F.9 Valuation of Loans (Fair Value): Outcome of Global Consultation [1]

The global consultation[2] revealed that from a conceptual perspective, a large majority of respondents favored maintaining the current nominal valuation (Option 1) over Option 2 (shifting to fair valuation). Within option 1, a slightly higher proportion of the respondents supported the recommended Option 1b, namely retaining the nominal valuation allowing for value resets beyond cases of bankruptcy and liquidation when there is public evidence of loan deterioration, relative to Option 1a (status quo). On practicality issues, half of the respondents affirmed having access to the relevant source data for the implementation of Option 1b.

The GN F.9 *is presented to the IMF's Balance of Payments Statistics Committee (the Committee) and the Advisory Expert Group on National Accounts (AEG) for final decision.*

1. *What option do you favor for the valuation of loans: nominal value (Option 1) or fair value (Option 2)?*

- **There was wide support for Option 1 (89 percent).**

Respondents favoring Option 1 generally agreed that nominal valuation is the best approach to ensure symmetry between a creditor and debtor, an important parameter for data comparability across institutional sectors and economies. Nominal valuation is also regarded as the basis of recording that properly reflects the legal obligations of the debtor. It was noted that loans are generally non-tradable instruments, thus nominal valuation should continue to be broadly acceptable. From an analytical point of view, some respondents do not see that shifting from nominal to fair valuation would have a high added value and consider that the current standards (including the memorandum items) are sufficient to cover user needs.

Six percent of the respondents favoring Option 2 considered that fair valuation measures the approximated market value of the loan positions and transactions of the institutional sectors, and therefore it provides the correct picture of the loan assets and the credit situation in the economy. However, these respondents recognized that the implementation of the fair valuation is challenging. For instance, scarcity of resources, limited availability of data sources, asymmetries resulting from different debtor/creditor assessments are among the relevant challenges to adopt this approach.

2. *If nominal value (Option 1) is the preferred option, do you favor the status-quo of the existing treatment (Option 1a), or its extension allowing for value reset in extraordinary events publicly known (Option 1b)?*

The majority of respondents (55 percent) supported the recommended Option 1b.

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[1] Prepared by FITT Secretariat and approved by FITT Co-chairs.

[2] The joint global consultation on the guidance note (GN) *F.9 "Valuation of Loans (Fair Value)"* among both national accounts and balance of payments communities took place during the period September 23—October 20, 2021, collecting input from 66 respondents representing 56 economies (Annex I provides comprehensive information on the results of the global consultation). European countries had the largest participation (44 percent), followed by Asia and Pacific countries (17 percent), Middle East and Central Asia and Western Hemisphere countries (each,14 per cent) and African countries (9 percent).

Option 1b was considered as striking the right balance among the proposed options in the GN. Whilst it retains the advantages of maintaining symmetry of data between debtors and creditors, it also provides the flexibility of resetting loan values under additional specific circumstances, where the nominal value of the loan is not reflective of its actual value. Option 1b is viewed as able to improve the analytical use of macroeconomic statistics for fiscal and financial stability analysis while minimizing the burden of continuous valuation changes that arise with fair valuation. Compared with Option 2, it is also favored due to data availability concerns—a radical shift to fair valuation could pose difficulties for data providers (e.g., data on aggregate loan loss provisions in the banking sector are generally available, while their breakdown by counterpart sector is not always available; data of non-performing loans is sensitive to some sectors. Respondents may refuse to provide accurate data for compilation). It was also noted that clear guidance and further clarifications on loan valuation should be provided in the updated manuals to ensure consistent recording in different statistical domains and countries.

Option 1a gained support from 33 percent of the respondents.

Respondents in favor of Option 1a argued that the current methodological and compilation framework is clear and prevent asymmetries. Some of them also commented that any market valuation of loans—even in the limited scope of Option 1b—would be subjective, and hence potentially create asymmetries. Option 1a was preferred given that Option 1b is foreseen as too broadly defined with lack of clarity for its successful implementation, and also lack of consideration of the broader framework, including implications for the accrual of interest and FISIM.

Interestingly, 32 respondents indicated having access to the relevant source data to implement Option 1b, 18 indicated not having access to such source data, and others did not respond. Thirteen of these respondents also affirmed that their institutions would be interested in participating in an experimental testing exercise to implement this option, with nine of them indicating a need for technical assistance.

