Chapter 2. Overview of the Monetary and Financial Statistics Framework

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I. INTRODUCTION

2.1.   This chapter provides an overview of the monetary and financial statistics framework, focusing on its scope, uses, and main principles and concepts. Further, it explains the relationship of monetary and financial statistics with the *2008 SNA,* other statistical manuals, and the International Financial Reporting Standards (IFRSs). The chapter sets the stage for the other chapters of this *Monetary and Financial Statistics Manual and Compilation Guide* ("*Manual*" hereafter) providing a context to the reader.

2.2.   The chapter first discusses the scope and uses of monetary and financial statistics. This discussion is then followed by a summary of all essential principles and concepts used in compiling monetary and financial statistics, within the framework provided by the *2008 SNA* and other major statistical manuals. The final section of the chapter compares the source data available from IFRSs and the needs of monetary and financial statistics, focusing on the commonalities and the differences between the two.

II.   SCOPE AND USES OF MONETARY AND FINANCIAL STATISTICS

A. Scope overview

2.3.   The monetary and financial statistics described in this *Manual* cover all financial and nonfinancial assets, and liabilities of all institutional sectors within an economy, with a particular focus on the financial corporations (FCs) sector. A financial claim is an asset that typically entitles the creditor to receive funds or other resources from the debtor under the terms of a liability. Financial assets are unconditional creditor claims that give rise to corresponding liabilities of debtors.[1] Other financial instruments of a contingent nature, such as guarantees (except standardized guarantees) and commitments, are outside the assets boundary and therefore are not included in the monetary and financial statistics.

2.4.   This *Manual* contains principles and concepts for the measurement of stock positions and flows consistent with the *2008 SNA* and other major statistical manuals. In particular, each flow is defined as the sum of one or more of the following: (1) transactions; (2) valuation changes; and (3) other changes in the volume of assets and liabilities (OCVA). In compiling monetary and financial statistics, these categories are used to account for all period-to-period changes in outstanding amounts (i.e., stock positions) of assets and liabilities.

2.5.   Data on the market prices of financial assets and on market exchange rates are necessary for the implementation of this *Manual's* recommendations on the valuation of financial assets and liabilities. Monetary and financial statistics, however, as defined in the

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[1] An exception is gold bullion held by monetary authorities as reserve asset (monetary gold), which does not have a counterpart liability and is a financial asset by convention.

next two subsections, do not cover the compilation and presentation of interest rates, debt and equity security prices, or exchange rates.

B. Monetary statistics

2.6.   ***Monetary statistics cover the stock positions and flows of the assets and liabilities of the resident FC sector with respect to all other resident institutional sectors and nonresidents.***[2] Based on the concepts of the *2008 SNA*, monetary and financial statistics provide a framework for analyzing the relationship between the FCs sector and other institutional sectors, including through broad money, credit aggregates, and liquidity measures.

2.7.   Monetary statistics comprise a set of stock and flow data that are organized in two hierarchical data frameworks, namely *sectoral balance sheets* and *analytical surveys*.

2.8.   In the *sectoral balance sheets*, compiled for the three FCs subsectors (central bank, ODCs, and OFCs), the asset and liability positions (and flows) are presented in a balance-sheet-like form by types of financial instrument, by currency (domestic and foreign), and by counterpart institutional sector. (See Section II in Chapter 7 and Tables A1–3 in Appendix I of this *Manual*).

2.9.   The *analytical surveys* are derived from the respective sectoral balance sheets, whereby the sectoral balance sheet data are rearranged into a standard analytical format. In the analytical surveys, the assets are presented as FCs' claims on other resident institutional sectors and nonresidents; while the liabilities are presented by types of financial instrument in the order of their liquidity, and whether they are included in broad money or excluded from it. Claims and liabilities to nonresidents and central government are presented on a net basis. (See Section III and Tables 7.8–12 in Annex 7.3 in Chapter 7 of this *Manual*.)

2.10.   The analytical sectoral surveys comprise the following:

(a) Three surveys that cover the FCs subsectors—the *central bank survey (CBS)*, the *other depository corporations survey (ODCS)*, and the *other financial corporations survey (OFCS)*.

(b) The *depository corporations survey (DCS)*, which consolidates the *CBS* and the *ODCS*.

(c) A survey that contains data for the entire FCs sector—the *financial corporations survey (FCS)*, which consolidates the *DCS* and the *OFCS*.

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[2] The *2008 SNA* uses "rest of the world" to refer to nonresidents; in parallel, in this *Manual*, nonresidents refer to all entities, or groupings of entities, that are not residents of an economy.

