

**Eighteenth Meeting of the  
IMF Committee on Balance of Payments Statistics  
Washington, D.C., June 27–July 1, 2005**

**Summary Conclusions of the Second Meeting of the Advisory Expert Group on the  
*1993 SNA* Update**

**Prepared by the United Nations Statistics Office**

**Summary Conclusions**  
**Second Meeting of the Advisory Expert Group on National Accounts**  
**(AEG)**  
**8-16 December 2004**  
**United Nations, New York**

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**Summary Conclusions**  
**Second Meeting of the Advisory Expert Group on National Accounts<sup>1</sup>**

**WEDNESDAY, 8 DECEMBER 2004**

**Letter from Germany (information)**

1. The Group shared many of the concerns expressed in the letter and agreed there should be a formal reply from the United Nations Statistics Division, as Secretariat, on behalf of ISWGNA. However, the Group expressed collectively the opinion that the first principle mentioned in the letter (i.e. no (or only small) changes of the level of Gross National Income (GNI) and of the level of net lending/borrowing of government) was not acceptable as a principle for the update process because it is too restrictive. It was noted that the operational guidelines for the update of the 1993 SNA already reflected many of the other concerns expressed in the letter. It was felt these guidelines were sufficient and it would not be appropriate to necessarily reject a proposal for change because any one of the points in the German letter was not met; these points were seen as being mainly indicative and not deterministic.

2. The importance of international comparison and continuity over time was recognized but relevance to current conditions should be part of the consideration.

**Clarifications to SNA 1993 (information)**

3. New suggestions for required clarification may be submitted until end 2005 (though earlier would be helpful).

**Comments on decisions made by the AEG (information)**

4. The group complimented UNSD on the quality and helpfulness of the web site presenting the comments received.

5. Further comments on decisions made in February 2004 received by December 31 2004 will be posted on the web and an analysis of these will then be done. Where significant dissension appears, the project manager will undertake further investigation into the causes and suggest what further action is appropriate.

6. For recommendations of this and subsequent AEG meetings, there will be a period of 60 days to make comments.

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<sup>1</sup> The summary conclusions have been drawn-up in chronological order of the sequence of deliberations and discussions of agenda items during the meeting. The status of the agenda items has been indicated as being either for **information** or for **decision**.

### **Databases (decision)**

7. The group agreed that the present SNA recommendation that large databases should be treated as fixed capital was ambiguous because “large” was a subjective qualification. This word should be dropped.
8. The group tentatively agreed that all databases were candidates for treatment as fixed capital but requested the Canberra II group
  - i. to provide a definition of “database” and a definition showing exactly which databases should be included (or excluded) in fixed capital;
  - ii. to consider the distinction between creation and maintenance and the implication for the inclusion in fixed capital;
  - iii. to add precision to the nature of employees to be included in the recommended means of valuing own account databases.
9. The group agreed to include a single category in the classification of assets for “software and databases” with a subsequent disaggregation into “software” and “databases”.

### **Mineral exploration (decision)**

10. The group agreed to change the item “mineral exploration” to “mineral exploration and evaluation” and to draw on the IASB coverage of this item to specify the SNA item.
11. The group agreed that the description of the valuation of this item should be clarified to make clear that it is market production to be valued either at market prices, if purchased, or as the sum of costs plus mark-up, if produced on own-account.
12. The group agreed to maintain a distinction between mineral exploration and evaluation as a produced asset and the mineral deposit as non-produced assets.
13. The group agreed that the preferred valuation for mineral deposits, market price, is seldom available. In default, the deposit should be valued as the present value of future receipts of resource rent.
14. The group agreed that, in principle, payments by the extractor to the owner of the deposit are property income. However, when the owner is government and the payments are described as taxes, adhering to this principle introduces a discrepancy between taxes in the SNA and in government accounts. This needs further consideration.
15. The question of attribution of the ownership of a deposit extracted by a unit not the legal owner is deferred to a future meeting when leases and licenses will be discussed more generally.

### **Informal sector (information)**

16. The group confirmed the importance of the “informal sector” especially for developing countries. The coverage needs close definition and the relation to analytical demands for members of informal activity and employment made explicit. Extended text should cover this and make reference to household production and satellite accounts.