3. *If fair value (Option 2) is chosen instead of nominal value, would you prefer shifting to a full fair value approach (Option 2.b) or its simplified version (Option 2.a) based on the measurement of nominal value less expected loan losses?*

There was scarce support for both Option 2a (5 percent) and Option 2b (1 percent)

On a practical perspective, Option 2a, a simplified approximation of the market value, was considered more feasible for implementation than Option 2b by using existing data sources. Eight respondents confirmed having access to the relevant source data to implement Option 2a, while only two respondents confirmed this for Option 2b. The latter was considered as not feasible because it would require a large amount of new source data for its implementation. Adopting full fair value would also potentially add asymmetries across countries.

Annex I. Results of the Global Consultation

Table 1. Respondent Countries (in Alphabetical Order)

1	Argentina	WHD	29	Malaysia	APD
2	Armenia	MCD	30	Malta	EUR
3	Australia	APD	31	Mauritius	AFR
4	Austria	EUR	32	Mexico	WHD
5	Azerbaijan	MCD	33	Moldova	EUR
6	Bahamas	WHD	34	Morocco	MCD
7	Belarus	EUR	35	Netherlands	EUR
8	Belgium	EUR	36	New Zealand	APD
9	Botswana	AFR	37	Nicaragua	WHD
10	Brazil	WHD	38	Norway	EUR
11	Cameroon	AFR	39	Peru	WHD
12	Canada	WHD	40	Philippines	APD
13	China	APD	41	Poland	EUR
14	Colombia	WHD	42	Portugal	EUR
15	Cyprus	EUR	43	Qatar	MCD
16	Finland	EUR	44	Romania	EUR
17	France	EUR	45	Saudi Arabia	MCD
18	Germany	EUR	46	Singapore	APD
19	Hong Kong (SAR China)	APD	47	Slovakia	EUR
20	Indonesia	APD	48	South Africa	AFR
21	Israel	EUR	49	Spain	EUR
22	Italy	EUR	50	Sweden	EUR
23	Japan	APD	51	Switzerland	EUR
24	Jordan	MCD	52	Thailand	APD
25	Latvia	EUR	53	Turkey	EUR
26	Lebanon	MCD	54	Ukraine	EUR
27	Lithuania	EUR	55	United Kingdom	EUR
28	Malawi	AFR	56	Uzbekistan	MCD

