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CHAPTER 7

BALANCE SHEETS

- 7.01. *Definition:* a balance sheet is a statement, drawn up for a particular point in time, of the values of assets economically owned and of liabilities owed by an institutional unit or group of units.
- 7.02 The balancing item of a balance sheet is called net worth (B.90). The stock of the assets and liabilities recorded in the balance sheet are valued at the appropriate prices, which are usually the market prices prevailing on the date to which the balance sheet relates, but for some categories at their nominal values. A balance sheet is drawn up for resident institutional sectors and subsectors, the total national economy and the rest of the world.
- 7.03 The balance sheet completes the sequence of accounts, showing the ultimate effect of the entries in the production, distribution and use of income, and accumulation accounts on the stock of wealth of an economy.
- 7.04 For institutional sectors the balancing item on the balance sheet is net worth.
- 7.05 For the total national economy the balancing item is often referred to as national wealth — the total value of non-financial assets, and net financial assets with respect to the rest of the world.

- 7.06 The rest of the world balance sheet is compiled in the same manner as the balance sheets of the resident institutional sectors and subsectors. It consists entirely of positions in financial assets and liabilities of non-residents vis-à-vis residents. In the BPM6 the corresponding balance sheet drawn from the viewpoint of residents vis-à-vis non-residents is called the international investment position (IIP).
- 7.07 Own funds are defined as the sum of net worth (B.90) plus the value of equity and investment fund shares (AF.5) as liabilities in the balance sheet.
- 7.08 For the non-financial corporations and financial corporations sectors and subsectors, own funds is an analytically meaningful indicator similar to net worth.
- 7.09 The net worth of corporations will usually be different from the value of their shares and other equity issued. Quasi-corporations' net worth is zero because the value of their owner's equity is assumed to be equal to its assets less its non-equity liabilities. The net worth of resident direct investment enterprises, which are branches of non-resident enterprises and treated as quasi-corporations, is therefore also zero.
- 7.10 The balancing item of financial assets and liabilities is called financial net worth (BF.90).
- 7.11 A balance sheet relates to the value of assets and liabilities at a particular moment of time. Balance sheets are compiled at the beginning and end of an accounting period; the opening balance sheet at the beginning of the period is the same as the closing balance sheet recorded at the end of the preceding period.

7.12 A basic accounting identity links the value of the stock of a specific type of an asset as shown in the opening balance sheet and the closing balance sheet as follows:

the value of the stock of a specific type of asset in the opening balance sheet		
<i>plus</i>	transactions	the total value of that asset acquired in transactions that take place during the accounting period
<i>minus</i>		the total value of that asset disposed of in transactions that take place during the accounting period
<i>minus</i>		consumption of fixed capital (if applicable)
<i>plus</i>	other changes in the volume of assets	other positive changes in volume affecting that asset
<i>minus</i>		other negative changes in volume affecting that asset
<i>plus</i>	revaluations	the value of nominal holding gains accruing during the period resulting from changes in the price of that asset
<i>minus</i>		the value of nominal holding losses accruing during the period resulting from changes in the price of that asset
equals the value of the stock of that asset in the closing balance sheet.		

A table can also be drawn up, which links the value of the stock of a specific type of a liability in the opening balance sheet and the closing balance sheet.

- 7.13 The accounting links between the opening balance sheet and the closing balance sheet via transactions, other changes in the volume of assets and liabilities, and holding gains and losses are shown schematically in Annex 7.2.

TYPES OF ASSETS AND LIABILITIES

Definition of an asset

- 7.14 The assets recorded in the balance sheets are economic assets.

- 7.15 *Definition:* an economic asset is a store of value representing the benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of carrying forward value from one accounting period to another.

- 7.16 The economic benefits consist of primary incomes such as operating surplus, where the economic owner uses the asset, or property income, where the economic owner lets others use it. The benefits are derived from the use of the asset and the value, including holding gains and losses, that is realised by disposing of the asset or terminating it.

7.17 The economic owner of an asset is not necessarily the legal owner. The economic owner is the institutional unit entitled to claim the benefits associated with the use of the asset by virtue of accepting the associated risks.

7.18 An overview of the classification and coverage of economic assets is given in Table 7.1. The detailed definition of each asset category is set out in Annex 7.1.

EXCLUSIONS FROM THE ASSET AND LIABILITY BOUNDARY

7.19 Excluded from the asset and liability boundary are:

- (a) human capital;
- (b) natural assets that are not considered as economic assets (e.g. air, river water);
- (c) consumer durables; and
- (d) contingent assets and liabilities, which are not financial assets and liabilities (see paragraph 7.31).

CATEGORIES OF ASSETS AND LIABILITIES

7.20 Two main categories of entries in the balance sheets are distinguished: non-financial assets (denoted as AN) and financial assets and liabilities (denoted as AF).

7.21 Non-financial assets are divided into produced non-financial assets (denoted as AN.1) and non-produced non-financial assets (denoted as AN.2).

Produced non-financial assets (AN.1)

7.22 *Definition:* produced non-financial assets (AN.1) are outputs from production processes.

7.23 The classification of produced non-financial assets (AN.1) is designed to distinguish among assets on the basis of their role in production. It consists of: fixed assets which are used repeatedly or continuously in production for more than one year; inventories which are used up in production as intermediate consumption, sold or otherwise disposed of; and valuables. Valuables are not used primarily for production or consumption, but are instead acquired and held primarily as stores of value.

Non-produced non-financial assets (AN.2)

- 7.24 *Definition:* non-produced non-financial assets (AN.2) are economic assets that come into existence other than through processes of production. They consist of natural assets, contracts, leases, licences, permits, and goodwill and marketing assets.
- 7.25 The classification of non-produced assets is designed to distinguish assets on the basis of how they come into existence. Some of these assets exist naturally, while others, which are known as constructs of society, come into existence by legal or accounting actions.
- 7.26 The choice of which natural assets to include in the balance sheet is determined, in compliance with the general definition of an economic asset, by whether the assets are subject to effective economic ownership and are capable of bringing economic benefits to their owners, given the existing technology, knowledge, economic opportunities, available resources, and set of relative prices. Natural assets where ownership rights have not been established, such as open seas or air, are excluded.
- 7.27 Contracts, leases, licences and permits are regarded as non-financial assets only when a legal agreement confers economic benefits on the holder in excess of amounts payable under the agreement, and the holder can legally and practically realise such benefits by transferring them to others.

Financial assets and liabilities (AF)

- 7.28 *Definition:* financial assets (AF) are economic assets, comprising all financial claims, equity and the gold bullion component of monetary gold (paragraph 5.03). Liabilities are established when debtors are obliged to provide a payment or a series of payments to creditors (paragraph 5.06).
- 7.29 Financial assets are stores of value representing a benefit or series of benefits accruing to the economic owner through holding or using the assets over a period of time. They are a means of carrying forward value from one accounting period to another. Benefits are exchanged through means of payments (paragraph 5.04).
- 7.30 Each financial asset has a counterpart liability, with the exception of the gold bullion component of monetary gold, which is classified in the monetary gold and special drawing rights (AF.1) category.
- 7.31 Contingent assets and contingent liabilities are agreements whereby one party is obliged to provide a payment or series of payments to another unit only if certain specific conditions prevail (paragraph 5.08). They are not financial assets and liabilities.

7.32 The classification of financial assets and liabilities corresponds to the classification of financial transactions (paragraph 5.14). The definitions of the categories and subcategories of financial assets and liabilities and the supplementary explanations are provided in Chapter 5 and not repeated here but Annex 7.1 contains a summary of all assets and liabilities defined in the system.

Table 7.1 — Classification of assets

AN.	NON-FINANCIAL ASSETS (AN.1 + AN.2)
AN.1	Produced non-financial assets
AN.11	Fixed assets ¹
AN.111	Dwellings
AN.112	Other buildings and structures
AN.1121	Buildings other than dwellings
AN.1122	Other structures
AN.1123	Land improvements
AN.113	Machinery and equipment
AN.1131	Transport equipment
AN.1132	ICT equipment
AN.1139	Other machinery and equipment
AN.114	Weapons systems
AN.115	Cultivated biological resources
AN.1151	Animal resources yielding repeat products

¹ Memorandum item AN.m: consumer durables.

