Joint Thirty-Seventh Meeting of the IMF Committee on Balance of Payments Statistics and Seventeenth Meeting of the Advisory Expert Group on National Accounts

Inter-secretariat Working Group on National Accounts

Remote Meeting
October 26–November 1, 2021

BOPCOM—21/05.1
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For discussion

F.9 Valuation of Loans (Fair Value): Outcome of Global Consultation

Prepared by the Financial and Payment Systems Task Team (FITT)

INTERNATIONAL MONETARY FUND

F.9 Valuation of Loans (Fair Value): Outcome of Global Consultation[1]

The global consultation[2] revealed that from a conceptual perspective, a large majority of respondents favored maintaining the current nominal valuation (Option 1) over Option 2 (shifting to fair valuation). Within Option 1, a slightly higher proportion of the respondents supported the recommended Option 1b, namely retaining the nominal valuation allowing for value resets beyond cases of bankruptcy and liquidation when there is public evidence of loan deterioration, relative to Option 1a (status quo). On practicality issues, half of the respondents affirmed having access to the relevant source data for the implementation of Option 1b.

The GN F.9 *is presented to the IMF's Balance of Payments Statistics Committee (the Committee) and the Advisory Expert Group on National Accounts (AEG) for final decision.*

1. *What option do you favor for the valuation of loans: nominal value (Option 1) or fair value (Option 2)?*

   There was wide support for Option 1 (89 percent).

Respondents favoring Option 1 generally agreed that nominal valuation is the best approach to ensure symmetry between a creditor and debtor, an important parameter for data comparability across institutional sectors and economies. Nominal valuation is also regarded as the basis of recording that properly reflects the legal obligations of the debtor. It was noted that loans are generally non-tradable instruments, thus nominal valuation should continue to be broadly acceptable. From an analytical point of view, some respondents do not see that shifting from nominal to fair valuation would have a high added value and consider that the current standards (including the memorandum items) are sufficient to cover user needs.

Six percent of the respondents favoring Option 2 considered that fair valuation measures the approximated market value of the loan positions and transactions of the institutional sectors, and therefore it provides the correct picture of the loan assets and the credit situation in the economy. However, these respondents recognized that the implementation of the fair valuation is challenging. For instance, scarcity of resources, limited availability of data sources, asymmetries resulting from different debtor/creditor assessments are among the relevant challenges to adopt this approach.

[1] Prepared by FITT Secretariat and approved by FITT Co-chairs.

[2] The joint global consultation on the guidance note (GN) *F.9 "Valuation of Loans (Fair Value)"* among both national accounts and balance of payments communities took place during the period September 23—October 20, 2021, collecting input from 66 respondents representing 56 economies (Annex I provides comprehensive information on the results of the global consultation). European countries had the largest participation (44 percent), followed by Asia and Pacific countries (17 percent), Middle East and Central Asia and Western Hemisphere countries (each,14 per cent) and African countries (9 percent).

2. *If nominal value (Option 1) is the preferred option, do you favor the status-quo of the existing treatment (Option 1a), or its extension allowing for value reset in extraordinary events publicly known (Option 1b)?*

   The majority of respondents (55 percent) supported the recommended Option 1b.

Option 1b was considered as striking the right balance among the proposed options in the GN. Whilst it retains the advantages of maintaining symmetry of data between debtors and creditors, it also provides the flexibility of resetting loan values under additional specific circumstances, where the nominal value of the loan is not reflective of its actual value. Option 1b is viewed as able to improve the analytical use of macroeconomic statistics for fiscal and financial stability analysis while minimizing the burden of continuous valuation changes that arise with fair valuation. Compared with Option 2, it is also favored due to data availability concerns—a radical shift to fair valuation could pose difficulties for data providers (e.g., data on aggregate loan loss provisions in the banking sector are generally available, while their breakdown by counterpart sector is not always available; data of non-performing loans is sensitive to some sectors. Respondents may refuse to provide accurate data for compilation). It was also noted that clear guidance and further clarifications on loan valuation should be provided in the updated manuals to ensure consistent recording in different statistical domains and countries.

   Option 1a gained support from 33 percent of the respondents.

Respondents in favor of Option 1a argued that the current methodological and compilation framework is clear and prevent asymmetries. Some of them also commented that any market valuation of loans—even in the limited scope of Option 1b—would be subjective, and hence potentially create asymmetries. Option 1a was preferred given that Option 1b is foreseen as too broadly defined with lack of clarity for its successful implementation, and also lack of consideration of the broader framework, including implications for the accrual of interest and FISIM.

Interestingly, 32 respondents indicated having access to the relevant source data to implement Option 1b, 18 indicated not having access to such source data, and others did not respond. Thirteen of these respondents also affirmed that their institutions would be interested in participating in an experimental testing exercise to implement this option, with nine of them indicating a need for technical assistance.

3. *If fair value (Option 2) is chosen instead of nominal value, would you prefer shifting to a full fair value approach (Option 2.b) or its simplified version (Option 2.a) based on the measurement of nominal value less expected loan losses?*

   There was scarce support for both Option 2a (5 percent) and Option 2b (1 percent).

On a practical perspective, Option 2a, a simplified approximation of the market value, was considered more feasible for implementation than Option 2b by using existing data sources. Eight respondents confirmed having access to the relevant source data to implement Option 2a, while only two respondents confirmed this for Option 2b. The latter was considered as not feasible because it would require a large amount of new source data for its implementation. Adopting full fair value would also potentially add asymmetries across countries.