Table 2. Responses to the Global Consultation Questionnaire

<table>
<tr><th colspan="2">Questions</th><th>Number of Responses</th><th>%</th></tr>
<tr><td colspan="4">2. Your response concerns which area of macroeconomic statistics:</td></tr>
<tr><td colspan="2">National Accounts</td><td>14</td><td>21%</td></tr>
<tr><td colspan="2">Balance of Payments</td><td>25</td><td>38%</td></tr>
<tr><td colspan="2">Both National Accounts and Balance of Payments</td><td>27</td><td>41%</td></tr>
<tr><td colspan="2">Total</td><td>66</td><td>100%</td></tr>
<tr><td colspan="4">Conceptual Issues/Recommendations</td></tr>
<tr><td colspan="4">3. The guidance note (GN) examines the current nominal valuation principle for loans. Paragraph 14 presents options proposing either to maintain the existing framework (Option 1) or to change it by shifting from nominal to fair valuation (Option 2). On a conceptual level, what proposed option do you favor for the valuation of loans?</td></tr>
<tr><td colspan="2">Option 1</td><td>59</td><td>89%</td></tr>
<tr><td colspan="2">Option 2</td><td>4</td><td>6%</td></tr>
<tr><td colspan="2">Undecided</td><td>3</td><td>5%</td></tr>
<tr><td colspan="2">Total</td><td>66</td><td>100%</td></tr>
<tr><td colspan="2">4. Please provide arguments in support of your response for Q3:</td><td>0</td><td></td></tr>
<tr><td colspan="4">5. If nominal value (Option 1) is your preferred option from a conceptual point of view, what sub-option do you favor from those proposed in paragraph 14 of the GN?</td></tr>
<tr><td colspan="2">Option 1a: do not change the current valuation of loans and leave in the updated SNA and BPM the provisions recommending that loans be recorded in the balance sheets of both creditors and debtors at nominal value</td><td>22</td><td>33%</td></tr>
<tr><td colspan="2">Option 1b: Retain the recommendation to measure loans at nominal value and improve and clarify the updated SNA and BPM guidance within the limits of the existing framework, allowing for value reset beyond cases of bankruptcy and liquidation when there is public evidence of loan deterioration</td><td>36</td><td>55%</td></tr>
<tr><td colspan="2">Undecided</td><td>1</td><td>1%</td></tr>
<tr><td colspan="2">Subtotal</td><td>59</td><td>89%</td></tr>
<tr><td colspan="2">6. Please provide arguments in support of your response for Q5. (see below)</td><td></td><td></td></tr>
<tr><td colspan="4">7. If fair value (Option 2) is your preferred option from a conceptual point of view, what sub-option do you favor from those proposed in paragraph 14 of the GN?</td></tr>
<tr><td colspan="2">Option 2a: Change the existing valuation rules in the updated SNA and BPM, shifting to a simplified estimate for fair value, based on nominal value less expected loan losses</td><td>3</td><td>5%</td></tr>
<tr><td colspan="2">Option 2b: Change the existing valuation rules in the updated SNA and BPM, shifting to full fair valuation at any time for all loans in the core accounts</td><td>1</td><td>1%</td></tr>
<tr><td colspan="2">Subtotal</td><td>4</td><td>6%</td></tr>
<tr><td colspan="2">8. Please provide arguments in support of your response in Q7 (see below)</td><td></td><td></td></tr>
<tr><td colspan="4">Practical Implementation</td></tr>
<tr><td colspan="4">9. From a practical perspective, does your institution have access to the relevant source data to implement?</td></tr>
<tr><td rowspan="3">Option1b</td><td>Yes</td><td>32</td><td>50%</td></tr>
<tr><td>No</td><td>32</td><td>50%</td></tr>
<tr><td>Total</td><td>64</td><td>100%</td></tr>
<tr><td rowspan="3">Option 2a</td><td>Yes</td><td>8</td><td>14%</td></tr>
<tr><td>No</td><td>48</td><td>84%</td></tr>
<tr><td>Total</td><td>57</td><td>100%</td></tr>
<tr><td rowspan="3">Option 2b</td><td>Yes</td><td>2</td><td>4%</td></tr>
<tr><td>No</td><td>55</td><td>96%</td></tr>
<tr><td>Total</td><td>57</td><td>100%</td></tr>
</table>

Questions		Number of Responses	%
10. For Option 1b, Option 2a, and Option 2b, please select any challenges you would face in implementing any of them in practice.			
Option1b	Technical Capacity	33	43%
	Others	40	52%
	Total	77	100%
Option 2a	Technical Capacity	22	34%
	Others	43	66%
	Total	65	100%
Option 2b	Technical Capacity	26	40%
	Others	39	60%
	Total	65	100%
11. Would your institution be interested in participating in an experimental estimates exercise to implement any of the options identified below?			
Option1b	Yes	13	42%
	No	18	58%
	Total	31	100%
Option 2a	Yes	0	0%
	No	9	100%
	Total	9	100%
Option 2b	Yes	1	50%
	No	1	50%
	Total	2	100%
12. If your institution is interested in participating in an experimental estimates exercise, would you need to receive technical assistance? (Affirmative responses)			
Option 1b		9	
Option 2a		0	
Option 2b		1	

Comments supporting selected option (Questions 5 and 6) (sorted by time of submission)

Comments from respondents supporting Option 1a:

1. Further research is required to assess the impact of 1b. It might be difficult to implement from a technical point of view.
2. We favor option 1a. Only this option grants symmetry and consistency across countries. All other options face the problem that creditor and debtor statistics are likely to use different information or estimation techniques, thus creating asymmetries. There is not any publicly available information, which are necessary for a fair price revaluation of loans by both sides, i.e. the creditor and the debtor. Therefore, any market valuation of loans – even in the limited scope of 1b) - would be subjective, and hence create asymmetries between the countries of the parties involved. In our view this disadvantage weighs heavier than the advantages, e.g., valuation closer to market prices and creditor´s view.
3. The current data on loans obtained from the [Name of the organization] are valuated at nominal value and it will be difficult to find more detail information on loan deterioration in advance in line with the quality of data. The data at nominal values may be less misleading compared to the estimates valuated at fair values.
4. Option 1a is preferred because of the availability of data. In addition, it is important to maintain symmetry between debtors and creditors
5. [Name of the organization] is not a financial authority, therefore the realization the Financial Account is carried out with the support and contribution informants' data, mainly the central bank. We don't have the necessary openness of the information that could allow us.
6. The reasons for favoring the debtor's view remain stronger. This prevents the debtor's debt from varying over time, and in particular downwards when their credit quality declines.