AN.	NON-FINANCIAL ASSETS (AN.1 + AN.2)
AN.1152	Tree, crop and plant resources yielding repeat products
AN.117	Intellectual property products
AN.1171	Research and development
AN.1172	Mineral exploration and evaluation
AN.1173	Computer software and databases
AN.11731	Computer software
AN.11732	Databases
AN.1174	Entertainment, literary or artistic originals
AN.1179	Other intellectual property products
AN.12	Inventories
AN.121	Materials and supplies
AN.122	Work-in-progress
AN.1221	Work-in-progress on cultivated biological assets
AN.1222	Other work-in-progress
AN.123	Finished goods
AN.124	Military inventories
AN.125	Goods for resale
AN.13	Valuables
AN.131	Precious metals and stones
AN.132	Antiques and other art objects
AN.133	Other valuables
AN.2	Non-produced non-financial assets
AN.21	Natural resources
AN.211	Land
AN.2111	Land underlying buildings and structures

AN.	NON-FINANCIAL ASSETS (AN.1 + AN.2)
AN.2112	Land under cultivation
AN.2113	Recreational land and associated surface water
AN.2119	Other land and associated surface water
AN.212	Mineral and energy reserves
AN.213	Non-cultivated biological resources
AN.214	Water resources
AN.215	Other natural resources
AN.2151	Radio spectra
AN.2159	Other
AN.22	Contracts, leases and licences
AN.221	Marketable operating leases
AN.222	Permits to use natural resources
AN.223	Permits to undertake specific activities
AN.224	Entitlement to future goods and services on an exclusive basis
AN.23	Purchases less sales of goodwill and marketing assets

AF	FINANCIAL ASSETS ¹ (AF.1 + AF.2 + AF.3 + AF.4 + AF.5 + AF.6 + AF.7 + AF.8)
AF.1	Monetary gold and special drawing rights (SDRs)
AF.11	Monetary gold
AF.12	Special drawing rights (SDRs)
AF.2	Currency and deposits
AF.21	Currency
AF.22	Transferable deposits
AF.29	Other deposits
AF.3	Debt securities

¹ Memorandum items AF.m1: foreign direct investment; AF.m2: non-performing loans.

AF	FINANCIAL ASSETS ¹ (AF.1 + AF.2 + AF.3 + AF.4 + AF.5 + AF.6 + AF.7 + AF.8)
AF.31	Short-term
AF.32	Long-term
AF.4	Loans
AF.41	Short-term
AF.42	Long-term
AF.5	Equity and investment fund shares or units
AF.51	Equity
AF.511	Listed shares
AF.512	Unlisted shares
AF.519	Other equity
AF.52	Investment fund shares or units
AF.521	MMF shares/units
AF.522	Non-MMF investment fund shares/units
AF.6	Insurance, pension and standardised guarantee schemes
AF.61	Non-life insurance technical reserves
AF.62	Life insurance and annuity entitlements
AF.63	Pension entitlements
AF.64	Claims of pension funds on pension managers
AF.65	Entitlements to non-pension benefits
AF.66	Provisions for calls under standardised guarantees
AF.7	Financial derivatives and employee stock options
AF.71	Financial derivatives
AF.72	Employee stock options
AF.8	Other accounts receivable/payable
AF.81	Trade credits and advances
AF.89	Other accounts receivable/payable, excluding trade credit and advances

VALUATION OF ENTRIES IN THE BALANCE SHEETS

General valuation principles

- 7.33 Each item in the balance sheet is valued as if it were being acquired on the date to which the balance sheet relates. Assets and liabilities are valued at market prices on the date to which the balance sheet relates.
- 7.34 The values recorded should reflect prices observable on the market on the date to which the balance sheet relates. When there are no observable market prices, which may be the case if there is a market but no assets have recently been sold on it, estimates should be made of what the price would be if the assets were acquired on the market on the date to which the balance sheet relates.
- 7.35 Market prices are usually available for many financial assets and liabilities, existing real estate (buildings and other structures plus the underlying land), existing transport equipment, crops and livestock, as well as for newly produced fixed assets and inventories.
- 7.36 Non-financial assets produced on own-account should be valued at basic prices or, if basic prices are not available, at the basic prices of similar goods, or, if this is not possible, at cost.

- 7.37 In addition to observed market prices, estimates based on observed prices or costs incurred, values of non-financial assets may be estimated by:
- (a) revaluing and accumulating acquisitions less disposals over the assets' lifetimes; or
 - (b) the present value, i.e. the discounted value, of future economic benefits.
- 7.38 Market valuation is the key principle for valuing positions (and transactions) in financial instruments. Financial instruments are identical to financial claims. They are financial assets that have corresponding liabilities. The market value is that at which financial assets are acquired or disposed of, between willing parties, on the basis of commercial considerations only, excluding commissions, fees and taxes. In determining market values, trading parties also take account of accrued interest.
- 7.39 Nominal valuation reflects the sum of funds originally advanced, plus any subsequent advances, less any repayments, plus any accrued interest. Nominal value is not the same as face value.
- (a) The nominal value in domestic currency of a financial instrument denominated in foreign currency includes holdings gains or losses arising from movements in exchange rates.

The value of financial instruments denominated in foreign currency should be converted into the national currency at the market exchange rate prevailing on the date to which the balance sheet relates. This rate should be the mid-point between the buying and the selling spot rates for currency transactions.

- (b) For financial instruments like debt securities linked to a narrow index, the nominal value can also include holding gains or losses arising from movements in the index.
- (c) At any specific point in time, the market value of a financial instrument may deviate from its nominal value due to revaluations arising from market price changes. Movements in market prices arise from general market conditions, such as changes in the market rate of interest, specific circumstances, such as changes in the perceived creditworthiness of the issuer of a debt security, and changes in general market liquidity and in market liquidity that is specific to that debt security.
- (d) Thus, the following basic equation applies to positions:

market value = nominal value + revaluations arising from market price changes.

7.40 For some non-financial assets, the revalued initial acquisition price reduces to zero over the asset's expected life. The value of such an asset, at any particular point of time, is given by its current acquisition price less the accumulated value of such reductions.

7.41 Most fixed assets can be recorded in balance sheets at current purchasers' prices reduced for the accumulated consumption of fixed capital; this is known as the written-down replacement cost. The sum of the reduced values of all fixed assets still in use is described as the net capital stock. The gross capital stock includes the values of the accumulated consumption of fixed capital.

NON-FINANCIAL ASSETS (AN)

Produced non-financial assets (AN.1)

Fixed assets (AN.11)

7.42 Fixed assets are recorded at market prices if possible (or basic prices in the case of own-account production of new assets) or, if not possible, then at purchasers' prices at acquisition reduced by the accumulated consumption of fixed capital. The purchasers' costs of transferring ownership of fixed assets, appropriately reduced through consumption of fixed capital over the period the purchaser expects to hold the economic asset, are included in the balance sheet value.

Intellectual property products (AN.117)

- 7.43 Mineral exploration and evaluation (category AN.1172) are valued either on the basis of the accumulated amounts paid to other institutional units conducting the exploration and evaluation, or on the basis of the costs incurred for exploration undertaken on own-account. That part of exploration undertaken in the past that has not yet been fully reduced should be revalued at the prices and costs of the current period.
- 7.44 Originals of intellectual property products, such as computer software and entertainment, literary or artistic originals should be valued at the acquisition price when traded on markets. The initial value is estimated by summing their costs of production, appropriately revalued to the prices of the current period. If it is not possible to establish the value by this method, the present value of expected future receipts arising from using the asset is estimated.

Costs of ownership transfer on non-produced assets (AN.116)

- 7.45 The costs of ownership transfer on non-produced assets other than land are shown separately in the capital account, and treated as gross fixed capital formation, but in the balance sheets such costs are incorporated in the value of the asset to which they relate even though the asset is non-produced. Thus, there are no costs of ownership transfer shown separately in the balance sheets. The costs of ownership transfer on financial assets are treated as intermediate consumption, where the assets are acquired by corporations or government, final consumption where the assets are acquired by households and exports of services where the assets are acquired by non-residents.

