BOPCOM-06/19

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Summary of Outcome of AEG's Discussions: Meeting in Frankfurt (January 3-February 8, 2006) and Meeting in Bangkok (July 18-22, 2006)

Prepared by the United Nations

SHORT REPORT

Fourth Meeting of the Advisory Expert Group on National Accounts

30 January – 8 February 2006

at the European Central Bank, Frankfurt

Agenda

1. The topics in this report follow the order of the initial agenda, as attached, even though in the event some re-allocation of time was found necessary during the meeting.

Leases and licences, part 1 and part 2

Issue 21; Papers SNA/M1.06/09.1 and SNA/M1.06/09.2; for decision

Description of the issue[1]

Contracts and leases of tangible assets are defined by the SNA. However, the treatment of intangible non-produced assets is not clarified. These assets comprise governmental tradable leases/licences such as casino, taxi permit, foreign trade licenses and emission permits, non-governmental tradable contracts (option to buy not yet produced assets, contracts on authors, football players and other performers, etc.), subcontracting to third party of tradable leases/contracts/licenses, franchises and goodwill. Should, and if so under what conditions, should a lease/license/contract on non-produced assets be treated as a sale or rent of the asset? Should the criteria provided by the ISWGNA on mobile phones be applied or should they be further elaborated? Should a legal construct be recognized as a non-produced asset when it is signed? How should one treat a change in the market prices of a lease or contract when its value is different from the discounted sum payable? If it is recognized, should it be treated as a financial derivative or a non-produced asset? Should the concept of financial leases be broadened to include assets that are not leased for their entire service life?

Summary conclusions

Questions

2. Altogether 18 questions were set out for the AEG's consideration in paper SNA/M1.06/09.1, covering a number of different aspects of the recording of transactions relating to leases and licences.

3. Two questions concerned clarification of the distinction between operating and financial leases.

(a) Does the AEG agree on the distinction between operating and financial leases as depending primarily on whether the lessor or lessee has responsibility for the maintenance of the leased asset and a production activity in which it was used?

(b) Does the AEG agree that operating and financial leases are not assets in their own right?

[1] The descriptions of the issues are being reviewed to ensure they are uniform in style and present the content of the issue for consideration as part of the AEG deliberations in a correct and transparent manner.

Outcomes

4. The outcome of the discussion on these points was:

(a) There was broad agreement on this point but further elaboration is needed including a reference to criteria for economic ownership.

(b) There was agreement that leases are seldom assets in their own right; some specific instances to the contrary are discussed below.

Questions

5. There were two questions clarifying the recording of financial leases.

(c) Does the AEG agree that the breakdown between repayment of principal and interest is estimated in a manner similar to determining depreciation and net operating surplus/return to capital in the case of a fixed asset?

(d) Does the AEG agree that a financial service may be provided by the lessor if the lessor is a financial institution; and if this is so,that the service is reflected in FISIM?

Outcomes

6. The outcome of the discussion on these points was

(c) The proposals set out in the paper are correct but some further explanation is required, with care being taken to ensure the principles set out in the paper are not changed.

(d) The AEG agreed.

Questions

7. There were five questions relating to the treatment of operating leases, especially those where the lessee might have the right to transfer the lease.

(e) Does the AEG agree that the payment due under a lease agreement represents the market price even if a newly leased identical asset would command a different price?

(f) Does the AEG agree that if a lessee is able legally and practically to sub-contract a lease at a higher rental, this represents an asset for the lessee and a reduction in net worth of the lessor? In this case the value of the object of the lease appears in the lessor's balance sheet at the unencumbered value with the reduction shown separately?

(g) Does the AEG agree that if the lessee is not able either legally or practically to sub-contract a lease, the value of the object of the lease appears in the lessor's balance sheet at the encumbered value? In this case there is no separately identified asset belonging to the lessee?

(h) Does the AEG agree that these assets (or reductions in net worth) are only relevant in the case of operational leases?

(i) If the benefit which comes from a transferable/enforceable lease is regarded as a non-financial asset (under contracts, leases and licences), how should the negative counterpart be shown?

Outcomes

(e) The majority of the AEG agreed that the contractual price represented the market price.

(f),(g) The AEG agreed that the two propositions could be combined. In principle there may be an asset attributable to the lessee but it should be only be recognised if the asset can actually or potentially be transferred.

(h) General agreement – no discussion.

(i) A sub-group of the AEG met to reformulate this question in the light of the discussion. The sub-group provided three alternatives for recording. The AEG agreed that the leased asset should always be recorded by the lessor at the encumbered value. If the encumbered value is less than the unencumbered value and only if it can be actually or potentially transferred, the lessee would have an asset, valued at the difference between the unencumbered and encumbered values, to be included in the heading "contracts, leases and licences"

Questions

8. Two questions concerned prepayments in relation to leases. The AEG members were asked whether they agreed with the following proposals:

(j) Do you agree the treatment of prepayments may be a payment for a service or the acquisition of an asset depending on the nature of the agreement?

(k) If a party to a collective project contributes an asset in lieu of a financial payment, the SNA treatment should be to impute a financial transaction and acquisition of an asset in a similar way to the treatment of wages in kind.

Outcomes

9. The AEG agreed with both these propositions.

Questions

10. Four questions were raised concerning the use of natural resources authorised by permits.

11. The first of these questions concerned the lease of a natural resource with an infinite life made available by the legal owner to a lessee in return for a regular income (rent). Such a lease does not quite fit either the operating or financial lease conditions. The AEG was therefore asked:

(l) Is the concept of a resource lease in addition to operating and financial leases helpful?

12. Two other questions related to the use of environmental assets. One concerned resources with sustainability constraints such as fish and the other emissions permits.

(m) Does the AEG agree that fishing quotas represent assets to the holders? Can this be generalised to quotas, licences, etc for all protected plant and animal species?

(n) Does the AEG think emission permits should be recorded as taxes in the first instance and assets when they are traded in secondary markets or as assets from inception? Does this generalise to all assets used as "sinks"?

13. The fourth question concerned permits not issued by government.

(o) Does the AEG agree that when there is an underlying asset, payments should be property income; when there is no underlying asset, payments should be recorded as a payment for a service.

Outcomes

(l) The AEG agreed that the introduction of a resource lease as a third kind of lease would be helpful.

(m), (n) The AEG deferred these questions until the paper on government permits was discussed.

(o) The AEG agreed to the proposal on permits not issued by government.

Questions

14. The last section of the first paper on leases and licences dealt with the provision of goods in the future, for example options to purchase aircraft or the provision of services in the future by nominated persons, for example, footballers' contracts.

(p) Is the provision of a good in future, e.g. an aircraft option, an asset, specifically some sort of financial derivative.?

(q) Does the AEG agree that, e.g. footballers contracts, may be a non-financial asset in the group "contracts, leases and licences"?

Outcomes

(p) The AEG agreed there is an asset if there is a demonstrated value but the type of asset needs to be further clarified.

(q) The AEG agreed that such contracts should be treated as non-produced, non-financial assets.

Question

15. Given the amount of time the Canberra II Group had spent investigating the questions surrounding contracts, leases and licences, the AEG was asked

(r) Should there be generic advice about the treatment of contracts, leases and licences?

Outcomes

(r) The AEG agreed.

Questions

16. Paper SNA/M1.06/09.2 reported the results of an e-discussion carried out among members of the Canberra II Group in an attempt to complete some matters unresolved at the end of the last meeting. These were concerned with the partitioning of the benefits of an asset between different units either over time or within the same period of time. Six questions were put to the AEG.

(s) Should any lease of a produced asset for less than the entire life of the asset be automatically treated as an operating lease? If no, is this a change or a clarification of the SNA?

(t) Assuming a financial lease may be for less than the whole life of a produced asset, how would you prefer to record the partition of ownership between the legal owner and economic owner of the asset?

(u) How would you prefer to record the partition of a mineral deposit between the extractor and the owner?

(v) Do you agree that the concept of a resource rent is a useful means of describing the regular payments for the use of a resource which does not decline in value over the term of the lease but where the user of the resource and the legal owner differ?

(w) How would you prefer to record the ownership of land under a long lease paid for up front?

(x) How would you prefer to record the partition of ownership of a radio spectrum between the user and owner?