Annex I. Results of the Global Consultation

Table 1. Responses to the Global Consultation Questionnaire

<table>
<tr><th colspan="2">Questions</th><th>Number of Responses</th><th>%</th></tr>
<tr><td colspan="4">2. Your response concerns which area of macroeconomic statistics:</td></tr>
<tr><td colspan="2">National Accounts</td><td>14</td><td>21%</td></tr>
<tr><td colspan="2">Balance of Payments</td><td>25</td><td>38%</td></tr>
<tr><td colspan="2">Both National Accounts and Balance of Payments</td><td>27</td><td>41%</td></tr>
<tr><td colspan="2">Total</td><td>66</td><td>100%</td></tr>
<tr><td colspan="4">Conceptual Issues/Recommendations</td></tr>
<tr><td colspan="4">3. The guidance note (GN) examines the current nominal valuation principle for loans. Paragraph 14 presents options proposing either to maintain the existing framework (Option 1) or to change it by shifting from nominal to fair valuation (Option 2). On a conceptual level, what proposed option do you favor for the valuation of loans?</td></tr>
<tr><td colspan="2">Option 1</td><td>59</td><td>89%</td></tr>
<tr><td colspan="2">Option 2</td><td>4</td><td>6%</td></tr>
<tr><td colspan="2">Undecided</td><td>3</td><td>5%</td></tr>
<tr><td colspan="2">Total</td><td>66</td><td>100%</td></tr>
<tr><td colspan="2">4. Please provide arguments in support of your response for Q3:</td><td>0</td><td></td></tr>
<tr><td colspan="4">5. If nominal value (Option 1) is your preferred option from a conceptual point of view, what sub-option do you favor from those proposed in paragraph 14 of the GN?</td></tr>
<tr><td colspan="2">Option 1a: do not change the current valuation of loans and leave in the updated SNA and BPM the provisions recommending that loans be recorded in the balance sheets of both creditors and debtors at nominal value</td><td>22</td><td>33%</td></tr>
<tr><td colspan="2">Option 1b: Retain the recommendation to measure loans at nominal value and improve and clarify the updated SNA and BPM guidance within the limits of the existing framework, allowing for value reset beyond cases of bankruptcy and liquidation when there is public evidence of loan deterioration</td><td>36</td><td>55%</td></tr>
<tr><td colspan="2">Undecided</td><td>1</td><td>1%</td></tr>
<tr><td colspan="2">Subtotal</td><td>59</td><td>89%</td></tr>
<tr><td colspan="2">6. Please provide arguments in support of your response for Q5. (see below)</td><td></td><td></td></tr>
<tr><td colspan="4">7. If fair value (Option 2) is your preferred option from a conceptual point of view, what sub-option do you favor from those proposed in paragraph 14 of the GN?</td></tr>
<tr><td colspan="2">Option 2a: Change the existing valuation rules in the updated SNA and BPM, shifting to a simplified estimate for fair value, based on nominal value less expected loan losses</td><td>3</td><td>5%</td></tr>
<tr><td colspan="2">Option 2b: Change the existing valuation rules in the updated SNA and BPM, shifting to full fair valuation at any time for all loans in the core accounts</td><td>1</td><td>1%</td></tr>
<tr><td colspan="2">Subtotal</td><td>4</td><td>6%</td></tr>
<tr><td colspan="2">8. Please provide arguments in support of your response in Q7 (see below)</td><td></td><td></td></tr>
<tr><td colspan="4">Practical Implementation</td></tr>
<tr><td colspan="4">9. From a practical perspective, does your institution have access to the relevant source data to implement?</td></tr>
<tr><td rowspan="3">Option 1b</td><td>Yes</td><td>32</td><td>50%</td></tr>
<tr><td>No</td><td>32</td><td>50%</td></tr>
<tr><td>Total</td><td>64</td><td>100%</td></tr>
<tr><td rowspan="3">Option 2a</td><td>Yes</td><td>8</td><td>14%</td></tr>
<tr><td>No</td><td>48</td><td>84%</td></tr>
<tr><td>Total</td><td>57</td><td>100%</td></tr>
<tr><td rowspan="3">Option 2b</td><td>Yes</td><td>2</td><td>4%</td></tr>
<tr><td>No</td><td>55</td><td>96%</td></tr>
<tr><td>Total</td><td>57</td><td>100%</td></tr>
</table>

Questions		Number of Responses	%
10. For Option 1b, Option 2a, and Option 2b, please select any challenges you would face in implementing any of them in practice.			
Option 1b	Technical Capacity	33	43%
	Others	40	52%
	Total	77	100%
Option 2a	Technical Capacity	22	34%
	Others	43	66%
	Total	65	100%
Option 2b	Technical Capacity	26	40%
	Others	39	60%
	Total	65	100%
11. Would your institution be interested in participating in an experimental estimates exercise to implement any of the options identified below?			
Option 1b	Yes	13	42%
	No	18	58%
	Total	31	100%
Option 2a	Yes	0	0%
	No	9	100%
	Total	9	100%
Option 2b	Yes	1	50%
	No	1	50%
	Total	2	100%
12. If your institution is interested in participating in an experimental estimates exercise, would you need to receive technical assistance? (Affirmative responses)			
Option 1b		9	
Option 2a		0	
Option 2b		1	