Inventories (AN.12)

- 7.46 Inventories should be valued at prices prevailing on the date to which the balance sheet relates, and not at the prices at which the products were valued when they entered inventory.
- 7.47 Inventories of materials and supplies are valued at purchasers' prices, and inventories of finished goods and work-in-progress are valued at basic prices. Inventories of goods intended for resale without further processing by distributors are valued at the prices prevailing on the date to which the balance sheet relates, excluding any transportation costs incurred by the wholesalers or retailers. For inventories of work-in-progress, the value of the closing balance sheet is estimated by applying the fraction of the total production cost incurred by the end of the period to the basic price of a similar finished product on the date to which the balance sheet relates. If the basic price of the finished products is unavailable, it is estimated by the value of the production cost with a mark-up for expected net operating surplus or estimated net mixed income.
- 7.48 Single-use crops (except timber) under cultivation and livestock raised for slaughter can be valued by reference to the prices of such products on the markets. Standing timber is valued by discounting the future proceeds of selling the timber at current prices after deducting the expenses of bringing the timber to maturity, felling, etc.

Valuables (AN.13)

7.49 Valuables such as works of art, antiques, jewellery, precious stones, non-monetary gold and other metals are valued at current prices. If organised markets exist for these assets, they should be valued at the actual or estimated prices they would fetch, excluding any agents' fees or commissions, if sold on the market on the date to which the balance sheet relates. Otherwise, they should be valued at acquisition prices, revalued to the current price level.

Non-produced non-financial assets (AN.2)

Natural resources (AN.21)

Land (AN.211)

7.50 In the balance sheet land is valued at its current market price. Any expenditure on land improvements is recorded as gross fixed capital formation and the additional value it provides is excluded from the value of land shown in the balance sheet and is instead shown in a separate asset category for land improvement (AN.1123).

7.51 Land is valued at the estimated price achieved if sold on the market, excluding the costs involved in transferring ownership for a future sale. When a transfer does occur, it is recorded by convention as gross fixed capital formation and the costs are excluded from the AN.211 land value recorded in the balance sheet and instead recorded as an AN.1123 asset. This is reduced to zero through consumption of fixed capital over the period that the new owner expects to use the land.

7.52 If the value of the land cannot be separated from that of buildings or other structures situated on it, the combined assets are classified together in the category of the asset that has the greater value.

Mineral and energy reserves (AN.212)

7.53 Reserves of mineral deposits located on or below the earth's surface, that are economically exploitable given current technology and relative prices, are valued at the present value of expected net returns resulting from their commercial exploitation of the assets.

Other natural assets (AN.213, AN.214 and AN.215)

7.54 Observed market prices for non-cultivated biological resources (AN.213), water resources (AN.214) and other natural resources (AN.215) are unlikely to be available, so they are usually valued at the present value of future returns expected from them.

Contracts, leases and licences (AN.22)

7.55 *Definition:* contracts, leases and licences are recorded as assets when the following conditions are met:

- (a) the terms of the contract, lease or licence specify a price for the use of an asset or provision of a service that differs from the prevailing market price; and
- (b) one party to the contract can realise the price difference.

The contracts, leases and licences can be valued by taking market information from the transfers of the instruments conferring the rights, or estimated as the present value of expected future returns at the balance sheet date compared to the situation when the legal agreement starts.

7.56 The category covers assets that may arise from marketable operating leases, licences to use natural resources, permits to undertake specific activities and entitlements to future goods and services on an exclusive basis.

- 7.57 The value of the asset is equal to the net present value of the excess of the prevailing price over that fixed in the agreement. Other things being equal, this will decline as the period of the agreement expires. Changes in the value of the asset due to changes in the prevailing price are recorded as nominal holding gains and losses.
- 7.58 Marketable operating lease assets are only recorded as assets when lessees exercise their rights to realise the price difference.

Purchases less sales of goodwill and marketing assets (AN.23)

- 7.59 The balance sheet value of goodwill and marketing assets is the excess of the price paid at the time an institutional unit is sold, over the value recorded for its own funds, revalued for any subsequent reductions as the initial value is written down as an economic disappearance of non-produced assets (K.2). The rate of write down is in accordance with commercial accounting standards.
- 7.60 Marketing assets consist of items such as brand names, mastheads, trademarks, logos and domain names.

FINANCIAL ASSETS AND LIABILITIES (AF)

7.61 Financial assets and liabilities as negotiable financial instruments such as debt securities, equity securities, investment fund shares or units and financial derivatives, are valued at market value. Financial instruments that are non-negotiable are valued at nominal value (see paragraphs 7.38 and 7.39). The counterpart financial assets and liabilities have the same values in the balance sheet. The values should exclude commissions, fees and taxes. Commissions, fees and taxes are recorded as services provided in carrying out the transactions.

Monetary gold and SDRs (AF.1)

7.62 Monetary gold (AF.11) is to be valued at the price established in organised gold markets.

7.63 The value of SDRs (AF.12) is determined daily by the IMF and the rates against domestic currencies are obtainable from foreign exchange markets.

Currency and deposits (AF.2)

7.64 For currency (banknotes and coins — AF.21), the valuation is the nominal value of the currency.

7.65 For deposits (AF.22, AF.29), the values recorded in the balance sheet are nominal values.

7.66 Currency and deposits in foreign currency are converted to domestic currency at the mid-point of the bid and offer spot exchange rates prevailing on the balance sheet date.

Debt securities (AF.3)

- 7.67 Debt securities are recorded at market value.
- 7.68 Short-term debt securities (AF.31) are valued at market value. If market values are not available then, provided there are no conditions of high inflation or high nominal interest rates, the market value can be approximated by the nominal value for:
- (a) short-term debt securities issued at par; and
 - (b) short-term discounted debt securities.
- 7.69 Long-term debt securities (AF.32) are valued at market value, whether they are bonds on which interest is paid regularly or deep-discounted or zero-coupon bonds on which little or no interest is paid.

Loans (AF.4)

- 7.70 The values to be recorded in the balance sheets of both creditors and debtors are the nominal values irrespective of whether the loans are performing or non-performing.

Equity and investment fund shares/units (AF.5)

- 7.71 Listed shares (AF.511) are valued at their market values. The same value is adopted for both the asset side and the liability side, although shares and other equity are not, legally, a liability of the issuer, but an ownership right to a share in the liquidation value of a corporation, where the liquidation value is not known in advance.

- 7.72 Listed shares are valued at a representative mid-market price observed on the stock exchange or other organised financial markets.
- 7.73 The values of unlisted shares (AF.512), which are not traded on organised markets, should be estimated with reference to either:
- (a) the values of quoted shares where appropriate;
 - (b) the value of own funds; or
 - (c) discounting forecast profits by applying an appropriate market price to earnings ratio to the smoothed recent earnings of the institutional unit.

However, these estimates will take into account differences between listed and unlisted shares, notably their liquidity and consider the net worth accumulated over the life of the corporation and its branch of business.

- 7.74 The estimation method applied depends on the basic statistics available. It may take into account, for example, data on merger activities involving unlisted shares. If the value of unlisted corporations' own funds moves similarly, on average and in proportion to their nominal capital, to that of similar corporations with listed shares, then the balance sheet value can be calculated using a ratio. This ratio compares the value of own funds of unlisted corporations to that of listed corporations:

value of unlisted shares = market price of similar listed shares × (own funds of unlisted corporations)/(own funds of similar listed corporations).

- 7.75 The ratio of share price to own funds may vary with the branch of business. It is preferable to calculate the current price of unlisted shares branch by branch. There may be other differences between listed and unlisted corporations, which can have an effect on the estimation method.
- 7.76 Other equity (AF.519) is equity that is not in the form of securities. It can include equity in quasi-corporations (such as branches, trusts, limited liability and other partnerships), public corporations, unincorporated funds and notional units (including notional resident units created to reflect non-resident ownership of real estate and natural resources). The ownership of international organisations not in the form of shares is classified as other equity.
- 7.77 Quasi-corporations' other equity is valued according to their own funds, since their net worth is by convention equal to zero. For other units the most appropriate valuation method from the methods used for unlisted shares should be taken.
- 7.78 Corporations that issue shares or units may additionally have other equity.

7.79 Investment fund shares or units (AF.52) are valued at market price if they are listed. If unlisted the market value may be estimated as described for unlisted shares. If they are redeemable by the fund itself they are valued at their redemption value.