17. The AEG noted that the result of the e-discussion among the Canberra II Group members suggested that the overwhelming response to (s) was that a financial lease could be for less than the entire life of an asset and that the concept of a resource lease (v) was thought to be helpful. On the four other questions, alternative recordings had been proposed to members of the Canberra II Group and they were in favour of a solution positing two loans, one for the value of the asset to be paid by the lessee and one for the residual value of the asset to be exchanged for the asset at the end of the lease.

Outcomes

18. The AEG was prepared to consider the recommendation from the Canberra II Group sympathetically but agreed that a worked example showing all the recording implications would be useful in reaching a final position. It was agreed that such examples would be prepared and circulated to the AEG in time to reach a position by the end of March 2006. Charles Aspden will lead this work.

Contracts and leases: Government permits
Issue 21; Paper SNA/M1.06/08; for decision

Description of the issue

A special case concerning contracts and leases is when government issues certain sorts of permit to undertake some specific activity which are restricted in number and which are frequently expensive. Examples are taxi license and casino licences. Should these be treated as the payment of a tax or the sale of an asset?

Summary conclusion

Questions

19. The AEG was asked if they agreed with the following recommendations of the Canberra II Group.

> **Recommendation 1** All government permits that rely on the exercise of sovereign powers and are issued on a restricted basis should be treated as taxes.
>
> This recommendation should have referred to the treatment of government permits without any underlying assets. The discussion identified the possible treatments as taxes, assets or services, depending on the situation.
>
> **Recommendation 2** The method of setting the price of a restricted government permit is not relevant for its treatment as a tax or an asset.
>
> **Recommendation 3** If permits are valid for several years, only the portion representing the current year is a tax. The remainder is a financial asset for the purchaser and a liability for the government.
>
> **Recommendation 4** Permits that are transferable or that can be returned to the issuing government for a refund of the unexpired portion are treated as financial assets/liabilities. If a multi-year permit is transferable, a non-produced, non-financial asset is deemed to be created, with a value that varies according to market conditions.

Outcome

20. The AEG was almost equally split on this issue, with a very narrow majority favouring treatment as a tax rather than as a sale of a non-produced non-financial asset. The ISWGNA will consider this matter further.

Amortization of intangible non-produced assets
Issue 28; Paper SNA/M1.06/13; for decision

Description of the issue

The final report of the ISWGNA on mobile phone licenses includes a brief discussion of the issue of the amortization of intangible non-produced assets. Should this issue be further *elaborated for various cases of non-produced assets such as contracts, leases, goodwill and others?*

Summary conclusion

Outcome

21. This issue will be considered in connection with the worked examples being produced on leases and licences.

Merchanting

Issue 41; Paper SNA/M1.06/19; for decision

Description of the issue

"Merchanting" is a term used in BPM5 for the activity of trading in goods that do not enter the territory of the trader. In such a case, the treatment is to report only the margin earned in the territory of the trader. If the trade is not concluded during the accounting period, changes in inventories are shown as imports (negative if inventories decrease). The issue is not covered in 1993 SNA.

Questions

Global manufacturing

(a) Should transactions in goods resulting from global manufacturing be recorded as trade in goods (under a separate heading) rather than services (as now)?

(b) In other words, should such transactions be recorded on a gross basis, following the change in ownership principle, as for goods for processing?

Global wholesaling/retailing

(c) Should global wholesaling/retailing when trading in goods be recorded as trade in goods (under a separate heading) or trade in services (as now)?

(d) If it is to be recorded as trade in goods, should this be on a gross basis when there is a change in ownership?

(e) Or should it be recorded on a net basis as services (as now)?

Commodity dealing

(f) Make clear most commodity dealing transactions are transactions in financial derivatives?

(g) When accounts are settled in commodities, and there is an actual flow of goods, should these transactions be recorded on a change of ownership basis, gross in goods (under a separate heading), or a net basis as services (as now)?

Outcomes

(a)-(g) The AEG agreed that all three types of merchanting (global manufacturing, global wholesaling/retailing, and commodity dealing that is settled by trade in commodities) should be recorded as follows:

"The acquisition of goods is recorded as an import (shown as a negative export) by the global manufacturer, global wholesaler/retailer or commodity dealer (merchant). The subsequent resale of the goods is recorded as exports by the merchant. The difference between the two is shown as net exports of goods by the merchant. The merchant's output is recorded as a wholesale/retail service within the national accounts, exclusive of holding gains/losses while the goods are held (in inventory) by the merchant."

The inclusion of the wholesale/retail margin and the holding gains/losses accruing while in inventory in the gross value of exports by the merchant is consistent with the measurement of supply and use of these margins in the SNA and the BPM.

Satellite accounts

Clarification C13; Paper SNA/M1.06/37; for information

Description of the clarification

There are three proposals to improve the relevance of this chapter, in particular in the discussion of satellite accounting related to a more extensive production frontier for non market production (inclusion of domestic own-account production of services, etc.): (1) Discuss the function of double-entry bookkeeping (accounting independently for value of outputs and value of inputs) in non-market accounting context and the implications of adopting this approach for the development of non-market satellite accounts; (2) Discuss more explicitly the various possible approaches to valuing the inputs and outputs to non-market production and, if possible, endorse some general principles for doing this recommendation. This might also include taking a general position on physical versus monetary accounting (see the current comments on this topic in the context of environmental accounting at paragraph 21.138); (3) Propose non-market accounts for some specific areas in addition to the environment, say perhaps an education account and a health account." These proposals reflect the findings of a recent study by the U.S. National Academy of Sciences on this topic.

Summary conclusion

Outcomes

22. This was an information item and was not discussed by the AEG for lack of time.

Interest under high inflation

Issue 8; Paper SNA/M1.06/34; for information

Description of the issue

Peter Hill and Andre Vanoli have written to the ISWGNA, with regard to the treatment of nominal holding gains and interest on financial assets under conditions of high inflation, as described in the 1993 SNA Chapter XIX, Annex B and subsequently in the OECD publication "A Manual on Inflation Accounting" written by Peter Hill along a position different from that taken in Annex B in the 1993 SNA. Andre Vanoli has written a paper for discussion at the 1998 IARIW conference which raised issues regarding the inflation accounting treatment. Peter Hill has responded with a paper also submitted to the 1998 IARIW conference, essentially giving counter-arguments and in turn raising issues regarding Annex B. The AEG agreed that inflation accounting is an important alternative to the core accounts and that Annex B should be rewritten to include various approaches for compiling satellite accounts.

Summary conclusion

Outcomes

23. This was an information item and was not discussed by the AEG for lack of time.

Review of the outcome of e-discussions

The right to use/exploit non-produced resources between residents and non-residents

Issue 18, Papers SNA/M1.06/26.1, SNA/M1.06/26.2

Description of the issue

Except for land, transactions of the right to use or exploit non-produced resources between residents and non-residents have not been fully elaborated by the 1993 SNA. For land a notional resident unit is created which is deemed to purchase the land while the non-resident is deemed to purchase a financial asset (equity) of the notional unit. Should the treatment of land be extended to other non-produced resources such as water, fish, etc. or should there be alternative treatments?

Summary conclusion

Questions

24. The AEG members were asked whether they agreed to the following 11 points:

For land:

(a) All land must be owned by a resident unit, whether it is natural land or land improvements?

(b) The lessor of land or buildings held under a financial lease must be a resident unit, notional if necessary?

For mineral deposits (or static natural resources subject to multi period extraction),

(c) The issue of a licence establishes a sufficient centre of economic interest for the holder of the licence to be regarded as resident (the BOPCOM view) or must production start to establish this (the CG view)?

For radio spectra (where there is no change in the asset brought about by usage),

(d) the holder of a licence to use the spectra would normally be resident but exceptions may occur in certain cases such as geographically small countries covered by facilities in neighbouring countries?

For logging (or static natural resources subject to short-term extraction),

(e) extraction must take place for more than a year to establish a resident unit?

(f) A fee for one-time extraction represents the sale of an asset?

(g) Illegal extraction should be recorded as uncompensated seizure?

For fish:

(h) A fishing vessel becomes resident only if the operator establishes a base in the country in question, otherwise the residence of the vessel remains that of the operator, regardless of the area in which it is fishing?

