(1) Topic: **Distinction between Loans and Deposits**

(2) Issues – see BOPTEG Issues Paper # 30 and Background Paper # 30

(3) Recommendations:

(i) The group generally supported keeping the distinction between the two instruments because of the analytical value.

(ii) It was recognized that current standards do not allow a distinction to be made clearly and consistently between loans and deposits for positions and transactions among banks. A range of views on possible criteria were expressed, including the financial/non-financial nature of the borrower or the parties’ own definitions and contractual arrangements. An argument in favor of the first criterion was mentioned concerning the definition of money supply as depository corporations, the money issuing sector, are defined to include those accepting deposits.

(4) Rejected Alternatives:

The criterion of classifying the instrument according to the classification of the party who initiates the arrangement was rejected by most participants as impractical.

(5) Questions for the Committee:

(i) *Does the Committee agree that the distinction between loans and deposits should be retained? See 3(i) above.*

(ii) *What is the view of the Committee on the appropriate criteria for such a distinction for positions and transactions among banks? See 3(ii) above.*