Insurance, pension and standardised guarantee schemes (AF.6)

7.80 The amounts recorded for non-life insurance technical reserves (AF.61) cover premiums paid but not earned plus the amounts set aside to meet outstanding claims. The latter represent the present value of amounts expected to be paid out in settlement of claims, including disputed claims and an allowance for claims to cover incidents that have occurred but not yet been reported.

7.81 The amounts recorded for life insurance and annuity entitlements (AF.62) represent the reserves needed to meet all expected future claims.

7.82 The amounts recorded for pension entitlements (AF.63) depend on the type of pension scheme.

7.83 In a defined benefit pension scheme the level of pension benefits promised to participating employees is determined by a formula agreed in advance. The liability of a defined benefit pension scheme is equal to the present value of the promised benefits.

7.84 In a defined contribution scheme the benefits paid are dependent on the performance of the assets acquired by the pension scheme. The liability of a defined contribution scheme is the current market value of the funds' assets. The funds' net worth is always zero.

7.85 The value recorded for provisions for calls under standardised guarantees (AF.66) is the expected level of claims less the value of any expected recoveries.

Financial derivatives and employee stock options (AF.7)

7.86 Financial derivatives (AF.71) should be included in the balance sheets at their market value. If market price data are unavailable, for example in the case of over the counter options they should be valued at either the amount required to buy out or to offset the contract or the amount of premium payable.

7.87 For options, the writer of the option is considered to have incurred a counterpart liability representing the cost of buying out the rights of the option holder.

7.88 The market value of options and forwards can switch between positive (asset) and negative (liability) positions depending on price movements in the underlying items and thus they can switch being assets and liabilities for the writers and holders. Some options and forwards operate on margin payments, where profits or losses are settled daily; in these cases the balance sheet value will be zero.

7.89 Employee stock options (AF.72) are valued by reference to the fair value of the equity granted. The fair value is measured at grant date using the market value of equivalent traded options or, if unavailable, using an option pricing model.

Other accounts receivable/payable (AF.8)

7.90 Trade credits and advances (AF.81) and other accounts receivable/payable excluding trade credits and advances (AF.89), which arise due to timing differences between distributive transactions, such as taxes, social contributions, dividends, rents, wages and salaries, and financial transactions, are valued, for both creditors and debtors, at nominal value. Any amounts of taxes and social contributions payable under AF.89 should exclude the amounts unlikely to be collected since they represent a government claim with no value.

FINANCIAL BALANCE SHEETS

7.91 The financial balance sheet shows, on its left side, financial assets and, on its right side, liabilities. The balancing item of the financial balance sheet is financial net worth (BF.90).

7.92 The financial balance sheet of a resident sector or a subsector may be consolidated or non-consolidated. The non-consolidated financial balance sheet shows all the financial assets and liabilities of the institutional units classified in the sector or subsector, including those where the corresponding asset or liability is held within that sector or subsector. The consolidated financial balance sheet eliminates the financial assets and liabilities that have counterparts in the same sector or subsector. The financial balance sheet of the rest of the world is consolidated by definition. As a rule, the accounting entries in the System are not consolidated. Therefore, the financial balance sheet of a resident sector or subsector is to be presented on a non-consolidated basis.

7.93 The from-whom-to-whom financial balance sheet (the balance sheet by debtor/creditor) is an extension of the financial balance sheet, showing in addition a breakdown of financial assets by debtor sector and a breakdown of liabilities by creditor sector. Therefore, it provides information on debtor/creditor relationships and is consistent with the financial account by debtor/creditor.

MEMORANDUM ITEMS

7.94 In order to show items of more specialised analytic interest for particular sectors, three types of memorandum items are included as supporting items to the balance sheets:

- (a) consumer durables (AN.m);
- (b) foreign direct investment (AF.m1);
- (c) non-performing loans (AF.m2).

Consumer durables (AN.m)

7.95 *Definition:* consumer durables are durable goods used by households repeatedly over periods of time of more than one year for final consumption. They are included in the balance sheets as memorandum items. They are excluded from the main balance sheet because they are recorded as uses in the households sector's use of income account as being consumed in the period of account, and not gradually used up.

- 7.96 The stocks of consumer durables held by households as final consumers — transport equipment (AN.1131) and other machinery and equipment (AN.1139) — are valued at market prices in the memorandum item, net of the equivalent accumulated charges for consumption of fixed capital. A full list of the subgroups and items of consumer durables is given in Chapter 23.
- 7.97 Durable goods, such as vehicles, are classified as either fixed assets or as consumer durables depending on the sector classification of the owner and the purpose for which they are used. For example, a vehicle may be used partly by a quasi-corporation for production and partly by a household for final consumption. The values shown in the balance sheet for the non-financial corporations sector (S.11) should reflect the proportion of the use that is attributable to the quasi-corporation. A similar example exists for employers (including own-account workers) subsector (S.141 + S.142). The proportion attributed to the households sector (S.14) as final consumers should be recorded in the memorandum item, net of the equivalent accumulated charges for consumption of fixed capital.

Foreign direct investment (AF.m1)

7.98 Financial assets and liabilities that constitute direct investment are recorded according to the nature of the investment in the categories loans (AF.4), equity and investment fund shares/units (AF.5) or other accounts receivable/payable (AF.8). The amount of direct investment included within each of these categories is recorded as a separate memorandum item.

Non-performing loans (AF.m2)

7.99 Loans are recorded in the balance sheet at nominal value.

7.100 Certain loans that have not been serviced for some time are included as a memorandum item to the balance sheet of the creditor. Such loans are termed non-performing loans.

7.101 *Definition:* a loan is non-performing when (a) payments of interest or principal are 90 days or more past their due date; (b) interest payable of 90 days or more has been capitalised, refinanced, or delayed by agreement; or (c) payments are less than 90 days overdue, but there are other good reasons (such as a debtor filing for bankruptcy) to doubt that payments will be made in full.

7.102 This definition of a non-performing loan is to be interpreted taking into account national conventions on when a loan is deemed to be non-performing. Once a loan is classified as non-performing, it (or any replacement loans) should remain classified as such until payments are received or the principal is written off on this or subsequent loans that replace the original.

7.103 Two memorandum items are required for non-performing loans:

- (a) the nominal value of such loans, as recorded in the main balance sheet; and
- (b) the market equivalent value of such loans.

7.104 The closest approximation to market equivalent value is fair value, which is 'the value that approximates to the value that would arise from a market transaction between two parties'. Fair value can be established using transactions in comparable instruments, or using the discounted present value of cash flows; which may be available from the balance sheet of the creditor. In the absence of fair value data, the memorandum item will have to use a second-best approach and show nominal value less expected loan losses.

Recording of non-performing loans

7.105 The non-performing loans of the general government and financial corporations sectors must be recorded as memorandum items, along with other sectors that have significant amounts. If significant, the loans to or from the rest of the world, are also recorded as memorandum items.

- 7.106 The following table describes the positions and flows that are recorded for non-performing loans to show a more complete picture on stocks, transactions, reclassifications and write-offs.
- 7.107 The example shows an outstanding amount of loans at nominal value of 1 000 at t-1, of which 500 are performing and 500 are non-performing. The majority of the non-performing loans, 400, is covered by loan loss provisions, while 100 are not. The second part of the table provides detailed supplementary information on the market equivalent value of the non-performing loans. It is derived as the difference between the nominal value and the loan loss provisions. At t-1, it is assumed to be 375. During the period from t-1 to t, parts of the loans are reclassified from performing or not yet covered to non-performing or vice versa, or written off. The flows are shown in the corresponding columns of the table. For the loan loss provisions the nominal values and the market equivalent values are also presented.
- 7.108 The assessments on loan loss provisions have to be made in the framework of the accounting standards, the legal status and the taxation rules applicable to the units, which might lead to rather heterogeneous results in terms of amounts and duration of loan loss provisions. This makes it difficult to record non-performing loans in the main accounts and leads to their recording as a memorandum item. It is preferable instead to provide market equivalent values as memorandum items in addition to the nominal values of loans, performing and non-performing.

