3. Classification of Financial Instruments

Classification of financial instruments and identification of their nature is one of the most important phases for compilation and presentation of monetary statistics. Like other classifications used in monetary statistics, it is also advisable here to follow international standards that would help to make statistics comparable across countries' and ensure its unity. In carrying out classification, there will be a need to consider features of a country's banking and financial system paying a due regard to their development prospects.

Financial instruments are financial contracts of different nature made between institutional units. These comprise the full range of financial claims and liabilities between institutional units, including contingent liabilities like guarantees, commitments, etc. Financial asset is defined as any contract from which a financial claim may derive for one party and a financial liability or participation in equity for another.

Financial instrument can exist only between two institutional units. Where financial instruments are compounded, i.e. represent a set of several instruments, for compilation of statistics there will be a need to distinguish them into separate instruments so that each of them includes only a single pair of institutional units.

Financial assets are contracts that do not contain contingency, i.e., irrespective of any conditions, generate financial claims having demonstrable value over which ownership rights are enforced, individually or collectively, and from which economic benefits can be derived by using or holding them.

The concept of *financial instrument* is wider than the concept of *financial asset* as defined in the System of *National Accounts,* 1993. Thus, *financial instruments* are classified into *financial assets* and *other financial instruments*.

Classification of financial assets is based on their two principal characteristics, liquidity and legal characteristics.

Classification of financial instruments:

<table>
<tr><td rowspan="2">FINANCIAL INSTRUMENTS</td><td>FINANCIAL ASSETS</td><td>SDRs
Monetary gold
Currency
Deposits
Securities other than shares
Borrowings
Loans
Shares and other equity
Other accounts receivable/payable
Financial derivatives</td></tr>
<tr><td>OTHER FINANCIAL INSTRUMENTS</td><td>Letters of guarantee
Letters of credit
Financial commitments
Pledged financial assets</td></tr>
</table>

3.1. Monetary Gold and SDRs

Monetary gold and SDRs, issued by the IMF, are the only financial assets for which there are no corresponding financial liabilities.

Monetary gold - Monetary gold consists only of standard bullions of gold held by the central bank or government as part of official reserves. Monetary gold, therefore, can be a financial asset only for the central bank or government. Transactions with monetary gold are operations on purchase and sale of gold by authorities implementing monetary policy. These transactions are carried out between the central banks only or between the central banks and international financial organizations. For commercial banks, standard bullions of gold are not treated as monetary gold. Gold denominated deposits are treated as financial assets and classified as “gold”. Assets denominated in gold, which are not treated as part of official reserves, are classified as nonfinancial assets.

Gold and gold denominated deposits held by nonfinancial units and financial corporations (other than the central bank) are treated as nonmonetary gold. Operations on gold carried out by other sectors of economy are treated as operations on acquisition of values and disposal, and it is treated as nonfinancial asset.

SDRs – SDRs are international reserve assets[7] created by the IMF and allocated to member countries to supplement existing official reserves. SDRs are not treated as the IMF’s liability. SDRs are held only by the IMF member countries and by a limited number of international financial organizations. SDR holdings are held exclusively by official authorities, which are normally the central banks. Transactions in SDRs between the IMF members or between the IMF and its members are treated as financial transactions. SDR holdings represent unconditional rights to holders to obtain foreign exchange or other reserve assets from other IMF members.

3.2 Currency and Deposits

Currency and deposits are the most liquid financial assets consisting of notes and coins in circulation, all types of deposits in national currency and foreign currency.

Currency - Currency represents notes and coins in circulation, which are of fixed nominal values and have no dates of repayment. Issued notes and coins are considered liabilities of the central bank. Generally, currency is used for making payments. For statistical purposes, it is always necessary to distinguish between notes and coins issued by resident and nonresident central banks, i. e. separate national currency from foreign currency. If national currency is the country’s (the central bank’s) liability, foreign currency is other countries’ liability.

All sectors of economy and nonresidents can hold as an asset, but only monetary authorities or central banks are authorized to issue

[7] *Operations with the IMF are described in more detail in Section 6 of this Manual.*

it. In many countries, only national currency is included in monetary aggregates, as only the national currency can be used directly for (local) transactions between residents. In some countries, however, foreign currency circulates along with national currency, and hence it is important in the view of monetary policy to consider foreign currency in circulation.

Some countries issue gold and other precious metal-made coins, which theoretically can be used as a means of payment. Normally, such coins are held for numismatic value. If not in active circulation, such coins should be classified as nonfinancial assets.

