

TASK FORCE ON HARMONIZATION OF PUBLIC SECTOR ACCOUNTING

Summary of the main issues and conclusions October 3–6, 2005 Meeting Washington, D.C.

This fourth meeting of the Task Force on Harmonization of Public Sector Accounting (TFHPSA), hosted by the IMF (Washington, D.C., October 3-6, 2005), was attended by approximately 40 persons whose representation was as follows:

Countries: Australia, Austria, Brazil, Bulgaria, Canada, Denmark, Hungary, Japan, Korea, Mexico, New Zealand, Norway, United Kingdom, and the USA.

International organizations: IMF, IPSAS Board, Eurostat, European Central Bank, OECD, United Nations, World Bank, and CEPAL/ECLAC.

A. Opening Remarks by Richard Hemming

- A range of issues were covered, including privatization, public investments, delineation between current and capital spending, and expenditure carried out by government through enterprises outside the general government sector, public/private partnership, guarantees.
- These issues need to be portrayed in a consistent and analytically useful framework for statistical and macro-economic analysis, and to inform economic policy decisions. The *Government Finance Statistics Manual 2001 (GFSM 2001)* provides such a framework.
- The need is now to have data across countries according to the *GFSM 2001* framework.

B. Minutes of the March 2005 meeting

- An overview of the minutes was presented. There were no comments.

C. Working Group I

Paul Sutcliffe provided an overview of the IPSASB work program,

- noting work program priorities as public sector specific issues; convergence with International Financial Reporting Standards (IFRS); and convergence with statistical bases;
- highlighting issues of interest to the TFHPSA that included: *Improvements to International Public Sector Accounting Standards* Exposure Draft (ED 26) that proposes updates to 11 IPSASs to converge with the equivalent IFRSs, where

- appropriate for the public sector; *Non Exchange Revenue* ED that is anticipated to be approved at the next IPSASB meeting; *Social Policy Obligations* ED that is under development; the proposal of a joint project with IASB on PPP; *External Assistance*, ED 24, that needs field testing (and IPSASB would welcome further input);
- indicating that work program also includes the following EDs that have been approved for issue: ED 27 on *Reporting actual and budget information* and ED 28 on *Disclosure of information about the General Government Sector*, with the general government sector defined to include all activities of the general government as defined in statistical reporting bases and where all the IPSASs will apply except for the IPSAS on consolidation. Final versions of ED 27 and ED 28 will be issued in the next week or so. (please refer to <http://www.ifac.org/Guidance/EXD-Download.php?EDFID=00153>), and
 - indicating that the next IPSASB meeting is on November 29, Cape Town, South Africa. The agenda for the meeting of the IPSASB will include a review of the status and profile of IPSASB Observers.

Action 1: Jeff Golland agreed to coordinate the response of the TFHPSA (individually or collectively) on the updated version of the ED 28 before the February deadline.

D. Australia “General Government Sector Financial Reporting” by Brett Kaufman

Presentation

- The Australian Accounting Standards Board (AASB) issued an ED on this matter in July 2005. It was very controversial since the GGS is not a usual reporting entity for accounting purposes. The AASB took the view that there was a sufficient need from users (government, investment community, debt rating agencies, etc) to justify its status as a reporting entity.
- The AASB adopted the Australian Standards (based on IASB IFRS) that are closer to GFS and are more suitable for application to the GGS than many of the other GAAP. In cases where there were options in the Australian GAAP, those that best aligned with the *GFSM 2001* were adopted (e.g., borrowing cost are expensed). Investment is reported at carrying value of the investees as a surrogate of market value. Income (revenues, expenses), asset and liabilities are classified on a COFOG basis (but difficult to allocate tax revenues on that basis).
- The two frameworks are not fully harmonized as there remain differences (e.g., weapons platforms, interest rate swaps).

Discussion

- Process in UK mirrors that in Australia, the Financial Reporting Manual (posted on hm-treasury.gov.uk) concerns the central government accounts, and the intent is to extend the reconciliation to the whole of public sector.