(i) Fish beyond the EEZ may be treated as assets if allocated by international agreement?

(j) Permits to catch fish may represent assets in their own right?

(k) Illegal fishing should in principle be recorded as uncompensated seizure?

25. The AEG members who participated in the e-discussion overwhelmingly supported all except one of the proposed recommendations. The ninth proposal, (i), generated some disagreement.

Outcome

26. The AEG was pleased to note the agreement revealed by the e-consultation . On the third proposal, the views of BOPCOM and the Canberra II Group are different, with the former considering that a licence being issued is sufficient to establish residence while the latter considered production must be observed before residence is established. The AEG recommends that the BOPCOM approach be adopted in the updated SNA.

Water

Issue 31, Papers SNA/M1.06/27.1, SNA/M1.06/27.2

Description of the issue

When water is no longer a free resource, how should the charge for it be treated? Should it be treated in a similar way to land or mineral resources as giving rise to rent? It is complicated by the fact a large part of the charges is distribution costs.

Questions

27. Two questions were put to members of the AEG

(a) Do you agree with the proposal to amend the wording of para 6.24 to ensure there is consistency on the classification of water as a good and its transport as a service but without changing the existing convention on including the carrying of water within the production boundary?

(b) Do you agree that

i. if a payment to discharge water is a fine intended to inhibit discharge, it should be treated as a fine;

ii. if a limited number of permits is issued with the intent to restrict discharges, the payment should be treated as a tax if the medium into which the water is discharged is not regarded as an asset in the system;

iii. if the discharge medium is an asset; and the necessary conditions are met concerning the terms on which discharge is permitted, then the treatment of the payment for the permit should be in the same way as a licence to use the radio spectrum is used for mobile phones; if the charge is linked to remedial action, this represents a payment for a service unless the amount levied is out of all proportion to the costs involved in subsequent water treatment in which case the payment should be treated as a tax.

28. The AEG members participating in the e-discussion overwhelmingly supported all proposed recommendations.

29. The AEG was pleased to note the agreement revealed by the e-consultation.

Illegal activities

Issue 33, Papers SNA/M1.06/28.1, SNA/M1.06/28.2

Description of the issue

The 1993 SNA makes no distinction between legal and illegal transactions as long as the exchanges are occurring with mutual consent. While, it is ythat obtaining credible information on these illegal transactions will be very difficult, at the same time it is stated that their exclusion will introduce errors in the accounts including the balancing items. The

1993SNA draws a distinction between illegal activities and underground activities of which the latter activities are defined as those that are concealed from the public authorities for various reasons like evasion of taxes, health and safety regulations. Both the illegal and underground activities may in some countries be a significant part of the economy. It is therefore particularly important to estimate the production from underground and illegal activities even if they may not always be separately identified. A summary of best practices based country experiences should provide further guidelines on their treatment.

Summary conclusion

Questions

30. The AEG members were asked whether the following nine clarifications should be incorporated into the updated SNA.

(a) The explanation of illegal activities in the 1993 SNA should be further clarified by providing examples based on those in the NOE Handbook. These include activities such as production and distribution of illegal goods and counterfeit products, production of illegal services, production activities which are usually legal but which become illegal when carried out by unauthorized producers, theft and resale of stolen goods, bribery, extortion, money laundering, and forgery.

(b) Recurrent theft of significant value by employees should be recorded as compensation in kind of employees.

(c) Recurrent theft of water and electricity of significant value by households should be recorded as final household consumption expenditure. This treatment requires an imputation of a current transfer-in-kind from the producer (non-financial corporation sector) to the consumer (household sector).

(d) Sale of stolen goods (fencing) should be recorded similar to the recording of sales of second-hand goods – that is, recording the value added and trade margins of distribution activities.

(e) In the provision of market goods and services, bribes taken by employees as an additional margin on the “official” price should be recorded as an increase in the value of output of market production matched by an identical increase in the compensation of employees.

(f) If the bribery is accepted as standard practice in provision of non-market services, then the bribe should be recorded as additional compensation of employees and an increase in output of government.

(g) Bribes linked to the provision of non-market services that are not allowed or not publicly accepted should be recorded as current transfers. The same holds for payments to persons in privileged positions to obtain a contract.

(h) Extortion payment should be recorded as an other change in the volume of assets account.

(i) The difference between the value of the illegal cash and the value of the legalised (laundered) cash should be looked upon as a provision of services.

31. AEG members participating in the e-discussion overwhelmingly supported clarifications (a), (d), (g) and (h). The other clarifications required further discussion during the meeting.

Outcomes

32. The AEG agreed that theft should not be treated as a transaction. The AEG also agreed that bribery should not be treated as compensation of employees, contrary to the possibilities mentioned in the *Handbook on the Non-Observed Economy*. The consensus of the AEG was that bribery should not be discussed in the updated SNA.

Measurement of non-market volume output

Clarification C10, Papers SNA/M1.06/31.1, SNA/M1.06/31.2

Description of the clarification

The recent report of the Atkinson review in the United Kingdom and the Eurostat Handbook on Volume and Prices have confirmed the objective of the SNA to measure the volume output of the general government using direct output indicators. But they propose principles for the measurement that would be useful to include in the new SNA, as they will clarify the conditions of a good measurement of non market output.

Summary conclusion

Questions

33. The following four questions were put to the AEG members:

(a) Does the AEG support the inclusion of new sentences in Chapter 16 of the SNA discussing the importance in theory of taking into account marginal benefits to households in the estimation of the volume change of non market services?

(b) Does the AEG support the inclusion in the new SNA of more precise definitions of “input”/”output”/”outcome”?

(c) Does the AEG agree to include in the new SNA positive and practical descriptions of acceptable output indicators, in particular for education and health?

(d) Does the AEG agree to revise paragraph 16.139 to give it a more positive tone and reflect current thinking?

34. The AEG members participating in the e-discussion overwhelmingly support three of the four proposals relating to measurement of non-market volume output. They were about equally divided on the proposal to include new sentences in the SNA discussing the importance in theory of taking into account marginal benefits to households in the estimation of the volume change of non-market services.

Outcomes

35. The AEG agreed that marginal benefits should not be described as the basis for measuring the volume of non-market services. The AEG noted the other 3 recommendations were agreed to in the e-discussion.

SNA/ISIC aggregations for SNA data reporting

Clarification C12; Papers SNA/M1.06/33.1, SNA/M1.06/33.2

Description of the clarification

The SNA 93 industry classification is shown as the ISIC 2-digit classification. In addition to this classification, the ESA 95 includes top level industry classifications which regroup ISIC/NACE positions. They are known as the A3 (three positions)/A6/A31/A60 classifications. These top level classifications are heavily used in the transmission of national accounts data for Eurostat and OECD countries. It would, first, be useful that these top level classifications are defined in the new SNA. Second, a revision of these classifications is in progress in Eurostat, alongside the revision of the NACE/ISIC. A paper has also been prepared by the UN. The OECD/Eurostat and the UN will cooperate to propose top-level aggregations acceptable to all.

Summary conclusion

Questions

36. Two questions were put to the members of the AEG:

(a) Do you agree that the proposed top-top aggregation can be accepted for SNA data reporting?

(b) Do you agree that the proposed intermediate aggregation (A*38) can be accepted for SNA data reporting?

37. The AEG members participating in the e-discussion overwhelmingly supported the proposed top 10 and A*38 aggregations for SNA data reporting.

Outcome

38. The AEG noted the recommendations agreed to in the e-discussion.

The treatment of employer pension schemes and other defined benefit pension schemes

Issue 2; Papers SNA/M1.06/03.1; SNA/M1.06/03.2: for decision

Description of the issue

In the 1993 SNA, promises to pay future pension benefits are not recognized as liabilities of social security schemes and unfunded employer schemes. The review will investigate the analytical relevance of recording these liabilities in the national accounts and, if appropriate, formulate recommendations regarding their valuation and measurement. The review will also formulate proposals to reconcile the recommendations of the 1993 SNA and the IMF Government Finance Manual regarding the treatment of unfunded employer pension schemes.

Summary conclusion

Recommendations/questions: Paper SNA/M1.06/03.1;

39. Does the AEG agree that:

(a) Liabilities/assets and associated economic flows of all pension schemes should be recognized in the core accounts of 1993 SNA?

