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Subject:	REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the European system of national and regional accounts in the European Union (ESA 2010) - (Annex A - Chapter 6) **COMMON GUIDELINES** **Consultation deadline for Croatia: 17.4.2013**

CHAPTER 6

OTHER FLOWS

INTRODUCTION

6.01 Other flows are changes in the value of assets and liabilities that do not result from transactions. The reason that these flows are not transactions is linked to their not meeting one or more of the characteristics of transactions, for example, the institutional units involved may not be acting by mutual agreement, as in the case of an uncompensated seizure of assets, or the change may be due to a natural event such as an earthquake rather than a purely economic phenomenon. Alternatively, the value of an asset expressed in foreign currency may change as a result of an exchange rate change.

OTHER CHANGES IN ASSETS AND LIABILITIES

6.02 *Definition*: other changes in assets and liabilities are economic flows, other than those that occur through transactions recorded in the capital and financial accounts, that change the value of assets and liabilities.

Two types of other changes are distinguished. The first consists of changes in the volume of assets and liabilities. The second is through nominal holding gains and losses.

Other changes in the volume of assets and liabilities (K.1 to K.6)

6.03 In the capital account, produced and non-produced assets may enter and leave a sector through acquisitions and disposals of assets, consumption of fixed capital or additions to, withdrawals from and recurrent losses from inventories. In the financial account, financial assets and liabilities enter the system when a debtor accepts a future obligation to pay a creditor, and leave the system when this obligation has been fulfilled.

6.04 Other changes in the volume of assets and liabilities include flows that allow assets and liabilities to enter or leave the accounts other than by transactions — for example, entrances and exits of the discovery, depletion and degradation of natural assets.

Other changes in the volume of assets and liabilities also include the effect of exceptional, unanticipated external events that are not economic in nature, and changes resulting from reclassification or restructuring of institutional units or assets and liabilities.

6.05 Other changes in the volume of assets and liabilities cover six categories:

(a) economic appearance of assets (K.1);

(b) economic disappearance of non-produced assets (K.2);

(c) catastrophic losses (K.3);

(d) uncompensated seizures (K.4);

(e) other changes in volume not elsewhere classified (K.5); and

(f) changes in classification (K.6).

Economic appearance of assets (K.1)

6.06 Economic appearance of assets is the increase in the volume of produced and non-produced assets that is not the result of production. Included are:

(a) historic monuments, e.g. those structures or sites with special archaeological, historical or cultural significance, when their value is first recognised in the balance sheet;

(b) valuables, such as precious stones, antiques and art objects, when the high value or artistic significance of an object not already recorded in the balance sheet is first recognised;

(c) discoveries of exploitable subsoil resources such as proven reserves of coal, oil, natural gas, metallic or non-metallic minerals. This also covers the upwards reappraisals of the value of reserves when exploitation becomes economically viable as a result of technological progress or relative price changes;

(d) natural growth of uncultivated biological resources, such as natural forests and the stock of fish, where the growth in such economic assets is not under the direct control, responsibility and management of an institutional unit and thus not treated as production;

(e) transfers of other natural resources to economic activity: natural resources that change status to qualify as economic assets. Examples include the initial exploitation of virgin forests, transfer of land from a wild or waste state to land that can be put to economic use, land reclamation and initial charging for extraction of water. The natural resources may also acquire value due to economic activity in the vicinity, for example, land may be recognised as valuable because of a nearby development or creation of an access road. The cost of land improvements is recorded as gross fixed capital formation but any excess in the increase of value of the land over the value of the land improvements is recorded as economic appearance;

(f) quality changes in natural assets due to changes in economic uses. Changes in quality are recorded as changes in volume. The quality changes recorded here occur as the counterpart of the changes in economic use that are shown as changes in classification (see paragraph 6.21). For example, the reclassification of cultivated land to land underlying buildings may result in an increase in value as well as a change in classification. In this case the asset is already within the asset boundary and it is the change in quality of the asset due to the change of economic use that is regarded as the appearance of an asset. Another example is the increase in value of dairy cattle when sent to slaughter earlier than expected;

(g) initial appearance of value from granting transferable contracts, leases, licences or permits. The value in such contracts, leases, licences or permits represents an asset when the value of the entitlement they give exceeds the fees payable and the holder can realise this by transferring them to others; and

(h) changes in the value of goodwill and marketing assets, which materialises when institutional units are sold at prices that exceed their own funds (see paragraph 7.07); the excess of purchase price over own funds is referred to as purchased goodwill and marketing assets. Goodwill not evidenced by a sale/purchase is not considered as an economic asset.