2.11.   The compilation framework for monetary statistics is shown in Figure 2.1.

Figure 2.1. Compilation Framework for Monetary Statistics
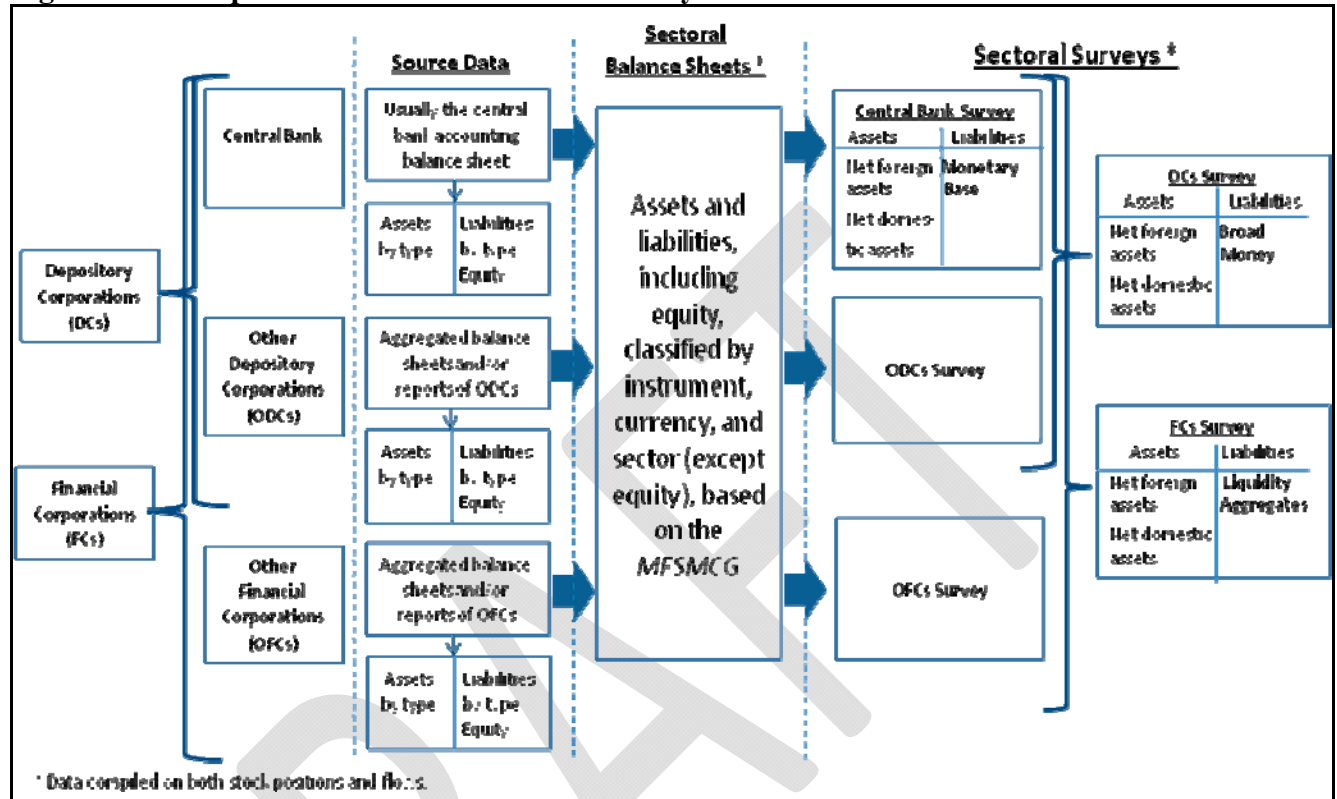
2.12.   Monetary statistics are generally a better developed part of the macroeconomic statistical system of a country. Compared to other types of macroeconomic statistics, namely national accounts, external sector statistics, and government finance statistics, most countries compile and disseminate monetary statistics on a more frequent and more timely basis, as dictated by law and regulations and by the needs of policymakers and market participants, as well as facilitated by availability of relatively detailed and frequent source data. Most countries compile the DCS on a monthly basis and disseminate them with relatively short timeliness.

2.13.   For monetary policy purposes, the focus is on the data for the DCs subsector, presented in the CBS, the ODCS, and the DCS. The CBS contains data on all components of the monetary base, which comprises the central bank liabilities that support the expansion of broad money and credit. The DCS contains data on all DCs' liabilities included in broad money.

2.14.   The balance sheet identity in the DCS provides a direct link between the broad money supply and DCs' claims on nonresidents and on the resident sectors of the economy. These data are used for the formulation and implementation of monetary policy and for macroeconomic policy.

2.15.   For purposes of broader macroeconomic policies, there is an increasing focus on the OFCs subsector and the FCS, which is the broadest set of monetary statistics in terms of institutional coverage. The FCS contains consolidated data for the entire FCs sector. The data in the FCS are particularly useful for analyzing the FCs sector's claims on (i.e., credit to) the other sectors of the economy and nonresidents, as well as for compiling the liquidity aggregates issued by FCs.

C. Financial statistics

2.16.   ***Financial statistics (or flow-of-funds statistics) extend the range of monetary statistics to include stock positions and flows of the assets and liabilities between all sectors of the economy and between the sectors of the economy and nonresidents.*** The financial statistics are organized and presented in formats designed to show financial flows among the sectors of an economy and corresponding financial asset and liability stock positions. Sectoral balance sheets provide a significant portion of the data needed to compile financial statistics.

2.17.   Financial statistics are compiled and presented with varying degrees of detail depending on the availability of source data, analytical needs, and other considerations. Common presentation formats include *flow-of-funds statistics*, *the balance sheet approach matrix*, and *financial sectoral accounts* as discussed in more detail in Chapter 8.

2.18.   Financial statistics provide data for use in compiling the financial account and balance sheets of the *2008 SNA*. It is possible to achieve resource savings by treating the compilation of these sets of statistics as a single process or, at the minimum, a highly cooperative effort by the compilers of the monetary and financial statistics, and the national accounts. For the FCs subsectors, the data needed for the financial account and SNA balance sheets derive directly from the sectoral balance sheets, as described in Chapter 7. Data for entries that do not pertain to assets or liabilities of the FCs sector are obtained from other sets of macroeconomic statistics, including external sector statistics, national accounts, and government finance statistics.

III. PRINCIPLES AND CONCEPTS

2.19.   This section deals with the relationship of the monetary and financial statistics to the *2008 SNA* and other statistical manuals and provides a summary of the principles and concepts underlying the monetary and financial statistics. Adherence to these principles and concepts and to the resulting systematic recording and presentation of data facilitates cross-country and global comparisons and ensures internal consistency as well as consistency with other major sets of macroeconomic statistics (see Appendix I). Chapters 3, 4 and 5 cover more detailed aspects of these principles and concepts.

