

# **The treatment of guarantees in UK public accounts and in the System of National Accounts**

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## **Summary**

This paper explains the treatment of guarantees in international accounting standards and in UK public accounts which follow those standards. It describes a proposal for updating the treatment of certain types of guarantees in the SNA. The Advisory Expert Group (AEG) has approved the proposal in principle and is now considering some of the details. The key points of the SNA update proposal are that a financial liability would be recorded in the balance sheet of the guarantor equal to the expected cost of calls on guarantees, as in the accounting standards, and government expenditure (subsidies, grants) would be recorded for guarantees given away for free, or sold at prices below cost.

## **Background**

Guarantees for the purpose of this paper are guarantees given by a guarantor to a lender to protect the lender from the risks of a borrower defaulting on its repayments to the lender. The guarantors can be public or private units. The guarantor gives funds to the lender when the borrower defaults, and might obtain a claim on the borrower depending on the type of guarantee contract.

Guarantees given by private units usually take the form of financial derivatives traded on a market: credit default swaps (CDS) for example. It is not proposed to change how these are recorded in an updated SNA. The market value of the instruments would be recorded in the balance sheets of the counter-parties; changes in value would be recorded as holding gains/losses (K.11); and settlement payments would be financial transactions in derivatives (F.7).

Guarantees given by Governments usually have a different form and have different motives. Governments are observed giving guarantees to public corporations, private corporations and households. The usual motive for giving a guarantee to a public corporation is to help it to reduce its borrowing costs and hence increase the dividends it pays to government, or to reduce the subsidies it needs, or to keep down the prices charged to customers. The motive for giving a guarantee to a private sector organisation would normally be to encourage a particular type of economic activity through lowering borrowing costs. For example, such guarantees exist to promote exports and to encourage capital expenditure by small firms. Guarantees for the borrowing of households are usually for house purchase or education.

Giving a guarantee is therefore a way for government to facilitate, and/or subsidise, economic activity without a need for an immediate cash outlay. They are a way of shifting possible cash costs into the future. It could be argued that a system of economic accounts should record guarantees when they are given, not just when actual cash payments are made under the guarantee, because that is when they influence economic behaviour and create potential costs for government.

## **Treatment of guarantees in International Accounting Standards**

International Accounting Standards (IAS) are developed by the International Accounting Standards Board (IASB)<sup>1</sup> and reflect best accounting practice observed around the world. Some IASs have become compulsory within the European Union

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<sup>1</sup> <http://www.iasb.org/>

for larger companies. International Public Sector Accounting Standards (IPSAS) have been developed by the International Federation of Accountants (IFAC)<sup>2</sup> to adapt, where necessary, the IASs to the conditions of the public sector.

IAS37 (Provisions, Contingent Liabilities and Contingent Assets<sup>3</sup>) explains how to record guarantees in accounts. IPSAS19 adapts IAS37 to the circumstances of the public sector<sup>4</sup>

### **Recording a financial liability in the balance sheet**

IPSAS19<sup>5</sup> says that provisions (balance sheet liabilities) should be recorded for guarantees in the following circumstances.

- a) An individual guarantee should be recorded on the guarantor's balance sheet if there is a higher than 50% chance that it will be called. It seems strange to give a guarantee expecting it to be called. However, a guarantee might have been given initially on the assumption of a low probability of it being called, but then the financial situation of the borrowing unit deteriorates to the point where a call on the guarantee seems to be more likely than not. At that point the guarantee should be recorded as a liability in the guarantor's balance sheet. It might be that the government could intervene to ensure that the call is not needed, but the accounting treatment should not make any assumptions about changes in government policies or legal contracts when determining whether a call is likely.
- b) If a large number of similar guarantees are given they should be treated as a class and recorded as a provision (financial liability) on the guarantor's balance sheet.

IPSAS19 says that the value of the provision should be the net present cost<sup>6</sup> of the statistical expected value of the amount that guarantor will have to pay under calls on the guarantees, net of any recoveries of claims paid. Using similar logic, IAS37 expresses this idea by saying:

provisions should be measured in the balance sheet at the best estimate of the expenditure required to settle the present obligation at the balance sheet date, in other words, the amount that an enterprise would rationally pay to settle the obligation, or to transfer it to a third party, at that date. For this purpose, an enterprise should take risks and uncertainties into account.

### **Movement in the balance sheet**

The value of the provision can change for a number of reasons.

- i) Unwinding the discount (the time value of money). As time passes, the net present value of costs in a future year increases.