Economic disappearance of non-produced assets (K.2)

6.07 Economic disappearance of non-produced non-financial assets includes:

(a) depletion of natural resources, which covers the reduction of the value of deposits of subsoil assets, and the depletion of uncultivated biological resources included in the asset boundary (see point (e) of paragraph 6.06) as a result of harvesting, forest clearance or use beyond sustainable levels of extraction. Many of the possible entries here are the opposite of the entries described in points (c) to (f) of paragraph 6.06;

(b) other economic disappearance of non-produced assets, which covers:

(i) the writing-down of the value of purchased goodwill and marketing assets; and

(ii) the expiration of the advantages given by transferable contracts, leases, licences and permits.

Catastrophic losses (K.3)

6.08 Catastrophic losses recorded as other changes in volume result from large-scale, discrete and recognisable events that destroy economic assets.

6.09 Such events include major earthquakes, volcanic eruptions, tidal waves, exceptionally severe hurricanes, drought and other natural disasters; acts of war, riots and other political events; and technological accidents such as major toxic spills or release of radioactive particles into the air. Examples of such events are:

(a) deterioration in the quality of land caused by abnormal flooding or wind damage;

(b) destruction of cultivated assets by drought or outbreak of disease;

(c) destruction of buildings, equipment or valuables in forest fires or earthquakes; and

(d) accidental destruction of currency or bearer securities as a result of natural catastrophes or political events, or destruction of evidence of ownership.

Uncompensated seizures (K.4)

6.10 Uncompensated seizures occur when governments or other institutional units take possession of the assets of other institutional units, including non-resident units, without full compensation, for reasons other than the payment of taxes, fines or similar levies. The seizure of property related to criminal activity is considered to be a fine. The uncompensated part of such unilateral seizures is recorded as other change in volume.

6.11 Foreclosures and repossessions of assets by creditors are not recorded as uncompensated seizures because, either explicitly or by general understanding, the agreement between the parties provides for this avenue of recourse.

Other changes in volume not elsewhere classified (K.5)

6.12 Other changes in volume not elsewhere classified (K.5) are the effects of unexpected events on the economic value of assets.

6.13 Examples of other changes in volume not elsewhere classified of non-financial assets include:

(a) unforeseen obsolescence. Assumptions used in deriving consumption of fixed capital will not cover unforeseen obsolescence in fixed assets. The amount included for their expected obsolescence may fall short of the actual obsolescence. Entries must, therefore, be made for the decline in the value of the fixed assets resulting from, for example, the introduction of improved technology;

(b) differences between allowances included in consumption of fixed capital for normal damage and actual losses. Consumption of fixed capital does not cover unforeseen damage, and the amount estimated for normally expected damage may fall short or exceed the actual damage. Adjustments must, therefore, be made for the unforeseen decline or increase in the value of the fixed assets due to such events. The losses adjusted for here are not sufficiently large to be considered catastrophic;

(c) degradation of fixed assets not accounted for in consumption of fixed capital. This covers the decline in the value of fixed assets from, for example, the unforeseen effects of acidity in air and rain on building surfaces or vehicle bodies;

(d) abandonment of production facilities before completion or being brought into economic use;

(e) exceptional losses in inventories (e.g. from fire damage, robberies, or insect infestation of grain stores) that are not considered as catastrophic losses.

6.14 Examples of other changes in volume not elsewhere classified concerning financial assets and liabilities include:

(a) losses of currency or bearer securities for reasons (such as fire damage or theft) that are not considered catastrophic, and currency withdrawn from circulation that is no longer exchangeable, excluding amounts where there has been a change in classification from currency to valuables;

(b) changes in financial claims resulting from write-offs. These are excluded from the financial account because there is no mutual agreement between the parties. Specifically, a creditor may decide that a financial claim can no longer be collected, for example because of bankruptcy or liquidation, and removes the claim from their balance sheet. The creditor's recognition that the claim is uncollectable is recorded as other changes in the volume of assets. The corresponding liability must also be removed from the balance sheet of the debtor to maintain balance in the accounts of the total economy. An exception to this general principle is made for taxes and social contributions payable to general government (see point (d) of paragraph 6.15);

(c) changes of life insurance, annuity entitlements and pension entitlements due to changes in demographic assumptions;

(d) provisions for calls under standardised guarantee schemes when the expected calls exceed the expected receipts and recoveries.