A. Relationship to the *2008 SNA* and other major statistical manuals

2.20.   For monetary statistics, as well as for the other statistical systems (external sector statistics and government finance statistics), the overarching framework is the system of national accounts. In this respect, the basic principles and concepts underlying monetary and financial statistics are consistent with those of the *2008 SNA, BPM6,* and *GFSM 2014*. The integral links between the monetary and financial statistics, and the financial account and balance sheets of the *2008 SNA* are underpinned by consistency in principles and concepts such as residence and sectoring of institutional units, classification of financial assets and liabilities, recording and valuation rules of financial and nonfinancial assets and liabilities (with the exception of recording of provisions and the valuation of equity liabilities) as well as transactions and other flows, and data aggregation and consolidation.

2.21.   Methodological consistency ensures harmonization and comparability among the different macroeconomic statistics, and has benefits for both compilers and users of statistics. Data consistency often implies that the same data appear in two or more of the macroeconomic statistical systems with the same nomenclature and values. In this *Manual*, data consistency is based on the concept of reconcilability of data across macroeconomic statistical systems. The macroeconomic systems share many concepts and accounting rules, but each system has some nomenclature and concepts that are unique to the particular macroeconomic area, or are more prominent than in other macroeconomic systems. Data sets in two macroeconomic systems are designated as consistent if the data are reconcilable, meaning that (1) the data are the same (to a reasonable level of accuracy); (2) data discrepancies can be explained and justified (subject to elimination of the discrepancies, if possible); or (3) the data in one system can be constructed from "building blocks" of data from another system.

2.22.   Because of its broader scope, the *2008 SNA* contains principles and concepts not directly applicable to the compilation of monetary statistics. Vice-versa, because of its closer link to accounting principles for financial institutions, as well as its focus on broad money and other financial aggregates, this *Manual* contains some concepts not found in the *2008 SNA* and a more detailed treatment of some concepts contained therein. Differences between this *Manual* and the *2008 SNA* are described in the remainder of this section and in the next section.

B. Economic territory, residence, and center of economic interest

2.23.   The delineation between resident and nonresident entities is a key feature of all macroeconomic statistical frameworks, including the monetary and financial statistics described in this *Manual*. The separate identification of claims on and liabilities to nonresidents is necessary for the measurement of a country's international reserves and its external debt. Likewise, the separate identification of DCs' liabilities to resident money-holding sectors is necessary for the measurement of an economy's broad money issued by resident DCs.

2.24.   The definition of residence in this *Manual* is identical to those in the *2008 SNA* and *BPM6.* It is based, as discussed further in Chapter 3, on the concepts of economic territory and center of predominant economic interest. An institutional unit is a resident in an economic territory when there exists some location (dwelling, place of production, or other premises) within the economic territory, on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time (determined to be at least one year) in economic activities and transactions on a significant scale.

C. Institutional sectors

2.25.   Identifying and sectoring institutional units into institutional sectors is a key element in all macroeconomic statistical frameworks. Sectoring of institutional units involves grouping together institutional units with similar economic objectives, functions, and behavior into institutional sectors. The *2008 SNA* groups resident units of the economy into the following mutually exclusive institutional sectors: (1) nonfinancial corporations; (2) FCs; (3) general government; (4) households; and (5) non-profit institutions serving households (NPISH). The same sectors are used in monetary and financial statistics, except that for compilation purposes the household and the NPISH sectors are aggregated.

2.26.   In the *2008 SNA,* the FCs sector contains the following nine subsectors: (1) central bank; (2) deposit-taking corporations except the central bank; (3) MMFs; (4) non-MMF investment funds; (5) other financial intermediaries except insurance corporations and pension funds; (6) financial auxiliaries; (7) captive financial institutions and money lenders; (8) insurance corporations; and (9) pension funds.[3] For monetary and financial statistics, this *Manual* combines subsectors (2) and (3) into a single subsector called ODCs, which together with the central bank constitute the DCs subsector. Categories (4) through (9) are combined into a single subsector called the OFCs[4] subsector.

2.27.   In the *2008 SNA,* the nonfinancial corporations sector contains three subsectors: (1) public nonfinancial corporations; (2) national private nonfinancial corporations; and (3) foreign controlled nonfinancial corporations. For monetary and financial statistics, the resident nonfinancial corporations sector is split into only two subsectors: public nonfinancial corporations and other nonfinancial corporations. Thus, unlike the *2008 SNA*, this *Manual* does not divide resident nonfinancial corporations into separate subsectors based on the residency of the units that own and control them.

2.28.   The *2008 SNA* offers two options for the subsectoring of the general government. The first method divides general government into: (1) central government; (2) state

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[3] See Table 27.1 in the *2008 SNA*.

[4] In this context, the term "other financial corporation" means "financial corporations other than depository corporations."

government; (3) local government; and (4) social security funds. The second method merges social security funds with their appropriate level of government. For monetary and financial statistics, data on social security funds should be presented together with the level of government at which they operate. State and local government are aggregated in monetary and financial statistics into only one subsector of the general government sector.