Deposits - Deposits include all claims on the central bank and other depository corporations, represented as bank deposits. In some cases, other financial corporations may also accept deposits. Deposits of depository corporations can fall into two categories: transferable deposits and other deposits (nontransferable deposits). Normally, separate sub-categories are used for deposits denominated in national currency and for those in foreign currency.

Transferable deposits - Transferable deposits are deposits (in national and foreign currency) that are i) subject to payment on demand at par and without penalty or restriction, ii) directly usable for making payments by payment orders, checks, cards or other payment facilities, or otherwise usable as a means of payment or circulation. Transferable deposits comprise transferable deposits with resident and nonresident financial corporations. This category comprises also deposits that allow direct cash withdrawals but not direct transfers to third parties. All sectors of economy and nonresidents (the rest of the world) can open and operate transferable deposit accounts.

Other (nontransferable) deposits - Sub-category of other deposits comprises all types of deposits (in national and foreign currency), other than the transferable deposits. Other deposits are financial intermediaries' deposits or liabilities represented by evidence of deposit that cannot be used for making payments at any time. These are not exchangeable with cash or transferable deposit without certain restrictions or penalty. Use of these deposits is subject to certain restrictions:

- subject to payment after a certain period of time or at any moment, provided certain costs are incurred,
- cannot serve as an instrument for making direct payments,
- other restrictions (frozen accounts, pledged assets, etc.) can occur.

All sectors of economy and nonresidents (the rest of the world) can open and operate such accounts.

Category of other deposits typically represent:

- time deposits,
- nontransferable deposits denominated in foreign currency,
- repurchase agreements that are included in the national measures of broad money.

3.3. Securities Other Than Shares

Securities other than shares are negotiable instruments in the financial market serving as evidence that units issuing such instruments have assumed obligations to settle by means of providing cash, other financial instrument or some other item of economic value. Securities included in this category are different from shares since these do not vest the security holder with the ownership right over the issuer. Common types of securities are government treasury bills, government bonds, corporate bonds and debentures, commercial paper, certificates of deposits issued by depository corporations and similar other instruments that are normally sold in financial markets. Loans or liabilities that have become negotiable de facto should also be classified under this category.

A security provides evidence of financial claim on its issuer, and specifies the schedule for interest payments and principal repayments. In the monetary statistics, securities are classified as follows:

- *coupon basis securities,* whose interest or coupon payments are made during the life of the instrument, and the principal is repaid at maturity;
- *amortized basis securities,* whose interest and principal payments are made in installments during the life of the instrument;
- *discount, or zero coupon, basis securities,* that are issued and allocated at a price below the face value and repaid at maturity on face value;
- *deep discount basis securities,* that are issued and allocated at a price below face value, and the principal and a substantial part of the interest is paid at maturity;
- *indexed basis securities,* which tie the amount of interest and/or principal payment to a reference index such as a price index or an exchange rate index.

Preferred shares that pay a fixed income but do not provide ownership right over the issuer are classified as securities other than shares. Bonds that are convertible into shares should also be classified under this category.

Securitization of financial asset is sometimes used in the creation of securities other than shares. Securitization represents the issuance of securities that are backed by financial assets such as mortgage loans, claims on credit card holders and other types of loans. Such financial assets continue to be shown in the balance sheet as assets of the acquirers, while the issuers record their respective liabilities as securities.

Banker’s acceptance is treated as a financial asset even though no funds may have been exchanged or moved. A banker’s acceptance involves the acceptance by a financial corporation of a bill of exchange to pay a specific amount at a specified date. The banker’s acceptance represents an unconditional claim on the part of the holder and an unconditional liability on the part of the accepting bank.

An alternative classification of short-, medium- and long-term securities other than shares is also implemented as follows:

Short-term securities - this sub-category comprises securities with maturity of one-year or less.

Medium-term securities – criteria for classifying securities under this sub-category depend on practices applied in financial markets of the given country. Normally, this sub-category includes securities with maturity from 1 to 5 years.

Long-term securities - this sub-category comprises securities with maturity longer than those of short- and medium-term securities.

3.4. Borrowings

Normally, borrowings are not considered as a separate financial instrument. Borrowing is carried out through other financial instruments, for example, through loans, deposits, etc. Nevertheless, because of peculiarities of Armenian Law, borrowings in Armenia can be treated as a separate finical instrument, as these are source of funds for credit institutions. According to Armenian Civil Code, the lender gives the borrower money under the loan agreement, and the borrower undertakes to return the received amount to the lender as and when specified by the agreement. If the maturity date is not specified or it is specified as demand, the amount of the loan shall be returned within thirty days upon the lender's request, unless otherwise provided by the agreement. Thus, the borrowings as well as deposits can be both demand and time.

