2 Overview of the Monetary and Financial Statistics Framework

I. Introduction

2.1 This chapter provides an overview of the monetary and financial statistics framework, focusing on its scope, uses, and main principles and concepts. Further, it explains the relationship of monetary and financial statistics with the *System of National Accounts 2008* (*2008 SNA*), other statistical manuals, and the International Financial Reporting Standards (IFRSs). The chapter sets the stage for the other chapters of this *Manual*, providing a context for the reader.

2.2 The chapter first discusses the scope and uses of monetary and financial statistics. This discussion is then followed by a summary of all essential principles and concepts used in compiling monetary and financial statistics, within the framework provided by the *2008 SNA*. The final section compares the source data available from IFRSs and the needs of monetary and financial statistics, focusing on the commonalities and the differences between the two.

2.3 In this *Manual* the needs of monetary statistics and financial statistics occasionally diverge. When the guidance applies only to monetary statistics, this is made explicit in the text, and similarly when the guidance only applies to financial statistics. In all other cases, the guidance applies both to monetary and financial statistics.

II. Scope and Uses of Monetary and Financial Statistics

A. Scope

2.4 The monetary and financial statistics described in this *Manual* cover financial and nonfinancial assets, and liabilities of all institutional sectors within an economy, with a particular focus on the financial corporations (FCs) sector. Assets are stores of value, over which ownership rights are enforced and from which their owners may derive economic benefits by holding them over a period of time. Financial assets are a subset of economic assets that are financial instruments and are unconditional creditor claims on economic resources of other institutional units, which give rise to corresponding liabilities of debtors.[1] Other financial instruments of a contingent nature, such as guarantees (except standardized guarantees) and commitments, are outside the assets boundary and therefore are not included in the monetary and financial statistics (see paragraph 4.2).

2.5 Principles and concepts for the measurement of stocks and flows in monetary and financial statistics are consistent with the *2008 SNA* and other statistical manuals. In particular, flows comprise the sum of one or more of the following: (1) transactions; (2) revaluations (also called holding gains and losses); and (3) other changes in the volume of assets (OCVA). In compiling monetary and financial statistics, these categories are used to account for period-to-period changes in outstanding amounts (i.e., stocks) of assets and liabilities.

2.6 Data on the market prices, including market exchange rates, of financial assets and liabilities as well as market interest rates are necessary for the implementation of this *Manual*'s recommendations on the valuation of financial assets and liabilities. Monetary and financial statistics, however, as defined in the next two subsections, do not cover the compilation and presentation of interest rates, debt and equity security prices, or exchange rates.

B. Monetary Statistics

2.7 ***Monetary statistics cover the stocks and flows of the assets and liabilities of the resident FCs sector***

[1] The exception is gold bullion held by monetary authorities as a reserve asset (monetary gold), which does not have a counterpart liability and is a financial asset by convention.

with respect to all other resident institutional sectors and nonresidents. Based on the concepts of the *2008 SNA*, monetary statistics provide a framework for analyzing the relationship between the FCs sector and other institutional sectors, including through broad money, credit aggregates, and liquidity measures.

2.8 Monetary statistics comprise a set of stock and flow data that are organized in two hierarchical frameworks, namely *sectoral balance sheets* and *analytical surveys*.

2.9 In the sectoral balance sheets, compiled for the three FCs subsectors—central bank, other depository corporations (ODCs), and other financial corporations (OFCs) [MS]—the asset and liability positions (and the corresponding flows) are presented in a balance-sheet-like form by category of financial instrument, by currency (domestic and foreign), and by counterpart institutional sector. (See Chapter 7, Section II, and Tables A2.1–A2.3 in Appendix II.)

2.10 The analytical surveys are derived from the respective sectoral balance sheets, whereby the sectoral balance sheet data are rearranged into an analytical format. In the analytical surveys, the assets are presented as FCs' claims on other resident institutional sectors and nonresidents, while the liabilities are presented by category of financial instrument in the order of their liquidity. Claims on and liabilities to nonresidents and central government are presented on a net basis. (See Chapter 7, Section IV, and Tables A3.1–A3.5 in Appendix III.)

2.11 The analytical surveys comprise the following:

a. Three surveys that cover the FCs subsectors—the central bank survey (CBS), the other depository corporations survey (ODCS), and the other financial corporations survey (OFCS).

b. The depository corporations survey (DCS) consolidates the CBS and the ODCS.

c. The financial corporations survey (FCS) consolidates the DCS and the OFCS and contains data for the entire FCs sector.

2.12 The compilation process for monetary statistics is shown in Figure 2.1.

2.13 Monetary statistics are a prominent and somewhat special part of the macroeconomic statistical system of a country. Compared with other types of macroeconomic statistics, namely national accounts, external sector statistics (ESS), and government finance statistics (GFS), most countries compile and disseminate monetary statistics on a more frequent and more timely basis. This is facilitated by law and regulations, by the needs of policymakers and market participants, as well as by the broad availability of detailed and frequent source data. Most countries compile the DCS on a monthly basis and disseminate it within one or two months after the end of the reference period.

2.14 For monetary policy purposes, the focus is on the consolidated data for the depository corporations (DCs) subsector, presented in the CBS, the ODCS, and the DCS. The CBS contains data on all components of the monetary base, which comprises the central bank liabilities that support the expansion of broad money and credit. The DCS contains data on all DCs' liabilities included in broad money.