Recording of non-performing loans

Positions	Stock	Transaction	Reclassification	Write-off	Stock
	t-1	period t-1 to t			t
<i>Nominal value</i>					
<i>Loans</i>	1000	200	0	-90	1110
<i>Performing loans</i>	500	200	-50		650
<i>Non-performing loans</i>	500		50	-90	460
<i>Covered by loan loss provisions</i>	400		70	-90	380
<i>Not yet covered by loan loss provisions</i>	100		-20		80
<i>Market equivalent value</i>					
Non-performing loans	375		24	-51	348
= Nominal value	500		50	-90	460
- Loan loss provisions	125		26	-39	112
o/w not yet covered	100		-20		80

ANNEX 7.1 — SUMMARY OF EACH ASSET CATEGORY

Classification of assets	Summary
Non-financial assets (AN)	Non-financial items over which ownership rights are enforced by institutional units, individually or collectively, and from which economic benefits may be derived by their owners by holding, using or allowing others to use them over a period of time. Consists of fixed assets, inventories, valuables, constructs of society and intellectual property products.
Produced non-financial assets (AN.1)	Non-financial assets that are outputs from production processes. Produced non-financial assets consist of fixed assets, inventories and valuables, as defined below.
Fixed assets (AN.11)	Produced non-financial assets that are used repeatedly or continuously in production processes for more than one year. Fixed assets consist of dwellings, other buildings and structures, machinery and equipment, weapons systems, cultivated biological resources, and intellectual property products, as defined below.

Classification of assets	Summary
Dwellings (AN.111)	<p>Buildings that are used entirely or primarily as residences, including any associated structures, such as garages, and all permanent fixtures customarily installed in residences. Houseboats, barges, mobile homes and caravans used as principal residences of households are also included, as are public monuments (see AN.1121) identified primarily as dwellings. Costs of site clearance and preparation are also included.</p> <p>Examples include residential buildings, such as one- and two-dwelling buildings and other residential buildings intended for non-transient occupancy.</p> <p>Uncompleted dwellings are included to the extent that the ultimate user is deemed to have taken ownership, either because the construction is on own-account or as evidenced by the existence of a contract of sale/purchase. Dwellings acquired for military personnel are included because they are used, as are dwellings acquired by civilian units, for the production of housing services.</p> <p>The value of dwellings is net of the value of land underlying dwellings, which is included in land (AN.211) if separately classified.</p>
Other buildings and structures (AN.112)	<p>Other buildings and structures consist of buildings other than dwellings, other structures and land improvements, as defined below.</p> <p>Uncompleted buildings and structures are included to the extent that the ultimate user is deemed to have taken ownership, either because the construction is for own use or as evidenced by the existence of a contract of sale/purchase. Buildings and structures acquired for military purposes are included.</p> <p>The value of other buildings and structures is net of the value of land underlying them, which is included in land (AN.211) if separately classified.</p>

Classification of assets	Summary
Buildings other than dwellings (AN.1121)	<p>Buildings other than dwellings, including fixtures, facilities and equipment that are integral parts of the associated structures and costs of site clearance and preparation. Public monuments (see AN.1122) identified primarily as non-residential buildings are also included.</p> <p>Public monuments are identifiable because of particular historical, national, regional, local, religious or symbolic significance. They are described as public because they are accessible to the general public, not due to public sector ownership. Visitors are often charged for admission to them. Consumption of fixed capital on new monuments, or on major improvements to existing monuments, should be calculated on the assumption of appropriately long service lives.</p> <p>Other examples of buildings other than dwellings include warehouse and industrial buildings, commercial buildings, buildings for public entertainment, hotels, restaurants, educational buildings, health buildings.</p>
Other structures (AN.1122)	<p>Structures other than residential structures, including the costs of the streets, sewers and site clearance and preparation. Also included are public monuments not classified as dwellings or buildings other than dwellings; shafts, tunnels and other structures associated with mining mineral and energy reserves; and the construction of sea-walls, dykes and flood barriers intended to improve land adjacent but not integral to them.</p> <p>Examples include highways, streets, roads, railways and airfield runways; bridges, elevated highways, tunnels and subways; waterways, harbours, dams and other waterworks; long-distance pipelines, communication and power lines; local pipelines and cables, ancillary works; constructions for mining and manufacture; and constructions for sport and recreation.</p>

Classification of assets	Summary
Land improvements (AN.1123)	<p>The value of actions that lead to major improvements in the quantity, quality or productivity of land, or prevent its deterioration.</p> <p>Examples include the increase in asset value arising from land clearance, land contouring, creation of wells and watering holes.</p> <p>Also includes the costs of transfer of ownership of land, which have yet to be written off.</p>
Machinery and equipment (AN.113)	<p>Transport equipment, information and communication technologies (ICT) equipment, and other machinery and equipment, as defined below, other than that acquired by households for final consumption.</p> <p>Tools that are relatively inexpensive and purchased at a relatively steady rate, such as hand tools, may be excluded. Also excluded are machinery and equipment integral to buildings, which are included in dwellings and non-residential buildings.</p> <p>Uncompleted machinery and equipment is excluded, unless produced for own use, because the ultimate user is deemed to take ownership only on delivery of the asset. Machinery and equipment other than weapons systems acquired for military purposes are included.</p> <p>Machinery and equipment such as vehicles, furniture, kitchen equipment, computers, communications equipment, etc., that are acquired by households for final consumption are not treated as an asset. They are instead included in the memorandum item consumer durables in the balance sheet for households. Houseboats, barges, mobile homes and caravans used by households as principal residences are included in dwellings.</p>
Transport equipment (AN.1131)	<p>Equipment for moving people and objects. Examples include products other than parts included in Classification of Products by Activity 2008 (CPA 2008) division 29: motor vehicles, trailers and semi-trailers, and division 30: other transport equipment.</p>

Classification of assets	Summary
ICT equipment (AN.1132)	Information and communication technologies (ICT) equipment: devices using electronic controls and the electronic components used in the devices. Examples are products within CPA 2008 groups 261: electronic equipment and boards, and 262 computers and peripheral equipment.
Other machinery and equipment (AN.1139)	Machinery and equipment not elsewhere classified. Examples include products other than parts, installation, repair and maintenance services included in CPA 2008 division 26: computer, electronic and optical products (except groups 261 and 262), division 27: electrical equipment, division 28: machinery and equipment n.e.c., division 31: furniture, and division 32: other manufactured goods.
Weapons systems (AN.114)	Vehicles and other equipment such as warships, submarines, military aircraft, tanks, missile carriers and launchers etc. Most single-use weapons they deliver are recorded as military inventories (see AN.124) but others, such as ballistic missiles with highly destructive capability, that are judged to provide ongoing deterrence against aggressors are classified as fixed assets.
Cultivated biological resources (AN.115)	Livestock for breeding, dairy, draught, etc. and vineyards, orchards and other plantations of trees yielding repeat products that are under the direct control, responsibility and management of institutional units, as defined below. Immature cultivated assets are excluded unless produced for own use.
Animal resources yielding repeat products (AN.1151)	Animals whose natural growth and regeneration are under the direct control, responsibility and management of institutional units. They include breeding stocks (including fish and poultry), dairy cattle, draught animals, sheep or other animals used for wool production and animals used for transportation, racing or entertainment.

Classification of assets	Summary
Tree, crop and plant resources yielding repeat products (AN.1152)	Trees (including vines and shrubs) cultivated for products they yield year after year, including those cultivated for fruits and nuts, for sap and resin and for bark and leaf products, whose natural growth and regeneration are under the direct control, responsibility and management of institutional units.
Intellectual property products (AN.117)	Fixed assets that consist of the results of research and development, mineral exploration and evaluation, computer software and databases, entertainment, literary or artistic originals and other intellectual property products, as defined below, intended to be used for more than one year.
Research and development (AN.1171)	<p>Consists of the value of expenditure on creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and use of this stock of knowledge to devise new applications.</p> <p>The value is determined in terms of the economic benefits expected in the future. Unless the value can be reasonably estimated it is, by convention, valued as the sum of the costs, including those of unsuccessful research and development. Research and development that will not provide a benefit to the owner is not classified as an asset and is instead recorded as intermediate consumption.</p>
Mineral exploration and evaluation (AN.1172)	The value of expenditure on exploration for petroleum and natural gas and for non-petroleum deposits and subsequent evaluation of the discoveries made. This expenditure includes pre-licence costs, licence and acquisition costs, appraisal costs and the costs of actual test drilling and boring, as well as the costs of aerial and other surveys, transportation costs, etc, incurred to make it possible to carry out the tests.