Opposed to time deposits, borrowings are less liquid, because lender's claim on collection of loan is due to some restrictions, unless otherwise provided by the agreement. In a borrowing transaction, the lender will earn interest against the amount provided.

3.5. Loans

3.5.1. Loans

Loans are financial assets that are

- created when a creditor lends funds directly to a debtor (borrower),
- evidenced by non-negotiable documents.

This sub-category of financial assets comprises all loans and advances (except accounts receivable/payable, which are treated as a separate sub-category of financial assets) extended to various sectors of the economy by financial corporations, governments, and, in some countries, by other sectors.

Short-term loans – short-term loans normally involve loans with maturity of one year or less. However, for reconciliation of different practices between the countries, short-term loans can be defined including loans with maturity of up to two years. All loans that will mature upon request are classified as short-term, even if it is expected that these loans will not be repaid within one year.

Medium-term loans - depending on practices applied in countries, loans with maturity from 1 to 5 years are classified as medium-term loans.

Long-term loans – long-term loans include the loans with maturity that exceeds those of short- and medium-term loans.

According to statistical classification, repo agreements, financial leasing, factoring operations and other similar agreements are classified under the category of loans.

3.5.2 Repurchase Agreements

A repurchase agreement (repo) is an arrangement involving the sale of securities by one party to another with a commitment to repurchase the same or similar securities of the same volume on a specified future date. The party that buys securities retains the right of carrying out transactions with repo-securities until the repurchase (resale) date, and should resell similar securities to the other party at expiry of the agreement. In this agreement, the condition of repurchase makes the repo agreement similar to collateralized loans rather than to purchase and sale of securities. Therefore, the seller of securities should continue to reflect the sold securities in its balance sheet. However, as repo agreements contain a component of purchase and sale of securities, in some cases, they are recorded as both “lending” and “purchase and sale of securities”. This practice is applied also in the banking system of the Republic of Armenia.

3.5.3. Swap agreements[8]

Though swap agreements are treated as financial derivatives, they can in some cases be closer to repurchase agreements, depending on the way these are implemented and the terms of the given transaction.

The forms of swap agreements are:

Gold swaps are forms of repurchase agreements. They occur when gold is exchanged for foreign exchange at a certain price, with a commitment to repurchase the gold at a fixed price on a specified future date. Gold swaps should be recorded as collateralized loans. The collateralized gold should remain on the balance sheet of the original owner (monetary gold - in case of the Central Bank).

The Central Bank operates *currency swaps* when the parties agree to exchange Armenian dram for foreign currency on spot terms provided that the forward exchange rate is not specified but the initial cost of transaction in Armenian drams is specified instead, including swap interest rate as provided by the agreement. Thus, currency swap stands very close to the loan pledged by foreign currency or to the foreign currency repurchase agreements.

3.5.4. Leasing operations

Leasing involves an agreement whereby a party (lessor) conveys to the other party (lessee) the right to use certain inventory (building, premises, equipment, etc) for a specified period and on agreed terms. Normally such an arrangement presumes periodic payments for the equipment under use in the duration of its usage. Objects of leasing operations may include fixed assets such as vehicles, equipment, technological facilities, means of transport, information systems and other similar facilities.

Present economic practice provides for different types of leasing, each of which has its peculiarity. However, the common forms of leasing are operating lease and financial lease. Only financial lease, which is

[8] *The description of swap as derivative instrument is given in paragraph 3.8.6 of "Contingent and Derivative Instruments".*

close by its nature to loan, is classified under the sub-category of loans.

Operating lease is an agreement on current leasing. Normally, the period of this agreement is shorter than the period of usage (amortization) of the leased asset. Thus, the fee stipulated in the agreement does not cover full value of the asset, therefore, the asset can be leased for several times. Specificity of operating lease lies in premature termination of the agreement by the lessee. Common objects of the operating lease include non-durable items (computers, copiers, various organizers, etc.) and equipment requiring constant technical maintenance (cars, airplanes, railroad and sea transport).