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<sup>2</sup> <http://www.ifac.org/>

<sup>3</sup> <http://www.iasplus.com/standard/ias37.htm>

<sup>4</sup> The basic principles in IPSAS19 are the same as in IAS 37, but IPSAS19 gives appropriate public sector examples to explain the concepts.

<sup>5</sup> The text of IAS37 is similar. For brevity the text uses "IPSAS19" to mean international accounting standards.

<sup>6</sup> Discounting future payments for the time value of money.

- ii) Change in discount rate.
- iii) The effect of time reducing the probability of a call on the guarantee since the expected loss would assume a potential loss in each time period. An example of this is when the guarantee expires and the provision is reduced to zero.
- iv) The risk of the guarantee being called in the future may be reassessed because of a change in the economic environment or other reasons.
- v) Payment of a claim. There are two effects:
  - a) the value of the provision is adjusted for the difference between its current value and the value of the claim being paid;
  - b) the provision is “released”. This means that the value of the provision is reduced by the amount of the claim paid. The actual payment extinguishes the liability.

## Recording transactions in the profit & loss account

Under IPSAS19, at the same time that the provision is recorded in the balance sheet, the profit and loss (P&L) account records an expense for the same amount. Each change in the value of the provision in the guarantor's balance sheet is reflected by a transaction in the P&L account of the same amount. This is usually shown in a line called "movements in provisions" and can be positive (income) or negative (expense).

Event		Balance sheet liabilities Provisions	Profit & loss account Movement in provisions	
Guarantee given		Provision added	Expense	
Impact of the passage of time reducing the discount on estimated future costs.		Provision increases	Expense <sup>7</sup>	
Impact of the passage of time expiring the risk of calls during that time period.		Provision decreases	Income	
Value of provision reassessed due to changed perception of risks.		Provision changes	Income or expense	
Claim paid	Value of provision reassessed	Provision changes from its current value to the amount needed to pay the claim	Income or expense	
	Provision released	Provision reduced by the amount needed to pay the claim.	<i>Income</i>	These P&L items net out to zero, and so are not recorded.
	Cash paid	Cash reduces	<i>Expense</i>	

The result of the recording described above is that, over the whole life of the guarantee, the net cost to the P&L account is equal to the actual cost of claims paid<sup>8</sup>. Recording a provision shifts the expenditure in time. An estimate of the cost is made when the guarantee is first given and is recorded as an expense in the P&L account. The difference between that estimate and the actual outcome are further hits in the P&L account if and when the estimate changes and finally when the actual difference is known and the provisions expires.

<sup>7</sup> Sometimes called "interest on provisions" or "unwinding the discount" or "amortisation of one-year's discount".

<sup>8</sup> This equality of the actual payments, and the impact of recording provisions on the P&L account, is of course affected by the time value of money.

## **UK public accounts**

UK public bodies publish annual accounts using accruals accounting principles in accordance with UK Generally Accepted Accounting Practice (GAAP). UK GAAP follows International Accounting Standards. Central Government departments apply the Resource Accounting Manual<sup>9</sup> (RAM). This applies UK GAAP and adapts it, where necessary, to the specific circumstances of government departments. For example it introduces the concept of “taxpayers’ equity”; it has special rules for “non-exchange transactions” like taxes and social assistance benefits; and the profit and loss account is renamed the “Operating Cost Statement”.

Annexes 1 and 2 give examples of how provisions are presented in the accounts of UK government departments.

In 2007 the UK Treasury plans to publish “Whole of Government Accounts”<sup>10</sup> for the fiscal year 2006-07. This will be the consolidation of all the GAAP-based accounts of all UK public bodies. There will be one set of integrated accounts (operating cost statement, cash flow report and balance sheet) for the whole public sector<sup>11</sup>.

### **Treatment of Guarantees in UK public accounts**

If a government department gives a guarantee and it is:

- a) a one-off, in the sense that it is not part of a scheme for giving guarantees but a special policy to deal a particular situation; and
- b) is judged to have a less than 50% chance of being called;

it would be treated as a contingent liability and not recorded in the department’s balance sheet. Instead it would be recorded in the notes to the department’s accounts and notified to Parliament.

Annex 3 shows the contingent liabilities of the UK Department for Transport recorded in its annual accounts. For example, a contingent liability of £3,750,000,000 (Euro 5.5 billion) is recorded for the government guarantee of borrowing by London and Continental Railways Limited for the construction of a high-speed railway line from London to the channel tunnel.