(b) Accumulated benefits and related economic flows for all defined benefit schemes should be calculated using actuarial methods?

(c) Output should be calculated for non-autonomous schemes on a cost basis, and cost attributed to the beneficiaries (i.e. household sector)?

(d) Expected holding gains and losses can be used in order to explain the service charge imposed by autonomous pension schemes?

Outcomes

(a) There was strong support within the AEG for the recommendation by the Task Force on Employers' Retirement Schemes to recognise the liabilities involved with all employer pension schemes, including unfunded ones, and any associated assets and transactions.

The AEG saw that there are problems for several countries in drawing a distinction between pension schemes for government employees and social security schemes.

The AEG felt it necessary to develop criteria that would distinguish between the several types of schemes. Possible criteria, among others, could be the employer/employee relationship or the nature of the liability (e.g. whether it is a contingent or an actual liability).

The ISWGNA will explore alternatives for developing criteria.

The AEG noted the possibility, until such criteria are developed, of countries not including the liabilities for pensions of government employees in the core accounts but of including them together with the liabilities for social security schemes in supplementary accounts.

The AEG also supported the possibility of including supplementary accounts for social security schemes.

(b) The AEG agreed with this recommendation, but with the understanding that, in some circumstances, related economic flows need not be calculated on an actuarial basis.

(c) The AEG agreed that this statement should be modified by adding the words “In principle” at the start.

(d) The consensus within the AEG was to accept this recommendation but acknowledging that it may have to be revisited following discussions on other aspects of the System associated with holding gains and losses.

Questions: SNA/M1.06/03.2

40. Does the AEG:

(a) agree to add a specific recommendation in the SNA recognizing as pension liabilities those pension obligations that are exchanged in an explicit transaction between two units, even if the SNA does not record specifically pension liabilities for one or several of these units?

(b) support that the definition of social security pension schemes mentions the existence of “collective multi-employer schemes” and of “funded social security schemes”?

(c) confirm that all unfunded collective multi-employer schemes are to be treated as current transfer schemes?

(d) support to treat as saving schemes all funded schemes, even if organised as a part of social security?

(e) support that government pension schemes for its own employees should always be shown as an employer scheme (saving scheme) even if the scheme is labelled or organised under a more general social security scheme?

Outcomes

(a) The AEG agreed that, when the obligation to pay pensions passes from one unit to another, this should be recorded as a transaction in pension liabilities even if neither unit has previously recorded them.

(b) The AEG did not support this proposal. The consensus was that it is necessary to look at the economic substance behind schemes rather than the way they are labelled. There was general concern about using criteria based on distinguishing the status of schemes depending on whether they are funded or unfunded.

(c) The AEG did not support this proposal for the same reasons as for question (b).

(d) The AEG did not support using only “funded” as a suitable criterion in this context.A liability should be recorded for schemes where the benefits are related to the contributions even though the schemes may be described as social security schemes.

(e) The AEG recommended the ISWGNA should investigate the criteria for identifying such schemes and report back to the AEG with a proposal outlining the most appropriate approach (see the first question of paper 06/09.1).

Definition of economic assets

Issue 30; Paper SNA/M1.06/14; for decision

Description of the issue

The SNA should provide a clear definition of what constitutes an asset which is consistent with where the asset boundary falls in respect of currently known entities, as well as providing guidance for determining whether entities which appear in the future fall within the asset boundary. It should be accompanied by guidance on how assets should be valued.

Summary conclusion

Questions

41. Does the AEG agree:

(a) with the need to define ownership and benefits?

(b) with the thrust behind the proposed definitions?

(c) with the revised definition of an asset?

(d) with the exclusions from the balance sheet?

(e) that constructive liabilities should be included in the asset boundary?

Outcomes

42. The AEG acknowledged there are some shortcomings with the 1993 SNA definition and agreed that some changes are required. In particular, the existing definition does not adequately cover issues such as risk, demonstrable value and constructive obligations.

43. The AEG asked the Editor to amend the current definition of an asset, particularly taking into consideration the need for attention to risk and constructive liabilities. A draft of the relevant chapter(s) will be circulated to the AEG for comment.

44. Any specific comments should be sent in writing to the Editor as soon as possible. Comments on potential translation problems that may affect the terms able to be used in the English version should be provided directly to the Editor.

Review of the outcome of e-discussions

Impact of non-performing loans on FISIM

Issue 4a, Papers SNA/M1.06/25.1, SNA/M1.06/25.2

Description of the issues

The treatment of non-performing loans is a topic on which the Thai authorities had asked the ISWGNA for clarification as to what extent unpaid interest should be accrued (considering that the financial intermediation services indirectly measured on such interest may affect GDP). The purpose of the review is to determine what criteria should be applied to the writing-off of non-performing loans and to make sure that they are consistent with the other major macroeconomic statistical systems (balance of payments, government finance, and money and banking statistics).

Questions

45. The AEG was asked to express a preference for one of the following options for recording the interest on non-performing loans.

(a) Option 1 is the option in the 1993 SNA, except that an amendment is needed to say that any FISIM associated with unpaid interest must also be accrued as part of the principal outstanding. It is consistent with the decision to record the even non-performing loans at nominal value. It is operationally feasible and would lead to no change in GDP.

(b) Option 2 appears to recommend a change in the SNA by choosing to record interest on a cash rather than an accrual basis. The possible impact on GDP, compared with measuring interest on a full accrual basis is described in the full explanation of option 2. In practice, if a statistical office records interest in the accounts on the basis of interest reported by banks, it is probable that this may be on a cash basis or at least exclude interest due on loans the bank considers to be non-performing. To the extent this is so, a conceptual change in the SNA would not lead to any change in practice.

(c) Option 3 is a change from the SNA. The consequences for the impacts on GDP and other aggregates is described above. Although this option starts from the reference rate approach to calculating FISIM the implication is that the final estimate for (SNA) interest is not derivable by applying the reference rate to the stock of performing loans.

None of options 1, 2 or 3 imply changes in current recording of entries in the balance sheets.

(d) Option 4 is noted mainly for the record. If a decision were to be made to change the valuation of loans in the balance sheet from nominal value to market value, then options 1 and 2 would not apply and the choice would then be between options 3 and 4. However, option 4 is inconsistent with the decision to keep the valuation of NPLs at nominal value in the balance sheet.

Outcome

46. The AEG noted that the e-discussion had revealed a clear preference for option 1.

Retained earnings of mutual funds, insurance corporations and pension funds

Issue 42, Papers SNA/M1.06/29.1, SNA/M1.06/29.2

Description of the issues

In the 1993 SNA, retained earnings of an entity are generally treated as the income and saving of the entity, rather than the owner. However, exceptions are made for life insurance companies, pension funds and foreign direct investment companies, where there is an imputed flow to the policyholders, beneficiaries, and owners, with an equal financial account flow. The ESA95 introduces an imputed transaction for the retained earnings of the mutual funds where income is attributed to the investors and then reinvested in the fund. That treatment brings about some consistency with the treatment of life insurance and pension funds, which are other types of collective investment schemes. Other symmetrical applications of the treatment of retained earnings have been suggested that either expand or reduce the imputations. Moreover, the issue of negative earnings has to be addressed.

Questions

47. Does the AEG agree:

(a) to exclude holding gains or losses from the property income attributed to holders of assets in investment funds? At a later stage, the question could be part of a broader discussion, in particular of the definition of income itself, beyond the publication of the next edition of the SNA.

(b) that property income attributed to holders of investment funds on an accruals basis should be recorded as a new property income category “property income attributed to holders of investment funds” which should be further split into “dividends distributed to investment fund shareholders” and “retained earnings attributed to investment fund shareholders”?

(c) that the counter-entry of “retained earnings attributed to investment fund shareholders” should be recorded as a new financial asset category “investment fund shares/units”?

Outcome

48. The AEG noted these recommendations were agreed to in the e-discussion.

Financial instruments – non-monetary gold

Issue 44; Papers SNA/M1.06/30.1, SNA/M1.06/30.2

Description of the issues

(Part) Again it is raised whether non-monetary gold should be classified as a financial asset rather than under valuables in the asset classification. Non-monetary gold being a financial asset would allow for the gold transactions to be netted, in line with financial transactions. Moreover, as a consequence, fee payments to owners of gold loans would be classified as property income rather than a service.