Basically, financial lease represents an alternative method of financing acquisition of fixed assets (basically vehicles and equipment). It is a long-term agreement between a lessor and a lessee whereby the lessor acquires the vehicles and equipment and supplies them to the lessee. The lessee obliges to pay periodical payments during the course of the agreement to cover all expenses of the lessor, including full value of equipment, additional expenditures and interests (income). Specificity of financial lease lies in third-party participation, relatively longer period of the agreement, which is equal to the life of the equipment.

There is another peculiarity of financial lease whereby all risks and rewards related to ownership rights over the specific asset are actually transferred from the lessor - the legal owner of the goods - to the lessee, the user of the goods. This implies that change of ownership has de facto occurred, and the lessor has acquired a financial claim, instead of its property, on the lessee. Therefore, financial leasing statistically is classified as a loan.

As was noted, financial leasing is an alternative financing for acquisition of fixed assets. But, unlike the traditional ways of acquiring funds (bank loan, issuance of securities, etc.), leasing operations are not shown in the lessee’s balance sheet, since from a legal point of view, the owner of the asset remains the leasing company that calculates depreciation and pays respective ownership taxes. An enterprise that takes loan bears an obligation (i.e. repayment of the loan) similar to an enterprise that acquires equipment does (i.e. lease fee).

3.5.5. Factoring

Factoring is obtaining of creditor’s rights for payment documents by a bank (a factor) created on provisions of trade credit for selling goods and services between economic units. This is also accompanied by accounting, information, insurance and other services. Parties in factoring operations include the factor-bank, customer of the factor-bank, i.e. the supplier (original lender) and the payer (debtor). The supplier conveys legal claim on its customer to the factor-bank to receive payments by way of transfer of such claim.

Objects of factoring may include i) financial claims that are overdue (existing claim), and ii) financial claims to be generated at a future date (future claim).

Banks, other credit institutions and licensed commercial organizations can be involved in factoring agreements.

Factoring operations may contain the following terms:

- full or partial advance payments against liabilities in the form of factoring loan by the factor-bank, with the right to reclaim the loan from the supplier;

- acceptance of the supplier’s credit risk without the right to reclaim the amount, the factor-bank makes advance payment for liabilities that should be reimbursed by the debtor against payment documents;
- acceptance of the supplier’s credit risk when the factor-bank makes no advance payment but guarantees full payments on a specific date;
- management of factoring loan, by collecting liabilities;
- book-keeping of the supplier’s all transactions or a part of them, during the course of the factoring agreement.

Essentially, factoring is a type of loan, whereby the relevant organizations acquire the supplier’s receivables and collect them from the debtor.

3.6. Shares and Other Equity

Shares are financial instruments that represent or provide evidence on ownership rights of the holders over enterprises or organizations, including financial institutions. Shares and other equity comprise all instruments and records acknowledging, after the claims of all creditors have been met, claims on the residual value of a corporation (companies, corporations). Normally, these instruments entitle the holders both of distributed profits of enterprises or organizations, and the residual value of the assets in the event of liquidation. Ownership of equity is usually evidenced by shares, stocks, participation's and similar documents. This category also includes preferred shares that provide for participation in the residual value on dissolution of an enterprise.

Dividends are a form of property income to which shareholders become entitled. Shares do not provide predetermined property income. Nonetheless, dividends on preferred shares are determined in advance. Types of equity are:

- ordinary shares that provide for ownership right in an enterprise or corporation;
- preferred shares that provide right for claim over residual value of an enterprise,
- equity participation in limited liability companies.

In the context of the monetary statistics, financial corporations’ capital in the form of shares and other equity is divided into separate groups as follows:

- Funds contributed by owners include total amount from the initial and any subsequent issuance of shares or other forms of ownership of corporations (statutory fund).
- Retained earnings constitute all after-tax profits that have not been distributed to shareholders or appropriated as general or special reserves.
- General or special reserves are appropriations of retained earnings for special purposes.
- Revaluation reserves are the bank’s unrealized profit/loss due to change in market value of fixed assets, foreign currency, securities, and precious metals.
- SDR allocation represents the SDRs allocated to central banks by the IMF.

3.7 Other Accounts Receivable/ Payable

Accounts receivable/payable include trade credits, advances and other receivables or payables. Trade credits comprise trade credit extended directly to buyers of goods and services (enterprises, government, NPISHs, households, and nonresidents). Advances are prepayments made for work that is in progress or for purchase of goods and services. Any agreement, which does not assume direct payment by cash or other financial instrument to purchase goods or services, will create a trade credit extended by the seller to the buyer. Here, it does not involve loans acquired to finance the trade credit since these credits are classified under the category of loans. This category includes only direct trade credits and advances.

