

# What is Financial Account?

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## What is Financial Account?

The financial account is the final account in the full sequence of accounts that records transactions between institutional units. Net saving is the balancing item of the use of income accounts, and net saving plus net capital transfers receivable or payable can be used to accumulate non-financial assets. If they are not exhausted in this way, the resulting surplus is called net lending.

The financial account records transactions that involve financial assets and liabilities and that take place between resident institutional units and between resident institutional units and the rest of the world. The left-hand side of the account records acquisitions of financial assets less disposals, while the right-hand side records incurrence of liabilities less their repayment.

## Financial assets and liabilities

An asset is a store of value representing a benefit or series of benefits accruing to the economic owner by holding or using the entity over a period of time. It is a means of carrying forward value from one accounting period to another.

Financial assets consist of all financial claims, shares or other equity in corporations plus gold bullion held by monetary authorities as a reserve asset. Gold bullion held by monetary authorities as a reserve asset is treated as a financial asset even though the holders do not have a claim on other designated units. Shares are treated as financial assets even though the financial claim their holders have on the corporation is not a fixed or predetermined monetary amount.

## **Counterparts of non-financial transactions**

Transactions involving the transfer of ownership of a good or non-financial asset, or the provision of a service or labour almost always entail a counterpart entry in the financial account for means of payment or claims on future means of payment. Even many transactions in kind, such as barter sales and remuneration in kind, conceptually lead to entries in the financial account.

## **Exchanges of financial assets and liabilities**

Whenever one financial asset is exchanged for another or when a liability is repaid with a financial asset, transactions are recorded only in the financial account. These transactions change the distribution of the portfolio of financial assets and liabilities and may change the totals of both financial assets and liabilities, but they do not change the difference between total financial assets and liabilities. For example, trade credits are extinguished by payments.

## Net lending

Some sectors or subsectors are net lenders while others are net borrowers. When institutional units engage in financial transactions with each other, the surplus resources of one sector can be made available by the units concerned for use by other sectors.

The financial account indicates how deficit, or net borrowing, sectors obtain the necessary financial resources by incurring liabilities or reducing assets and how the net lending sectors allocate their surpluses by acquiring financial assets or reducing liabilities. The account also shows the relative contributions of various categories of financial assets to these transactions.

**Table : The financial account**

Changes in assets

| Transactions and balancing items | Non-financial corporations | Financial corporations | General government | Households | NPISHs | Total economy | Rest of the world | Goods and services | Total |
|----------------------------------|----------------------------|------------------------|--------------------|------------|--------|---------------|-------------------|--------------------|-------|
|----------------------------------|----------------------------|------------------------|--------------------|------------|--------|---------------|-------------------|--------------------|-------|

Net acquisition of financial assets

- Monetary gold and SDRs
- Currency and deposits
- Debt securities
- Loans
- Equity and investment fund shares
- Insurance, pension and standardized guarantee schemes
- Financial derivatives and employee stock options
- Other accounts receivable/payable

Changes in liabilities and net worth

| Transactions and balancing items                      | Non- financial corporations | Financial corporations | General government | Households | NPISHs | Total economy | Rest of the world | Goods and services | Total |
|---|-----------------------------|------------------------|--------------------|------------|--------|---------------|-------------------|--------------------|-------|
| Net lending (+) / net borrowing (-)                   |                             |                        |                    |            |        |               |                   |                    |       |
| Net acquisition of liabilities                        |                             |                        |                    |            |        |               |                   |                    |       |
| Monetary gold and SDRs                                |                             |                        |                    |            |        |               |                   |                    |       |
| Currency and deposits                                 |                             |                        |                    |            |        |               |                   |                    |       |
| Debt securities                                       |                             |                        |                    |            |        |               |                   |                    |       |
| Loans   |                             |                        |                    |            |        |               |                   |                    |       |
| Equity and investment fund shares                     |                             |                        |                    |            |        |               |                   |                    |       |
| Insurance, pension and standardized guarantee schemes |                             |                        |                    |            |        |               |                   |                    |       |
| Financial derivatives and employee stock options      |                             |                        |                    |            |        |               |                   |                    |       |
| Other accounts receivable/payable                     |                             |                        |                    |            |        |               |                   |                    |       |



## The classification of financial assets and liabilities

Because of the symmetry of financial claims and liabilities, the same classification can be used to portray both assets and liabilities. Further, the same classification is used in all accumulation accounts for financial transactions.

Within the SNA, the term “instrument” may be used to relate to the asset or liability aspect of an item on the financial balance sheet. In monetary statistics, some off-balance sheet items may also be described as instruments. The use of the same term in the SNA is for convenience only and does not imply an extension of the coverage of assets and liabilities to include these off-balance-sheet items.

## Valuation of transactions

The payments required under a contract relating to financial assets and liabilities almost always represent more than one transaction in the sense used in the SNA.

Payments of interest on loans and deposits, as specified by financial institutions, involve both interest as recorded in the SNA and a service fee, which is the service payment to the financial institution for making the loan available or safeguarding the deposit.

The buying and selling prices for foreign currency and shares are usually different; the difference between the buying price and mid-price represents a service provided to and charged to the buyer and the difference between the mid-price and selling price a service provided to and charged to the seller.