Classification of assets	Summary
Computer software (AN.11731)	Computer programs, program descriptions and supporting materials for both systems and applications software. Included are the initial development and subsequent extensions of software as well as acquisition of copies that are classified as AN.11731 assets.
Databases (AN.11732)	Files of data organised to permit resource-effective access and use of the data. For databases created exclusively for own use the valuation is estimated by costs, which should exclude those for the database management system and the acquisition of the data.
Entertainment, literary or artistic originals (AN.1174)	Original films, sound recordings, manuscripts, tapes, models, etc., on which drama performances, radio and television programmes, musical performances, sporting events, literary and artistic output, etc. are recorded or embodied. Included are works produced on own-account. In some cases, such as films, there may be multiple originals.
Other intellectual property products (AN.1179)	New information, specialised knowledge, etc., not elsewhere classified, whose use in production is restricted to the units that have established ownership rights over them or to other units licensed by such units.
Inventories (AN.12)	<p>Produced assets that consist of goods and services that came into existence in the current period or in an earlier period held for sale, use in production or other use at a later date. They consist of materials and supplies, work-in-progress, finished goods and goods for resale, as defined below.</p> <p>Included are all inventories held by government, including, but not limited to, inventories of strategic materials, grains and other commodities of special importance to the nation.</p>
Materials and supplies (AN.121)	Goods that their owners intend to use as intermediate inputs to their own production processes, not to resell.

Classification of assets	Summary
Work-in-progress (AN.122)	<p>Goods and services that are partially complete but that are not usually turned over to other units without further processing or that are not mature, and whose production process will be continued in a subsequent period by the same producer. Excluded are partially complete structures for which the ultimate owner is deemed to have taken ownership, either because the production is for own use or as evidenced by the existence of a contract of sale/purchase.</p> <p>Category AN.122 consists of work-in-progress on cultivated assets and other work-in-progress, as defined below.</p>
Work-in-progress on cultivated biological assets (AN.1221)	Livestock raised for products yielded only on slaughter, such as fowl and fish raised commercially, trees and other vegetation yielding once-only products on destruction and immature cultivated assets yielding repeat products.
Other work-in-progress (AN.1222)	Goods other than cultivated assets and services that have been partially processed, fabricated or assembled by the producer but that are not usually sold, shipped or turned over to others without further processing.
Finished goods (AN.123)	Goods that are ready for sale or shipment by the producer.
Military inventories (AN.124)	Ammunition, missiles, rockets, bombs and other single-use military items delivered by weapons or weapons systems. Excludes some types of missiles with highly destructive capability (see AN.114).
Goods for resale (AN.125)	Goods acquired by enterprises, such as wholesalers and retailers, for the purpose of reselling them without further processing (that is, not transformed other than by presenting them in ways that are attractive to the customer).

Classification of assets	Summary
Valuables (AN.13)	Produced assets that are not used primarily for production or consumption, that are expected to appreciate or at least not to decline in real value, that do not deteriorate over time under normal conditions and that are acquired and held primarily as stores of value. Valuables consist of precious metals and stones, antiques and other art objects and other valuables, as defined below.
Precious metals and stones (AN.131)	Precious metals and stones that are not held by enterprises for use as inputs to processes of production.
Antiques and other art objects (AN.132)	Paintings, sculptures, etc., recognised as works of art and antiques.
Other valuables (AN.133)	Valuables not elsewhere classified, such as collections and jewellery of significant value fashioned out of precious stones and metals.
Non-produced non-financial assets (AN.2)	Non-financial assets that come into existence other than through processes of production. Non-produced assets consist of natural resources, contracts, leases and licences, and goodwill and marketing assets, as defined below.
Natural resources (AN.21)	Non-produced assets that naturally occur and over which ownership may be enforced and transferred. Environmental assets over which ownership rights have not, or cannot, be enforced, such as open seas or air, are excluded. Consists of land, mineral and energy reserves, non-cultivated biological resources, water resources and other natural resources, as defined below.
Land (AN.211)	The ground, including the soil covering and any associated surface waters, over which ownership rights are enforced. Excluded are any buildings or other structures situated on it or running through it, cultivated crops, trees and animals; subsoil assets, non-cultivated biological resources and water resources below the ground.

Classification of assets	Summary
Mineral and energy reserves (AN.212)	Proven reserves of mineral deposits located on or below the earth's surface that are economically exploitable, given current technology and relative prices. Ownership rights to the subsoil assets are usually separable from those to the land itself. Category AN.212 consists of known reserves of coal, oil, gas or other fuels, metallic ores, and non-metallic minerals.
Non-cultivated biological resources (AN.213)	Animal, tree, crop and plant resources that yield both once-only and repeat products over which ownership rights are enforced but for which natural growth and/or regeneration is not under the direct control, responsibility and management of institutional units. Examples are virgin forests and fisheries within the territory of the country. Only those resources that are currently, or are likely soon to be, exploitable for economic purposes should be included.
Water resources (AN.214)	Aquifers and other groundwater resources to the extent that their scarcity leads to the enforcement of ownership and/or use rights, market valuation and some measure of economic control.
Other natural resources (AN.215)	This covers the electromagnetic radio spectrum (AN.2151) and other natural resources (AN.2159) not elsewhere classified.
Radio spectra (AN.2151)	The electromagnetic spectrum. The leases or licences to use the spectrum are classified elsewhere (AN.222) if they meet the definition to be an asset.
Other (AN.2159)	Other natural resources not elsewhere classified.

Classification of assets	Summary
Contracts, leases and licences (AN.22)	<p>Contractual agreements to undertake activities where the agreement confers economic benefits to the holder in excess of the fees payable and the holder can realise those benefits legally and practically.</p> <p>The asset recorded in category AN.22 represents the realisable potential holding gain value when the market price for the use of an asset or provision of a service exceeds the price prevailing in the contract, lease or licence, or the price that would be achieved in the absence of a contract, lease or licence. Contracts, leases and licences consist of assets that may arise from marketable operating leases, permits to use natural resources, permits to undertake specific activities, and entitlements to future goods and services on an exclusive basis.</p>
Marketable operating leases (AN.221)	<p>Third-party property rights relating to non-financial assets other than natural resources, where the lease confers economic benefits to the holder in excess of the fees payable and the holder can realise those benefits legally and practically, through transferring them.</p> <p>The asset recorded in category AN.221 is the value to the holder of transferring the rights to use the underlying asset, i.e., the excess of the transfer price realisable over the amount payable to the permit issuer.</p> <p>Examples include where a tenant in a building has a fixed rental but the market rate of the rental is higher. If the tenant is able to realise the price difference through subletting, then the rights to realise the value represent a marketable operating lease asset.</p>

Classification of assets	Summary
Permits to use natural resources (AN.222)	<p>Licences, permits and leases to use natural resources for a limited time that does not fully use up the economic value of the asset, where the agreement confers economic benefits to the holder in excess of the fees payable and the holder can realise those benefits legally and practically, for example through transferring them.</p> <p>The natural resource continues to be recorded on the balance sheet of the owner and a separate asset, representing the value to the holder of transferring the rights to use the resource, is recognised as a permit to use natural resources. The asset recorded is the value to the holder of transferring the rights to use, i.e., the excess of the transfer price above the amount payable to the permit issuer.</p> <p>Examples include where a tenant of land has a fixed rent but the market rate of the rent is higher. If the tenant is able to realise the price difference through subletting, then the rights to realise the value represents an asset.</p>
Permits to undertake specific activities (AN.223)	<p>Transferable permits, other than to use natural resources or use an asset belonging to the permit issuer, that restrict the number of units engaging in an activity and allow the holders to earn near-monopoly profits.</p> <p>The asset recorded is the value to the holder of transferring the rights to use, i.e., the excess of the transfer price above the amount payable to the permit issuer. The permit holder must legally and in practice be able to transfer the permit rights to a third party.</p>

