Contingent Liabilities

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A liability is established when one unit (debtor) is obliged, under specific circumstances, to provide a payment or series of payments to another unit (creditor).

**Liabilities in the SNA**

- Unconditional (legal)
- Constructive (custom)
- Standardized Guarantees

A type of contingent liability
Contingent liabilities

- May confer rights or obligations if certain conditions are met
- Can be important for financial planning, policy, and analysis
  - SNA recommends supplementary presentation of data
Contingent liabilities

Create fiscal risks
- Difference between actual and expected fiscal outcomes

Source
- Deliberate public policy
- Unforeseen events
Types of Contingent Liabilities

- **Explicit**
  - Legal or contractual financial arrangements that give rise to conditional requirements to make payment of economic value.

- **Implicit**
  - Not legal or contractual, but recognized after a condition or event is realized.

**Examples:**
- Obligations for social security benefits
- Banking sector solvency
- Obligations of sub-national governments
- Natural disasters, etc.
GFS Boundary

Figure 7.2. Overview of Liabilities and Contingent Liabilities in Macroeconomic Statistics

- Liabilities
  - Explicit contingent liabilities
  - Implicit contingent liabilities
  - Guarantees
    - Guarantees in the form of financial derivatives
    - Provisions for calls under standardized guarantee schemes
    - Other: Special drawing rights (SDRs), Currency and deposits, Debt securities, Loans, Nonlife insurance technical reserves, Life insurance and annuities entitlements, Pension entitlements, claims of pension funds on managers, and non-pension entitlements, Equity and investment fund shares, Other financial derivatives and employee stock options, Other accounts payable
  - One-off guarantees
    - Loan and other debt instrument guarantees (publicly guaranteed debt)
    - Other one-off guarantees
  - Other: Net obligations for future social security benefits

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Explicit Contingent Liabilities

- GFSM and PSDSG both recommend supplemental data for balance sheet
  - Publicly guaranteed debt
  - Other one-off guarantees
  - Explicit contingent liabilities, not elsewhere classified
    - Potential legal claims
    - Indemnities
    - Uncalled capital
Issues for Discussion

- Boundary
- Time of recording
  - Eurostat guidance on guaranteed debt
- Measurement
  - *Public Sector Debt Statistics Guide* suggests a number of measurement alternatives
Measurement Options

- **Nominal value**
  - Maximum potential loss

- **Expected present value**
  - Discount using a market rate of interest

- **Historical experience**
  - Probability distribution of defaults based on similar guarantees

- **Market value**
  - Compare instruments with and without guarantees

- **Option pricing**
  - Put option on the underlying assets backing a loan