## Valuation of transactions

For some financial instruments, for example a bond, the increase in value over time is taken to represent interest, not simply a price increase in the value of the asset. In some cases more than one adjustment may be needed to the apparent transaction value to identify and re-route both the service charge and interest associated with the asset.

It is essential that the value of the transactions in financial instruments recorded in the financial account carefully excludes these service charges and interest payments.

Financial transactions with respect to proprietors' net additions to the accumulation of equity in quasi-corporations and changes in households' claims on insurance companies and pension funds raise complex issues of valuation.

## Time of recording

In principle, the two parties to a financial transaction should record the transaction at the same point in time. When the counterpart to an entry in the financial account is in another account, the time of recording of financial claims is to be aligned with the time of recording in the other accounts of the transactions that gave rise to the financial claim.

For example, when sales of goods or services give rise to a trade credit, the entries in the financial accounts should take place when ownership of the goods is transferred or when the service is provided. Similarly, when accounts receivable or payable arise from transactions related to taxes, compensation of employees and other distributive transactions, the entries in the financial account should take place when the entries are made in the relevant non-financial account.

## Time of recording

When all entries relating to a transaction pertain only to the financial account, they should be recorded when the ownership of the asset is transferred. This point in time is usually clear when the transaction involves the sale of existing financial assets.

When the transaction involves the incurrence or redemption of a liability, both parties should record the transaction when the liability is incurred or redeemed. In most cases, this will occur when cash or some other financial asset is paid by the creditor to the debtor or repaid by the debtor to the creditor.

In practice, the two parties to a financial transaction may perceive the transaction as being completed at different points in time. This is especially true when trade credits or other accounts payable or receivable are extinguished by final payments and there is a lag between the point in time when payments are made and received, creating a “float”.

# Financial instruments

## Monetary gold

Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as a reserve asset. It comprises gold bullion (including gold held in allocated gold accounts) and unallocated gold accounts with non-residents that give title to claim the delivery of gold. All monetary gold is included in reserve assets or is held by international financial organizations. Only gold that is held as a financial asset and as a component of foreign reserves is classified as monetary gold. Therefore, except in limited institutional circumstances, gold bullion can be a financial asset only for the central bank or central government.

# Financial instruments

## SDRs

Special Drawing Rights (SDRs) are international reserve assets created by the International Monetary Fund (IMF) and allocated to its members to supplement existing reserve assets. The Special Drawing Rights Department of the IMF manages reserve assets by allocating SDRs among member countries of the IMF and certain international agencies (collectively known as the participants).

## Currency and deposits

Financial transactions in currency and deposits consist of additions to, or disposals of, currency and establishing or incrementing a deposit or making a withdrawal from it. In the case of a deposit, an apparent increase in the value may be due to the payment of interest on an existing stock level. Payments of bank interest are always separated into SNA interest and a charge for financial intermediation services indirectly measured (FISIM). SNA interest is first recorded in the distribution of primary income account and then may be recorded in the financial account as a new deposit. An increase in deposits may correspond to a rundown of currency or vice versa.

## Financial instruments

### Transferable deposits

Transferable deposits comprise all deposits that: a. are exchangeable for bank notes and coins on demand at par and without penalty or restriction; and b. are directly usable for making payments by cheque, draft, giro order, direct debit/credit, or other direct payment facility.



## Financial instruments

### Inter-bank positions

Though not strictly accurate, the term bank is frequently used as a synonym for the central bank and other deposit taking corporations. Banks take deposits from and make loans to all other sectors. There may also be substantial borrowing and lending within the banking subsector.

### Other deposits

Other deposits comprise all claims, other than transferable deposits, that are represented by evidence of deposit. Typical forms of deposits that should be included under this classification are savings deposits (which are always non-transferable), fixed-term deposits and nonnegotiable certificates of deposit. The category also covers shares or similar evidence of deposit issued by savings and loan associations, building societies, credit unions and the like.

## Financial instruments

### Financial derivatives

Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of the underlying item: the reference price. The reference price may relate to a commodity, a financial asset, an interest rate, an exchange rate, another derivative or a spread between two prices. The derivative contract may also refer to an index or a basket of prices.

# Financial instruments

## Options

Options are contracts that give the purchaser of the option the right, but not the obligation, to buy (a “call” option) or to sell (a “put” option) a particular financial instrument or commodity at a predetermined price (the “strike” price) within a given time span (American option) or on a given date (European option).

## Financial instruments

### Credit derivatives

The financial derivatives described in the previous paragraphs are related to market risk, which pertains to changes in the market prices of securities, commodities, interest and exchange rates.

Credit derivatives are financial derivatives whose primary purpose is to trade credit risk. They are designed for trading in loan and security default risk.

## Financial instruments

### Employee stock options (ESOs)

An employee stock option is an agreement made on a given date (the “grant” date) under which an employee may purchase a given number of shares of the employer’s stock at a stated price (the “strike” price) either at a stated time (the “vesting” date) or within a period of time (the “exercise” period) immediately following the vesting date.

### Other

This category includes accounts receivable and payable, other than those described previously, that is the amounts are not related to the provision of goods and services.

*Thank You...*