### **THURSDAY, 9 DECEMBER 2004**

### **Originals and copies (decision)**

17. The group agreed that copies generated for issue under licenses to use represent new production.

18. The group agreed that when they display the characteristics of fixed assets, copies issued under license to use should be recorded as gross fixed capital formation.

19. The Canberra II group is asked to recommend in which cases when payments for a license to use are made over several years represent the acquisition of an asset rather than a series of payments for services and the consequence for recording other transactions.

20. When a license to reproduce is issued under terms similar to an operational lease, the payments made are treated as payments for services.

21. When the holder of an original divests itself of part or all of the responsibility to issue and service copies under licenses to use by means of a license to reproduce, this constitutes the sale of the corresponding part of the asset. Having two possible treatments for licenses to reproduce could affect the classification of assets (to be considered by Canberra II) and the borderline between goods and services in trade figures. This should be brought to the attention of BOPCOM.

### **Governance arrangements (information)**

22. The group warmly welcomed the paper on governance arrangements for the process of updating the SNA. They suggested more attention be given to interaction with users.

### **Non-performing loans (decision)**

23. The group agreed that loans should continue to be recorded at nominal value for both creditors and debtors. In addition, memorandum items should be shown at market value; these should be mandatory for at least financial institutions and government as creditors.

24. More clarification is required in respect of:

- i. The definition of which loans are non-performing;

- ii. The exact nature of the memorandum items (whether market-equivalent value or nominal value less expected provisions for impairment);
- iii. A worked example of the accounts showing the memorandum items;
- iv. Harmonization of terms used in various manuals;
- v. The implications for the recording of FISIM; and
- vi. Whether similar treatment should be extended to other financial instruments (in particular trade credits).

The IMF agreed to prepare a paper addressing these issues.

#### **FRIDAY, 10 DECEMBER 2004**

##### **Government owned assets – cost of capital services (decision)**

25. There was strong support in principle for including a return to capital, viewed as an opportunity cost, in the measurement of non-market output. However, concerns were expressed about the rate of return to be chosen and availability of data for capital stock.

26. In terms of the range of assets which could be covered, most participants favored including those assets in the generation of government output similar to those assets used in market production. A smaller number favored including roads and other infrastructure assets. Progressively fewer favored including assets such as city parks serving the community at large and land.

27. It was agreed that these range of positions of the AEG should be sent to all countries (and inserted on the website) seeking reactions on both conceptual and practical grounds.

##### **Treatment of land improvements (decision)**

28. The group agreed unanimously that:

- i. GFCF of land improvements should be treated like other GFCF and result in a produced asset appearing separately in the balance sheet;
- ii. The non-produced component of land should be valued at its present unimproved value;
- iii. Where the value of land cannot be partitioned into an improved and unimproved part, adopt recommendations for land and associated structures as in Para 13.57 for balance sheets and Para 7.131 for rent and rentals;
- iv. Costs of ownership transfer on land should be recorded as fixed assets and included with land improvements.

29. The boundary between land improvements and structures should be re-examined with a view to moving some items such as major dykes, seawalls, etc. to structures.



30. The terms “Land Improvements” and “Unimproved Land” are to be reconsidered by the Canberra Group II.

#### **Costs of ownership – Part II (decision)**

31. The group agreed costs of ownership transfer on disposal of an asset should be written off over the period the asset is held.

32. Installation and de-installation costs should be included in costs of ownership transfer if separately invoiced, and in the purchaser’s price of the asset otherwise.

33. Terminal costs should be recorded as capital formation when they occur but the whole cost should be written off as consumption of fixed capital over the life of the asset, analogous to costs of ownership transfer on disposal.

34. When this recommendation on terminal costs cannot be followed for lack of adequate data, these costs should still be recorded as GFCF but written off as CFC in the year of acquisition.

#### **MONDAY, 13 DECEMBER 2004**

#### **Taskforce on Harmonization of Public Sector Accounts (TFHPSA) (information)**

35. In response to the presentation of the progress report, the group expressed the following opinions.

#### ***Sectorisation***

36. In the SNA, the divide between general government and corporations precedes the identification of public corporations in the sector classification.

37. The classification of NPI’s needs to distinguish those which are treated as public corporations from those in the general government sector.