Summary conclusion

Questions

49. The following questions were considered by the AEG:

(a) Whether unallocated gold accounts should be classified as financial assets/liabilities?

(b) Whether other unallocated metal accounts should also be classified as financial assets/liabilities?

(c) Whether other forms of unallocated commodity accounts, if such exist, should also be classified as financial assets/liabilities?

(d) if any accounts are classified as financial assets/liabilities, whether they should be classified as deposits?

if they are deposits, whether they can be classified as foreign currency deposits, or whether a specific deposit class needs to be assigned?

(e) If included in foreign currency deposits, whether the classification should be changed to "foreign currency and other"?

Outcomes

50. The AEG noted that there was little opposition to these proposals covered in the e-discussion, although there was a high proportion of "No opinions" for some of them.

51. The AEG agreed to questions (a), (b) and (d), but not question (c). On question (e), the AEG felt it was not necessary to change the terminology "In foreign currencies".

Output of central banks

Issue 6b; Paper SNA/M1.06/05; for decision

Description of the issue

The measurement of the outputs of central banks at cost as an alternative to the current measurement will be reviewed. Allocation of the output of central banks will also be discussed.

Summary conclusion

Recommendations

Output of Central Banks and use of Central Bank services

(a) The national accounts should measure central banks' collective services, such as monetary services, using the cost approach and allocate them to government as government final consumption expenditure.

(b) The national accounts should measure central banks' individual services, such as financial intermediation services, from receipts and allocate them to the units that pay for these services.

(c) For a few services like supervisory services it may not be obvious whether they are non-market or market.

If they are non-market, they should be measured at cost and allocated to government as government final consumption expenditure.

If they are market, they should be measured from receipts and allocated to financial corporations, the government, non-financial corporations, and the rest of the world as intermediate consumption and exports, respectively.

Valuation of Market Services

(d) Implicit transfers resulting from central banks using off-market interest rates for policy reasons cause distortions in measuring financial intermediaries' output and value added and therefore should be removed from the calculations.

Because these transfers are made for policy reasons the national accounts could record them as taxes ("other taxes or subsidies on production" if the counterparts are producers). This method requires that offsetting transfers between government and the central bank be recorded.

The second option to deal with these deviations would be to record them as current transfers from or to the central bank without rerouting through government.

Outcomes

Output of Central Banks

(a) The AEG agreed in principle with the proposal to distinguish between market and non-market output. Non-market output should be valued at cost. The group noted that exact implementation might be very resource intensive and that the issue may not be of significant importance. It was therefore agreed that countries should have flexibility in the degree to which they applied the distinction.

Use of Central Bank services

(b-c) It was agreed that the non-market services of central banks should be treated as acquisition of services by general government financed by an imputed transaction. Market services of the central bank are provided to a range of institutional units who pay for them.

Valuation of Market Services

(d) It was noted that the interest rates set by the central bank may be so high or low as to represent inclusion of an implicit tax or subsidy. The AEG agreed these should be identified explicitly as such when they are significant. Then, they should be recorded as taxes or subsidies.

The production of financial corporations and price/volume measurement of financial services and non-life insurance services

Issue 6a; Paper SNA/M1.06/04; for decision

Description of the issue

This issue is devoted to the measurement of the output of financial intermediation services and portfolio management in the national accounts. The business of financial corporations has undergone a structural transformation towards a rising importance of the portfolio management of financial assets. This generates holding gains and losses, that, typically, national accounts exclude from the production boundary and therefore income. The review will consider whether and how the production boundary can be adapted to this rising activity, and how this could influence income.

Summary conclusion

Recommendations/questions

52. The work of the Task Force on Financial Services resulted in nine carefully worded recommendations covering the definition of a financial institution, the definition of financial services and the measurement of financial services in volume terms. These were:

Financial institutions

Recommendations/questions

(a) A definition of financial corporations based on the nature of their output (financial services) instead of their activity. “Risk Management” and “Liquidity transformation” activities are added to “Financial intermediation” to better capture the nature of the activities of financial corporations.

(b) That no FISIM is recorded for non-financial corporations. Only explicit financial services are recorded for such units.

(c) That units which provide financial services exclusively with own funds would be considered financial corporations and will thus be productive in the sense of SNA if they provide loans to a range of clients and incur the financial risk of the debtor defaulting.

(d) That units producing financial services for only one unit or a group of units are considered as financial corporations if they keep a complete set of accounts and are capable of acquiring assets and incurring liabilities on their own account.

Outcomes

(a) The AEG agreed with recommendation (a) on the definition of financial corporations and financial services. The service charge for money lenders can be compiled as the difference between the amount paid as interest and the reference rate times the amount of the loan.

(b) The AEG agreed that, by convention, FISIM would be restricted to (i) financial corporations and (ii) loans and deposits[2].

(c) The AEG agreed that lending own funds may be a financial service and may include a service charge, though not financial intermediation activity. Incorporated money lenders should be treated as part of the financial corporations sector. Unincorporated enterprises which provide loans to a range of clients other than just family and friends, and take on the financial risk of the debtor defaulting, as a principal activity, should be treated as unincorporated enterprises (money lender) in the (informal) household sector or as quasi-corporations if they have sufficient accounting information to qualify as a quasi-corporation.

(d) Discussion of recommendation (c) was postponed to the discussion on units.

Financial services

Recommendations/questions

(e) That expected holding gains and losses should not enter into the measurement of financial services output.

(f) That FISIM should be systematically allocated. It is primarily deposits and loans attract implicit charges and these instruments are included in the calculations of FISIM. The calculation of FISIM should be based on the formula $\left(r_L^t - rr^t\right)y_L^t + \left(rr^t - r_D^t\right)y_D^t$. In this formulation, y_L is the amount of loans, y_D the amount of deposits, r_L is the loan rate, r_D the deposit rate and rr is a reference rate. This implies a change to the 1993 SNA that recommended calculating FISIM as “the total property income receivable by financial intermediaries minus their total interest payable, excluding the value of any property income receivable from the investment of their own funds, as such income does not arise from financial intermediation” (paragraph 6.125)

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[2] The service provided by money lenders, though calculated in the same way as FISIM, is not an intermediation service as such but should be regarded as an explicit fee for a lending service.

(g) That the reference rate used in the compilation of FISIM should be a risk-free reference rate that has no service element in it and that reflects the maturity structure of the financial assets and liabilities to which FISIM applies. A single rate should be used for transactions in the local currency, whereas different rates may be used for transactions in other currencies.

(h) That with respect to market making and trading services, the measurement of the implicitly priced elements - margins on foreign exchange and buying and selling of all securities by all financial corporations - be made regardless of the purpose for which the securities and other instruments are being bought or sold.

Outcomes

(e) The AEG agreed with the recommendation to not include expected holding gains/losses in the measurement of financial services output but noted this may have to be reviewed in the context of consistency.

(f) The AEG agreed.

(g) The AEG agreed that a single reference rate should be used but, when relevant, a country could choose to use multiple rates. The reference rate used in the compilation of FISIM should be a rate that has no service element in it and which reflects the risk and maturity structure of the financial assets and liabilities to which FISIM applies. It is recommended that different reference rates should be used for transactions in other currencies.

(h) The AEG agreed that the margins on buying and selling of all securities by all financial corporations represent financial services. When there is a delay between purchase and sale of a security the margin at the time of each transaction should be used to eliminate holding gains/losses. The margin is calculated as the difference between the mid price and the buy/sell price.

Measurement in volume terms

Recommendations/questions

(i) That in the absence of direct deflators for the output of implicitly priced financial services at current prices, the rate of change of the volume indicator should be derived using the rate of change of stocks of loans and deposits deflated by a general price index (e.g. the GDP deflator) or using a direct output indicator method.