7. The debt figures on the liabilities side of NFCs and households are particularly monitored so it is easier for users to have them in nominal value in the core accounts.
8. Moreover, the question is on the source to have market price for loans. IFRS create asymmetries because of a different treatment for creditor and debtor (the worst case is envisaged in both cases, which is the role for accounting but nor for national accounts nor ESS). Other sources of information might be available for only one counterpart country, thus leading to differences in mirror data in ESS.
9. We are in favor of option 1a as the framework is clear and prevent asymmetries, whereas option 1b lacks clarity: in our opinion, it is not explicit enough to be implemented; concrete examples should be given.
10. To include more loan provisions on loan debt will underestimate the debt for important sectors like the households, public sector and non-financial companies. The households' debt rates are calculated from the financial accounts. Our data will be less relevant for external users if it doesn't show the sectors own debt burden. In addition, option 1b compared to 1a will require more manual work and our human resources are very limited. Information on extraordinary events may be delivered voluntary in a supplementary table.
11. The views on the sub-option are split. While option 1a would be easier to implement. The option 1b could lead to better valuation, unless there will be some asymmetries in recording.
12. Practical difficulties associated with a market valuation approach.
13. "The current standards (including the memorandum items) are sufficient to cover the user needs. The wording "when there is public evidence of loan deterioration" is too broadly defined. I believe that by making adjustments as there is no real guidance on making them and would probably introduce asymmetries between counterpart countries. There could also be implications to the accrual of interest and FISIM not to mention how they would impact the financial account.
14. "Fair value" estimates are based on forecasts and on non-standardized estimation methodologies, which makes it difficult for comparability and consistency of the figures. "Fair value" can also generate valuation asymmetries between the creditor and the debtor affecting the consistency of the quadruple-entry accounting (creditor valuation could not match with the debtor valuation). "Fair value" might also affect international comparability.
15. It is no easy to agree on a method that guarantees that valuations of loans are coherent and consistent between debtors and creditors (otherwise, asymmetries might arise). Plus, the fact that there isn't an agreed criterion on what should be considered as "public evidence" of credit deterioration.
16. Given that the public external debt of [Name of the country] is with official creditors, loans are recorded at nominal value.
17. The detailed information obtained from the survey is needed to be able to incorporate debt instruments with related companies into the debt.
18. Given the information is currently provided in nominal value there would be less statistical burden for the compiler. Historically, cases such as bankruptcy and liquidation have not been prevalent in this jurisdiction.

Comments from respondents supporting Option 1b.

1. Retaining consistency with the existing SNA and BPM frameworks and allowing for value reset even beyond cases of bankruptcy and liquidation.
2. This option will maintain the nominal value which is easier to use in practical terms but with guidance for improving existing guidelines. This way of doing things is likely to take into account new situations not now included in the conceptual framework of BPM6.
3. We can get information on liquidated enterprises as of certain date. This information can be used to request respondents to modify data submitted. In our case respondents are banks and sometimes they cannot get in touch with the company that is inactive (for some reasons). One caveat is that some assets and liabilities of liquidated companies can be transferred to new companies during liquidation process or even afterwards.
4. Fair valuation is not relevant to the extent credit risk is contingent and not materialized. Also, fair values for loans are not observable as market values are for portfolio investment instruments. Therefore, fair valuation for loans would requires estimations methods subject to a wide margin for discretion.
5. May we note that our response concerns the National Accounts and MFSM. To maintain symmetry and consistency in recording between debtors and creditors, especially in the compilations that could follow a three-dimensional presentation, e.g., BSA and FOF. Keen on retaining the current recording practice as this will help improve the measurement of financial positions that may be useful in financial stability analysis. Nonetheless, we remain open to exploratory activities that could provide more information or better capture the changing financial landscape/nature of transactions. Statistical compilation is a dynamic exercise that necessarily changes over time to better adapt to financial developments.
6. The overestimated value of ED has a negative impact on ASD and could have a negative impact on country opportunities for new funding. The final decisions of the courts could be taken after a long period of time, during which the value of ED and IIP will not correspond to reality. The new clearly established conditions for resetting the value will provide the possibility to reflect more accurate data for loans, ED, IIP.
7. I am of the view that loan deterioration should be considered.
8. Allowing to improve measurement of financial positions.

