonly issued by **public sector** entities and elaborate **detailed guidance of how to value them.** This could include the theoretical guidance from GFSM 2014 and 2025 SNA but would also include links to **more practical interpretations**, for example the UK NAO Introduction to Asset Backed Securities.

Option C3: Option C2 but with practical examples and a **list of types of assets** securitized in the **public sector** included within the GFSM rather than linking to other sources for guidance.

Task Team Recommendations

On balance, a **majority** of Task Team 2 members supports **Option C1:**

- GFSM is not the adequate place to add specific examples.
- GFSM should not incorporate references to other guidance but rather stand on its own.
- However, **further research should be undertaken** to analyze the most common ABS in the public sector to assess **whether new characteristics** warrant an amendment of the current methodology.
- Depending on the outcome, elements of Option C2 could still be warranted.

Remaining/Residual Maturity

Harmonized definition of remaining maturity

- Definitions mostly harmonized but may be room for clarification on the contractually scheduled payment dates, especially for instruments with no fixed date and the term ‘final’ in the harmonized definition.

Practical guidance in GFS

- Not fully clear how to calculate remaining / residual maturity within the GFS framework when reporting public sector debt.

Discussion of remaining maturity in the context of other debt instrument

- While the case of calculating the remaining maturity for debt securities, loans, deposits and SDR allocations may be mechanically relatively straightforward, subject to the above clarifications, how should debt on other accounts payable, defined benefit pension liabilities, standardized guarantees etc. be approached?

Options to address

Option D1 Improve the current guidance in GFSM 2014 and **make clearer which payments should be included in short-term remaining maturity** and whether the **split between short- and long-term debt** needs to be done **based on undiscounted or discounted payments** (e.g. the valuation of the total reported debt or the conceptually purer present value approach). Also, **align with the 2025 SNA where appropriate**.

Option D2 Improve the current guidance and align with 2025 SNA as in **option D1 and additionally**, provide **numeric examples of how to calculate the split** between short- and long-term debt and **which elements** fall into the short-term remaining maturity.

Option D3 Guidance in **option D2** is not limited to debt securities but encompasses **all financial instruments with a remaining maturity** such as loans, standardized guarantees etc.

Task Team Recommendations

Recommends **Option D1:**

- But sees merit in enhancing the guidance to **cover all instruments** with a remaining maturity as proposed in **Option D3**.

Questions for GFSAC

Issue A: Nominal Value of Debt Liabilities

- Are the issues and options sufficiently clear, if not which areas would benefit from further development?
- Do you have a preference for Option A1, Option A2 or Option A3, and why?
- Are there any other options you would like to propose?

Issue B: Interest Accrual on Debt Securities

- Are the issues and options sufficiently clear, if not which areas would benefit from further development?
- Do you have a preference for Option B1, Option B2 or Option B3, and why?
- Are there any other options you would like to propose?

Questions for GFSAC

Issue C: Asset-Backed Securities

- Are the issues and options sufficiently clear, if not which areas would benefit from further development?
- Do you have a preference for Option C1, Option C2 or Option C3, and why?
- Are there any other options you would like to propose?

Issue D: Remaining / Residual Maturity

- Are the issues and options sufficiently clear, if not which areas would benefit from further development?
- Do you have a preference for Option D1, Option D2 or Option D3, and why?
- Are there any other options you would like to propose?

Thank you!!