D. Classification of financial assets and liabilities

2.29.   At its highest level, the classification of financial assets and liabilities in this *Manual* is fully consistent with that of the *2008 SNA*. At a secondary level of classification, monetary statistics disaggregate *currency and deposits* into separate subcategories for currency, transferable deposits, and other deposits. Further, deposits (as well as debt securities) on the liability side are classified into *included in broad money* and *excluded from broad money*. Equity and investment fund shares are disaggregated into equity, MMF shares (in the ODCs sectoral balance sheet), and non-MMF investment fund shares (in the OFCs sectoral balance sheet). For monetary statistics, *insurance, pension, and standardized guarantee schemes* are disaggregated into nonlife insurance technical reserves, life insurance and annuity entitlements, pension entitlements, claims of pension funds on pension managers, and provisions for *calls unde*r *standardized guarantees. Other accounts receivable/payable* are disaggregated into trade credit and advances, and other accounts receivable/payable.[5]

2.30.   Equity on the liability side of the balance sheets of FCs is further disaggregated into the following categories: (1) funds contributed by owners; (2) retained earnings; (3) current year result; (4) general and special reserves; and (5) valuation adjustment. These separate categories within equity do not appear in the *2008 SNA* or in the financial statistics in Chapter 8 of this *Manual*. Data for these categories support the balance sheet identity in the sectoral balance sheets and provide the necessary details for the analysis of the FCs' equity in the context of the monetary statistics. Equity on the liability side does not provide information on the counterpart sectors holding the claim on the residual value of the corporations of the FC sector. MMF and non-MMF investment fund shares on both the asset side and the liability side are disaggregated in monetary statistics by counterpart sectors.

E. Valuation

2.31.   With minor exceptions, the valuation principles used for monetary statistics are the same as those in the *2008 SNA*. Consistent with the *2008 SNA*, this *Manual* recommends that valuations of stock positions and flows should be based on market prices or market-price equivalents. It recognizes that market price quotations are not available for financial assets not traded or infrequently traded in secondary markets. It is, therefore, necessary to

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[5] Financial assets and liabilities are further disaggregated by domestic/foreign currency of denomination, where relevant.

estimate market-equivalent values for such financial assets referred to as fair values. Table 2.1 summarizes the financial asset and liability classifications and valuation principles used for monetary statistics.

Table 2.1. Financial Assets and Liabilities Classification and Valuation in Monetary Statistics	
Classification	**Valuation method[1]**
Monetary gold (central bank)	Market value
SDRs (central bank)	Market value
Currency	Nominal/face value[2] (in currency of denomination)
Deposits	Nominal value (in currency of denomination)
Debt securities	Market or fair value
Loans	Nominal value (in currency of denomination)
Equity and investment fund shares	Market or fair value (asset); book value (liability)
Insurance, pension, and standardized guarantee schemes	Market or fair value[3]
Financial derivatives and employee stock options	Market or fair value
Other accounts receivable/payable	Nominal value[4]

[1] All foreign-currency-denominated assets and liabilities are converted to national currency units at market exchange rates.
[2] Nominal and face value are the same in this case.
[3] Except for prepayments of insurance premiums, which are recorded at nominal value.
[4] Except for provisions for losses on assets under other accounts payable, which are recorded at book value.

2.32.   For monetary statistics, it is recommended that equity and investment fund shares on the asset side of the balance sheet are valued at market prices. In contrast, those components of equity on the liability side of the FCs' sectoral balance sheets are valued at book value—that is the value recorded in a FC's business accounts. Although the disaggregation of equity on the liability side into the above categories (paragraph 2.30.) and the valuation at book value are not the preferred approaches in the *2008 SNA*, they are consistent with the equity components under the valuation approach called *own funds at book value* (see *2008 SNA*, paragraph 13.71e). This *Manual* also recommends that data on the market value of equity and investment fund shares liabilities are compiled as memorandum items in the sectoral balance sheets.

2.33.   The valuation of deposits and loans in this *Manual*, as well as in the *2008 SNA* and other statistical manuals, is an exception to the market or fair value principle. Deposits and loans are valued at nominal value—that is the outstanding amount the debtor owes to the creditor, which comprises the outstanding amount including accrued interest (i.e., interest accrued but not yet paid).

2.34.   MMF shares or units are presented in monetary statistics at the full value of their original investment—that is, the book value. MMFs typically invest in short-term and low-risk assets to ensure that the book value can be repaid on demand, making MMF shares and units close substitutes for deposits. Non-MMF investment funds shares or units are recorded at their market prices, so there is typically no difference between their book and market values, neither on the asset nor on the liability side of the sectoral balance sheet.

2.35.   The standard unit of account for the monetary and financial statistics is the domestic currency unit. When compiling monetary and financial statistics, foreign-currency-denominated assets and liabilities must be converted into domestic currency units using the market exchange rate prevailing on the balance sheet date. For transactions in foreign-currency-denominated assets and liabilities the market exchange rate prevailing on the transaction date should be used. The midpoint between the buying and selling exchange rates should be used as the prevailing market exchange rate in converting both flow and stock data.

F. Time of recording

2.36.   This *Manual,* consistent with the *2008 SNA* and other major statistical manuals*,* recommends recording transactions on an accrual basis. Accrual accounting records flows at the time economic value is created, transformed, exchanged, transferred or extinguished, rather than at the time of payment. Accrual recording requires that accrued interest is incorporated into the outstanding amount of the underlying financial asset or liability.

G. Aggregation, consolidation, and netting

2.37.   Aggregation refers to the summation of stock and flow data across all institutional units within a sector or subsector, or of all assets or liabilities within a particular instrument category. This *Manual* recommends reporting and organizing the underlying data for the monetary and financial statistics on an aggregated basis.

2.38.   Consolidation refers to the elimination of stock positions and flows that occur between institutional units that are grouped together and presented as if they constituted a single unit. For monetary statistics, consolidation applies at the level of an individual reporting FC (to consolidate accounts of resident branches and head offices) and at the level of FCs sector and its subsectors. For analytical purposes, the reported data are consolidated to obtain the surveys of the FCs' sector and its subsectors, as presented in Chapter 7.