9. Nominal value is inherently symmetrical between a creditor and debtor which is core feature of quadruple entry accounting. It also best reflects the legal obligations of the debtor. Under fair value, an increase in debtor net worth following a decline in creditworthiness is unintuitive and difficult to interpret so should be avoided in the core accounts. Further, a fair value does not capture all the considerations of financial stability from a creditor perspective and is highly susceptible to arbitrary changes to the underlying assumptions of present value and expected losses. As such, we believe fair value is better suited as a memorandum item (potentially alongside other indicators in a financial risk framework that can evolve independently of the SNA) and that more focus on these items may be warranted in exceptional circumstances to demonstrate the impact of widespread loan loss provisions on the creditor accounts. The methodological concerns raised by the 2008 GFC could be largely addressed by extending the criteria for value reset. But these criteria should be restricted to extraordinary situations (which will often require government intervention) on the grounds of practicality, materiality at the published level, and sufficient public evidence of deterioration.
10. Valuation of loans at nominal value is more realistic in the case of [Name of the country]. However, some adjustments in financial positions of loans will to some extent align to market valuation.
11. (i) Consistency of datasets reported by debtors and creditors under the nominal valuation principle. Adopting the fair valuation principle might affect the consistency and hence the comparability of datasets; (ii) Practical difficulties associated with the principle of fair valuation of loans. Valuation of assets are usually not done on a regular basis. Hence, obtaining fair values of loans from source data reporters may prove to be challenging. Quality of data reported may also turn out to be a cause of concern. Option 1 (b) appears to be the most favored option since it proposes the right balance between the two proposals. Whilst it retains the advantages of maintaining symmetry of data between debtors and creditors, it would also provide the flexibility of reviewing valuation of loans under additional specific circumstances, where the nominal value of the loan is not reflective of its actual value. It is understood that the updated guidance would provide clear guidelines as to the circumstances where loan values may be reviewed, beyond the cases of bankruptcy, liquidation, and court decisions.
12. Allowing to improve measurement of financial positions.
13. Option 1b caters extraordinary events or formal procedures that changes the loan value and is less radical than the fair valuation of all loans that might be easier to apply.
14. We welcome any clarification related to public evidence of loan deterioration cases. Clear classification criteria should be included in SNA/BPM in order to minimize asymmetries between countries. [Name of the organization] long term loan database is continuously updated with respect to 1b option, following the recommendation to improve and clarify loan database according to the public evidence of loan deterioration.
15. Symmetry between debtor and creditor data is very important, especially for cross-border loans. Furthermore, our users do not have a strong demand of this kind of details, and we do not see that shifting from nominal to fair valuation would have a high added value from an analytical point of view (especially if we take into account that our data sources do not have these details and we do not consider the cost/benefit would be balanced for implementation). Regarding option 1b, a clear guidance on the cases that would involve value resets is very necessary. On the other hand, as the loan portfolio for the public sector is a source of possible issues, provisions contained for instance in the MGGDD should be borne in mind.
16. Option 1b will enhance fiscal and financial stability analysis while minimizing the burden of continuous valuation changes that arise with fair value valuation. We are agreeable for a loan reset, provided clear guidance and further clarifications to loan valuation and data recording be published and provided in the updated SNA and BPM, to ensure consistent recording among data compilers.
17. I agree with the Option 1 - Maintaining the Current Nominal Valuation in the SNA and BPM. Because loans are not actively bought and sold in the market and fair value is not applied in principle in the international accounting standards (IFRS etc.). There is no objection to the current treatment that fair value of loans is shown as a memorandum item for creditors, since it indicates the value of the loans that are impaired. And it is welcome for us to improve and clarify the updated SNA and BPM guidance within the existing framework. Loan value reset should be based on a public evidence like court orders. So, the updated manual should indicate the basis of the loan value reset clearly as possible in order to minimize uncertainty and avoid global inconsistency of recording, especially in terms of compiling BOP.
18. Option 1b helps addressing some of the issues related to overstating the value of loans while maintaining symmetry between debtor and creditor records and implying minimum changes to the current standards.
19. Option 1 is favored mainly due to data availability concerns. A shift to fair valuation (Option 2) would cause difficulties on several data sources. Moreover, as discussed on the GN, nominal value is seen as the easiest alternative to achieve symmetry between debtor and creditor records. It also remains unaffected when repayment becomes uncertain and therefore prevents possible underestimation of debt and artificial improvement of the debtor's net worth. As such, maintaining nominal valuation of loans is a better option. The proposed solution of Option 1b is to improve the existing guidance by extending the possibility of resetting loan values beyond cases of bankruptcy, liquidation, and court decision. This would somewhat improve the

measurement of the financial positions, as discussed on the GN, which could lead to a better estimation process and financial stability analysis of the (BOP) compilers while working with minimized data availability concerns.