38. The TFHPSA should refer to the new manual on NPI’s to maintain as much consistency as possible.

39. The concept of control should be consistent with that adopted by the public sector accounting standards.

40. In making the distinction between market and non-market production, distinguishing payments which represent sales of services from transfers is often more important than a threshold for “economically significant prices”.

#### ***Recognition of Earnings***

41. The group was sympathetic, in principle, to the proposal to extend the treatment of reinvested earnings as in the BOP to the relations between general

government and public corporations. While several participants expressed concerns about the practicality of implementation, others thought the practicalities were manageable and noted that it would be easier than for BOP. Moreover, several drew attention to its political sensitivity. Some participants queried the consequences for the definition of income.

42. Opinions differed about whether it is acceptable to adopt such a treatment for public corporations only or whether it should apply to all sectors.

### ***Tax Revenue and Tax Credits***

43. One participant considered that all permits issued by government should be treated as taxes, while others felt that there should be more guidance on a case by case basis. The Canberra II group and TFHPSA should liaise on this issue.

44. Some participants favored recording as tax revenues amounts assessed, offset by a capital transfer representing the part unlikely to be collected. Others preferred recording as tax revenues only that part likely to be received.

45. It is important to differentiate tax credits, from tax allowances and from benefits payable through the taxation system, and provide a common treatment in the interest of international comparability.

### ***Guarantees***

46. The group expressed unease at the TFHPSA suggestion to include government guarantees as liabilities, for both conceptual and practical reasons.

47. Difficulties noted included whether contingent liabilities should be recorded in principle, the valuation of guarantees and the lack of data.

### ***Privatization Flows***

48. The treatment of SPVs is important and a cross-cutting issue involving BOPCOM as well as TFHPSA.

49. The question was raised about whether an SPV not engaged in production could be considered as an ancillary corporation when it operates in the same economic territory of any of its owners.

### ***Chapter/Annex on Public Sector***

50. The group strongly supported the inclusion of a chapter/annex on the public sector in the updated SNA.

51. The chapter/annex, among other things, should bring out the articulation between general government and public corporations.

### **Alternative presentations of top structure of revised ISIC and CPC in the update of the 1993 SNA (information)**

52. The group welcomed the creation of a “top-top” structure for ISIC Rev. 4 consisting of approximately 10 groups. Several participants favored separately identifying mining and quarrying, manufacturing, real estate or distinguishing market from non-market activities. Alternative “top-top” structures will be developed in this regards.

53. There was little support for the proposed intermediate level of 30-40 headings.

54. OECD offered to set up an EDG in conjunction with UNSD and EUROSTAT to elicit country views through a global consultation on these issues.

### **Cost of capital services in the production account (information)**

55. The group confirmed the importance of measuring capital services but a large majority did not favor including “of which” items in the core accounts. Instead, there was considerable support for a chapter/annex on the measurement of capital in the updated SNA.

## **TUESDAY, 14 DECEMBER 2004**

### **Treatment of provisions (information)**

56. The initial proposal to include a table on provisions in the core accounts has been withdrawn. The group supported the new proposal to clarify the potential role and nature of provisions in the national accounts. The SNA should explain the relation to the treatment of provisions in business accounts and government accounts.

57. The following possible typology was suggested:

- i) Actual liabilities related to past events;
- ii) Provisions to cover events certain to happen but of uncertain timing;
- iii) Provisions to cover events likely to happen but of uncertain timing;
- iv) Contingencies;
- v) Impairment, which is a valuation issue.

58. The need for symmetry of treatment between liabilities and the corresponding assets was mentioned.

59. AEG members were asked to submit actual examples to the editor to contribute to a paper on this subject by end of February 2005.

## **Progress on work programme of BPM update**

### ***Change of economic ownership (decision)***

60. The group agreed to the proposed change in terminology by inserting the word “economic” but requested detailed clarification on the meaning of “economic ownership”. The implications for possible shared ownership of assets and the time at which change in ownership occurs (e.g., signing a contract) still need to be explored.

### ***Application of accrual principles to debt arrears (decision)***

61. Time of recording and treatment of arrears should be harmonized in the various macro-economic statistics.

62. No transactions should be imputed when a liability goes into arrears (i.e., the debt continues to be recorded in the original instrument).

63. 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.

64. If the contract is renegotiated, the consequences are to be recorded as new transactions.

65. It was suggested that consideration of these issues should be included in the paper concerning non-performing loans which the IMF has agreed to prepare.