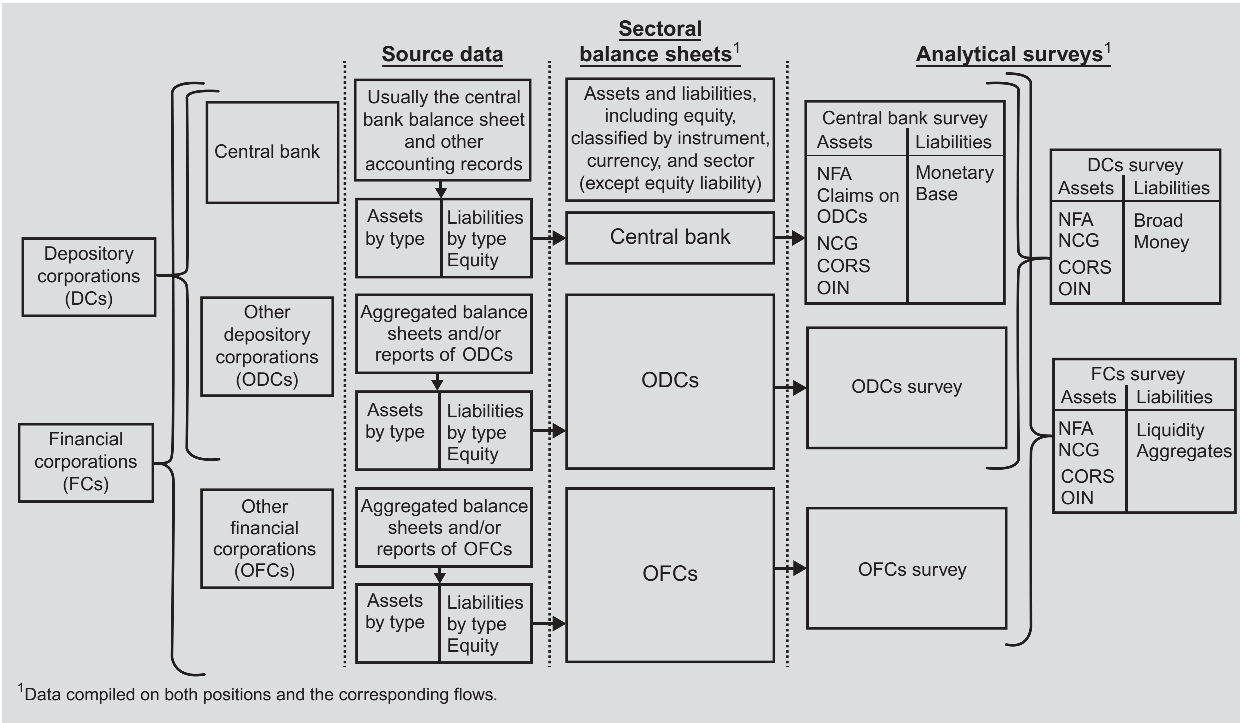
2.15 The balance sheet identity in the DCS (see paragraph 7.14) provides a direct link between the broad money supply and DCs' claims on nonresidents and on the resident sectors of the economy. These data are used for the formulation of monetary policy and, more broadly, for macroeconomic policy.

2.16 For purposes of broader macroeconomic policies, there is also an increasing focus on the OFCs subsector and the FCS, which is the broadest set of monetary statistics in terms of institutional coverage. The FCS contains consolidated data for the entire FCs sector. The data in the FCS are particularly useful for analyzing the FCs sector's claims on (i.e., credit to) the other sectors of the economy and nonresidents, as well as for presenting the liquidity aggregates issued by FCs.

C. Financial Statistics

2.17 ***Financial statistics cover the stock and flows of the assets and liabilities between all sectors of the economy and between the sectors of the economy and nonresidents.*** Thus financial statistics extend the range of monetary statistics to include all sectors of the economy and nonresidents. The financial statistics are organized and presented in formats designed to show financial flows between the sectors of an economy and nonresidents, and corresponding financial asset and liability positions. Sectoral balance sheets of the FCs subsectors contain a significant portion of the data needed to compile financial statistics.

Figure 2.1 Compilation Framework for Monetary Statistics



Note: NFA = Net foreign assets; NCG = Net claims on central government; CORS = Claims on other resident sectors; OIN = Other items net.

2.18 Financial statistics are compiled and presented with varying degrees of detail depending on the availability of source data and analytical needs. Common presentation formats of financial statistics include *flow-of-funds statistics*, the *balance sheet approach matrix*, and *financial sectoral accounts* as discussed in more detail in Chapter 8.

2.19 Financial statistics provide data for use in compiling the financial account and balance sheets of the *2008 SNA*. It is advised to produce these sets of statistics in a cooperative effort between compilers of monetary statistics and of national accounts to gain efficiencies in the compilation process and to promote integration of macroeconomic statistics. For the FCs subsectors, the data needed for compiling the financial account and SNA balance sheets are derived from the sectoral balance sheets, as described in Chapter 7. Data for entries that do not pertain to assets or liabilities of the FCs sector are obtained from other sets of macroeconomic statistics, including ESS, GFS, and national accounts.

III. Principles and Concepts

2.20 This section explains the relationship of the monetary and financial statistics with the *2008 SNA* and other statistical manuals, and provides a summary of the principles and concepts underlying the monetary and financial statistics. Adherence to these principles and concepts and to the resulting systematic recording and presentation of data facilitates cross-country and global comparisons and ensures internal consistency as well as consistency with other major sets of macroeconomic statistics within an economy (see Appendix I). Chapters 3, 4, and 5 cover these principles and concepts in more detail.

A. Relationship to the 2008 SNA *and Other Statistical Manuals*

2.21 For monetary and financial statistics, as well as for the other macroeconomic datasets (ESS and GFS), the overarching framework is the SNA. In this respect, the basic principles and concepts underlying monetary and financial statistics are consistent with those of the *2008 SNA,* the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*)*,* and the *Government Finance Statistics Manual 2014 (GFSM 2014)*. The integral links between the monetary and financial statistics, and the financial account and balance sheets of the *2008 SNA* are underpinned by consistency in principles and concepts such as residence and sectoring of institutional units, classification of financial assets and liabilities, recording and valuation rules of financial and nonfinancial assets and liabilities, as well as transactions and other flows, and data aggregation and consolidation. The only exceptions are the recording of provisions, the valuation of equity liabilities, and the coverage of deposit-taking corporations except the central bank.