2.39.   It is the general principle in this *Manual*, and in the *2008 SNA,* that data should be recorded and compiled on a gross basis, not netting claims between institutional units, individually or at a sectoral level, against the liabilities to those same institutional units or sectors.[6] However, netting in the sense of recording transactions on a *purchase-less-sales* basis should be used.

IV. INTERNATIONAL FINANCIAL REPORTING STANDARDS AND THE *MFSMCG* METHODOLOGY

2.40.   The basic source data for monetary statistics are the FCs' accounting and regulatory records (balance sheets, subsidiary ledgers, etc.). These records reflect the national (or international) accounting, supervisory, and taxation frameworks and, as a result, have a different structure than monetary statistics. The task of the monetary statistics compiler is to transform the accounting records into monetary statistics. The structures of the *sectoral balance sheets* and *analytical surveys* indicate the type and the detail of information required to accomplish this task.

2.41.   As noted earlier, the *2008 SNA* is the overarching framework for monetary and financial statistics, ensuring that the underlying principles and concepts of all four statistical frameworks—namely national accounts, external sector statistics, government finance statistics, and monetary and financial statistics—are consistent. In addition to SNA, internationally acceptable accounting principles and identities guide some of the features of the framework for monetary and financial statistics. The international accounting and reporting principles are covered in the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB).[7] Accounting principles that have been imposed by national law or regulation are called the *national financial reporting standards* of a country.[8] This *Manual* refers to the IFRSs to illustrate the relationship between FCs' accounting data and the source data for the monetary and financial statistics. With increasing globalization of financial markets, many countries have been adopting the IFRSs as their accounting standards, or have been harmonizing their national financial reporting standards with the IFRSs.

A. Differences between the IFRS and this *Manual*

2.42.   The IFRSs (see Box 2.1) and the methodology for the monetary and financial statistics contain several differences in concepts and terminology. These differences do not, however, create difficulties, if the reporters and compilers of the source data for monetary

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[6] Exceptions to the general rule may arise due to special circumstances or unavailability of data on a gross basis.

[7] See Box 2.1.

[8] Depending on the country, the standards may be referred to as financial reporting standards, accounting standards, or generally accepted accounting principles.

and financial statistics are familiar with both sets of standards. This section describes and explains the main differences.

2.43.   The main differences between the IFRSs and the methodology in this *Manual* stem from their objective and focus. The IFRSs focus on the data and other information for the preparation and dissemination of financial statements of an individual entity. According to the *IASB Framework,* the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. Monetary and financial statistics record stock positions and flows of financial assets and liabilities between all sectors of the economy and between the sectors of the economy and nonresidents with a particular focus on the relationship between the FCs sector and other institutional sectors through macroeconomic aggregates such as broad money, domestic credit, and liquidity.

2.44.   The balance sheets within the financial statements, as specified in the IFRSs, and the balance sheets used in the monetary and financial statistics have many characteristics in common. In both cases, the balance sheet data are compiled through double-entry accounting, the accrual principle is used in accounting for revenue and expense, and valuations for assets and liabilities in major categories are based on market prices or fair values.

Terminology

2.45.   The IFRSs use the term *financial assets and financial liabilities*, whereas this *Manual* uses *financial assets and liabilities*. In the IFRSs, the original entry of an asset or liability into the balance-sheet accounts is called the *initial recognition* of the asset or liability. *Revaluation* of an asset or liability, as defined for the monetary and financial statistics, is termed *subsequent measurement* of the asset or liability in the IFRSs. In the IFRSs, the *equity* of an enterprise is classified separately from its *liabilities*, whereas the equity account is designated as the *liability account for equity* in the monetary and financial statistics (consistent with the *2008 SNA* framework). Chapters 4 and 5 of this *Manual* include references to *provisions for losses on assets,* which in the IFRSs are referred to as *allowances for losses on impaired assets.*

2.46.   In this *Manual*, *market value* and *fair value* are separate concepts. Fair value is the estimated value that must be used when a market price quotation for a financial asset or liability is unavailable. In the IFRSs, the concept of *fair value* encompasses both market values based on price quotations in active markets and fair values that, in the absence of market price quotations, are estimated to approximate market values.

2.47.   For monetary statistics, several categories of financial assets and liabilities are recorded at *book value* or *nominal value*, concepts that do not appear in the IFRSs. The counterpart in the IFRSs is valuation at *amortized cost*, which is not fully consistent with either the valuation at *book value* or *nominal value* in this *Manual*. This is because the

valuation at amortized cost reduces the value of an asset by the amount of the allowance for "impairment or non-collectability".

Sectoring

2.48.   In this *Manual*, stock positions and flows for FCs need to be disaggregated by counterpart sector/subsector as follows: central bank, ODCs, OFCs, central government, state and local government, public nonfinancial corporations, other nonfinancial corporations, households and NPISH, and nonresidents. Sectoral disaggregation is not specified in the IFRSs.

Classification and valuation of financial instruments

2.49.   The presentation of assets and liabilities is standardized in monetary and financial statistics. By contrast, the IFRS guidance introduces a substantial degree of flexibility in the presentation of assets and liabilities on the balance sheet. For example, under the IRFSs assets and liabilities can be presented in the following ways: order of liquidity, expected date of realization of assets and liabilities, and current and non-current liabilities.[9]

2.50.   As compared to the valuation methodology for financial assets and liabilities in monetary statistics shown in Table 2.1, the IFRSs have a separate set of classifications and measurement rules on the basis of an enterprise's motivations for acquiring the financial assets, either for trading or for holding to maturity. For example, securities that are classified as held-for-trading are measured at *fair value through profit and loss*, and those that are classified as held-to-maturity are measured at *amortized cost*. IFRSs have evolved toward broader application of valuation at fair value through profit or loss.