- Narrowing the differences between the two systems could range from full harmonization (as intended in Australia) to a reconciliation where differences are recognized, and reported as bridging tables.

Conclusion:

- The group discussed the extent to which the systems could and should be harmonized over the long term. It was agreed that, where appropriate, harmonization should be pursued. However, because the two systems had, to some extent, different objectives (accountability and input to entity specific decision making for accounting, and economic and sector analysis for statistical reporting bases), full harmonization may not be possible or appropriate. It was also noted that while harmonization/ reconciliation will differ at the international and at national levels, the intent of the ongoing convergence program is to ensure that differences that emerge from the development of the two systems are intended, leading to justifiable rather than unintended differences.

Action: none

Dr. Sakurauchi, an academic from Japan, presented a paper, and annexed discussions, on the conceptual framework for public sector accounting. The framework includes budget information (not currently in the financial statements of the government), and forecast of macroeconomic indicators, and the annexes include making a bridge between statistics and accounting.

E. Ongoing Role of WG I by Lucie Laliberté

Presentation

- The TFHPSA has two objectives: promoting further harmonization with public accounting standards, and updating statistical guidelines for the public sector in the update of *1993 SNA*.
- The internationalization of accounting standards, as embodied in the IPSASB, facilitates the exchange of views between statisticians and accountants in the TFHPSA.
- Unlike the accounting standards, the SNA is updated periodically and not as an ongoing process.

Discussion

- Carol Carson noted that ongoing input from and exchange of views with accounting standards setters could be put on the SNA research agenda. It would be useful to consider at a future meeting how the continuing need for input from accounting perspective in the development of the statistical manuals should be achieved. Similarly, it would be important to consider how the statistical community could participate in the ongoing development of the accounting standards.

- The World Bank noted that it provides comments, including those drawn from its constituents, on an ongoing basis on the various EDs issued by the IPSASB.
- The possibility of having an observer from the national accounts community on the IPSASB was also raised. It was noted that the IMF, OECD, and the UN already participated in IPSASB meetings as observers with full rights of the floor and that IFAC had recently restructured the IPSASB to allow for membership by public members—that is, members other than those drawn from the accounting profession.
- Participants noted that while it was useful to have participation at the international level, one of the benefits of the WG1 and WG2 structures was that it brought to the table representation from national statistical offices and national treasuries and ministries of finance. The ability to discuss IPSASB, IPSAS and other developments from a national perspective had been very useful and should not be lost in arrangements going forward.

Conclusion:

- How to proceed will be further discussed at the next TFHPSA. For instance, the IPSASB could participate in the SNA research agenda together with representation from individual countries.

F. Earnings from equity investment by Brooks Robinson/Tim Dobbs

Presentation

- The paper presents four alternatives to record transactions between government and public corporations, and criteria to make an appropriate choice. The favored proposal of the authors is the “Reinvested earnings” (D.43) approach. If this proposal were to be adopted, a subsidiary question would be whether to apply it to all public corporations or just to 100 percent owned corporations.

Discussion

- Support to the D.43 proposal was expressed by: Australia, Eurostat, USA, K. Dublin (IMF, Government Finance Division).
- Strong opposition came from: Canada, France, ECB, UNSD, Japan, and John Pitzer.
- The proposal was made to accrue earnings (through D.43) of public corporations in the government sector for 100 percent owned corporations only.
- A presentation of the issue by Anne Harrison narrowed the choice, mainly to two approaches (improved amended SNA which would include a revised treatment for superdividends and capital injections versus accrued earnings). Several speakers expressed clear preference for the improved/amended SNA approach, in particular taking on board the recommendations put forward in the *EMGDD* and in the *GFSM 2001*.

- The need to clarify the issue of super dividends was expressed. However, the major issue from the point of view of the impact on the figures is the recording of capital injections.