If a guarantee is given as part of a scheme for giving many guarantees of a similar type it is treated as a provision as in IPSAS19.

Annex 4 shows some of the provisions recorded in the balance sheet of the UK Department for Trade and Industry (DTI). This note to the accounts shows the movement in provisions broken down into unwinding the discount, the release of provisions to pay claims, and other movements. The unwinding of the discount and other movements have an impact on the P&L account.

One of these provisions relates to the Small Firms Loan Guarantee (SFLG) scheme. This scheme provides guarantees of bank loans to small companies. A provision is recorded as an expense in the department’s operating cost statement for each guarantee given. The provision is usually larger than the fee received for the

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<sup>9</sup> <http://www.resource-accounting.gov.uk/current/frames.htm>

<sup>10</sup> <http://www.wga.gov.uk/pages/introduction.html>

<sup>11</sup> The public sector here is defined as the general government sector in national accounts plus public corporations.

guarantee. This means that a net cost is recorded within the department's fixed budget for the scheme, reducing the resources the department has to finance other policies. In departmental budgets, it is the creation of the provision and movements in it that count, not the cash payment when the provision is released.

## **System of National Accounts 1993 (SNA93)**

### **Existing treatment in SNA93**

Under SNA93, the only guarantees recorded in the main accounts are those classified as financial derivatives. Other types of guarantees are treated as contingencies since payment is required only if certain activities take place. Contingencies are not seen as financial assets and liabilities, and are not recorded in the main accounts.

SNA 11.26 recommends that where contingent positions are important for policy and analysis, information on them should be collected and presented as supplementary data.

The European System of Accounts 1995 (ESA95) describes a guarantee as an example of a contractual arrangement between institutional units, which specifies one or more conditions that must be fulfilled before a financial transaction takes place. It further states that a contingent asset is only a financial asset in cases where the contractual arrangement itself has a market value because it is tradable or can be offset on the market.

### **Reason to change**

There are three main reasons for changing the treatment of guarantees in the *1993 SNA*.

- a) The reporting of supplementary information as recommended in SNA 11.26 is not applied in spite of the system recognizing the importance of guarantees.
- b) Financial instruments with similar economic characteristics as guarantees are recorded in the system but guarantees are not recorded. This leads to inconsistent and incoherent reporting when a guarantee is exchanged for an instrument that is recorded in the system<sup>12</sup>.
- c) The update of the SNA93 aims to converge international statistical standards and international accounting standards where possible. At present the treatment of guarantees in the SNA93 deviates from that in the accounting standards since for certain types of guarantee the latter records a liability in the balance sheet when the guarantee is given.

Accordingly, maintaining the status quo in the treatment of guarantees in the SNA93 is criticised. There is increasing demand by users for SNA93 to be updated to give information on the amounts of guarantees when they are given, not just when actual payments are made under the guarantee, because this point in time is seen as having an influence on economic behaviour and creating potential costs or benefits for the units involved.

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<sup>12</sup> For example there is no logical counterpart in SNA 95 to the payment of cash for a guarantee

As part of the process to update SNA93, the AEG will be considering a proposal from the Task Force on Harmonising Public Sector Accounts (TFHPSA) to change the recording of certain types of guarantees in the SNA. The TFHPSA has produced a number of proposals for updating SNA93, and for updating IPSASs, and when doing so it has kept in mind the desirable objective of harmonising the treatment in the two systems.

### **Proposals for SNA update**

The TFHPSA proposed classifying guarantees into three categories. This was approved by the AEG in July 2005.

- a) Those traded on a market – to be treated as derivatives as in the existing SNA.
- b) Standardised guarantees

This is where a large number of similar guarantees are given such that it is almost certain that there will be some claims, but they are not traded on a market and so are not classified as financial derivatives. These guarantees cover similar types of credit risk for a large number of cases. Classic examples are export credit guarantees or student loan guarantees. In these cases it is not possible to predict whether each loan will default or not, but it is possible to make an estimate of how many out of a large number of such loans will default. It is therefore possible for a guarantor to determine suitable fees to charge for a guarantee working on the same sort of principle as an insurance corporation where the fees received in respect of many loans cover the losses by a few.

This paper concentrates on the treatment of these standardised guarantees.