(j) That in the absence of a direct deflator of non-life insurance output, to compile a direct volume indicator using one of two methods described in recommendation (i), and obtain the price index as the ratio between the current price series and the volume series:

Outcomes

(i) The measurement of the volume change in the output of financial intermediation should take into account the total output, including the direct charges. In the absence of direct deflators for the output of FISIM, one of the following approaches may be used:

(i) rate of change of the volume indicator can be derived using the rate of change of average stocks of loans and deposits deflated by a general price index (e.g. the GDP deflator) adjusted for quality change in the output of financial services

(ii) the output indicator method which involves breaking down the different characteristics linked to financial services (numbers and values of loans and deposits, savings, money transfers, etc). For each of the characteristics an appropriate volume indicator is to be derived. The volume indicators are then weighted together.

(j) The AEG agreed to the recommendation on the calculation of a volume estimate of non-life insurance services.

Equity

Issue C9; Paper SNA/M1.06/23; for decision

Description of the issue

Paragraph 13.73 of SNA 93 just says that "the value of shares that are not quoted on stock exchanges or otherwise regularly traded should be estimated using the prices of quoted shares that are comparable in earnings and dividend history and prospects, adjusting downward, if necessary, to allow for the inferior marketability or liquidity of unquoted shares", but without making reference to specific issues or methods. The issue is, however, very relevant, as unquoted shares in many countries are far more important than quoted shares. Nonetheless, little progress was formerly made in producing harmonized data on unquoted shares. There are two issues for clarifications to help harmonizing the valuation of equity:

(a) The breakdown of AF5 into quoted shares, unquoted shares and other equity as done in the ESA95;

(b) Recommendation of methods of valuation of different types of equity. This is not a substantive change issue but one that will discuss equity from both the asset and liability side, consider both intercompany and portfolio investment in relation to listed and unlisted equity. Expansion and clarification of equity in the SNA will pave the way for better harmonization with other standards, in particular BPM#5 (which does deal very closely with portfolio and direct investment).

Summary conclusion

Questions

53. Does the AEG:

(a) agree on the principle of flexibility in the approaches to valuing unquoted equity?

(b) accept the proposed approaches towards valuing unquoted equity?

(c) accept to introduce breakdowns of the entry AF5: AF51: equity, AF51.1 quoted shares, AF51.2: unquoted shares, AF51.3 other equity; AF52: investment funds?

(d) agree to include a paragraph to discuss the link between inter-company investment and direct investment?

(e) agree that a conceptual description of Residual Corporate Net Worth is included in the SNA and that it appear as a sub-component of B90?

(f) support a change to the Revaluation Account to include the counterpart of imputed flows linked to re-invested earnings?

Outcomes

(a) The AEG agreed to the principle of flexibility.

(b) The AEG agreed that transaction prices are the preferred means of valuing unquoted equity. The AEG did not rank the other alternative methods proposed for valuing unquoted equity when transaction prices are not available.

(c) To be discussed in the context of the classification of financial assets and liabilities.

(d) The AEG agreed.

(e) The AEG agreed that a description of the concept of Residual Corporate Net Worth would be useful but that a breakdown of total net worth to show this component explicitly in the accounts would not be useful.

(f) The AEG agreed a further articulation of the flows is required in the SNA.

Treatment of currency unions

Issue C26; Paper SNA/M1.06/39; for information

Description of the issue

No change is required to the SNA, as there is no specific coverage of currency unions. The next edition of the BPM will include some clarification of application of existing concepts to economic and currency unions. A technical expert group with representatives of various multi-country groupings has been looking at these issues. A paper from the BOP Committee will be provided to AEG on a "for information" basis. However, the issue may arise at the AEG as to whether these topics should also be covered in the SNA.

Summary conclusion

Outcomes

54. This was an information item and was not discussed by the AEG for lack of time. Comments would still be welcome and should be addressed to the ISWGNA.

Direct investment

Issue C28; Paper SNA/M1.06/40; for information

Description of the issue

A report, for information, from the IMF on the resolution by the IMF and OECD of issues that were taken to the IMF-OECD Direct Investment Technical Expert Group.

Summary conclusion

Outcomes

55. This was an information item and was not discussed by the AEG for lack of time. Comments would still be welcome and should be addressed to the ISWGNA.

Globalization: A progress report

Issue 25c; Paper SNA/M1.06/42; for information

Description of the issue

A related issue is the present treatment of ancillary corporations as an integral part of the parent corporation and not as a separate institutional unit. However, in financial markets and asset management, separate entities have come into existence that only hold assets or liabilities but do not enter into production. Such entities use legal structures or/and are set-up for specific purposes such as ad-hoc structures specialized in managing portfolios of assets and debts, restructuring agencies, special purpose entities, shell companies, limited liability partnerships or trusts. For these entities, principles have to be formulated whether to treat them as separate institutional units.

Similarly, with the appearance of multi-territory enterprises that operate as a single legal entity in more than one territory, principles have to be adopted whether to allocate the unit to the predominant territory or to use pro rata splitting.

Principles of recognizing these ancillary units as separate institutional units should take into account different residency and the institutional sector of the (ultimate beneficiary) owner, sources of information, etc. Moreover, the sectorization of those units has to be determined.

Summary conclusion

Outcomes

56. The AEG made some specific suggestions on the outline and noted the potential implications of globalisation for the updated SNA.

Assets boundary for intangible non-produced assets - Other intangible fixed assets

Issues 13, 29; Paper SNA/M1.06/06; for decision

Description of the issues

Issue 29: Other intangible fixed assets. Should instruments involving the securitisation of future receipts of government be regarded as intangible non-produced assets?

Issue 13: Asset boundary for intangible non-produced assets. The 1993 SNA mentions these not-elsewhere classified items in the Annex of Chapter XIII, which are restricted to the units that have established ownership rights over them or to other units licensed by the latter. What is intended to be included in other intangible fixed assets?

Summary conclusion

Recommendations/questions

57. The following recommendations and question were presented for the AEG's consideration:

(a) The definition of an asset given in the SNA should make clear that the securitisation of future revenue is not an asset in the system. When future income unrelated to any asset recorded on a unit's balance sheet is the subject of securitisation arrangements on the market such arrangements are always to be treated as borrowing. These arrangements involve the transfer of the entitlement to future income, which does not fit the definition of an economic asset.

(b) The category "Other intangible non-produced assets" should be eliminated, and either the category "leases and other transferable contracts" should be redefined to include contracts such as mobile phone licences that are only transferable by means of a change of ownership of the licensee, or another category should be created to accommodate such contracts.

(c) The category "Other intangible fixed assets" should be maintained.

Outcomes

(a) The AEG agreed.

(b) The AEG agreed in principle, taking the view that there should be no categories that are not well-defined. However, the need for retaining this category should be re-examined after the work on leases and licences has been finalised.

(c) The AEG noted that the Canberra II Group was in favour of retaining the category despite not being able to identify anything that would be included in it. The need for this category will be further investigated by the Editor.

Classification and terminology of non-financial assets

Issue 27; Paper SNA/M1.06/12; for decision

Description of the issue

Should the classification of assets be revised in line with the review of other issues such as leases and licenses? Should the tangible/intangible dichotomy be suppressed?

Summary conclusion

Recommendations/questions

58. Does the AEG agree with:

(a) the highest level of the classification as follows:

Non-financial assets
Produced assets
Non-produced assets
Financial assets

(b) the high level structure for produced and non-produced assets as follows:

Produced assets
Fixed assets
Inventories
Valuables
Non-produced assets
Natural resources
Contracts, leases and licences
Goodwill and marketing assets

(c) the breakdown of fixed assets as follows:

Dwellings
Other buildings and structures
Non-residential buildings
Other structures
Land improvements
Machinery and equipment
Transport equipment
ICT equipment
Other machinery and equipment
Military assets
Cultivated assets
Livestock for breeding, dairy, draught etc.
Vineyards, orchards and other plantations of trees yielding repeat products
Costs of ownership transfer on non-produced assets
Intellectual property products
Research and development expenditure

Mineral exploration and evaluation
Computer software and databases
Computer software
Databases
Entertainment, literary or artistic originals
Other intellectual property products

(d) the breakdown of inventories as follows:

Materials and supplies
Work in progress
Work in progress on cultivated assets
Other work in progress
Finished goods
Government military and strategic inventories
Military inventories
Strategic inventories
Goods for resale

(e) the breakdown proposed for valuables as follows:

Precious metals and stones
Antiques and other art objects
Other valuables

(f) the detailed categories proposed for natural resources? Does the AEG agree that only first level should be standard and the rest supplementary? Does the AEG consider a parallel classification between land improvements and natural land is desirable?