Conclusion:

- There is no majority for a radical change of the SNA in favor of D.43.
- The preference of the TFHPSA is in favor of the improved/amended SNA approach. The task force concludes that the D.43 approach is to be put on the Research agenda, with a contribution of the TFHPSA (see under Action 2)

Action 2A: J. Pitzer and J-P Dupuis will prepare a draft for the January AEG that will present the two approaches in an even-handed manner (as requested in the July AEG meeting), but indicating the preferred choice of the TFHPSA. The draft should be circulated in the task force around November 10, in order to be made available to the ISWGNA on November 18, 2005 as requested.

Action 2B: The present Robinson-Dobbs paper will be modified in collaboration with P. de Rougemont (Eurostat) to present the two main approaches in a more balanced way. This will be a contribution of the TFHPSA to the research on the subject.

G. Special Purpose Entities by Sage De Clerck

Presentation

- Sage De Clerck presented the alternatives for the treatments of SPEs created by government.
- Mr. Ivo Havinga informed the meeting of the outcome of the Expert Group Meeting (EGM) on Industrial Statistics in New York, including the relevant decisions on ancillary corporations and SPEs (minutes since posted on the UN site <http://unstats.un.org/unsd/industry/meetings/eg2005/AC105-4.PDF>)

Discussion

- The meeting generally agreed that the SPEs should be investigated on a case by case basis to determine the economic substance of the entity and the transactions of the entity. While general accounting and classification principles were regarded as sufficient to deal with these entities in the domestic economy, some reservations about the treatment of non-resident SPEs were expressed. While some members of the taskforce were content with having general government units abroad (which is a major change to the existing SNA), other members pointed out that this will result in a difference in the coverage of general government sector in the national accounts and the fiscal statistics.
- From an accounting perspective, the meeting was informed that the transfer of control of a securitized asset and the prior existence of the asset to be securitized by the SPE

were regarded as major criteria in deciding whether a SPE was to be consolidated with the originator's accounts. The meeting was informed that both the IFRIC interpretations and the accounting standards on consolidation and non-exchange revenue would have an impact on the accounting treatment of these units. It was noted that these SPE arrangements are devised in such a way that the identification of control is very difficult.

- The meeting discussed the possibility of accommodating general government SPEs created abroad in the “rest of the world” account for purposes of the SNA, but to consolidate the SPE with the domestic general government sector for purpose of fiscal analyses. Participants in the meeting pointed out that the consolidation of units of the economy could be done at different levels, proposing that for fiscal analysis the domestic general government units and foreign general government units could be consolidated. There was no general agreement on this treatment. A smaller group worked on a set of core principles that were presented and discussed during the meeting.
- These core principles included the following proposal: *Non-resident SPEs created by government as a conduit* for undertaking government borrowing and incurring government outlays abroad, should be treated as non-resident units. In the context of the SNA/BOP, the borrowing and expenses of the non-resident unit on behalf of the government should be imputed and reflected in the accounts of the resident government (i.e., the originator of the SPE), because of the economic substance of these transactions and the principal party to the transactions.

Conclusion

- The meeting agreed on the amended principles to be put forward for consideration by the AEG in the January 2005 meeting.

Action 3A: Sage De Clerck will submit electronically to the TFHPSA an amended version for review before the end of October.

Action 3B: Sage De Clerck will prepare the contribution of the TFHPSA to the issue paper on Institutional Units to be presented to the AEG in January 2006 by Ivo Havinga on behalf of the Expert Group Meeting on Industrial Statistics. The full AEG paper should be finalized for mid-November.

H. Recording of Government Liabilities by Richard Shepherd

Presentation

- The paper provided a definition of a liability and notes about the time or recording, valuation, and the relationship between stocks and flows of liabilities. The bulk of the paper presented the classifications used in *1993 SNA*, *GFSM 2001*, and the *External Debt Guide*, together with suggestions for useful supplementary classifications. The current version of the IMF debt template was distributed.