- c) One-off guarantees

This where the conditions of the guarantee are so particular that it is not possible to calculate the risk with any degree of precision. This type of arrangement is most typically undertaken by government when it guarantees the borrowing of public corporations or other corporations producing public goods or operating in the national interest. The guarantees are usually never called because, if the corporation is moving towards insolvency, the government usually intervenes to support it with subsidies or other actions to keep it solvent and servicing its debts.

In principle these one-off guarantees should be recorded in the same way as standardised guarantees by recording a financial liability for the statistically estimated expected cost of the guarantee. However, practical considerations make this difficult. One of which is that under IPSAS19<sup>13</sup> these sort of guarantees would most likely be treated as contingent liabilities and so there would be no audited estimate of the expected cost in public accounts even in those countries that apply IPSAS19 in the public sector.

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<sup>13</sup> However, the IASB is considering removing the 50% probability rule for distinguishing between contingent liabilities and provisions, such that all potential future costs of uncertain amounts and timing would be treated as provisions.



The TFHPSA concluded that one-off guarantees could be recorded by including a memo item or by setting up a system of supplementary accounts outside the core accounts. However, in certain well-defined financially distressed situations, recording them in the standard accounts may be considered by applying the existing SNA technique of re-routing: the accounts would record the guarantor borrowing from the lender and lending to the borrower. Interest and financial transactions would all flow through the guarantor<sup>14</sup>.

### **Standardised guarantees in an updated SNA93**

#### **AEG decision July 2005**

The AEG in July 2005 approved the basic principles of the TFHPSA's proposal for the treatment of standardised guarantees. These are summarised below.

- a) Standardised guarantees would be recorded in the balance sheet of the guarantor in a new sub-category called 'standardised guarantees' (AF.63) with the existing financial instrument (AF.6) for insurance technical reserves.
- b) The lender should have the counterpart asset.
- c) If the guarantor unit sells the guarantee for a premium that does not cover the expected loss and administration costs, a subsidy / capital transfer to the lender should be imputed.

The AEG asked for further work to be done on the details of the recording. A paper was submitted to the AEG on 22 November for e-discussion. This included the following recommendations in addition to the points already approved.

- d) The liability recorded in AF.63 should equal to the net present value of the expected cost of calls on the guarantee over the remaining life of the guarantee. This would be consistent with the valuation of provisions for guarantees under international accounting standards. It is a probability-weighted concept. Although each individual guarantee is unlikely to be called, it is likely for the group as a whole that some payments will have to be made. So for each individual guarantee an amount is recorded that would be a percentage of the loan guaranteed based on loans of similar risk. The estimated future payments would be discounted for the value of time and take account of any likely recoveries where payment under the guarantee gives the guarantor rights over the defaulting assets or other collateral.

Not that this measurement method would be not the same as for the other components of AF.6 (AF61 and AF62). In those cases the amounts recorded relate to the value of assets actually held by the financial institution for the purpose of paying claims. In the case of F.63, the measurement of the financial liability would be based on statistical estimates, as for provisions in IPSAS19.

- e) The actual loss under a claim on a standardised guarantee would be recorded as a financial transaction in F.63. It is a redemption of the financial liability.

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<sup>14</sup> ESA95 paragraph 1.39 says "A transaction that appears to the units involved as taking place directly between units A and C may be recorded as taking place indirectly through a third unit B. Thus, the single transaction between A and C is recorded as two transactions: one between A and B, and one between B and C.

This sort of re-routing could be applied to government guaranteed borrowing by recording the government as borrowing from the lender and on-lending the amount to the borrowing unit. Interest and capital repayments would be similarly re-routed.

### **Similarity IPSAS19 and the proposed SNA update**

The proposal for the updated SNA has much in common with the treatment of guarantees as provisions in IPSAS19. The balance sheet liability would be the same. This would make data collection simpler for statisticians in countries applying IPSAS19 or something similar.

### **The problem of fully implementing IPSAS19 in SNA95**

Although it is intended to use the new F.63 to record the provisions for guarantees in the balance sheet, it is not proposed at present to introduce a new non-financial transaction category to record movements in provisions. Indeed it is a generally accepted principle in national accounts that balance sheet movements that look like holding gains and losses should not be recorded as transactions.

At first sight it would seem that, in an updated SNA93, the only movements in the value of provisions for guarantees that could be recorded as transactions would be the initial event that creates the guarantee, and the release of the provision when a claim is paid. In both cases there would be a transaction in F.63 and a counterpart in cash<sup>15</sup>. All other movements would have to be other flows. The disadvantage of this is that the impact on the guarantor's net saving and borrowing, over the life of a guarantee, would be the initial estimate of the expected loss, rather than the actual cost as it is under IPSAS19 whereby movements in the value of the provision, to reflect actual claims, have an impact on the P&L account.