This category includes also items such as debtors and creditors, tax liabilities and other accounts receivable/payable.

3.8. Contingent and Derivative Instruments

3.8.1. Contingent Instruments

There are forms of contractual financial arrangements in which a financial claim depends on a certain condition or conditions. Such transactions normally do not have a transferable value.

Although contingent instruments are not directly included in the monetary statistics, the compilation of summary information on such instruments may be of importance in analyzing a country's or a sector's financial position and relations, since such instruments could in future give rise to acquisition of various assets or creation of liabilities that might notably affect financial flows and overall condition of the given entity. In some cases, a need for statistical information on the potential liabilities of entities, reflected in contingent instruments, may arise for country's policymaking analysis. This kind of statistics is more appropriate to collect and classify by guarantee providers, unlike the other cases, when collection and compilation are made by types of instruments.

Contingent financial instruments include guarantees, financial commitments, letters of credit, financial collateral, lines of credit, etc. Claims or liabilities on all these instruments will arise only if certain conditions are met. For instance, the bank will make a payment on a guarantee only if the party, which is recipient of the guarantee, fails to meet its liabilities. Payments on the letter of credit will be made in the event when the respective documents are presented. Collateralized financial assets may become the bank's property if the party that has sold them is unable to repurchase them. Line of credit will become a financial assets or liability only if the funds are actually advanced.

Classification of contingent instruments depends on the nature of a specific instrument and peculiarities of its usage in the given country.

3.8.2 Guarantees

Guarantee involves an obligation by the economic entity to assume the other entity's financial obligation if that other party defaults. To issuer, a guarantee is not treated as a financial liability as far as the party, to whom the guarantee has been issued, has not shown its inability to meet such a liability. Therefore, until availability of this condition, letters of guarantee will be recorded as off-balance sheet items (Appendix 7.1).

Guarantees can be provided by central banks, governments, financial corporations and, in some cases, other organizations. These can be of certain importance also in the context of classification of other financial instruments. For instance, securities backed by the government guarantee may be classified in a way other than common securities.

In the context of the monetary statistics, liabilities are always classified as the liability of the sector that has assumed such, and not the liability of the issuer of guarantee, unless the issuer de facto acquires a liability to make payment.

For a correct reflection of government’s relationships with other sectors, it is sometimes advisable to view guarantees issued by the government as a liability.

3.8.3. Letters of Credit

A letter of credit is an obligation to make payment against documents received. The amounts to be paid upon receipt of the documents become liabilities of the bank. Letters of credit are used to finance international trade operations.

While importing/exporting goods, resident enterprises will open letters of credit with Armenian resident banks that service them. These banks are obliged to pay amounts of the trade contracts (or present a demand for payment) to their foreign counterpart in the event the delivery and other documents are received as stipulated in the letter of credit. The receipt of the delivery and other documents is a stipulation under which the resident bank acquires an obligation or claim over the foreign bank (Appendix 7.2).

3.8.4. Financial Commitments

Financial commitments involve contracts between institutional units by which the entities make arrangements on specific financial transactions to be carried out in some future time. The party assuming liabilities usually is obliged to provide financial assets to the other party if specific conditions are met. Unlike the letters of guarantee whereby the issuer of guarantee assumes liability of an entity, the issuer of commitment will be responsible for fulfillment of the terms of the contract, in case of the commitments. Nonfinancial commitments will not be treated as financial instruments.

Commitments can be of various form and nature, therefore, it is very hard to set up a common approach of assessing the rights and obligations defined within these commitments. Although not treated as financial assets, assessment of common types of commitments can be important for analysis and evaluation of potential assets and liabilities. Lines of credit and overdrafts are the most common financial commitments.

A line of credit and/or overdraft provide the borrower with a standby guarantee for the funds within a specific limit and for a predetermined period. Nonetheless, such funds will not be treated as financial assets until the de facto extension of loans (Appendix 7.3).

3.8.5. Pledged Financial Assets

There is a common practice to provide loans against a certain financial asset taken as collateral. The residual maturity of the pledged asset should be longer than the duration of the loan. Securities, deposits, currency, shares, and similar assets can qualify as pledged financial assets against loans. Financial assets are returned to the original owner as the loan is repaid. Thus, the risks associated with change in market value of pledged financial asset will stay with the original owner thereof (the borrower) throughout the period of the collateralized loan agreement.