6.15 Other changes in volume not elsewhere classified exclude:

(a) changes in financial claims resulting from write-downs that reflect the actual market values of tradable financial claims: these are accounted for in the revaluation account;

(b) cancellation of debt by mutual agreement between debtor and creditor (debt cancellation or debt forgiveness): this is recorded as a transaction between the creditor and the debtor (see point (f) of paragraph 4.165);

(c) debt repudiation: the unilateral cancellation of a liability by a debtor is not recognised;

(d) taxes and social contributions payable to general government that general government unilaterally recognises as unlikely to be collected (see paragraphs 1.57, 4.27 and 4.82).

Changes in classification (K.6)

6.16 Changes in classification comprise changes in sector classification and institutional unit structure, and changes in classification of assets and liabilities.

Changes in sector classification and institutional unit structure (K.61)

6.17 Reclassifying an institutional unit from one sector to another transfers its entire balance sheet, e.g. if an institutional unit classified in the households sector becomes financially distinct from its owner, it may qualify as a quasi-corporation and be reclassified in the non-financial corporations sector.

6.18 Changes in sector classification transfer the entire balance sheet from one sector or subsector to another. The transfer may result in consolidation or deconsolidation of assets and liabilities, which is also included in this category.

6.19 Changes in structure of institutional units cover appearance and disappearance of certain financial assets and liabilities arising from corporate restructuring. When a corporation disappears as an independent legal entity because it is absorbed by one or more corporations, all financial assets and liabilities, including shares and other equity that existed between that corporation and those that absorbed it, disappear from the system. However, the purchase of shares and other equity of a corporation as part of a merger is recorded as a financial transaction between the purchasing corporation and its previous owners. The replacement of existing shares by shares in the purchasing corporation, or a new corporation, is recorded as redemptions of shares accompanied by the issue of new shares. Financial assets and liabilities that existed between the absorbed corporation and third parties remain unchanged and pass to the absorbing corporation.

6.20 Symmetrically, when a corporation is legally split up into two or more institutional units, the appearance of financial assets and liabilities is recorded as changes in sector classification and structure.

Changes in classification of assets and liabilities (K.62)

6.21 Changes in classification of assets and liabilities occur where assets and liabilities appear under one category in the opening balance sheet and another in the closing balance sheet. Examples include changes in land use and conversions of dwellings to commercial use or vice versa. In the case of land, both entries (a negative entry for the old category, a positive one for the new category) are made with the same value. Any change in land value resulting from this change in use is recorded as a volume change rather than a revaluation and, hence, as an economic appearance of assets or economic disappearance of non-produced assets.

6.22 Appearance or disappearance of monetary gold held in the form of gold bullion cannot be created by a financial transaction but enters or leaves the system through other changes in the volume of assets.

6.23 A special case of a change in classification occurs for gold bullion. Gold bullion can be a financial asset known as monetary gold, or a valuable known as non-monetary gold, depending on the holder and the motivation for the holding. Monetisation is the change in the classification of gold bullion from non-monetary to monetary. Demonetisation is the change in the classification of gold bullion from monetary to non-monetary.

6.24 Operations in relation to gold bullion are recorded as follows.

(a) When a monetary authority sells gold bullion that is a reserve asset to a non-resident institutional unit that is not a monetary authority or to a resident institutional unit, a transaction in non-monetary gold is recorded. Demonetisation of gold as a change in the classification of gold bullion from monetary to non-monetary occurs immediately before the transaction and is recorded as other changes in the volume of assets of the monetary authority.

(b) When a monetary authority purchases gold bullion from a non-resident or a resident institutional unit for its reserve assets and that gold is not already a reserve asset, a transaction in non-monetary gold is recorded. Monetisation of gold as a change in the classification of gold bullion from non-monetary to monetary occurs immediately after the transaction and is recorded as other changes in the volume of assets of the monetary authority.

(c) When buyer and seller are monetary authorities of different economies and both hold the gold bullion as part of their reserve assets, there is a transaction in gold bullion, which is recorded in the financial account.

(d) In other cases, gold bullion is non-monetary at all times and transactions in non-monetary gold are recorded.

The above cases relating to a monetary authority also apply to an international financial organisation.

6.25 Changes in classification of assets and liabilities do not include the conversion of debt securities into shares, which is recorded as two financial transactions.

Nominal holding gains and losses (K.7)

6.26 The revaluation account records the nominal holding gains and losses accruing during an accounting period to the owners of assets and liabilities, reflecting changes in the level and structure of their prices. Nominal holding gains and losses (K.7) comprise neutral holding gains and losses (K.71) and real holding gains and losses (K.72).