2.22 Methodological consistency ensures harmonization and comparability among the different macroeconomic datasets, and has benefits for both compilers and users of statistics. Data consistency often implies that the same data item appears in two or more of the macroeconomic datasets with the same nomenclature and value. Nonetheless, while the macroeconomic datasets share many concepts and accounting rules, each has some unique nomenclature and concepts. Two macroeconomic datasets are consistent if the data are reconcilable, meaning that (1) the data are the same; (2) any data discrepancies can be explained and justified (eliminating the discrepancies, if possible); or (3) the data in one set can be constructed from "building blocks" of another dataset.

2.23 Because of its broader scope, the *2008 SNA* contains principles and concepts not necessarily relevant for the compilation of monetary statistics. Conversely, monetary statistics contain some accounting and regulatory concepts not found in the *2008 SNA*. This stems from the close relationship of the FCs sectoral balance sheets to the accounting principles set by IFRSs or national accounting standards, as well as monetary statistics' focus on broad money and other financial aggregates. Differences between this *Manual* and the *2008 SNA* are described in the remainder of this section and in the next section. Table 2.1 summarizes the differences between monetary statistics, and the *2008 SNA* and other macroeconomic datasets.

B. Economic Territory, Residence, and Center of Economic Interest

2.24 The delineation between resident and nonresident units is a key feature of all macroeconomic statistical frameworks. The separate identification of claims on and liabilities to nonresidents is necessary for the measurement of a country's international investment position. Likewise, the separate identification of DCs' liabilities to resident money-holding sectors is necessary for the measurement of an economy's broad money issued by resident DCs.

2.25 The definition of residence in this *Manual* is identical to those in the *2008 SNA* (paragraphs 4.10–4.15) and *BPM6* (paragraphs 4.113–4.115). It is based, as discussed further in Chapter 3, on the concepts of economic territory and center of predominant economic interest. An institutional unit is a resident in an economic territory when there exists some location (dwelling, place of production, or other premises) within the economic territory, on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time (determined to be at least one year) in economic activities and transactions on a significant scale.

C. Institutional Sectors

2.26 Identifying and sectoring institutional units into institutional sectors is a key element in all macroeconomic statistical frameworks. Sectoring of institutional units involves grouping together institutional units with similar economic objectives, functions, and behavior into institutional sectors. The *2008 SNA* groups resident units of the economy into the following mutually exclusive institutional sectors: (1) nonfinancial corporations (NFCs), (2) FCs, (3) general government, (4) households, and (5) nonprofit institutions serving households (NPISHs). The same delineation is used in monetary statistics, except that household and the NPISHs sectors are aggregated.

2.27 In the *2008 SNA,* the FCs sector contains the following nine subsectors: (1) central bank, (2) deposit-taking corporations except the central bank, (3) money market funds (MMFs), (4) non-MMF investment funds, (5) other financial intermediaries except insurance corporations and pension funds, (6) financial auxiliaries, (7) captive financial institutions and money lenders, (8) insurance corporations, and (9) pension funds.[2] For monetary statistics, this *Manual* combines subsectors (2) and (3) into one subsector called ODCs, which together with the central bank constitute the

[2] See Table 27.1 in the *2008 SNA*.

Table 2.1 Summary of Differences between the *2008 SNA* and Monetary Statistics

Issues	Different treatment		Reconciliation
	Monetary statistics	*2008 SNA*	
Institutional sectors			
Financial corporations (FCs) subsectors	FCs sector is divided into three subsectors: central bank, other depository corporations (ODCs), and other financial corporations (OFCs) by combining FCs subsectors separately identified in the *2008 SNA*.	FCs sector is divided into nine subsectors.	ODCs subsector combines two subsectors in *2008 SNA*: deposit-taking corporations [MS] and money market funds (MMFs). OFCs [MS] subsector combines all FCs subsectors other than central bank, deposit-taking corporations except the central bank, and MMFs in the *2008 SNA*.
Offshore banks	Offshore banks that do not issue liabilities included in broad money (e.g., they only take deposits from nonresidents) are classified as other financial intermediaries except insurance corporations and pension funds within OFCs [MS].	All offshore banks are classified as deposit-taking corporations except the central bank.	Separating out the accounts of such offshore banks allows reconciliation of the data.
Nonfinancial corporations (NFCs) subsectors	NFCs sector as counterpart to FCs is divided into two subsectors: public NFCs (PNFCs) and other NFCs, combining national private and foreign-controlled NFCs.	NFCs sector is divided into three subsectors: public, national private, and foreign controlled.	Other NFCs combines national private NFCs and foreign-controlled NFCs, as defined in the *2008 SNA*.
Households and nonprofit institutions serving households (NPISHs)	Household and NPISHs sectors as counterparts to FCs are aggregated.	Household sector and NPISHs sector are separately presented.	Household and NPISHs sector combines the two subsectors of the *2008 SNA*. Recommended memorandum items identify households separately for major relevant financial assets and liabilities.
General government subsectors	General government as counterpart to FCs is divided into (1) central government, and (2) state and local government. Social security funds (SSFs) are presented together with the level of government at which they operate.	Two methods are allowed: (1) identifying four general government subsectors—central, state, local, and SSFs; (2) merging SSFs with their appropriate level of government.	The treatment in monetary statistics is consistent with the second method of the *2008 SNA*, with state and local governments combined.