20. The symmetry on the accounts of the creditor and the debtor is preserved. Nominal value reflects the amount of debt that the debtor owes the creditor.
21. In our experience, loans are extracted from positions in the financial sector balance sheets at nominal value including accrued interest less any repayments. The valuation of high-risk loans at market value will allow its measurement from the creditor's viewpoint.
22. This better reflects the underlying events.
23. Concept on proper valuation of loans should be drawn from the majority of cases/typical characteristics of loans. Loans are by nature not tradeable; therefore, they should be recorded at the value upon which the creditors and debtors agree and transacted upon, which is 'nominal value'. Alternative valuation should be a supplementary item and applicable to NPLs, cases of loan deterioration only.
24. [A reference to the name of the organization] Symmetry between debtor and creditor data is very important, especially for cross-border loans. Furthermore, we do not see in our users a strong demand of this kind of details, and we do not see that shifting from nominal to fair valuation would have a high added value from an analytical point of view (it could be negative for them if we follow different methods for International Investment Position and Financial Accounts on one hand and for Monetary Statistics on the other hand). We also have to take into account that our data sources do not have these details and we do not consider the cost/benefit would be balanced for implementation. Regarding option 1b, a clear guidance on the cases that would involve value resets is very necessary. On the other hand, as the loan portfolio for the public sector is a source of possible issues, provisions contained for instance in the MGGDD should be borne in mind.
25. We support Option 1b, since it provides an acceptable balance between improving the measurement of financial positions when significant public events occur and minimizing the burden of changes and chances for cross-border inconsistencies.
26. From the conceptual point of view, strictly speaking, to use a fair value for loans better describe the economic meaningful of this instrument, and it is more consistent with the market value general guidance. However, debtor/creditor different assessments (and asymmetries derived), added to scarce data sources, seems a barrier to adopt the fair value approach. Try to improve the nominal value measurement considering special cases of evident loan deterioration seems a better option.
27. Option 1b is a reasonable option as it subsumes the current approach used in our estimation framework whereby all loans are estimated at a gross (i.e., nominal) rather than net (less ECL) value. This helps ensure symmetry between debtors with creditors and aligns with the current collection methods and concepts for the majority of our creditor supplied loan information. It does not impose any additional burden for a system that is already producing very detail and high-quality estimates in both an aggregate and from- whom-to-whom structure. Additionally, estimates of ECL by deposit-taking institutions, although in alignment with international accounting standards still rely on assumptions and methods that vary across these instructions especially when the ECL values are requested at the loan product level. This makes other options such as 2a potentially less reliable given the current data collection regime. Finally, option 1b provides the optional extension of revaluing loan balances to account for situations where explicit write-offs may not fully capture changes in the quality of loans. However, as the guidance note states the guidelines on when to recognize these events would need to be tightly defined and limited in scope. If this is not practical and clear guidance cannot be given, then it may be preferred to drop it as part of option 1.
28. From a GFS perspective and taking into account SNA/BoP constraints and considerations, we believe option 1b is the best option. The ability to adjust nominal value beyond cases of bankruptcy and liquidation when there is public evidence/almost certainty of loan deterioration is an improvement over the existing guidelines. The nominal value ensures consistency with the debtor accounting standards (businesses, public sector) and facilitates valuation symmetry in core accounts, including GFS transactions and balance sheet. It is also consistent with the principle that a debt legally remains a debt unless an arrangement is made with the creditor (or there is a default). We would like to stress the importance of market/fair value as a memorandum item in the balance sheet for non-performing loans. However, we recognize that the valuation of loans at market value appears attractive and would be more consistent with the recommended valuation of debt securities (the creditor point of view). The market/fair value for loans would also be more in line with current international business and public sector accounting standards and provide more reliable information on the financial position of the creditor (this treatment is partially adopted in the [Name of the country] GFS when accounting information at the source of estimates is deemed reliable – this is essentially an adjustment of the timing of recording other changes in the volume of assets and liabilities (write-offs). We must recognize that the nominal valuation of loans also poses challenges for compilers (to distinguish acquisitions/repayments of loans with write-offs) especially in the public sector when loans are reported on a net basis (gross value of loans minus allowances/provisions for doubtful accounts). However, important issues remain with market/fair valuation, such as the potential asymmetry (judgment, different methods) in valuation of financial claims.