6.27 *Definition*: the nominal holding gains and losses (K.7) that relate to an asset are the increases or decreases in the asset's value accruing to its economic owner as a result of increases or decreases in its price. The nominal holding gains and losses that relate to a financial liability are the decreases or increases in the liability's valuation as a result of decreases or increases to its price.

6.28 A holding gain arises from an increase in the value of an asset or from a decrease in the value of a liability. A holding loss arises from a decrease in the value of an asset or an increase in the value of a liability.

6.29 The nominal holding gains and losses recorded in the revaluation account are those accruing on assets or liabilities, whether realised or not. A holding gain is said to be realised when the asset in question is sold, redeemed, used or otherwise disposed of, or the liability repaid. An unrealised gain is one accruing on an asset that is still owned or a liability that is still outstanding at the end of the accounting period. A realised gain is usually understood as the gain realised over the entire period over which the asset is owned or liability outstanding whether this period coincides with the accounting period or not. However, as holding gains and losses are recorded on an accruals basis, the distinction between realised and unrealised gains and losses, although useful for some purposes, does not appear in the classifications and accounts.

6.30 Holding gains and losses include the gains and losses on all kinds of non-financial assets, financial assets and liabilities. Thus, holding gains and losses on inventories of all kinds of goods held by producers, including work-in-progress, are also covered.

6.31 Nominal holding gains and losses may accrue on assets held or liabilities incurred for any length of time during the accounting period and not merely on assets or liabilities that appear in the opening and/or closing balance sheets. The nominal holding gains and losses accruing to the owner of a particular asset or liability, or given quantity of a specific type of asset or liability, between two points of time is defined as 'the current value of that asset or liability at the later point of time minus the current value of that asset or liability at the earlier point of time', assuming that the asset or liability itself does not change, qualitatively or quantitatively, during that time.

6.32 The nominal holding gain (G) accruing on a given quantity q of some asset between times o and t can be expressed as follows: $G = (p_t - p_o) \times q$,

where p_o and p_t are the prices of the asset at times o and t respectively. For financial assets and liabilities with fixed current values in the national currency, p_o and p_t are unity by definition and the nominal holding gain are always zero.

6.33 To calculate nominal holding gains and losses, acquisitions and disposals of assets must be valued in the same way they are recorded in the capital and financial accounts and stocks of assets must be valued in the same way they are recorded in the balance sheet. In the case of fixed assets, the value of an acquisition is the amount paid by the purchaser to the producer, or seller, plus the associated costs of ownership transfer incurred by the purchaser. The value of a disposal of an existing fixed asset is the amount received by the seller from the purchaser minus the costs of ownership transfer incurred by the seller.

6.34 An exception to the case described in paragraph 6.33 is where the price paid differs from the market value of the asset. In this case, a capital transfer is imputed for the difference between the price paid and the market value and the acquisition is recorded at market value. This particularly occurs in transactions involving non-market sectors.

6.35 Four different situations leading to nominal holding gains and losses are distinguished:

(a) an asset held throughout the accounting period: the nominal holding gain accruing during the accounting period is equal to the closing balance sheet value minus the opening balance sheet value minus any consumption of fixed capital in the accounting period. These values are the estimated values of the assets if they were to be acquired at the times the balance sheets are drawn up. The nominal gain is unrealised;

(b) an asset held at the beginning of the period that is sold during the period: the nominal holding gain accruing is equal to the value at disposal minus the opening balance sheet value minus any consumption of fixed capital in the accounting period that occurs prior to the sale. The nominal gain is realised;

(c) an asset acquired during the period and still held at the end of the period: the nominal holding gain accruing is equal to the closing balance sheet value minus the value at acquisition minus any consumption of fixed capital in the accounting period. The nominal gain is unrealised; and

(d) an asset acquired and disposed of during the accounting period: the nominal holding gain accruing is equal to the value at disposal minus the value at acquisition minus any consumption of fixed capital in the accounting period between acquisition and disposal. The nominal gain is realised.

6.36 The nominal holding gains and losses included are those accruing on assets and liabilities, whether realised or not. They are recorded in the revaluation account of the sectors involved, the total economy and the rest of the world.

Neutral holding gains and losses (K.71)

6.37 *Definition*: the neutral holding gains and losses (K.71) relate to assets and liabilities and are the value of the holding gains and losses that accrue if the price of the asset or liability changes over time in the same proportion as the general price level.