(*Continued*)

Table 2.1 Summary of Differences between the *2008 SNA* and Monetary Statistics (*Continued*)

Issues	Different treatment		Reconciliation
	Monetary statistics	*2008 SNA*	
Classification and valuation of financial assets and liabilities			
Interbank positions	Interbank (inter-depository corporations) positions are identified fully by all relevant instrument categories (except for equity liability). When there is uncertainty between a loan and a deposit, it should be recorded under *Other deposits*.	Interbank positions other than debt securities and accounts receivable or payable are shown as separate category under *Transferable deposits*.	Memorandum items in the sectoral balance sheets for the central bank and ODCs separately identify claims on and liabilities to MMFs, allowing the compilation of interbank positions as defined in the *2008 SNA*.
Equity liability (excluding investment fund shares)	Equity liability of FCs is disaggregated into five components without identifying holding counterpart sectors and is valued at book value. (See paragraphs 4.131 and 5.167–5.168.)	Equity liability is valued at market value and is not disaggregated into categories. For unlisted equity, the *own funds at book value* method is used based on the five categories.	In monetary statistics, market value of equity liabilities of FCs and holding counterpart sectors are recorded as memorandum items in FCs' sectoral balance sheets, allowing a full reconciliation.
Provision for losses on assets	Provisions for losses on assets are treated as liabilities and classified under *Other accounts payable [MS]*. (See paragraph 2.32.) Provisions made are recorded as OCVA resulting in a reduction in equity.	Provisions for losses on assets are treated as bookkeeping entries internal to the reporting institutional unit and are not included in the *2008 SNA*, except in the case of expected losses on nonperforming loans (NPLs), which appear as memorandum items in the balance sheets.	See Figure 2.2 for reconciliation.
Net worth	The net worth concept does not appear in monetary statistics, where the equity liability is valued at book value. (See paragraphs 5.42 and 5.52d.)	Net worth is defined as the value of all the assets owned by an institutional unit or sector *less* the value of all its outstanding liabilities (including equity).	In both the *2008 SNA* and monetary statistics, the value of all the assets less the value of all the outstanding liabilities (including equity) and net worth (in *2008 SNA* only) equals to zero. See Figure 2.2 for reconciliation.

Note: *2008 SNA* = *System of National Accounts 2008*.

DCs subsector. Categories (4) through (9) are combined into one subsector called OFCs [MS].[3]

[3] In this context, the term "other financial corporation" means "financial corporations other than DCs."

2.28 In the *2008 SNA*, the NFCs sector contains three subsectors: (1) public nonfinancial corporations (PNFCs), (2) national private NFCs, and (3) foreign controlled NFCs. For monetary statistics, the NFCs sector is split into only two subsectors: PNFCs and other NFCs. Thus, unlike the *2008 SNA*, this *Manual* does not divide resident other NFCs into separate subsectors based on the residency of the units that own and control them.

2.29 The *2008 SNA* (paragraphs 4.129–4.130) and the *GFSM 2014* (paragraph 2.78) offer two options for the subsectoring of the general government. The first method divides general government into: (1) central government, (2) state government, (3) local government, and (4) social security funds. The second method merges social security funds with their appropriate level of government. For monetary statistics, data on social security funds should be merged with the level of government at which they operate. State and local government are aggregated in monetary and financial statistics into only one subsector of the general government sector.

D. Classification of Financial Assets and Liabilities

2.30 At its highest level, the classification of financial assets and liabilities in this *Manual* is fully consistent with that of the *2008 SNA*. At a more detailed level of classification, monetary statistics disaggregate *Currency and deposits* into separate subcategories for currency, transferable deposits, and other deposits. Further, deposits (as well as debt securities) on the liability side are classified into *included in broad money* and *excluded from broad money*; and also into *included in monetary base* and *excluded from monetary base* for the central bank's liabilities.[4] Equity and investment fund shares are disaggregated into equity, MMF shares, and non-MMF investment fund shares.

2.31 In monetary statistics, equity liabilities of FCs (except MMF and non-MMF investment fund shares) are further disaggregated into the following components: (1) funds contributed by owners, (2) retained earnings, (3) current year result, (4) general and special reserves, and (5) valuation adjustment. These separate components within equity do not appear in the *2008 SNA* or in the financial statistics presented in Chapter 8 of this *Manual*. To recognize the difference of the liability measure of equity in monetary statistics from the SNA concept, in this *Manual* equity liabilities in monetary statistics are labeled *Equity liability [MS]*. Data for the five components support the balance sheet identity in the sectoral balance sheets and provide the necessary details for the analysis of the structure of the FCs' equity in the context of monetary statistics. In monetary statistics, information on the counterpart sectors holding equity liabilities of FCs appears only as memorandum items. MMF and non-MMF investment fund shares are disaggregated on the liability side by counterpart sectors.

2.32 In monetary statistics, provisions for losses on assets, which are internal to the reporting institutional unit, are treated as if these are liabilities and are classified under *Other accounts payable [MS]*.[5,6] In this regard, the underlying assets are recorded gross of such provisions. There is a reduction in *Equity liability [MS]* whenever provisions are made, because these provisions are charged to losses. Provisions are a precursor of a possible loan (or other financial asset) write-off and, similar to loan write-offs, are recorded as OCVA. Provisions for losses on assets are treated as bookkeeping entries internal to the reporting institutional unit and are not included in the *2008 SNA*, except in the case of expected losses on nonperforming loans (NPLs), which appear as memorandum items in the balance sheets.[7]

E. Valuation

2.33 The valuation principles used for monetary statistics are the same as those in the *2008 SNA* with one exception. Consistent with the *2008 SNA*, this *Manual* recommends that valuations of stocks and flows should be based on market prices or market-price equivalents. It recognizes that market price quotations are not available for financial assets not traded or infrequently traded. It is, therefore, necessary to estimate market-equivalent values for such financial assets. Table 2.2 summarizes the classification and valuation principles of financial assets and liabilities used for monetary statistics.

2.34 Deposits and loans in this *Manual*, as well as in the *2008 SNA*, are valued at nominal value—that is, the outstanding amount the debtor owes to the creditor, which comprises the outstanding amount including

[4] Financial assets and liabilities are further disaggregated by domestic/foreign currency of denomination, where relevant.