29. The core problem of option 2 is achieving cross-country consistency that affects the quadruple entry system when creditor records do not match those of debtors. Clarifying the “other factors” leading to a loan reset would be useful.
30. The value times reset in cases of bankruptcy and liquidation would provide flexibility in accounting especially in uncertain times.
31. Loans in general are not traded in the market and therefore it is not easy to associate a market value and therefore its nominal value is considered acceptable. The option 1b allows for progress in the valuation of loans by considering possible loan deterioration, providing a better view of the financial position and a change to the creditor's point of view.
32. Nominal value is more available, and easier to agree between debtors and creditors. When the outbreak of 2008 great financial crisis or other efforts come again, could make appropriate adjustments to nominal value.

Comments from respondents supporting Option 2a:

1. Option 2b is from practical point of view not feasible. Furthermore, in case of option 2b information on nominal values is still necessary. For example, private debt may rise enormously in case of rising interest rates (with fixed interest loans). Regarding option 1b we are not sure if cases 'of public evidence' will be clear enough in the future. It also feels a bit arbitrary: cases of 'public evidence' are recorded differently from cases with no public evidence. However, 1b might be better than fully sticking to nominal value (option 1a). Regarding option 2a, the level of required information on the memorandum item is important. We are not sure if reporting agents have data available on provisions on the level of individual country of counterparty and sector of counterparty.
2. Arguments for option 2 vs option 1: We believe that the market value of financial instruments is a better way to portray the reality. In this sense, although loans are not usually traded on the market and therefore it is difficult to argue that there is an observable market price for this type of asset, there are reasons to recognize an allowance for impairments in the core accounts. Nevertheless, our answer is from a purely conceptual point of view. In fact, this option is more challenging in terms of availability of information and uncertain in terms of international comparability symmetry of the system and bilateral consistency. Therefore, from a pragmatic perspective, option1b could be a possible way forward allowing countries to improve estimation methods, developing specific guidance in this respect and to better explore ways to reconciliate figures at international level and to ensure the plausibility of cross-country comparisons. Arguments for option 2a vs option 2b: Option 2a would rely on available sources, and, therefore, on official balance sheets of credit institutions. The recording of impairments by these institutions would be a justification for the decreased recording in the accounts. Adopting full fair value, to be calculated by compilers, would add additional asymmetries across countries national accounts.
3. Fair value measures the approximated market value of the loan stocks and transactions of the institutional sectors and provides the correct picture of the credit situation in the economy. This option provides the simplified approximation of the market value.

Comments from respondents supporting Option 2b:

1. The [Name of the organization] favors the fair value (Option 2) for the valuation of loans. The reason for this is the recognition of the importance to be (i) consistent with the core guidance in the SNA/BPM which prescribes market valuation; (ii) be closer in proximity to accounting standards (IAS and IFRS). From a compilation perspective, it is advantageous for statistical reporting to be closer to frameworks applied by financial reporting; (iii) keep measures consistent to enable analysis of financial stability, especially during times of crisis such as the GFC, For example, to have accurate treatment of non-performing loans in core accounts; and (iv) keep the current status quo, by including memorandum items for loans on a fair value basis, and not integrated with other indicators derived from SNA/BPM core accounts. Of the two options within Option 2, the [Name of the organization] prefers Option 2b, however, if practical implementation is too challenging, Option 2(a) should be accepted as a minimum. With regard to Option 2b, while the guidance note indicates there are many practical issues in implementing, it also notes: (i) there are many guidance materiel available in the statistical compilation manual (due to fair value being a memorandum item); (ii) guidance is already provided through accounting standards; and (iii) fair value reporting is provided through financial reporting by business. With regard to Option 2 (a) at a minimum, data for compilation is available in [Name of the country] and currently the [Name of the country] National Accounts includes this option 2(a) in the core accounts.