2.51.   To obtain source data for monetary and financial statistics, some components of the data based on IFRSs or national financial reporting standards need to be adjusted as follows:

(a) Debt securities valued at amortized cost need to be restated at market or fair value. The fair value replaces the amortized cost in the recording of the outstanding amount of the securities and a contra-entry in the amount of the difference between the fair value and the amortized cost (positive for a gain, and negative for a loss) needs to be recorded as a valuation adjustment, either as an increase/decrease in *current year result* or in *valuation adjustment* in *equity*.

(b) For monetary statistics, holdings of equity shares valued at amortized cost need to be restated at market or fair value. No adjustment is needed for liabilities in the form of

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[9] See *IAS 1—Presentation of Financial Statements*. Although IAS 1 does not prescribe the order or format in which an entity presents balance sheet items, IFRSs emphasize fair presentation of financial statements, which is to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information (IAS 1, paragraph 17). IFRSs also require consistency of the presentation and classification of items from one period to the next (IAS 1, paragraph 45).

equity, as these are measured at book value. For financial statistics, the adjustment to market or fair value applies to both assets and liabilities in the form of equity.

(c) Loans and deposits valued at market or fair value in accordance with the IFRSs' provisions, need to be restated at nominal value, and a contra-entry (amounting to the positive or negative difference between the nominal value and the fair value of the loan) would need to be recorded as a valuation adjustment, either in *current year result* or *valuation adjustment*.

2.52.   In the IFRSs, specific rules apply for the recording of gains or losses arising from subsequent measurement of market value changes (revaluations) either through recording in the profit-or-loss accounts (wherein gains are recorded as income and losses as expenses) or directly in equity. In the methodology of this *Manual*, revaluation is strictly based on the valuation rules in Table 2.1. For monetary statistics, there is no prescription whether the contra-entry for a gain or loss arising from asset/liability revaluation is to be recorded in the *current year result* (profit-or-loss accounts) or *valuation adjustment,* given that both are components of equity.[10] The recording prescribed by IFRSs or by the national financial reporting standards should be applied.[11]

Time of recording

2.53.   The IFRSs and most national financial reporting standards follow the accrual accounting principle, but many of these standards do not specify that the accrued interest should be included in the outstanding amounts of the underlying financial assets or liabilities (except when valued at amortized cost). In using FCs' accounting records as source data for the monetary and financial statistics, and following the methodology in this *Manual,* accrued interest recorded in other accounts receivable/payable needs to be reclassified as part of the outstanding amounts of the underlying financial assets or liabilities.

2.54.   This *Manual* specifies that debtor and creditor records should agree in amount and time of recording of all stock positions and transactions. These issues are not prominent in the IFRSs, which focus exclusively on the financial records and their accuracy of an individual corporation.

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[10] Total valuation changes (within a reporting period) for all assets and liabilities need to be recorded separately in monetary statistics for compiling the valuation change category of flow data. Valuation changes and the other two major categories of flow data—transactions and OCVA—in monetary statistics are covered in Chapters 5 and 7 (monetary statistics) and Chapter 8 (financial statistics).

[11] This recommendation pertains to the recording of unrealized gains or losses which arise from the revaluation of assets and liabilities that are still on the balance sheet. Realized gains or losses—those resulting from selling or otherwise liquidating assets—are recorded in the revenue (gains) or expense (losses) categories of the profit or loss accounts. This issue does not arise for the financial statistics that deals with only the total market value of equity and investment fund shares, rather than with the value of individual components.

Loans on a gross or net basis

2.55.   Both frameworks account for reductions in realizable values of loan portfolios, which arise from nonperforming loans. In *IAS 39,* loan asset values are directly *adjusted* for impairment based on objective evidence, or are presented as carrying amount of loans (gross) *less* allowances for loan losses. In the monetary statistics methodology, loan asset values are presented on a gross basis, but data on expected loan losses are included as memorandum items to ensure that the realizable values of loans can be calculated. For monetary statistics, provisions for losses on assets are classified as liabilities (see paragraph 2.63).

Periodicity and timeliness

2.56.   IFRSs require a presentation of financial statements at least annually[12] and encourage publicly-traded entities to provide interim financial reports at least as of the end of the first half of their financial year not later than 60 days after the end of the interim period.[13] Timely preparation of annual financial statements is specified as within six months after the reference date/period—a much longer time-lag than is deemed appropriate for the reporting of monetary statistics.

2.57.   The source data for the monetary and financial statistics are reported and compiled on a more frequent basis, and the reporting lags are shorter, compared with the standards for financial statement preparation in the IFRSs.

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[12] See paragraph 36 in IAS1.

[13] See paragraph 1 in IAS34.

Box 2.1. International Financial Reporting Standards (IFRSs)

The International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB), cover the relevant international accounting and reporting principles. The IASB is the independent standard-setting body of the IFRS Foundation.[1] Its members, appointed by the Trustees, are responsible for the development and publication of IFRSs[2] and for approving Interpretations of IFRSs as developed by the IFRS Interpretations Committee (formerly called the Standing Interpretations Committee, SIC). In 2013 the IASB, announced it is to give priority to revising its *Conceptual Framework*, by September 2015.

The IASB uses the term IFRSs in a collective sense to encompass IFRSs, *International Accounting Standards* (IASs), *Implementation Guidance*, Appendices, and supporting interpretations issued by its IFRS Interpretations Committee (or its predecessor, the SIC). The term *IFRSs* also subsumes the latest individual Standards issued by the IASB—each of which is designated as an IFRS.