6.38 Neutral holding gains and losses are identified to facilitate the derivation of real holding gains and losses, which redistribute real purchasing power between sectors.

6.39 Let the general price index be denoted by r. The neutral holding gain (NG) on a given quantity q of an asset between times o and t is then given by the following expression: $NG = p_o \times q\ (r_t/r_o - 1)$,

where $p_o \times q$ is the current value of the asset at time o and r_t/r_o the factor of the change in the general price index between times o and t. The same term r_t/r_o is applied to all assets and liabilities.

6.40 The general price index to be applied for the calculation of neutral holding gains and losses is a price index for final expenditure.

6.41 Neutral holding gains and losses are recorded in the neutral holding gains and losses account, which is a subaccount of the revaluation account of the sectors, the total economy and the rest of the world.

Real holding gains and losses (K.72)

6.42 *Definition*: the real holding gains and losses (K.72) relate to an asset or liability and are the difference between the nominal and the neutral holding gains and losses on that asset.

6.43 The real holding gain (RG) on a given quantity q of an asset between times o and t is given by:

$RG = G - NG$

or $RG = (p_t/p_o - r_t/r_o) \times p_o \times q$.

6.44 The values of the real holding gains and losses on assets and liabilities thus depend on the movements of their prices over the period in question, relative to movements of other prices, on average, as measured by the general price index.

6.45 Real holding gains and losses are recorded in the real holding gains and losses account, which is a subaccount of the revaluation account.

Holding gains and losses by types of financial asset and liability

Monetary gold and SDRs (AF.1)

6.46 As the price of monetary gold is usually quoted in US dollars, the value of monetary gold is subject to nominal holding gains and losses through changes in the exchange rate as well as the price of the gold itself.

6.47 As the SDRs represent a basket of currencies, its value in national currency terms, and so the value of the holding gains and losses, varies with the exchange rates of the currencies in the basket against the national currency.

Currency and deposits (AF.2)

6.48 The current values of currency and deposits denominated in national currency remain constant over time. The 'price' of such an asset is always unity while the quantity is given by the number of units of the currency in which they are denominated. The nominal holding gains and losses on such assets are always zero. For this reason, the difference between the values of the opening and closing stocks of such assets is, with the exception of other changes in volume, entirely accounted for by the values of the transactions in the assets. This is a rare case where it is normally possible to deduce the transactions from the changes in balance sheet figures.

6.49 The interest accruing on deposits is recorded in the financial account as being simultaneously reinvested as deposits.

6.50 Holdings of foreign currency and deposits denominated in other currencies will register nominal holding gains and losses due to changes in exchange rates.

6.51 In order to calculate the neutral and real holding gains and losses on assets of fixed current value, data on the times and values of transactions are needed as well as the opening and closing balance sheet values. Suppose, for example, a deposit is made and withdrawn within the accounting period while the general price level is rising. The neutral gain on the deposit is positive and the real gain negative, the amount depending upon the length of time the deposit is outstanding and the rate of inflation. It is impossible to record such real losses without data on the value of the transactions during the accounting period and the times at which they are made.

6.52 In general, it may be inferred that if the total absolute value of the positive and negative transactions is large in relation to the opening and closing balance sheet levels, approximate estimates of the neutral and real holding gains and losses on financial assets and liabilities with fixed current values derived from balance sheet data alone may not be very satisfactory. Even recording the values of financial transactions on a gross basis, i.e. recording deposits made and withdrawn separately as distinct from the total value of deposits minus withdrawals, may not be sufficient without information on the timing of the deposits.

Debt securities (AF.3)

6.53 When a long-term debt security, such as a bond, is issued at premium or discount, including deep discounted and zero coupon bonds, the difference between its issue price and its face or redemption value when it matures measures interest that the issuer is obliged to pay over the life of the debt security. Such interest is recorded as property income payable by the issuer of the long-term debt security and receivable by the holder of the debt security, in addition to any coupon interest actually paid by the issuer at specified intervals over the life of the debt security.

6.54 The interest accruing is recorded in the financial account as being simultaneously reinvested in the debt security by the holder of the debt security. It is therefore recorded in the financial account as the acquisition of an asset, which is added to the existing asset. Thus the gradual increase in the market value of a long-term debt security that is attributable to the accumulation of accrued reinvested interest reflects a growth in the principal outstanding — that is, in the size of the asset. It is essentially a quantum or volume increase and not a price increase. It does not generate any holding gain for the holder of the long-term debt security or a holding loss for the issuer. Debt securities change qualitatively over time as they approach maturity and it is essential to recognise that increases in their values due to the accumulation of accrued interest are not price changes and do not generate holding gains.