### ***Residence of households (decision)***

66. Harmonization of the definition of residence between BPM and SNA is essential; harmonization with other statistical systems (for instance, demographic, immigration and tourism statistics) is desirable but not to the point of compromising the integrity of the system. Where this is not possible, the different definitions need to be documented.

67. The group agreed to adopt “predominant centre of economic interest” as a term.

68. The group favored the one-year criterion rather than discretionary criteria, with the existing exceptions of students and patients and with clarifications of the situation of ships’ crews.

69. The group supported the supplementary presentation on non-permanent workers proposed in the BPM Annotated Outline.

***Treatment of multi-territory enterprises (decision)***

70. The treatment of multi-territory enterprises in BPM5 should be extended to all kinds of activities, when formal separation is not possible.
71. Units operating in zones of joint sovereignty or jurisdiction should be split between these in ways that still need to be specified.
72. The broader question of multinational enterprises should be addressed by a task force, taking account of IASB recommendations and work in hand for the next ISI meeting.

***Holding companies, special purpose entities (SPEs), and trusts (decision)***

73. An SPE incorporated in an economic territory other than any of its owners should be treated as a separate institutional unit and resident in its country of incorporation.
74. The group requested some indicative guidelines on the identification of SPEs across manuals, although an internationally standard definition of SPE is not available in light of the national diversity.
75. This issue should be coordinated with TFHPSA.

***Recognition of branches (decision)***

76. Physical presence is not required for a branch to be recognized.
77. Being subject to income tax laws should replace paying income tax as an indicator of the existence of a branch.
78. All criteria should be considered as indicators for a separate branch but not all criteria have to be met. Even if the entity does not have a full set of accounts, if it engages in production, it should be treated as a branch.

**WEDNESDAY, 15 DECEMBER 2004**

***Goods sent abroad for processing (decision)***

79. The group's views were divided. Good arguments on both conceptual and practical grounds were presented for both the gross treatment as goods and the net treatment as services. This issue is of increasing importance due to the growth in outsourcing.
80. The IMF agreed to prepare a paper covering all aspects of the issue, with pros and cons for both treatments in BOP and SNA. This will form the basis of a written consultation of BOPCOM and AEG members before a final decision is taken.

***Treatment of activation of guarantees (information)***

81. The question of whether and when a guarantee should be treated as a liability is being considered by various sub-groups, including TFHPSA. The group, therefore, felt it was inappropriate to decide this now. However, it was agreed that if a guarantee were to remain a contingent liability off the balance sheet, flows arising from its activation would be recorded as a capital transfer rather than being recorded in the other changes in volume of assets accounts as proposed.

***Repurchase agreements, securities lending, gold swaps and gold loans (information)***

82. The group noted the present state of discussion on this subject and looked forward to further elaboration by the IMF.

***Treatment of debt instruments linked to foreign currency (information)***

83. The paper proposed that if a financial instrument is indexed to a foreign currency, it should be treated as if denominated in that foreign currency. Several participants expressed sympathy with the proposal.

***Treatment of index-linked debt instruments (information)***

84. The SNA treatment of index linked debt instruments concentrates on the case where the link is to a price index (e.g., CPI). Other links, such as a stock market index or commodity, are now more common and alternative treatments might be appropriate. The choice between them raises questions of the borderline between holding gains and losses and interest. The group recommended further exploration of all four alternatives presented in the paper.

***Interest accrual on debt securities (information)***

85. The group acknowledged a paper from the IMF noting that since SNA will maintain the debtor approach to the recording of interest, a number of IMF manuals need to be changed in consequence.

***Non-life insurance (“outcome of the AEG consultations”) (decision)***

86. The consultation revealed a majority in favor of:
- i. excluding income from own funds in the calculation of output of non-life insurance;
  - ii. treating commissions and rebates as negative premiums, and profit sharing and bonuses as other income transfers; and
  - iii. treating payments resulting from exceptional claims as capital transfers.

The group agreed this consultation represents their final position.

**THURSDAY, 16 DECEMBER 2004**

**Statistical treatment of employers' pension schemes (information)**

87. The group agreed that governments have an (explicit or implicit) liability for pensions of their employees, regardless of whether the scheme is funded or unfunded. Governments also have a corresponding "liability" under social security, but this might be of a different nature and more difficult to quantify. The problem in some countries is to disentangle unfunded employers' pension schemes from social security schemes.