Considering that the lender bank is not deemed the owner of the pledged financial asset as far as the borrower has not acknowledged his inability to repay the loan, such assets cannot be posted in the balance sheet of the bank. Instead extended loans are accounted as financial assets.

Loans, accrued interests and receivables written off the balance sheet are very similar to contingent instruments. Although these claims are not treated as bank’s assets, they can generate income if the borrower repays the liabilities, which have been regarded as bad.

3.8.6. Financial Derivatives

Financial derivatives make an integral part of international financial markets. The derivatives’ markets began to develop rapidly since the early 1980s, and had a substantial influence on behavior of financial markets. A number of questions on how the monetary and macroeconomic issues are affected by derivatives remain unanswered due to rapid growth of financial markets, lack of the relevant statistics, and the absence of well-structured theories. Policymakers should have a clear understanding of transactions with derivatives, as well as realize and evaluate the links between derivatives and ordinary financial markets.

Financial derivatives are financial instruments that are linked to specific assets (other financial instruments, goods). By nature, these instruments are similar to contingent instruments. Claims and liabilities related to financial instruments will arise after a specific period of time. In this case, contingency of an instrument relates only to the time regardless of occurrence of any other event or condition. Derivative instruments are not considered a financial claim or liability for the holder thereof at the given moment. However, financial derivatives can be traded in the market and thus they will obtain a market value, which will depend on the market price of the underlying financial or nonfinancial asset. Thus, the price of a derivative instrument “derives” from the price of the underlying asset. In the event when the contract price of the underlying financial asset is preferable to the current market price, the derivative would have a positive market value. If a financial derivative instrument has a market value it must be recorded in the balance sheet as a financial asset (respective examples are presented in Appendix 7.4).

In the context of the monetary and financial statistics of Armenia, accounting of derivatives in banks’ balance sheets depends on the level of deepness of the financial market. The derivative instruments are not yet widely used in the country, as the financial market and the derivatives’ market, in particular, are underdeveloped. The share of financial derivatives in the financial market of Armenia is negligible.

Moreover, because of no circulation in the market, the derivative instruments do not have market value. Nevertheless, the recording of these transactions is made in the balance sheets of financial corporations. Balance sheet reflects the real value of the derivative instrument, that is the difference between the contract and market prices of the underlying asset (financial or real) times contract volume. Depending on the difference between contract and market prices (either positive or negative) the corresponding positions on derivative instruments can be reflected in both asset and liability accounts.

Financial derivatives fall into the following groups: forwards, options and swaps.

Forward - In a forward contract, the counterparties agree to exchange, on a specified date, a specified quantity of an underlying item (financial or real asset) at an agreed-upon contract price. Execution of a forward contract is mandatory but only in the case of expiry of the period specified in the contract. Each of the counterparties has both claim and liability upon execution. The net value of the instrument (difference between claims and liabilities) is zero.

Option - The buyer of an option acquires the right but not the obligation to purchase or sell a specific asset. Options too, contain contingency: the acquirer of an option may not wish to exercise it. The buyer pays a certain amount to the seller of the option and thus acquires the right but not the obligation to sell or purchase a specified item at an agreed-upon price in a specified period. The buyer of an option can sell the option contract, i.e. the right to exercise the option, whereby the option obtains a market value. The statistical recording of options should be carried out in the same way as for the forwards.

Swap - A swap represents a spot purchase (sale) of a financial asset with a condition of forward sale (purchase). The swap operation presented in this section definitely differs from the one presented in paragraph 3.5.3, which is operated mainly by the CBA. Swap agreement is a type of a forward, in which the parties agree to exchange different currencies, that is to buy (sell) any currency for another currency in spot market and concluding at the same time a repurchase agreement on sale (purchase) of these currencies in forward market at prices determined beforehand, pursuant to the rules specified.

Derivatives can be linked up not only to financial assets but also to certain goods. The liquidity of nonfinancial derivatives vis-à-vis financial derivatives is lower. This however does not rule out the possibility of purchase and sale of the nonfinancial derivatives. The statistical recording of nonfinancial derivative instruments are carried out in the same way as for the financial derivatives.

Irrespective of the degree of development of the derivatives market the statistical recording thereof is of great importance in the context of assessing impact of potential risks on banks and on the monetary policy. Both contingent and derivative instruments indicate the potential claims or liabilities of the bank that might change its financial condition dramatically. Therefore, it is necessary to draw a due attention to issues concerning development, classification, accounting and statistical reflection of such instruments.

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