- It was noted that “currency” should have been recorded as a liability of governments. It would be useful to provide a rationale for inclusion.

Discussion

- It was noted that financial derivatives should have been included as a category of liabilities and the sectors should cover the general government sector and the social security sub-sector.

Conclusion

- The group agreed that the paper was a useful summary of many aspects of government liabilities, in particular the many ways in which they are classified in the various macroeconomic statistic manuals. The paper will be used as a reference by the authors of the chapter on the general government and public sectors.
- The group agreed that the paper should be supplemented to reflect the accounting treatment of liabilities and equity. The editor will use the amended paper as input for delineating liabilities, provisions and contingent liabilities between the statistical and accounting systems in the rev.1 of *1993 SNA*, with cross-references to other methodological manuals, as relevant.

Action 4: R. Shepherd will seek inputs, by October-end, notably from Brett Kaufmann, Paul Sutcliffe, Ken Warren, and Louise Breton from the perspective of financial accounting standards, and, in particular, with regard to the notion of constructive obligations, provisions, contingencies, and the valuation of certain liabilities using actuarial principles rather than market prices. The amended paper should be finalized by mid-November.

I. Debt Reorganization Involving Government by Richard Shepherd

Presentation

- The paper defined debt reorganization and then discussed several types of debt reorganizations with proposed accounting treatments for each. Included were debt assumption, debt payments on behalf of others, debt forgiveness, debt restructuring, debt-for-equity swaps, prepayments and buybacks, write-offs, arrears, and defeasance. It also discussed some of the complexities of debt reorganizations under the HIPC initiative.

Discussion

- There was general agreement with the proposals of the paper, with the following amendments: SNA terms would be used rather than *GFSM 2001* terms when there is a difference.
- When a debt of a public corporation is assumed and an effective equal-valued claim against the corporation is not obtained, the counterpart of the transaction would always be a capital transfer rather than an acquisition of equity. (The special cases of

debt assumption mentioned in the Eurostat manual on government deficit and debt will not be proposed for inclusion in the revised SNA.) The rationale is that there is in this case a voluntary transfer of wealth.

- The description of debt defeasance will be modified to allow the possibility of a debt to be removed from the debtor's balance sheet when there is an agreement with the creditor to that effect.
- The value of debt forgiveness depends on whether the debt is valued in nominal or market terms. There was no resolution of this issue.

Conclusion:

- The issues are of clarification of debt, rather than a change in the SNA, with cross-references to other manuals where more details can be provided. Relevant paragraphs on debt operations are part of the chapter for the updated SNA

Action 5: The description of HIPC debt forgiveness is to be considered for inclusion as an example of the complexity of debt reorganizations. The TFHPSA should work in conjunction with BOPCOM on the paper to be presented to the AEG.

J. Privatisation/Nationalisation by Jean-Pierre Dupuis

Presentation

- Privatization and nationalization are not treated as such in the SNA.

Discussion

- As the *1993 SNA* accommodates the privatization/nationalization transactions, there is no need for changes.
- However, from an operational viewpoint, clarification could be provided on the timing of reclassification, on the related taxes, on preliminary and carry over transactions (e.g., creation of shares prior to the privatization, valuation of assets).
- The issue of restructuring agencies have not been treated in an exhaustive manner, and those may entail changes in the SNA

Conclusion:

- The paper will serve as input for the Chapter, and the comments will be welcome.

Action 6: Of the topics covered by team 5, only restructuring agencies may need changes to the SNA. Philippe de Rougemont took the lead to identify the scope of the paper, including issues on how the units and transactions should be treated (see Appendix). The paper could be presented by Ivo Havinga under the Unit paper to be submitted to the AEG.