[5] As the definition of *Other accounts payable* for monetary statistics differs from the definition in the *2008 SNA*, it is labeled *Other accounts payable [MS]* in this *Manual*.

[6] See paragraph 4.198.

[7] *2008 SNA*, paragraphs 3.41 and 13.66–13.68.

Table 2.2 Financial Assets and Liabilities—Classification and Valuation in Monetary Statistics

Classification	Valuation method[1]
Monetary gold (central bank)	Market value
Special Drawing Rights (central bank)	Market value
Currency	Face value (in currency of denomination)
Deposits	Nominal value (in currency of denomination)
Debt securities	Market or fair value
Loans	Nominal value (in currency of denomination)
Equity and investment fund shares	Market or fair value (assets and investment fund share liabilities); book value (liability)
Insurance, pension, and standardized guarantee schemes	Market or fair value
Financial derivatives and employee stock options	Market or fair value
Other accounts receivable/payable	Nominal value

[1] All foreign-currency-denominated assets and liabilities are converted into domestic currency units at market exchange rates (see paragraph 2.39).

accrued but not yet paid interest. The same valuation principle applies to trade credit and advances.

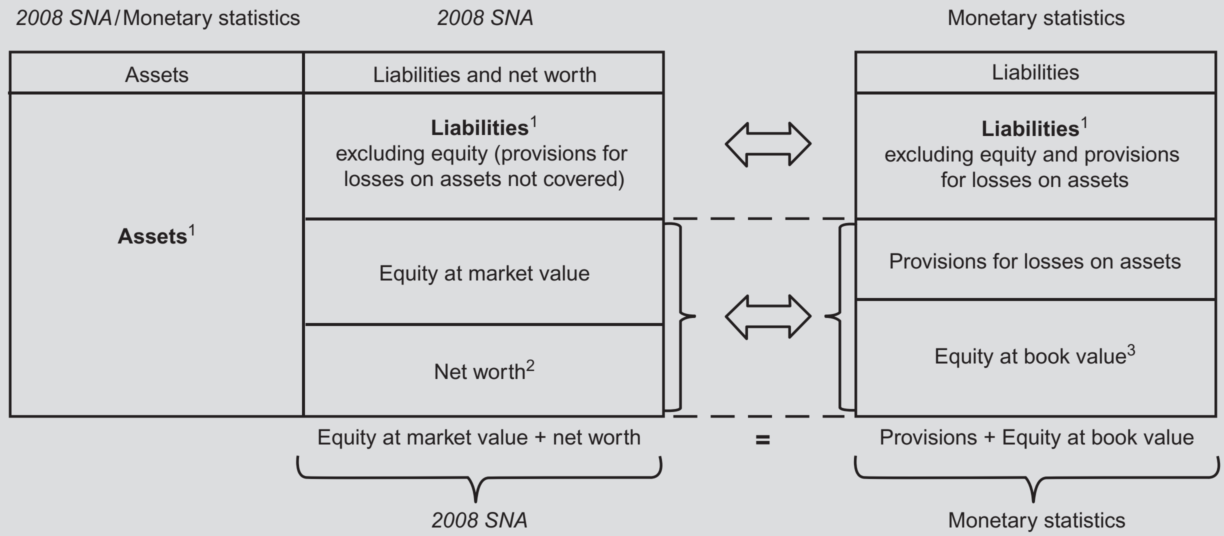
2.35 For monetary statistics, it is recommended that equity and investment fund shares on the asset side of the balance sheet, and investment fund shares on the liability side of the balance sheet, are valued at market prices. In contrast, equity on the liability side of the FCs' sectoral balance sheets is valued at book value—that is, the value recorded in a FC's business accounts. The following issues arise because of this deviation from the *2008 SNA*:

a. In monetary statistics, flows between *Equity liability [MS]* and assets, and between *Equity liability [MS]* and other liabilities, are classified as transactions, revaluations, and OCVA depending on their nature (see paragraphs 5.168) to ensure that *Equity liability [MS]* is the balancing item between assets and non-equity liabilities. Such flows do not appear in the *2008 SNA*, as equity is recorded as a separate instrument at market value and not as an item that balances the balance sheet.
b. The *2008 SNA* concept of net worth, defined as the value of all the assets owned by an institutional unit or sector less the value of all its outstanding liabilities (including equity), is embedded in *Equity liability [MS]*. In both *2008 SNA* and this *Manual*, the value of all the assets less the value of all the outstanding liabilities (including equity) and net worth (in the *2008 SNA* only) equals to zero.

2.36 Although the valuation of *Equity liability [MS]* at book value is not the preferred approach in the *2008 SNA*, it is recommended for monetary statistics in order to maintain the balance sheet identity of the data reported and to support analysis of the FC balance sheet. *Equity liability [MS]* can be assimilated to the SNA calculation of shareholders' equity called *own funds*, where net worth of an institutional unit is zero such as for foreign owned branches (see *2008 SNA*, paragraph 13.88). This *Manual* also recommends that data on the market value of equity liability are compiled as memorandum items in the sectoral balance sheets.

2.37 MMF shares or units are presented in monetary statistics at market value. MMFs typically invest in short-term, low-risk assets to ensure that the invested value can be repaid on demand, making MMF shares and units close substitutes for deposits. Non-MMF

Figure 2.2 Reconciliation of Equity Liabilities in the *2008 SNA* and Monetary Statistics



[1] Provided the same valuation is applied, assets and liabilities would be the same under both frameworks.
[2] In this figure, net worth is assumed to be positive. It may also be negative, in which case the reconciliation will still hold.
[3] Reflects contra-entry adjustments made by compilers when values of some assets and liabilities (other than equity liability) are adjusted to market values.

Note: *2008 SNA = System of National Accounts 2008*

investment funds shares or units are also recorded at market value in the sectoral balance sheet.