The main IASB reference for this *Manual* was the *International Financial Reporting Standards 2013* which includes the official consolidated text of the IASB's pronouncements as issued at January 1, 2013; *IFRSs 1* through *13* as of January 1, 2013; *IAS 1* through *IAS 41* (excluding *IAS 3* through *IAS 6*, *IAS 9*, *IAS 13*, *IAS 14, IAS 15, IAS 22*, *IAS 25*, *IAS 30, IAS 31,* and *IAS 35*, which have been superseded by other Standards); *IFRICs* 1-2, 4-7, 10, 12-20; and SICs 7, 10, 15, 25, 27, 29, 31-32. The *IASB Framework* (paragraph 8) states that the IFRSs are applicable to all types of business enterprises:

> The *Framework* applies to the financial statements of all commercial, industrial, and business reporting entities, whether in the public or the private sectors. A reporting entity is an entity for which there are users who rely on the financial statements as their major source of financial information about the entity.

The IFRSs focus on the data and other information for the preparation and dissemination of financial statements. The *IFRS Conceptual Framework* (paragraph 10) states:

> The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

The financial statements are listed in IAS 1.10:

> A complete set of financial statements comprises:
> (a) a statement of financial position as at the end of the period;
> (b) a statement of profit and loss and other comprehensive income for the period;
> (c) a statement of changes in equity for the period;
> (d) a statement of cash flows for the period;
> (e) notes, comprising a summary of significant accounting policies and other explanatory notes; and
> (f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

On December 10, 2012, the IASB issued the ***2013 International Financial Reporting Standards Consolidated without early application.*** This edition included the latest consolidated versions of all Standards (including IFRSs, IASs[3] and IFRIC and SICs[4]) as approved for issue by the IASB up to December 31, 2012 and that are required to be applied on January 1, 2013.

This *Manual* refers to the IFRSs, to illustrate the impact of IFRS-based financial reporting on source data for monetary and financial statistics. This involves highlighting differences in methodology and terminology between FCs' IFRS-based information systems and the source data for the monetary and financial statistics.

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[1] For additional information on the IASB and a chronology of IASB activities since 2001, see http://www.ifrs.org.
[2] See http://www.ifrs.org/How-we-develop-standards/Pages/How-we-develop-standards.aspx.
[3] International Accounting Standards are international financial reporting standards that were created by the predecessor body of the IASB, and were adopted by the IASB when it took over in 2001 and, therefore, form part of the body of the IFRS requirements.
[4] SICs are the official interpretations of the IASs.

2.58.   The recommendations of this *Manual* for the periodicity and timeliness of <u>monetary statistics</u> are as follows:

(a) Reporting of source data and compilation of the CBS, ODCS, and DCS on a monthly basis with a timeliness of 1–2 months.

(b) Reporting of source data and compilation of the OFCS on a monthly or quarterly basis with a timeliness of 1–3 months or 3–4 months, respectively.

(c) Compilation of the FCS on a monthly or quarterly basis, depending on whether the OFCS is compiled on a monthly or quarterly basis with a timeliness of 1–3 months or 3–4 months, respectively.

2.59.   Most countries have long-standing experience with the compilation of balance-sheet (stock positions) data for the central bank and ODCs on a monthly basis.[14] Some countries presently compile balance-sheet data for some or all categories of OFCs on a quarterly or annual basis or, for some countries, on a monthly basis.

2.60.   <u>Financial statistics.</u> Reporting of source data and compilation of the financial statistics on a quarterly or annual basis depends on the periodicity of the data reporting and compilation of the current accounts and the capital account of the national accounts statistics for the country. Compilation of the financial statistics on a quarterly basis is applicable to countries that have quarterly data for current accounts and the capital account of their national accounts statistics, or are currently working on migration from annual to quarterly national accounts statistics.

2.61.   As a general recommendation, this *Manual* follows the practice of most countries, which requires DCs to provide monthly source data to the compilers of monetary statistics within the month immediately following the reference month for the data. A longer time-lag may be required for the reporting of quarterly or annual data for the OFCs' subsector in the monetary statistics, and for the components of financial statistics.

B. Accounting features of the monetary statistics different from the *2008 SNA*

2.62.   The monetary and financial statistics framework contains some accounting and regulatory concepts not found in the *2008 SNA* and other statistical manuals. This stems from the close relationship of the FC sectoral balance sheets to the accounting principles set by IFRSs or national accounting standards, as already discussed. Table 2.2 [to be prepared] summarizes the differences between monetary statistics and the *2008 SNA* and other macroeconomic statistical systems.

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[14] In many countries, DCs are required to report additional data on a daily, weekly, or bi-weekly basis. Such data, though important for economic policy formulation in some countries, are outside the scope of the monetary statistics as defined in this *Manual*.

2.63.   In monetary statistics, *provisions* for losses on assets that are internal to the reporting institutional unit are treated as if these are liabilities and are classified under other accounts payable. In this regard, the underlying assets are recorded gross of such provisions. There is a reduction in equity capital (through current year result/profit or loss) whenever provisions are made. Provisions are the precursor of a possible loan (or other financial asset) write-off and, similar to loan write-offs, are recorded as an OCVA. Provisions for losses on assets are treated as bookkeeping entries internal to the reporting institutional unit and are not included in the *2008 SNA*, except in the case of expected losses on nonperforming loans, which appear as memorandum items in the balance sheets.[15]

2.64.   As noted in the previous section*,* for monetary statistics, equity on the liability side of the sectoral balance sheets is disaggregated into five categories (based on accounting principles) and is recorded at book value. Equity and investment fund shares in the *2008 SNA* are valued at market prices and are not disaggregated into these separate categories. The following issues arise because of these differences:

(a) In monetary statistics, flows between the different components of equity are recorded as an OCVA. In the sectoral balance sheets, flows between the components of equity and assets, and between components of equity and other liabilities are classified as transactions, revaluations, and OCVA depending on their nature (see paragraphs 5.39–5.43). Such flows for components of equity do not appear in the *2008 SNA,* as equity is not disaggregated into separate categories.