K. Overview of SNA Update by Carol Carson

- The Statistical Commission endorsed the rev. 1 to be ready for March 2008.
- The July 2005 AEG meeting took decision on selected TFHPSA issues (guarantees, delineation, taxes, and chapter), and covered as information items the earnings of public corporations and SPEs.
- For the January 2006 AEG, follow up include e-discussion on guarantees, and on delineation. In addition, issue papers will have to be presented on earnings of public corporations and SPEs/restructuring agencies (item 25). May also be useful to present issues that may emerge from the Chapter (e.g., consolidation).
- The papers need to be ready by November 16 for review by the ISWGNA and the SNA update project manager and editor; they will be distributed to the AEG on December 15.

L. Delineation by Tulsi Ram

- It appeared that the AEG opinions were interpreted somewhat differently by the participants. It was suggested that the ISWGNA contacts the AEG members to find out what was needed.
- It was agreed to shorten the paper, clarify the main principles, and reach the right balance between principles and recommendations. The revised version of the paper would be “for e-discussion with the aim of finalizing this question at the next AEG meeting.” Lessons learned include exchange of views with the relevant members of the AEG.

Action 7: Graham Jenkinson will take the lead on the revised version.

M. Guarantees by Reimund Mink

- Principles and recommendations in the paper have reached a large agreement in the AEG. Clarification still needed for the recording of activation of guarantees
- There seems to be different views between countries on contingencies—and in particular constructive obligations (including political promises?)—as transactions. The IPSAS view is important here to help for harmonization of accounting

Action 8: Reimund Mink and Manik Shrestha (BOPCOM) will collaborate on an e-discussion paper on granting and activation of guarantees.

N. Taxes by Jean-Pierre Dupuis

- It is agreed to restate the principle according to which uncollectible taxes would not be accounted for in the tax revenue of government. In the context of a gross recording of tax (amounts of tax due, based on realistic assessments), it may happen that some tax unlikely to be collected—due to risk of bankruptcy for instance—are accounted for in the tax revenue. In this case, it is understood that the recording of a capital transfer, will neutralize this effect on the net borrowing / net lending of the general government.
- In line with the AEG opinion, draft paragraphs in the chapter will find the right balance between the statement of principles and of some recommendations.

Action 9: The text on taxes will be incorporated in the Chapter

O. Public/Private Partnership by John Pitzer

- Sufficiently important to be covered in the SNA though the treatment would be general in terms of principles. Will include discussion on the types of relevant risks/rewards (or control), including political risks, and the need to await the accounting standards resolution.

Action 10: Comments on PPP to be provided to John Pitzer by mid-November.

P. Taxes on Mineral Exploration and Extraction by Jean-Pierre Dupuis

Presentation

- Borderline between rent (property income) and taxes on mineral exploration and extraction when the government is the owner (TFHPSA opinion asked by the AEG).
- In light of the presentation of a practical case (petroleum in Norway), the task force reached a conclusion similar to that of the Canberra II group: it is relevant to record common taxes (at usual rates) in the tax revenue, and the other payments—whatever their names are (royalties, tax etc.)—under property income. The (sub-soil) assets must be recorded in the balance sheets in national accounts.

Action 11: Jean-Pierre Dupuis to inform the Canberra Group of this conclusion and to clarify this point in the chapter.

Q. Water by Anne Harrison

Presentation

- The specific case is the recording of payments for discharging dirty water by government agencies, to be recorded either as a fee for the production of a service (like the delivering of water), as a fine for pollution or as tax.

- Several cases may be distinguished. In the main one—remedial action to clean dirty water—, the recommendation will be to record a fee for service, unless the payment would be out of proportion with the costs of producing the service (case for recording as tax). The possibility was also considered of payment of rent for “access rights” to a natural resource.

R. Chapter by John Pitzer

- The AEG endorsed the notions of a chapter and annex on government and public sector, as well as the outline of the chapter at the July 2005 meeting.
- The chapter is a work-in-progress, with a provisional text that will need to be incorporated in the rest of the rev. 1 *1993 SNA*.
- The text was viewed as a good start, well balanced overall, with certain sections to be shortened, notably debt that could be covered in the financial accounts.
- To the extent that issues arise in drafting the remainder of the chapter, they will be brought to the attention of the January AEG meeting.