2.38 Differences between monetary statistics and the *2008 SNA* in the treatment of provisions for losses on assets (see paragraph 2.32) and *Equity liability [MS]* can be reconciled with the SNA concept of net worth as follows. Provided the same valuation principles are used for valuing all the assets and liabilities except equity liability, the sum of SNA net worth and market-valued equity (so-called own funds) would be equal to the sum of book-valued equity plus all provisions for losses on assets recorded in monetary statistics (see Figure 2.2).

2.39 The standard unit of account for the monetary and financial statistics is the domestic currency. When compiling monetary and financial statistics, foreign-currency-denominated assets and liabilities must be converted into domestic currency units using the market exchange rate prevailing on the balance sheet date. For transactions in foreign-currency-denominated assets and liabilities, the market exchange rate prevailing on the transaction date should be used. The midpoint between the buying and selling exchange rates should be used as the prevailing market exchange rate when converting both flow and stock data.

F. Time of Recording

2.40 This *Manual,* consistent with the *2008 SNA* (paragraph 3.172) and other statistical manuals, recommends recording of transactions on a change-of-ownership basis. This accrual approach to recording means that flows and changes in the corresponding stocks are recorded at the time economic value is created, transformed, exchanged, transferred, or extinguished, rather than at the time of payment.

2.41 In principle, the two parties to a transaction should record it simultaneously. A financial asset transaction is to be recorded on the trade date, rather than on the settlement date.

G. Aggregation, Consolidation, and Netting

2.42 *Aggregation* refers to the summation of stock or flow data across all institutional units within a sector or subsector, or of all assets or liabilities within a particular instrument category. This *Manual* recommends reporting and organizing the underlying data for the monetary and financial statistics on an aggregated basis.

2.43 *Consolidation* refers to the elimination of stocks and flows that occur between institutional units that are grouped together and presented as if they constituted a single unit. For monetary statistics the reported data are consolidated into the analytical surveys of the FCs' sector and its subsectors, but for financial statistics data are presented on an unconsolidated basis.

2.44 As a general principle, data should be recorded and compiled on a gross basis (see paragraphs 5.61–5.63). Claims held by an institutional unit on other institutional units should not be netted out, individually or at a sectoral level, against the liabilities to those same institutional units or sectors.[8] However, acquisitions and disposals of a specific category of financial instruments are presented on a net basis.

IV. Monetary Statistics and International Financial Reporting Standards

A. Overview

2.45 The basic source data for monetary statistics are the FCs' accounting and regulatory records (balance sheets, subsidiary ledgers, etc.). These records reflect the national (or international) accounting, supervisory, and taxation frameworks and, as a result, have a different structure than monetary statistics. The task of the monetary statistics compiler is to adapt the accounting records for their use in monetary statistics. The structures of the sectoral balance sheets[9] and analytical surveys indicate the type and the detail of information required to accomplish this task.

2.46 The international accounting and reporting principles are covered in the IFRSs issued by the International Accounting Standards Board (IASB).[10] Accounting principles that have been imposed by national law or regulation are called the *national financial reporting standards* of a country.[11] With increasing globalization of financial markets, many countries have adopted the IFRSs, or have been harmonizing their national financial reporting standards with the IFRSs. This *Manual* refers to the IFRSs to illustrate the relationship between FCs' accounting data and the source data for the monetary and financial statistics.

2.47 The IFRSs and the methodology for the monetary and financial statistics contain similarities, but also some differences in concepts and terminology. The differences require that reporters of the source data and compilers of monetary statistics be familiar with both sets of standards. This would facilitate the conversion of IFRSs-based accounts for their use in monetary statistics.

2.48 The balance sheets within the financial statements, as specified in the IFRSs, and the balance sheets used in monetary and financial statistics have many characteristics in common. In both cases, the balance sheet data and flows are compiled through double-entry accounting, the accrual principle is used in accounting, and market or fair valuation is the basic principle for recording assets and liabilities.[12] As in the IFRSs, the valuation principles and other accounting rules for monetary and financial statistics are based on the treatment of institutional units as going concerns.

2.49 The main differences between the IFRSs and the methodology in this *Manual* stem from their objective and focus. The IFRSs focus on the accounts and other information for the preparation and dissemination of financial statements of a reporting entity. According to the IASB's *Conceptual Framework for Financial Reporting,* the objective of financial reporting is to provide financial information about the reporting entity that is useful to a wide range of users in making economic decisions. Monetary and financial statistics record stocks and flows of financial assets and liabilities between all sectors of the economy and between the sectors of the economy and nonresidents, with a particular focus on the economic relationship between the FCs sector and other institutional sectors

[8] Exceptions to the general rule may arise due to special circumstances or unavailability of data on a gross basis, such as derivative contracts settled on a net basis.

[9] Sectoral balance sheets also cover flows when economic flows are compiled for monetary statistics.

[10] See Box 2.1.

[11] Depending on the country, the standards may be referred to as financial reporting standards, accounting standards, or generally accepted accounting principles.

[12] In the IFRSs, fair value is the default basis for initial recognition but not for subsequent measurement.

Box 2.1 International Financial Reporting Standards

The International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) cover the relevant international accounting and reporting principles for preparing general purpose financial statements. The IASB is the independent standard-setting body of the IFRS Foundation.[1] Its members, appointed by the Trustees, are responsible for the development and publication of IFRSs[2] and for approving *Interpretations of IFRSs* as developed by the IFRS Interpretations Committee (IFRIC, formerly called the Standards Interpretations Committee, SIC). The IASB, and this *Manual*, uses the term IFRSs in a collective sense to encompass the *Conceptual Framework for Financial Reporting*, all issued individual IFRSs, International Accounting Standards (IASs),[3] IFRICs,[4] and SICs.[5] These include the *Implementation Guidance* (*IG*), *Illustrative Examples* (*IE*), and *Basis of Conclusions* for individual standards.