6.55 The prices of fixed-interest long-term debt securities also change, however, when the market rates of interest change, the prices varying inversely with the interest rate movements. The impact of a given interest rate change on the price of an individual long-term debt security is lower the closer the security is to maturity. Changes in prices of long-term debt securities that are attributable to changes in market rates of interest constitute price and not quantum changes. They, therefore, generate nominal holding gains and losses for both the issuers and the holders of the debt securities. An increase in interest rates generates a nominal holding gain for the issuer of the debt security and an equal nominal holding loss for the holder, and vice versa in the case of a fall in interest rates.

6.56 Variable interest rate debt securities have their coupon or principal payments linked to a general price index for goods and services, such as the consumer price index, an interest rate such as the Euribor, the LIBOR or a bond yield, or an asset price.

When the amounts of the coupon payments and/or the principal outstanding are linked to a general or broad price index, the change in the value of the principal outstanding between the beginning and the end of a particular accounting period due to the movement in the relevant index is treated as interest accruing in that period, in addition to any interest due for payment in that period.

When indexation of the amounts to be paid at maturity includes a holding gain motive, typically indexation based on a single, narrowly defined item, any deviation of the underlying index from the originally expected path leads to holding gains or losses, which will not normally cancel out over the life of the instrument.

6.57 Nominal holding gains and losses may accrue on short-term debt securities in the same way as for long-term debt securities. However, as short-term debt securities have much shorter times to maturity, the holding gains generated by interest rate changes are generally much smaller than on long-term debt securities with the same face values.

Loans (AF.4)

6.58 The same situation as for currency and deposits applies for loans that are not traded. However, when an existing loan is sold to another institutional unit, the write-down of the loan, which is the difference between the redemption price and the transaction price, is recorded under the revaluation account of the seller and the purchaser at the time of transaction.

Equity and investment fund shares (AF.5)

6.59 Bonus shares increase the number of shares and the nominal value of the shares issued but do not by themselves alter the market value of the totality of shares. This also applies for a stock dividend which is a pro-rata distribution of additional shares of a corporation's stock to owners of the common stock. Bonus shares and stock dividends do not enter the accounts at all. However, such issues are designed to improve the liquidity of the shares on the market and hence the total market value of shares issued may rise as a result: any such change is recorded as a nominal holding gain.

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

6.60 When the reserves and entitlements for insurance, pension and standardised guarantee schemes are denominated in national currency, there are no nominal holding gains and losses, just as there are none for currency or deposits and loans. The assets used by the financial institutions to meet the commitments are subject to holding gains and losses.

6.61 The liabilities to policy holders and beneficiaries change as a result of transactions, other volume changes and revaluations. Revaluations are due to changes of key model assumptions in the actuarial calculations. Those assumptions are the discount rate, the wage rate and the inflation rate.

Financial derivatives and employee stock options (AF.7)

6.62 The value of financial derivatives may change as a result of changes in the value of the underlying instrument, changes in the volatility of the price of the underlying instrument, or approaching the date of execution or maturity. All such changes in value to financial derivatives and employee stock options are to be regarded as price changes and recorded as a revaluation.

Other accounts receivable/payable (AF.8)

6.63 The same situation as for domestic currency, deposits and loans applies for other accounts receivable/payable, which are not traded. However, when an existing trade credit is sold to another institutional unit the difference between the redemption price and the transaction price is recorded as revaluation at the time of transaction. Nonetheless, as trade credit generally has a short-term nature, the sale of a trade credit might imply the creation of a new financial instrument.

Assets denominated in foreign currency

6.64 The value of assets and liabilities denominated in foreign currency is measured by their current market value in foreign currency converted into national currency at the current exchange rate. Nominal holding gains and losses may therefore occur from both changes in the price of the asset and the exchange rate. The total value of the nominal holding gains and losses accruing over the accounting period is calculated by subtracting the value of transactions and other volume changes from the difference between the opening and closing balance sheet values. For this purpose, transactions in assets and liabilities denominated in foreign currency are converted into the national currency using the exchange rates at the time the transactions occur, while the opening and closing balance sheet values are converted using the exchange rates prevailing at the dates to which the balance sheets relate. This implies that the total value of the transactions as net acquisitions — acquisitions less disposals — expressed in foreign currency is, in effect, converted by a weighted average exchange rate in which the weights are given the values of transactions conducted on different dates.