### **Using the SNA95 current transfers for insurance**

Guarantees are similar to insurance policies. The existing SNA93 records insurance premiums and claims as current transfers in the categories D.71 and D.72 respectively. The paper for the AEG includes an option that combines the treatment of guarantees as provisions, using the same balance sheet valuation as IPSAS19, together with D.71 and D.72. to record some of the movements in provisions.

D.72 (non-life insurance claims) would record claims paid<sup>16</sup> under guarantees.

D.71 (non-life insurance premiums) would record the element of the premium that covers the expected claims in the year. It is assumed that there is a one-off premium covering risks over a number of years. D.71 would record the "accruing premium" in each year. A possible problem is that it might not be easy to obtain data for this concept since it might be included with "other movements" in notes to accounts prepared using IPSAS19<sup>17</sup>. A neat alternative would be to record in D71 the movement in provisions not recorded elsewhere: this would be the total movement in provisions less the movements due to new guarantees, unwinding the discount, and releases. It would be a good approximation to the required concept and maintain consistency with IPSAS19.

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<sup>15</sup> Assumes the fee paid for the guarantee covers the full cost.

<sup>16</sup> Or more precisely, the expected loss element of a paid claim where claim results in the acquisition of the defaulting asset.

<sup>17</sup> When shown it is sometimes within an item called "provision not required written back, or "reversed unused during the year" which is the excess of the provision allocated that year minus the provision actually used.

## Mapping of IPSAS19 to updated SNA93

This shows the impact in an updated SNA93 using the current transfers for insurance (D.71 and D.72) to explain some of the movements in the balance sheet liability that would be recorded under IPSAS19.

IPSAS19	Proposed updated SNA
<b>Profit and loss account</b>	<b>Transactions and other flows</b>
Fees received	In calculation of output Output = fees received <sup>18</sup> minus value of financial liability incurred in F.63
Movement in provisions in P&L account: of which:	
New contracts	Transaction (increase) in F.63 liability, and transaction (increase) in F.2 asset (the fee paid) <sup>21</sup>
Unwinding of discount	Transaction (increase) in F.63 liability, and transaction in D.44x (property income)
Reassessment of provisions:	
Provision reduced due to the passage of time reducing future risks <sup>19</sup> .	Decrease in F.63 liability, and D.71 insurance premium receipt <sup>22</sup>
Provision increased due to claim paid <sup>20</sup>	Increases AF.63 liability, and D.72 insurance claim
Reassessment of provisions due to other reasons	Other volume change K.10 (or add to D.71)
Release of provision to pay claim (nets to zero in P&L account)	Decreases AF.63 liability Decrease in AF.2
<b>Balance sheet</b>	<b>Balance sheet</b>
Increase (decrease) in provisions	Increase (decrease) in AF.63

<sup>18</sup> If the guarantor is a market unit, the accounts would record imputed subsidies being paid by the government to the guarantor for an amount sufficient to ensure that fees paid (including the imputed subsidy) were at least equal; to the operating costs (intermediate consumption, compensation of employees, capital consumption, other taxes on production) of the guarantor. In the case of a non-market body, output would be the sum of operating costs, as for any non-market body, and the fees paid would be netted-off government final consumption.

<sup>19</sup> Part of the provision would be for the risk of claims being made on the guarantee during the current year. When the year is completed this risk disappears. In effect it accrues the premium across the life of the guarantee

<sup>20</sup> Equals value of claim paid

<sup>21</sup> In the cases of fees being insufficient to pay for the F.63 financial asset, a capital transfer would be imputed from government to the unit acquiring of the guarantee.

<sup>22</sup> In effect, this accrues the one-off premium over the life of the guarantee.

### **Other transactions connected to giving guarantees**

This paper concentrates on the links between international accounting standards and the treatment of guarantees in an updated SNA95. There are other transactions connected with guarantees that would have to be explained in an updated SNA95. These are discussed briefly below. The paper submitted to the AEG contains more information and gives accounting examples showing the accounts of the guarantor, lender and borrower.

### **Recording payments for standardised guarantees**

When guarantors receive a fee for a guarantee the fee paid would be split between a financial transaction in F.63 (liability of the guarantor, asset of fee payer) and the rest would be the output of the guarantor, and the intermediate consumption of the fee payer. This measurement of output would be similar that for insurance corporations in the existing SNA93.

