

European system of national and regional accounts (ESA 95): reclassification of settlements under swaps arrangements and under forward rate agreements

2000/0019(COD) - 10/01/2000 - Legislative proposal

PURPOSE : to amend the Council Regulation 2223/96/EC on the reclassification of settlements under swaps arrangements and under forward rate agreements. **CONTENTS** : This measure changes the classification of interest flows under swap contracts and forward rate agreements from income property to financial account transactions. The Commission considers it appropriate to record interest flows in financial transactions under the item financial derivatives, in order to bring this into line with other international standards. The main ground for the original classification was the cost of capital principle. This means that consideration must be given to both the interest flows exchanged under a swap contract and the interest paid/received on the underlying instrument, in order to get a fair measure of the exact cost of capital for a borrower. This treatment was viewed as raising conceptual problems from the beginning: - There is income flow but without provision of funds, thereby contradicting the definition of interest as the income receivable by the owner of a financial asset in return for providing funds. - Currently, the majority of swaps are purely speculative instruments. They may also be used in the framework of other financial derivatives operations. Several instruments can help manage interest risk and a comprehensive approach to all financial derivatives seems more consistent. - It was stressed that the argument concerning the cost of capital should not be confined to interest. Commodity futures, for example, may permit the reduction of the price paid by the buyer. - For reasons of consistency, it is also proposed that interest flows under cross-currency swaps (with an exchange of principal in two different currencies) be classified as financial account transactions.