This *Manual* refers to the IFRSs to illustrate the impact of IFRS-based financial reporting on source data for monetary and financial statistics. This involves highlighting similarities and differences in methodology and terminology between financial corporations' IFRS-based information systems and the source data for the monetary and financial statistics.

The IFRSs referenced in this *Manual* are those available for application on January 1, 2015, as published in the *2015 International Financial Reporting Standards–Consolidated without early application* and in the *2015 International Financial Reporting Standards*, which include IFRSs 1 through 13; IAS 1 through IAS 41 (excluding IAS 3 through IAS 6, IAS 9, IAS 13, IAS 14, IAS 15, IAS 22, IAS 25, IAS 30, IAS 31, and IAS 35, which have been superseded by other Standards); IFRICs 1–2, 4–7, 9, 10, 12–21; and SICs 7, 10, 15, 25, 27, 29, 31–32.

The IFRSs focus on the data and other information for the preparation and dissemination of financial statements. The *Conceptual Framework for Financial Reporting* (paragraph OB2) states:

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

The financial statements are listed in IAS 1.10:

> A complete set of financial statements comprises:
>
> (a) a statement of financial position as at the end of the period
>
> (b) a statement of profit and loss and other comprehensive income for the period
>
> (c) a statement of changes in equity for the period
>
> (d) a statement of cash flows for the period
>
> (e) notes, comprising a summary of significant accounting policies and other explanatory information;
>
> (ea) comparative information in respect of the preceding period …; and
>
> (f) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements …

---

[1] For additional information on the IASB and a chronology of IASB activities since 2001, see www.ifrs.org.

[2] See www.ifrs.org/How-we-develop-standards/Pages/How-we-develop-standards.aspx.

[3] IASs are IFRSs that were created by the predecessor body of the IASB, and were adopted by the IASB when it took over in 2001 and, therefore, form part of the body of the IFRS requirements.

[4] IFRICs are the official interpretations of the IFRSs.

[5] SICs are the official interpretations of the IASs.

through macroeconomic aggregates such as broad money, domestic credit, and liquidity.

B. Terminology

2.50 In the IFRSs, the original entry of an asset or liability into the balance sheet accounts is called the *initial recognition* of the asset or liability. *Revaluation* of an asset or liability, as defined for the monetary and financial statistics, is termed *subsequent measurement* of the asset or liability in the IFRSs. In the IFRSs, the equity of an enterprise is classified separately from its liabilities, whereas the equity account is designated as equity liability in the monetary and financial statistics (consistent with the *2008 SNA* framework). *Provisions for losses on assets,* discussed in Chapters 4 and 5 of this *Manual,* are referred to as *allowances for losses on impaired assets* in the IFRSs.

2.51 In this *Manual*, *fair value* is a *market-equivalent value* and is an estimated value that is used when a market price for a financial asset or liability is unavailable. In the IFRSs, the concept of *fair value* encompasses both market values based on price quotations in active markets and fair values that, in the absence of market price quotations, are estimated to approximate market values.

2.52 For monetary statistics, several categories of financial assets and liabilities are recorded at *nominal value*, a concept that does not appear in the IFRSs. The counterpart in the IFRSs is valuation at *amortized cost* (amount advanced originally plus all accrued but not paid interest, less any repayment of principal, less any allowance for impairment or non-collectability), which is not fully consistent with nominal value. This is because the valuation at amortized cost reduces the value of an asset by the amount of the allowance for impairment or non-collectability.

C. Sectoring

2.53 In this *Manual*, stocks and flows for FCs need to be disaggregated by counterpart sector/subsector as follows: central bank, ODCs, OFCs, central government, state and local government, PNFCs, other NFCs, households and NPISHs, and nonresidents. Sectoral disaggregation is not specified in the IFRSs.

2.54 For counterpart sector classification, compilers may need to request more detailed information from FCs. The general and subsidiary ledgers usually contain a hierarchy of accounts that correspond to all types of data disaggregation needed for sectoral balance sheets, assets and liabilities subdivided by economic sector of debtor/creditor.

D. Presentation, Classification, and Valuation of Financial Instruments

2.55 The presentation of assets and liabilities is standardized in monetary statistics. By contrast, the IFRS guidance is not prescriptive with regard to the presentation of assets and liabilities on the balance sheet. For example, under the IFRSs assets and liabilities can be presented in the following ways: order of liquidity, expected date of realization of assets and liabilities, and current and non-current liabilities.[13] However, the order of presentation of assets and liabilities under the IFRSs is unlikely to be materially affected by the approach taken.

2.56 As compared with the valuation methodology for financial assets and liabilities in monetary statistics shown in Table 2.2, the IFRSs have a separate set of classifications and measurement rules on the basis of an enterprise's motivations for acquiring the financial assets, either for trading or for holding to maturity. For example, securities that are classified as held-for-trading are measured at *fair value through profit and loss* reflecting market prices. Securities classified as held-to-maturity are measured at amortized cost in the IFRSs.

2.57 To obtain source data for monetary and financial statistics, some components of the data based on IFRSs or national financial reporting standards need to be adjusted as follows:

a. Debt securities valued at amortized cost need to be restated at market or fair value.[14] The market value replaces the amortized cost in the recording of the outstanding amount of the securities and a contra-entry in the amount of the difference between the fair value and the amortized

[13] See *IAS 1—Presentation of Financial Statements*. Although IAS 1 does not prescribe the order or format in which an entity presents balance sheet items, IFRSs emphasize fair presentation of financial statements, which is to present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information (IAS 1, paragraph 17). IFRSs also require consistency of the presentation and classification of items from one period to the next (IAS 1, paragraph 45).