Natural land
Natural land under buildings and structures and associated surface water
Natural land under cultivation and associated surface water
Natural recreational land and associated surface water
Other natural land and associated surface water
Subsoil assets
Coal, oil and mineral gas reserves
Metallic mineral reserves
Non-metallic mineral reserves
Non-cultivated biological resources
Natural forests
Other crop and plant resources
Wild stocks of fish and aquatic mammals
In national waters including EEZ
Outside EEZ
Water resources
Aquifers
Other
Other natural resources
Radio spectra
Other

(g) the proposal regarding contracts, leases and licences as follows:

Third party property rights
    Marketable operating leases
    Permissions to use natural resources
Entitlement to future goods and services on an exclusive basis
    Of nominated legal persons
    Of future production

(h) the following format of the capital account entries? Does the AEG wish to suggest more disaggregation?

Gross fixed capital formation
    Acquisitions less disposals of fixed assets
        Acquisition of new fixed assets
        Acquisition of existing fixed assets
        Disposal of existing fixed assets
        Cost of ownership transfer on natural resources
Depreciation
Changes in inventories
Acquisition less disposal of valuables
Acquisition less disposals of non-produced assets

(i) the following proposals for the "Other changes in volume of assets account"?

Entries applying to a restricted number of assets
Economic recognition of produced assets (K4)
Public monuments
Valuables
Increase in the value of natural resources
Discoveries and upwards reappraisals of sub-soil resources (K3)
Natural growth of uncultivated biological resources (K5)
Decrease in the value of natural resources
Extractions and downwards reappraisals of sub-soil resources(K61)[3]
Harvesting of uncultivated biological resources
Initiation of contract, leases and licences (K3)
Relating to third party property rights
Fixed assets
Natural resources
Relating to the entitlement to future goods and services
Termination of contracts, leases and licences (K62)
Relating to third party property rights

[3] The word extraction has been used here to replace depletion. This is in keeping with usage in the SEEA where extraction is used for total removals and depletion for the net effect on the level of reserves.

Fixed assets
Natural resources
Relating to the entitlement to future goods and services
Changes in the value of goodwill and marketing assets(K62)
Entries applying to all classes of assets
Catastrophic losses (K7)
Uncompensated seizures (K8)
Other volume change (K9 and K10)

Outcomes

(a) The AEG agreed.

(b) The AEG agreed.

(c) The AEG was in broad agreement. Changes required from the proposal presented are:

“military assets” should be changed to “weapons systems”

the word “expenditure” should be dropped from “research and development”

the “Other intellectual property products” category should be re-examined as noted above.

(d) The AEG agreed with the breakdown with one exception: “Military and strategic inventories” should be changed to “Military inventories”; the strategic inventories component (e.g. oil, food) will be allocated to other relevant parts of inventories as now.

(e) The AEG agreed.

(f) The AEG agreed with the proposed classification at the top level; the more detailed levels will be optional, depending on the situation in individual countries. The Editor and the UNSD will work together to obtain the best alignment possible between the SNA and SEEA classifications.

(g) The AEG postponed discussion of this section pending further work on the issue on contracts, leases and licences.

(h) The AEG agreed with the format and did not wish to have any greater disaggregation. The AEG also agreed that the 1993 SNA term “Consumption of fixed capital” should not be changed to “Depreciation” as recommended by the Canberra II Group.

(i) The AEG agreed.

Country comments on recommendations made by the July 2005 AEG meeting

Paper SNA/M1.06/43; for information

Summary conclusion

Outcomes

59. The AEG noted the country comments on the recommendations made by the AEG at its July 2005 meeting.

60. The Project Manager suggested that the UNSD should ask all countries to check the summary table and the comments to ensure that no problems have arisen in the UNSD's interpretation of the responses to the questionnaire.

Non-market producers' owned assets - Cost of capital services

Issue 16; Paper SNA/M1.06/07; for decision

Description of the issue

> *Services from government-owned assets, which are used in the production of government services are reflected in the output of the government services only as consumption of fixed capital. This means that neither a return on capital to these assets nor an opportunity cost is recognized. Should the SNA treatment of imputed output to the general government activity remain the same or should capital services be included?*

Summary conclusion

61. Excerpts from the Project Manager's note included in SNA/M1.06/07, which was prepared following discussion of this issue in the AEG meetings of December 2004 and July 2005

> The responses to the country consultations do not fit easily into the simple categorization of "agree" or "disagree;" there was a spectrum of comments in between that dealt with conceptual, practical, and other considerations. Some responses called for further discussion, and some indicated less than full understanding of the issue. (The paper presented at the July 2005 meeting was intended to be responsive to these comments.) The Project Manager subsequently spoke to representatives of 15 countries about the issue and their country's response. The single most often mentioned aspect was the need to settle on a rate of return to be used in the calculation. As well, scope was mentioned.

Questions

(a) Should a rate of return on assets used by non-market producers be taken to be the real rate of return of interest on all outstanding government bonds?

(b) Should a rate of return for all assets such as computers, vehicles and buildings used by the employees of non-market producers in their regular work be included in the measurement of the output of the non-market producer?

(c) Should a rate of return for assets such as roads and other infrastructure be included in the value of output of government?

(d) Should the SNA acknowledge that because data on such assets as city parks and historical monuments are often poor or non-existent, by convention no estimates of either consumption of fixed capital or a return to capital should be made for these assets?

(e) Similarly should the SNA recommend a return to capital in respect of land under buildings and structures be included in the measurement of output of non-market producers where such information is available separately from the buildings and structures involved, but as a convention neither estimates of return to capital nor of consumption of fixed capital should be made in respect of other land held by government?

Outcomes

(a) The AEG agreed that the expected real rate of return on government bonds is an appropriate indicator. If necessary, it should be supplemented by other indicators of the cost of capital to government, particularly if a country has a thin bond market or a negative real rate of interest.

(b)-(d) The AEG did not consider this breakdown of assets was helpful and preferred to say that by convention a return to capital should appear for all fixed assets and only fixed assets. This means that a rate of return should be calculated for computers, vehicles, etc used by employees and for roads and infrastructure and for city parks and historical monuments to the extent that they are included in fixed assets. By convention, no return to capital would be applied to other classes of assets.

(e) The AEG did not favour including a rate of return on "open land". On balance, the AEG agreed that a rate of return should not be estimated on land under buildings. However, the AEG acknowledged that it may be difficult for some countries to exclude it, given their estimation methods. Therefore the AEG recommended that, by convention, it should be excluded but, in practice, it may be impossible to do so.

The AEG agreed that since land improvements should be included in fixed assets, a rate of return was appropriate for them.

Liability aspects of SDRs and international reserves

Issue 44; Paper SNA/M1.06/22; for decision; Paper SNA/M1.06/36; for information

Description of the issue

The question of the treatment of SDRs issued by the IMF being treated by convention as having no liability was also added to the original description of item 44 (This is given on page 39),

Summary conclusion

Questions

(a) Should countries recognise SDR allocations as gross liabilities in the System?

(b) Should the allocation and cancellations of SDRs be classified as transactions?

(c) If so, should SDRs continue to be treated as an instrument in the SNA, with assets and liabilities separately identified?

Outcomes

(a) The AEG agreed to recognise SDR allocations as gross liabilities.

(b) The AEG agreed to classify the allocation and cancellations of SDRs as transactions.

(c) The AEG agreed to continue to treat SDRs as an instrument, showing the assets and liabilities separately.

62. The paper on international reserves (SNA/M1.06/22) was an information item and was not discussed by the AEG for lack of time. Comments would still be welcome and should be addressed to the ISWGNA.

Debt concessionality

Issue 43b; Paper SNA/M1.06/20; for decision

Description of the issue

Loans with concessional interest rates could be seen as providing current transfer equal to the difference between the concessional interest and the market equivalent. If such transfers are recognized, interest recorded would be adjusted for the same amount. Concessional rates in commercial and international assistance programs should be distinguished because in commercial situations these rates are used to encourage purchases.

Summary conclusion

Questions

(a) Is the approach of defining debt concessionality based on the intention of the creditor to convey a benefit in a noncommercial setting, such as government-to-government loans acceptable?

