

AEG recommendations on

Accrual principle to debt arrears

Status: Preliminary recommendations from the AEG
Website open for comments

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Background

Debt arrears occur when scheduled payments (repayment of principal or coupons) are not made when due-for-payment.

The current statistical manuals follow two separate bases for time of recording for repayments of debts.

Background

In general, all macroeconomic statistics use the accrual basis for determining time of recording. However, the treatment differs for arrears.

The *External Debt Guide* defines arrears as amounts that are past due-for-payment and unpaid.

The time of recording basis followed in the *BPM5, External Debt Guide, GFSM 2001* is that when a debt liability goes into arrears, transactions are imputed as if the repayment of debt liability had been made and a new short-term liability created. This time of recording basis conforms with the due-for-payment basis.

Background

The treatment followed in the *1993 SNA* and *MFSM 2000* is that repayments of debts are recorded when they are extinguished (paid, rescheduled, or forgiven by the creditor). This time of recording basis conforms with the accrual basis. Under this approach, arrears will continue to be shown in the same instrument until the liability is extinguished.

When a liability goes into arrears, the terms and characteristics of the entire liability or only the portion in arrears may change. If the terms and conditions change with respect to any part of the liability, that part is to be treated as a separate instrument. However, the *1993 SNA* does not discuss this issue specifically (for example, to treat such events as transactions similar to debt reorganizations or as other changes due to reclassification of instruments).

No change in terms and conditions – options

Two possible alternative treatments for recording of arrears that do not change the terms and conditions of the instrument. They are:

- (1) imputation of transactions that the liability had been repaid and then replaced by a new short-term debt (representing the arrears), or
- (2) no imputation of transactions but continuing to show arrears in the same instrument until the liability is extinguished, but either requiring arrears to be shown in the balance sheets as a sub-group under relevant instrument or to be shown as a memorandum items.

Change in terms - options

If the terms and characteristics of financial instruments change when a liability goes into arrears, the *1993 SNA* approach could be clarified as to whether the change in characteristics of financial instruments should be treated

- (1) as transactions (extinction of the old liability and creation of a new), or
- (2) as other changes in financial assets and liabilities due to reclassification of instruments.

Recommendations (1)

- Time of recording and treatment of arrears should be harmonized in the various macro-economic statistics.
- No transactions should be imputed when a liability goes into arrears (i.e., the debt continues to be recorded in the original instrument).
- If the original contract provided for a change in the characteristics of a financial instrument when it goes into arrears, this change should be recorded as a reclassification in the other change in volume of assets account.

Recommendations (2)

- If the contract is renegotiated, the consequences are to be recorded as new transactions.
- These issues should be included in the paper concerning non-performing loans which the IMF has agreed to prepare.