88. Eurostat has written a paper presenting six options for addressing this issue, which were referred to in the meeting. In essence, the alternatives are to record one or both of liabilities of governments to their employees and social security liabilities:

- i. not at all;
- ii. in the core accounts;
- iii. in a satellite account or as memorandum items;
- iv. by extension of the existing two parallel accounts for income and consumption.
- v. some combination of the above

The solution needs to be able to address existing situations in countries, to deal with the different types of liabilities and be able to respond to structural changes in the pension regime.

89. Practical guidelines are needed to show national accountants how to estimate employee pension liabilities when public account estimates are not available.

90. The SNA definition of the output of pension funds needs to be reviewed.

91. This topic is one of the most important in the SNA review, thus there needs to be a speedy and clear resolution of these issues to meet the deadlines. One possibility was to create a task force which would coordinate with the TFHPSA.

## List of actions (information)

92. The deliberations and discussions have led to various considerations for further action that has been summarized below:

- i. (para 1) response to letter of Statistics Germany (UNSD)
- ii. (para 3) clarifications up to end 2005 (UNSD)
- iii. (para 4) seek collaboration with Regional Commissions in obtaining comments from countries
- iv. (para 4) improvements to the 1993 SNA update website based on feedback (UNSD)
- v. (para 5) critical analysis of comments on recommendations of the AEG/ISWGNA (Project manager)
- vi. (para 14) further consideration on the classification of payments to the owner of a natural resource as taxes or property income (Canberra II and TFHPSA)
- vii. (para 15) attribution of the ownership of a natural resource when the extractor is not the owner (Canberra II)
- viii. (para 19) how to record payments for a license to use made over several years (Canberra II)
- ix. (para 21) BOPCOM to be alerted to the conclusion in this para. (IMF, UNSD)
- x. (para 22) meeting with data users at future date (UNSD)
- xi. (para 24) IMF to prepare a paper on several issues outstanding on non-performing loans including those of para 65. (IMF)
- xii. (para 27) Global consultation on the treatment of government owned assets in respect of opportunity cost of capital (Canberra II with UNSD)
- xiii. (para 29) Boundary between land improvements and structures to be reviewed (Canberra II)
- xiv. (para 30) terms land improvements and unimproved land to be reviewed (Canberra II)
- xv. (para 43) when if ever should permits issued by government be treated as taxes? (Canberra II and TFHPSA)
- xvi. (para 52) Global consultation via EDG on “top-top” and intermediate classification (OECD with UNSD and Eurostat)
- xvii. (para 59) examples of provisions to be sent to the editor by end February 2005. (AEG members, UNSD, editor)
- xviii. (para 51) change of economic ownership and the implications for shared ownership and time of recording to be explored (Canberra II)
- xix. (para 65) application of accrual principles to debt arrears to be included in the NPL paper mentioned in para 24 (IMF)
- xx. (para 71) how to split units under joint sovereignty/jurisdiction (BOPCOM)
- xxi. (para 72) global consultations on indicators to split multi-territorial enterprises (BOPCOM with UNSD)
- xxii. (para 72)reference paper on globalization pulling together ongoing research work (Project Manager)
- xxiii. (para 80) written consultation with AEG and BOPCOM members on goods for processing (IMF with UNSD)



- xxiv. (para 84) further exploration of four options in the paper on indexed-linked debt instruments (IMF)
- xxv. (para 88) Eurostat to pursue the six options for treating unfunded pension schemes
- xxvi. (para 90) how to estimate liabilities for unfunded schemes (IMF, possible task force, TFHPSA)
- xxvii. (para 91) review the definition of output of pension funds (IMF, Eurostat)
- xxviii. (para 92) consider task force on pension funds (ISWGNA)

93. There were three matters arising for further action which do not appear in this short report

- i. domestic versus national concept to be added to the list of clarifications (UNSD)
- ii. pilot projects on capital services on government owned assets (BEA to assist Trinidad and Tobago, and Costa Rica)
- iii. firming-up of date and venue for next AEG meeting in 2005 (Project manager and ISWGNA)
- iv. global consultation on AEG recommendations from second AEG meeting, including preparations of short descriptions (UNSD)