[14] IFRSs annual financial statements require disclosure of fair value amounts in the notes to the accounts.

cost (positive for a gain, and negative for a loss) is recorded in monetary statistics in *Equity liability [MS]* as a valuation adjustment.

b. For monetary statistics, holdings of equity shares valued at amortized cost need to be restated at market or fair value. No adjustment is needed for liabilities in the form of equity, as these are measured at book value. For financial statistics, the adjustment to market or fair value applies to both assets and liabilities in the form of equity.

c. Loans valued at market or fair value in accordance with the IFRSs' guidelines need to be restated at nominal value, and a contra-entry (amounting to the positive or negative difference between the nominal value and the fair value of the loan) would need to be recorded in *Equity liability [MS]* as a valuation adjustment.

2.58 In the IFRSs, specific rules apply for the recording of gains or losses due to revaluations, either through recording in the profit-or-loss accounts (wherein gains are recorded as income and losses as expenses) or directly in equity. The recording prescribed by IFRSs or by the national financial reporting standards maybe in the *Current year result* (profit-or-loss accounts) or *Valuation adjustment*. In the methodology of this *Manual*, revaluation is based on the valuation rules in Table 2.2. Revaluations (within a reporting period) for each asset and liability need to be recorded separately in the revaluation account.[15] For monetary statistics, the contra-entry for a gain or loss arising from asset/liability revaluation is to be recorded in *Equity liability [MS]* given that both *Current year result* and *Valuation adjustment* are components of *Equity liability [MS]*.

2.59 The IFRSs and most national financial reporting standards follow the accrual accounting principle, but many of these standards do not require that the accrued interest should be included in the outstanding amounts of the underlying financial assets or liabilities. In using FCs' accounting records as source data for the monetary and financial statistics, converting these data to the methodology of this *Manual* requires that accrued interest recorded in *Other accounts receivable/payable* be reclassified as part of the outstanding amounts of the underlying financial asset or liability.

E. Time of Recording

2.60 In monetary and financial statistics, debtor and creditor records should agree in amount and time of recording of stocks and transactions. These issues are not prominent in the IFRSs, which focus on the financial records of a reporting entity.

2.61 For monetary and financial statistics, transactions in financial assets are recorded on the trade date (i.e., the time of change in economic ownership of a financial asset) rather than on the settlement date (i.e., the time of delivery of the financial asset). If settlement of a financial transaction occurs after the ownership has changed, this gives rise to accounts receivable/payable. In the IFRSs, an entity can record transactions in financial assets on the trade dates or the settlement dates (IAS 39.38 and IFRS 9,[16] paragraph 3.1.2). For compiling monetary and financial statistics, adjustment to a transaction-date basis should be made for transactions that are recorded on a settlement-date basis but for which settlement does not take place until the next reporting period.

F. Loans on a Gross or Net Basis

2.62 The IFRSs and monetary statistics recognize that the realizable value of loans may change due to NPLs. However, they report provisions for NPLs differently.

2.63 In the IFRSs, loan asset values are directly adjusted for impairment based on objective evidence, or are presented as the carrying amount of loans (gross) *less* allowances for loan losses. In monetary statistics, loan asset values are presented on a gross basis at nominal value, with provisions for losses on assets classified as liabilities (see paragraph 2.32). Data on expected loan losses are included as memorandum items to the sectoral balance sheets to ensure that the realizable values of loans can be calculated.

G. Periodicity and Timeliness

2.64 IFRSs require a presentation of financial statements at least annually (IAS 1.36) and encourage publicly traded entities to provide interim financial reports at least as of the end of the first half of their

[15] Valuation changes and the other two major categories of flow data—transactions and OCVA—in monetary statistics are discussed in Chapters 5 and 7 (monetary statistics) and Chapter 8 (financial statistics).

[16] IFRS 9 was introduced in January 2015 to ultimately replace IAS 39 in its entirety by January 2018, after a three-year transition period.

financial year and not later than 60 days after the end of the interim period (IAS 34.1). Timely preparation of annual financial statements is specified as within six months after the reference date/period—a much longer time-lag than is deemed appropriate for the reporting of monetary statistics.

2.65 The source data for monetary statistics are normally reported by DCs on a monthly basis, within four to six weeks after the end of the reference month. Depending on the country, OFCs report on a monthly or quarterly basis, with a time-lag varying between one and four months. These frequency and timeliness compare favorably with the standards for financial statement preparation in the IFRSs and are adequate for compiling monetary statistics.

2.66 The recommendations of this *Manual* for the periodicity and timeliness of *monetary statistics* are as follows:

a. Reporting of source data and compilation of the CBS, ODCS, and DCS on a monthly basis with a time lag of one–two months.
b. Reporting of source data and compilation of the OFCS on a monthly or quarterly basis with a time lag of one–three months or three–four months, respectively.
c. Compilation of the FCS on a monthly or quarterly basis, depending on whether the OFCS is compiled on a monthly or quarterly basis, with a time lag of one–three months or three–four months, respectively.

2.67 Most countries have long-standing experience with the compilation of balance sheet (stocks) data for the central bank and ODCs on a monthly basis.[17] Some countries currently compile balance sheet data for some or all categories of OFCs on a quarterly or annual basis or, for some countries, on a monthly basis.

2.68 Reporting of source data and compilation of financial statistics on a quarterly or annual basis depends on the periodicity of the data reporting and compilation of the current accounts and the capital account of the national accounts statistics. Compilation of the financial statistics on a quarterly basis is applicable to countries that have quarterly data for current accounts and the capital account of their national accounts statistics, or are currently working on migration from annual to quarterly national accounts statistics.

2.69 As a general recommendation, this *Manual* follows the practice of most countries, which requires DCs to provide monthly source data to the compilers of monetary statistics within the month immediately following the reference month for the data. A longer time-lag may be required for the reporting of quarterly data for the OFCs' subsector in the monetary statistics, and for the reporting of quarterly or annual data for financial statistics.

[17] In many countries, DCs are required to report additional data on a daily, weekly, or bi-weekly basis. Such data, though important for economic policy formulation in some countries, are outside the scope of the monetary statistics as defined in this *Manual*.