(b) The *2008 SNA* concept of *net worth,* defined as the value of all the assets owned by an institutional unit or sector *less* the value of all its outstanding liabilities (including equity), does not appear in monetary statistics, where the equity on the liability side is valued at book value. In both *2008 SNA* and this *Manual* the value of all the assets *less* the value of all the outstanding liabilities (including equity) and net worth (in the *2008 SNA* only) equals to zero.

2.65.   The reconciliation of the differences between monetary statistics on one side and financial statistics and the *2008 SNA* on the other in their treatment of provisions for losses on assets and equity on the liability side, and the SNA *net worth* concept, can be carried out as follows. Provided the same valuation principles are used for valuing all the assets and liabilities except equity, the sum of SNA net worth and market-valued equity (so-called own funds) would be equal to the sum of book-valued equity plus all provisions for losses on assets recorded in monetary statistics. (See Figure 2.2.)

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[15] *2008 SNA,* Paragraphs 3.41 and 13.66–13.68.

Figure 2.2. Reconciliation of Equity Liabilities in the *2008 SNA* and the *MFSMCG*
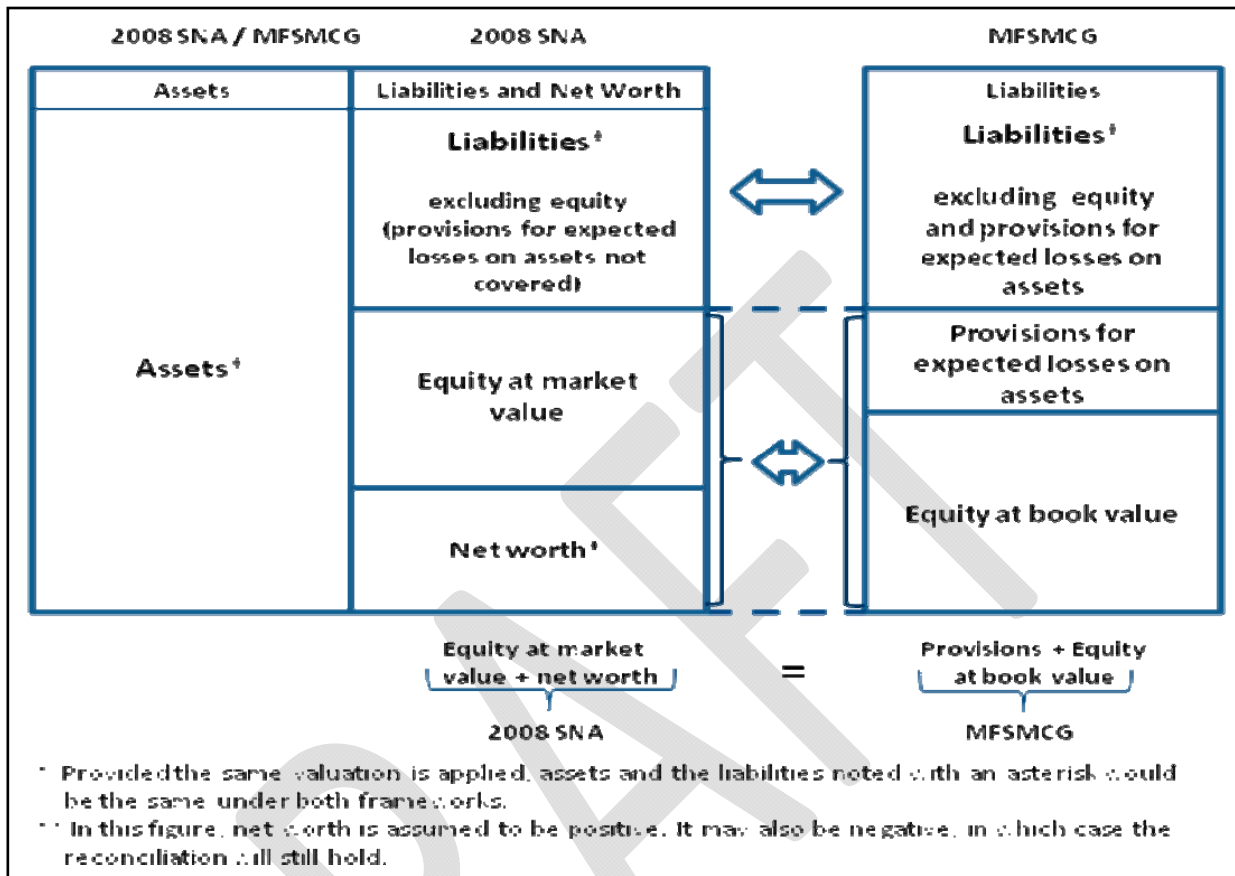
2.66.   Debt securities held to maturity, which are recorded at amortized cost (funds originally advanced *plus* accrued and not yet paid interest *less* any repayment of principal), should be converted into market prices for monetary statistics purposes. However, this additional information is not always available to compilers of monetary statistics, so a discrepancy might arise for these kinds of securities.