### **Payments for guarantees that do not cover costs (or no payment)**

Government non-market unit: if the fee paid were less than the value of the financial asset a grant would be imputed from the general government to the lender equal to the difference between the value of the financial asset and the premium paid. A financial transaction in F63 equal to the value of the asset (= the fee plus the grant) would be recorded in the usual way. Government final consumption would be recorded for the administration costs not funded by the fee.

Market unit: if the premiums did not cover the expected loss and administration costs, a subsidy would be imputed from general government to the guarantor. A counterpart entry in F.8 (other accounts payable/receivable) would be recorded and unwound when there were actual government appropriations to the guarantor. The government would record an imputed grant paid to the fee payer and a financial transaction in F63 for the shortfall between the fee and value of asset.

The precise details of the accounting are explained in the annex to the AEG paper.

The basic idea is that government expenditure should be recorded (subsidies, grants) for guarantees that are given away for free or sold at a loss.

### **Payment of claims**

Sometimes the payment of a claim by the guarantor gives it ownership of the defaulting asset. This defaulting asset can have a non-zero market value because of the possibility of it recovering from financial distress and servicing some of its debts. In the context of sovereign debt this rescheduling of debt is routinely organised by the Paris Club.

Under international accounting standards the payment of such a claim would be recorded as follows:

- a) Cash is paid to purchase a financial asset.
- b) The provision for loss on future claims is extinguished.
- c) Provisions are established for bad debts in relation to the acquired asset.

SNA93 does not at present record provisions for bad debts and this is not expected to change in the updated SNA93. One way to handle this would be say that the asset

acquired by the guarantor is some sort of security, valued at market value in SNA95, rather than a loan. The paper for the AEG describes another method.

**Property income**

Property income would be imputed for the unwinding of the discount component in the net present value of the cost of future claims, as under IPSAS19. This would be “reinvested in the instrument” through a transaction in F.63. This would have a similar impact to the use of D.44 *property income attributable to insurance policy holders* in SNA93.

## **The word “provisions”**

The word “provisions” often causes confusion in discussions on national accounts.

### **International Accounting Standards**

In IAS **provisions are liabilities** on the balance sheet. They record expected future expenditure as a result of a past event, where the amount and timing of the expenditure is uncertain. This is the meaning of “provisions” in this paper.

Many provisions are unrelated to other items in the balance sheet. For example, the UK Department of Health recorded provisions for the amounts it expects to have to pay in future compensation claims to individuals who received inappropriate medical treatment in the past.

Other provisions are linked to an asset on the balance sheet. For example the UK Department for Education records provisions for bad debts on its balance sheet. This is an adjustment to the book value of government loans to students to take account of expected defaults. In debates about whether national accounts should record provisions, this sort of provision is often in mind since it relevant to the contentious issue of how to value loans in national accounts.

### **English Dictionaries**

Dictionaries define “provisions” as “**supplies of food and other necessary things**”. In this sense, provisions are an asset. Perhaps it is the same in French: L'écureuil prend des dispositions pour l'hiver.

### **SNA93 / ESA95**

In ESA95, the description of financial instrument F.6 *Insurance Technical Reserves* mentions provisions in several places but in different ways. Paragraph 5.101 of ESA95 talks of “provisions<sup>23</sup> or similar funds established ...”. This implies provisions are a stock of assets. Paragraph 5.107 refers to technical provisions<sup>24</sup> in the accounts of insurance undertaking, which are liabilities.

It is assumed that the intention of the text is to say that F.6 is a financial instrument that is a liability of financial institutions, and an asset of policy holders, but that its value is not the contractual liability of the financial institution; instead it is set equal to the value of the assets held by the financial institution to finance that liability. This might be more or less than the liability. Thus, the valuation of F.6 is different to the valuation of provisions for liabilities under insurance and pension contracts recorded in the balance sheets of the annual accounts of financial institutions.

A similar story concerns D.44, the property income earned on F.6. In SNA95 this is the actual return from the assets held. But in the annual accounts of financial institutions the corresponding property income (“time value of money”) entry would be the unwinding of the discount in respect of the net present value of the liability.

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<sup>23</sup> In the French version it is “ Les réserves ou les fonds similaire’

<sup>24</sup> In the French version it is “les provisions d'assurance vie, les provisions pour participation aux bénéfices et ristournes, ainsi que les provisions relatives à l'assurance vie