Classification of assets	Summary
<p>Entitlement to future goods and services on an exclusive basis (AN.224)</p>	<p>Transferable contractual rights to the exclusive use of goods or services.</p> <p>One party has a contract to purchase goods or services at a fixed price from a second party and is, legally and in practice, able to transfer the obligation of the second party to a third party.</p> <p>Examples include the transferable value of a football player under contract to a football club and the transferable value of exclusive rights to publishing literary works or musical performances.</p> <p>The asset recorded in AN.224 is the value to the holder of transferring the entitlement.</p>
<p>Purchases less sales of goodwill and marketing assets (AN.23)</p>	<p>The difference between the value paid for an institutional unit as a going concern and the sum of its assets, less the sum of its liabilities, for each item that has been separately identified and valued. The value of goodwill, therefore, includes anything of long-term benefit that has not been separately identified as an asset, as well as the value of the fact that the group of assets is used jointly and is not simply a collection of separable assets. Category AN.23 also includes identified marketing assets, such as brand names, mastheads, trademarks, logos and domain names, when sold individually and separately from a whole corporation.</p>

Classification of assets	Summary
Financial assets and liabilities (AF)	<p>Financial assets are economic assets comprising financial claims, equity and the gold bullion component of monetary gold. Financial assets are stores of value representing benefits accruing to the economic owner by holding them over a period of time. They are means of carrying forward values from one accounting period to another. Benefits or series of benefits are exchanged by means of payment.</p> <p>Means of payment consist of monetary gold, special drawing rights, currency and transferable deposits.</p> <p>Financial claims, also called financial instruments, are financial assets that have corresponding liabilities.</p> <p>Liabilities are established when debtors are obliged to provide payments or series of payments to creditors.</p>
Monetary gold and SDRs (AF.1)	The financial assets classified in this category have counterpart liabilities in the system except the gold bullion component of monetary gold.
Monetary gold (AF.11)	Gold for which monetary authorities, or others who are subject to the effective control of the monetary authorities, have title and which is held as a reserve asset. It includes gold bullion (including monetary gold held in allocated gold accounts) and unallocated gold accounts with non-residents that give title to claim the delivery of gold.
Special drawing rights (SDRs) (AF.12)	International reserve assets created by the International Monetary Fund (IMF) and allocated to its members to supplement existing reserve assets.
Currency and deposits (AF.2)	Currency in circulation and deposits, both in national and foreign currencies.
Currency (AF.21)	Currency is notes and coins that are issued or authorised by monetary authorities.

Classification of assets	Summary
Transferable deposits (AF.22)	Deposits exchangeable for currency on demand at par and which are directly usable for making payments by cheque, draft, giro order, direct debit/credit, or other direct payment facility, without penalty or restriction.
Inter-bank positions (AF.221)	Transferable deposits between banks.
Other transferable deposits (AF.229)	Transferable deposits other than inter-bank positions.
Other deposits (AF.29)	Other deposits are deposits other than transferable deposits. Other deposits cannot be used to make payments except on maturity or after an agreed period of notice, and they are not exchangeable for currency or for transferable deposits without some significant restriction or penalty.
Debt securities (AF.3)	Negotiable financial instruments serving as evidence of debt. Negotiability refers to the fact that its legal ownership is readily capable of being transferred from one owner to another by delivery or endorsement. To qualify as negotiable, a debt security must be designed for potential trading on an organised exchange or in the over-the-counter market, though demonstration of actual trading is not required.
Short-term debt securities (AF.31)	Debt securities, the original maturity of which is one year or less and debt securities repayable on demand of the creditor.
Long-term debt securities (AF.32)	Debt securities, the original maturity of which is more than one year or of no stated maturity.
Loans (AF.4)	Financial assets created when creditors lend funds to debtors, either directly or through brokers, which are either evidenced by non-negotiable documents or not evidenced by documents.

Classification of assets	Summary
Short-term loans (AF.41)	Loans the original maturity of which is one year or less and loans repayable on demand of the creditor.
Long-term loans (AF.42)	Loans the original maturity of which is more than one year or no stated maturity.
Equity and investment fund shares or units (AF.5)	Financial assets that represent property rights on corporations or quasi-corporations. Such financial assets generally entitle the holders to a share in the profits of the corporations or quasi-corporations, and to a share in their net assets in the event of liquidation.
Equity (AF.51)	Financial assets that acknowledge claims on the residual value of a corporation or quasi-corporation, after the claims of all creditors have been met.
Listed shares (AF.511)	Equity securities listed on an exchange. Such an exchange may be a recognised stock exchange or any other form of a secondary market. Listed shares are also referred to as quoted shares. The existence of quoted prices of shares listed on an exchange means that current market prices are usually readily available.
Unlisted shares (AF.512)	Equity securities with prices that are not listed on a recognised stock exchange or other form of secondary market.
Other equity (AF.519)	All forms of equity other than those classified in subcategories AF.511 and AF.512.
Investment funds shares/units (AF.52)	Shares, if a corporate structure is used, or units, if a trust structure is used. They are issued by investment funds, which are collective investment undertakings through which investors pool funds for investment in financial and/or non-financial assets.

Classification of assets	Summary
Money market fund shares/units (AF.521)	Money market fund shares or units are issued by money market funds which are investment funds that invest only or primarily in short-term debt securities such as treasury bills, certificates of deposit, and commercial paper and also in long-term debt securities with a residual short-term maturity. Money market fund shares or units may be transferable and are often regarded as close substitutes for deposits.
Non-MMF investment fund shares/units (AF.522)	Investment fund shares or units other than money market funds or units represent a claim on a portion of the value of an investment fund other than a money market fund. Investment fund shares or units other than money market fund shares or units are issued by investment funds that invest in a range of assets including debt securities, equity, commodity-linked investments, real estate, shares in other investment funds and structured assets.
Insurance, pension and standardised guarantee schemes (AF.6)	Financial assets of policy holders or beneficiaries and liabilities of insurers, pension funds, or issuers of standardised guarantees.
Non-life insurance technical reserves (AF.61)	Financial assets representing policy holders' claims against non-life insurance companies in the form of unearned premiums paid and claims incurred.
Life insurance and annuity entitlements (AF.62)	Financial assets representing policy and annuity holders' claims against the technical reserves of corporations providing life insurance.
Pension entitlements (AF.63)	Financial assets that both existing and future pensioners hold against either their pension manager, i.e. their employer(s), a scheme designated by the employer(s) to pay pensions as part of a compensation agreement between the employer and employee or a life (or a non-life) insurer.

Classification of assets	Summary
Claims of pension funds on pension managers (AF.64)	Financial assets representing the claims of pension funds on their pension manager for any deficit, and financial assets representing the claims of the pension manager on the pension funds for any excess, e.g. where the investment income exceeds the increase in entitlements and the difference is payable to the pension manager.
Entitlements to non-pension benefits (AF.65)	The excess of net contributions over benefits as an increase in the liability of the insurance scheme towards the beneficiaries.
Provisions for calls under standardised guarantees (AF.66)	Financial assets that holders of standardised guarantees have against corporations providing standardised guarantees.
Financial derivatives and employee stock options (AF.7)	Financial assets linked to a financial asset, a non-financial asset or an index, through which specific financial risks can be traded in financial markets in their own right.

Classification of assets	Summary
<p>Financial derivatives (AF.71)</p>	<p>Financial assets such as options, forwards and credit derivatives.</p> <p>Options (AF.711), both tradable and over-the-counter (OTC), are contracts which give the holder of the option the right, but not the obligation, to purchase from (a call option) or to sell to (a put option) the issuer of the option (the option writer) a financial asset or a non-financial asset (the underlying instrument) at a predetermined price (the strike price) within a given time span (American option) or on a given date (European option). Based on these basic strategies many combined strategies have been developed like bear call/put spreads, bull call/put spreads or butterfly options spreads. From these types of options exotic options have been derived with complex payment structures.</p> <p>Forwards (AF.712) are unconditional financial contracts under which two counterparties agree to exchange a specified quantity of an underlying asset (financial or non-financial) at an agreed contract price (the strike price) on a specified date.</p> <p>Credit derivatives take the form of forward-type and option-type contracts whose primary purpose is to trade credit risk. They are designed for trading in loan and security default risk. Like other financial derivatives they are frequently drawn up under standard master legal agreements and involve collateral and margining procedures, which allow for a means to make a market valuation. The transfer of credit risks takes place between the risk seller (security taker) and the risk buyer (security seller) based on a premium. In the event of a credit default the risk buyer pays cash to the risk seller.</p>
<p>Employee stock options (AF.72)</p>	<p>Financial assets in the form of agreements made on a given date (the 'grant' date) under which an employee may purchase a given number of shares of the employer's stock at a stated price (the 'strike' price) either at a stated time (the 'vesting' date) or within a period of time (the 'exercise' period) immediately following the vesting date.</p>