S. Closing by Lucie Laliberté

- Proposed date for the next TFHPSA meeting: **March 8–10, 2006**, to be held in Paris, back-to-back with the OECD Senior budget Officials meeting (March 6–7, 2006).
- The topics to be covered: the Chapter and the follow up to the January–February 2006 AEG meeting, and future of WG I.

RESTRUCTURING AGENCIES

**(Note submitted at the end of the TFHPSA meeting, for discussion
October 5, 2005)**

Background

In a few countries, government has been undergoing rescue operations designed to prevent a collapse of the financial system. The problem originates when financial institutions start to have insufficient shareholder equity to appropriately mark down the value of their assets to close to market value in line with accounting standards and prudential benchmarks. Because of the constrain of the minimum solvability ratios imposed by prudential surveillance and of the reluctance of government to let banks close down, notably large banks, in relation to the systemic risks this would entail, governments have designed ways to exchange bad assets with good ones.

A frequent mechanism employed is to create a special entity that takes over the bad asset, often valued at nominal value, against cash arising from borrowing on the market guaranteed by government or from cash injections (type 1). The special entity may have provided to the benefiting bank its own guaranteed bond instead of cash, or even guarantees. Those entities are then often actively engaged in liquidating gradually those assets over time, employing noticeable staff, busy with many tasks: inventorying the assets, carrying out legal procedures, undertaking foreclosure activities, approaching interested buyers, etc. Those entities may also sub-contract some or more of those tasks. It is common to call those entities Restructuring agencies, although the terms bad bank, or even defeasance structure (see *Manual on Deficit and Debt*) are also employed. The restructuring agency is sometimes a registered bank.

There is a large variety of means by which government carry out operations those operations. Another arrangement (type 2) with the same intent is when government lends or provides guarantees to banks or to private entities that engage themselves in managing those bad assets. At the outset, government knows that part of the loans will not be repaid or that the guarantee will be called at a significant loss.

Cases are: in the USA, the RTC (Resolution Trust Company—type 1); in Japan, the Depository Insurance Institutions (DII—type 2); many instances in Europe: Securum (Sweden), Arsenal (Finland), Credit Lyonnais (France), CKA (Czech Republic), Slovak Inkasna (Slovak Republic), Turto Bankas (Lithuania), notably mostly of type 1; in Mexico, in Indonesia, and in Thailand.

The intent of the rescue may be either to save existing banks from disappearance or orchestrate their disappearance in an orderly fashion by protecting depositors. It is worth noting that depositors are often insured by government schemes. In that sense, restructuring agencies are a way to carry out insurance promises. One issue is who the beneficiary of the gift is: the bank in disarray (and its owners) or its debtors? Another issue is whether it is

desirable or possible to have similar recording for different arrangements. The following explores ways of recording consistent with existing *1993 SNA* general principles.

Time of recording: impact on government balance

The issue in terms of fiscal data is how and when losses assumed by government in such a rescue should be recorded as government expenditure:

1. At time of rescue (of purchase of the bad assets)
2. Gradually over time as assets are gradually sold off
3. At the end when the agency is unwound
4. Never

Prudence suggests 1 or 2. Option 1 supposes relying on an estimated value of expected losses but seems closer to the economic reality of the phenomenon. Option 2 has the advantage of relying on observed amounts. A mixed solution might be appealing with recording a first amount and further changes estimates gradually over time; it seems that this would lead to recording value changes that have a revaluation character, with noticeable volatility. SNA does not recognize provisions as liabilities.

The time of recording in turns depends on the sectorization of the restructuring agencies and on the time of recording.

Sectorization

It is generally assumed that the restructuring agency is an institutional unit, although it may be argued that it is acting on behalf of government and, in this sense, performing ancillary functions. The question is the sectorization of the unit.