Classification of assets	Summary
Other accounts receivable/payable (AF.8)	Financial assets that are created as a counterpart of a financial or a non-financial transaction in cases where there is a timing difference between this transaction and the corresponding payment.
Trade credits and advances (AF.81)	Financial assets arising from the direct extension of credit by suppliers of goods and services to their customers and advances for work that is in progress or is yet to be undertaken and in the form of prepayment by customers for goods and services not yet provided.
Other accounts receivable/payable, excluding trade credits and advances (AF.89)	Financial assets which arise from timing differences between distributive transactions or financial transactions on the secondary market and the corresponding payment.
Memorandum items	The system has three memorandum items that show assets not separately identified in the central framework that are of more specialised analytic interest.
Consumer durables (AN.m)	Durable goods acquired by households for final consumption (i.e., items that are not used by households as stores of value or by unincorporated enterprises owned by households for purposes of production).
Foreign direct investment (AF.m1)	Foreign direct investment involves a long-term relationship reflecting a lasting interest by a resident institutional unit in one economy (the 'direct investor') in an institutional unit resident in another economy. The direct investor's purpose is to exert a significant degree of influence on the management of the unit they have invested in.
Non-performing loans (AF.m2)	A loan is non-performing when payments of interest or principal are at least 90 days overdue, or interest payments equal to 90 days or more have been capitalised, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons (such as a debtor filing for bankruptcy) to doubt that payments will be made in full.

ANNEX 7.2 — A MAP OF ENTRIES FROM OPENING BALANCE SHEET TO CLOSING BALANCE SHEET

Annex 7.2 presents a map from the opening balance sheet to the closing balance sheet, showing the detail for each asset category with regard to the different ways in which the balance sheet value changes: through transactions or other changes in the volume of assets and holding gains and losses.

Classification of assets, liabilities and net worth	IV.1 Opening balance sheet	III.1 and III.2 Transactions	III.3.1 Other changes in volume	III.3.2 Holding gains and losses		IV.3 Closing balance sheet
				III.3.2.1 Neutral holding gains and losses	III.3.2.2 Real holding gains and losses	
Non-financial assets	AN	P.5, NP	K.1, K.2, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN
Produced non-financial assets	AN.1	P.5	K.1, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.1
Fixed assets ¹	AN.11	P.51g, P.51c	K.1, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.11
Dwellings	AN.111	P.51g, P.51c	K.1, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.111

¹ Memorandum item: AN.m: consumer durables.

Classification of assets, liabilities and net worth	IV.1 Opening balance sheet	III.1 and III.2 Transactions	III.3.1 Other changes in volume	III.3.2 Holding gains and losses		IV.3 Closing balance sheet
				III.3.2.1 Neutral holding gains and losses	III.3.2.2 Real holding gains and losses	
Other buildings and structures	AN.112	P.51g, P.51c	K.1, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.112
Machinery and equipment	AN.113	P.51g, P.51c	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.113
Weapons systems	AN.114	P.51g, P.51c	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.114
Cultivated biological resources	AN.115	P.51g, P.51c	K.1, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.115
Intellectual property products	AN.117	P.51g, P.51c	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.117
Inventories by type of inventory	AN.12	P.52	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.12
Valuables	AN.13	P.53	K.1, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.13

Classification of assets, liabilities and net worth	IV.1 Opening balance sheet	III.1 and III.2 Transactions	III.3.1 Other changes in volume	III.3.2 Holding gains and losses		IV.3 Closing balance sheet
				III.3.2.1 Neutral holding gains and losses	III.3.2.2 Real holding gains and losses	
Non-produced non-financial assets	AN.2	NP	K.1, K.21, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.2
Natural resources	AN.21	NP.1	K.1, K.21, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.21
Land	AN.211	NP.1	K.1, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.211
Mineral and energy reserves	AN.212	NP.1	K.1, K.21, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.212
Non-cultivated biological resources	AN.213	NP.1	K.1, K.21, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.213

Classification of assets, liabilities and net worth	IV.1 Opening balance sheet	III.1 and III.2 Transactions	III.3.1 Other changes in volume	III.3.2 Holding gains and losses		IV.3 Closing balance sheet
				III.3.2.1 Neutral holding gains and losses	III.3.2.2 Real holding gains and losses	
Water resources	AN.214	NP.1	K.1, K.21, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.214
Other natural resources	AN.215	NP.1	K.1, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.215
Radio spectra	AN.2151	NP.1	K.1, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.2151
Other	AN.2159	NP.1	K.1, K.21, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.2159
Contracts, leases and licences	AN.22	NP.2	K.1, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.22

Classification of assets, liabilities and net worth	IV.1 Opening balance sheet	III.1 and III.2 Transactions	III.3.1 Other changes in volume	III.3.2 Holding gains and losses		IV.3 Closing balance sheet
				III.3.2.1 Neutral holding gains and losses	III.3.2.2 Real holding gains and losses	
Purchases less sales of goodwill and marketing assets	AN.23	NP.3	K.1, K.22, K.3, K.4, K.5, K.61, K.62	K.71	K.72	AN.23
Financial assets/liabilities ¹	AF	F	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF
Monetary gold and SDRs	AF.1	F.1	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF.1
Currency and deposits	AF.2	F.2	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF.2
Debt securities	AF.3	F.3	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF.3
Loans	AF.4	F.4	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF.4

¹ Memorandum items: AF.m1: foreign direct investment; AF.m2: non-performing loans.

Classification of assets, liabilities and net worth	IV.1 Opening balance sheet	III.1 and III.2 Transactions	III.3.1 Other changes in volume	III.3.2 Holding gains and losses		IV.3 Closing balance sheet
				III.3.2.1 Neutral holding gains and losses	III.3.2.2 Real holding gains and losses	
Equity and investment fund shares/units	AF.5	F.5	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF.5
Insurance, pension and standardised guarantees schemes	AF.6	F.6	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF.6
Financial derivatives and employee stock options	AF.7	F.7	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF.7
Other accounts receivable/payable	AF.8	F.8	K.3, K.4, K.5, K.61, K.62	K.71	K.72	AF.8
Net worth	B.90	B.101	B.102	B.1031	B.1032	B.90

Balancing items	
B.10	Changes in net worth
B.101	Changes in net worth due to saving and capital transfers
B.102	Changes in net worth due to other changes in volume of assets
B.103	Changes in net worth due to nominal holding gains and losses
B.1031	Changes in net worth due to neutral holding gains and losses
B.1032	Changes in net worth due to real holding gains and losses
B.90	Net worth
Transactions in financial assets and liabilities	
F	Transactions in financial assets and liabilities
F.1	Monetary gold and SDRs
F.2	Currency and deposits
F.3	Debt securities
F.4	Loans
F.5	Equity and investment fund shares/units
F.6	Insurance, pension and standardised guarantees
F.7	Financial derivatives and employee stock options
F.8	Other accounts receivable/payable

Transactions in goods and services	
P.5	Gross capital formation
P.51g	Gross fixed capital formation
P.51c	Consumption of fixed capital (–)
P.511	Acquisitions less disposals of fixed assets
P.5111	Acquisitions of new fixed assets
P.5112	Acquisitions of existing fixed assets
P.5113	Disposals of existing fixed assets
P.512	Costs of ownership transfer on non-produced assets
P.52	Changes in inventories
P.53	Acquisitions less disposals of valuables

Other accumulation entries	
NP	Acquisitions less disposals of non-produced assets
NP.1	Acquisitions less disposals of natural resources
NP.2	Acquisitions less disposals of contracts, leases and licences
NP.3	Purchases less sales of goodwill and marketing assets
K.1	Economic appearance of assets
K.2	Economic disappearance of non-produced assets
K.21	Depletion of natural resources
K.22	Other economic disappearance of non-produced assets
K.3	Catastrophic losses
K.4	Uncompensated seizures
K.5	Other changes in volume n.e.c.
K.6	Changes in classification
K.61	Changes in sector classification and structure
K.62	Changes in classification of assets and liabilities
K.7	Nominal holding gains and losses
K.71	Neutral holding gains and losses
K.72	Real holding gains and losses