1. Is the entity a financial intermediary? It borrows on the market to acquire financial assets that it actively manages (but also nonfinancial assets); or

2. Is the entity a government unit? it redistribute wealth, by way of deliberately purchasing assets above market prices, and/or carry out nonmarket activities.

One issue is whether the market/nonmarket criteria is applicable when judging entities that may be financial corporations. The *ESA 1995* market/nonmarket boundary and its rule of 50% is not easily applicable; while the *Manual on Deficit and Debt* indicates that the financial intermediation character is established before the market/nonmarket criteria. FISIM is traditionally a noticeable part of the output of financial intermediaries; should FISIM be always market? What should the FISIM be on bad assets? Should the nonmarket character not simply be acknowledged on the basis of the purchase of assets above market price?

Valuation

The valuation of assets and of transaction in assets must be recorded at their market value, with an exception for the valuation in balance sheet of loans.

In relation to loans in general: (1) the AEG December 2004 decided that the SNA would be unchanged with valuation remaining at the “principal value”, e.g., nominal value, including for impaired loans (NPL). (2) The disposal of loans does not lead to reclassification as securities unless an established market is observed (AEG July 2005). Under *1993 SNA* the loan acquired (impaired or not) must be entered at their principal/nominal value of the purchaser while the transaction value will necessarily be the market or fair value, as represented by the cash provided in exchange. The difference necessarily enters the other economic flows (which *ESA 95* 6.51 indicates to be revaluations).

In relation to bad assets other than loans, the difference between the market value or fair value of the asset acquired and the value of the consideration exchanged would be recorded as a capital transfer. This therefore supposes partitioning (SNA...) the observed transaction in between a financial transaction component and a non financial transaction component (capital transfer).

In relation to bad loans acquired under noncommercial conditions (restructuring agencies), it is suggested that the valuation of the transaction should not use the nominal value but the fair value, so to define a capital transfer components similar to other assets.

On this basis, the issue then boils down to valuing the transaction itself, with identifying the grant component. While SNA recognizes the need to record transactions at market value, it also suggests that the price agreed on the market must represent the transaction value. In the case of restructuring agencies, there is often no market value directly observable. The “allowances” or “provisions” observed in the own accounts of the unit would provide a reasonable measure.

Guarantees

When restructuring takes the form of government granting outright guarantees on bad assets or on borrowing, there is clearly a probability of call close to 1, with a noticeable expected loss as a percentage of the nominal amount of the guarantee. It is then questionable whether government should not record an expenditure and a payable before the effective call on the guarantee, such as at time of grant of guarantee. An Eurostat task force exploring the issue is leaning towards recommending an interpretation of *ESA 95/1993 SNA* to this effect.

Recognizing claims against government

When the managing entity is seen as a financial intermediary, the losses made on the effective liquidation of the assets may lead to the appearance of a claim against government. The rational is that financial intermediaries must have positive own funds. By way of simplification, they may have zero net worth.

However this rational, which fits well with the valuation of loans does not fit very well with the valuation of other assets. It may still be applicable in terms of transactions.

Options of recording

Option A. If the restructuring agency is classified within general government, a capital transfer is recorded at time of acquisition of the bad assets. Subsequent changes to the value of the assets lead to entries in the revaluation.

Pros: close to the economic event; **cons:** requires estimations.

Option B. If the restructuring agency is classified outside government, the liquidation of each bad asset leads to recording of the actual loss (assuming a value could be put on each individual asset) that leads to a capital transfer of government with a counterpart entry under receivable/payable. The actual payment later on is a redemption of payable by government. The actual payment earlier on is an acquisition of receivable by government.

Pros: does not require estimations; **cons:** seems less close to the economic event and requires interpretation of SNA.

The option to record an expenditure at time of call on the debt or on guarantees, or at time of liquidation of the agency seems to lead to noticeable heterogeneity of treatment in the accounts.