(b) Would option d) (following) be an acceptable outcome?

Option (d): to record concessional debt in nominal value but record, as a supplementary item, one-off transfers at the point of loan origination equal to the difference between the nominal value of the debt and its present value using a relevant market discount rate. This option has the advantage of considering all the possible sources of transfers in debt concessionality—maturity period, grace period, frequency of payments as well as the interest rate—and is consistent with nominal valuation of loans.

(c) Does the AEG consider that further work should be encouraged to obtain better measures of appropriate market equivalent rates to be used as the discount factor, but regard the Commercial interest reference rate (CIRR) as an acceptable proxy in the absence of other information given its wide use in debt reorganization?

Outcomes

(a) The AEG was concerned that the proposals presented could potentially run counter to some core national accounting principles. The approach needs to be presented further refined and, as an interim step, debt concessionality should be handled via supplementary items and only concern official-to-official lending.

(b) The AEG was reluctant to make a definitive decision on the preferred option because different options appear to be applicable in different situations. The AEG inclined to prefer option (b) (see following paragraph) until further research is undertaken to set out the characteristics of the different options and the situation(s) in which each may or may not be applicable. In addition, it was noted that option (d) does not provide a comprehensive system of recording. The AEG considered that further research is required.

Option (b): to record concessional debt in nominal value but account for the difference between the market interest rate and the contractual interest rate on the debt as an on-going current transfer. While this option is consistent with nominal valuation of loans, its key weakness is that it uses an interest rate that is likely to be out of line with evolution of market interest rates.

(c) The AEG agreed that debt concessionality should be put on the long-term research agenda.

Debt reorganization

Issue 43b; Paper SNA/M1.06/35; for information

Description of the issue

Loans with concessional interest rates could be seen as providing current transfer equal to the difference between the concessional interest and the market equivalent. If such transfers are recognized, interest recorded would be adjusted for the same amount. Concessional rates in commercial and international assistance programs should be distinguished because in commercial situations these rates are used to encourage purchases.

Summary conclusion

Outcomes

63. This was an information item and was not discussed by the AEG for lack of time. Comments would still be welcome and should be addressed to the ISWGNA.

Classification and terminology of financial assets and liabilities in the updated SNA

Issue 44; Paper SNA/M1.06/21; for decision

Description of the issue

With financial derivatives treated as a separate instrument in the 1993 SNA, it would be appropriate to introduce the term "debt securities" to replace "securities other then shares". Moreover, all types of financial derivatives are currently treated as a single item but there is an interest in splitting derivatives into forwards and options, given their different behaviour. Further considerations are to be given to the introduction of employee stock options. Again it is raised whether non-monetary gold should be classified as a financial asset rather than under valuables in the asset classification. Non-monetary gold being financial assets would allow for the gold transactions to be netted, in line with financial transactions. Moreover, as a consequence, fee payments to owners of gold loans would be classified as property income rather than a service.

Summary conclusion

Recommendations

64. The main recommendations of the paper are:

(a) To divide the category monetary gold and SDRs;

(b) To introduce the term debt securities to replace securities other than shares;

(c) To replace the term "shares and other equity" by "equity" and split it further into the sub-categories "quoted shares", "unquoted shares" and "other equity";

(d) To separate investment fund shares/units from ‘shares and other equity’ and form a new category investment fund shares/units;

(e) To consider distinguishing various types of investment fund shares/units (e.g. money market, bond, equity, real estate, mixed fund, and perhaps hedge fund shares/units) either as an “of which” additional split (in the case of shares/units in money market funds, with a view to providing a link with monetary aggregates) or as a non-mandatory memorandum item (for the other categories of investment fund shares/units);

(f) To consider a split of financial derivatives into risk categories;

(g) To broaden the category insurance technical reserves by introducing a sub-category reserves for calls on standardised guarantees;

(h) To introduce a box linking measures of money to the balance sheets and the financial accounts; and

(1) To include a box in the new SNA on debt

65. Recommendations (b) and (c) had been addressed in an earlier meeting and were not reopened.

Outcomes

(a) The AEG agreed that the effect of the decision on SDRs earlier in the meeting needs to be taken into account in making a decision. The AEG agreed that this category should be retained in the short term and that the possibility of splitting it should be considered during consultations with financial statisticians on the classification of financial assets.

(b) The AEG agreed.

(c) The AEG agreed.

(d) The AEG agreed that investment fund shares/units should be separately identified as “Investment fund shares” under the heading “Equity and investment funds”; the sub-categories will be as follows:

Equity and investment fund shares
- *Equity*
  - *Quoted shares*
  - *Unquoted shares*
  - *Other equity*
- *Investment fund shares*

(e) The AEG agreed these should be supplementary items. Money market funds might be a standard item.

(f) The AEG agreed on the split between options and forwards (and employee stock options). A split by risk categories would be too detailed for most countries and should be supplementary. There is unfinished business here; another look at the breakdown of financial derivatives will be needed when the issues coming from leases and licences are resolved.

(i) The AEG agreed.

(j.k) The AEG agreed to include the sort of information suggested. The Editor will consider the exact format of this sort of information throughout the text.

66. The proposed classification of financial instruments is the following:

Financial assets and liabilities

Monetary gold and SDRs
Currency and deposits
- *Currency*
- *Transferable deposits*
- *Other deposits*

Debt securities
- *Short-term*
- *Long-term*

Loans
- *Short-term*
- *Long-term*

Equity and investment fund shares
- *Equity*
  - *Quoted shares*
  - *Unquoted shares*
  - *Other equity*
- *Investment fund shares*

Insurance technical provisions and provisions for calls under standardised guarantees
- *Insurance technical provisions*
  - *Net equity of households in life insurance provisions and pension funds*
  - *Provisions for unearned premiums and for claims outstanding*
- *Provisions for calls under standardised guarantees*

Financial derivatives and employee stock options
- *Financial derivatives*
  - *Options*
  - *Forwards*
- *Employee stock options*

Other accounts receivable/payable
- *Trade credit and advances*
- *Other accounts receivable/payable*

Classification and terminology of financial corporations in the updated SNA

Issue C30; Paper SNA/M1.06/24; for decision

Description of the issue

Proposal for sub-sectoring the financial corporations sector.

Summary conclusion

Questions/recommendations

67. The main recommendations are to

(a) Classify financial corporations into the five sub-sectors monetary financial intermediaries, investment funds, insurance corporations and pension funds[4], miscellaneous financial intermediaries, and financial auxiliaries; and to

(b) Present the terms financial corporations and financial intermediation, monetary financial intermediaries, investment funds, miscellaneous financial intermediaries, and financial auxiliaries in boxes in the new SNA.

Outcomes

68. The AEG agreed to the following changes to the proposals presented in the paper:

Money-market funds should be shifted from “Monetary financial [institutions]” into the “Investment funds” category and shown explicitly.

Using the same term to describe an instrument and the controlling institution (e.g. “Pension funds”) is confusing. The AEG considered that a term like “Pension fund corporations” is clumsy and suggestions for alternative descriptions should be sent to the Editor.

The specific codes used should be changed in the updated SNA to avoid confusion between the current System and the updated one (e.g. the 1993 SNA code of S.121 refers to the “Central Bank” while, in this paper S.121 is proposed for a higher level item “Monetary financial institutions”). The AEG agreed that the updated system should use a new set of codes, at the discretion of the ISWGNA.

69. The AEG agreed that the Editor should look at possible alternatives to make a distinction between the terminology of “Miscellaneous financial institutions” and “Financial auxiliaries”.

70. The definition of “Investment funds” will be considered as part of the consultations mentioned.

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4 In addition, splitting up pension funds and insurance corporations could enable a richer analysis of different types of collective investment schemes.

Drafting and review phase of the update, including outreach

Summary conclusion

Outcomes

71. The AEG noted the information provided in the Project Manager's presentation.

Units in the 1993 SNA

Issues 25a, 25b, 25d; Paper SNA/M1.06/11; for decision

Description of the issues

Issue 25a: The concept of ancillary units pertains to non-productive units and the cost of the ancillary activities carried out centrally should be distributed over the establishments it serves. Following this approach, head offices and other ancillary units would disappear from the regions they are located and understate the regions' GDP. The 1995 ESA deals with the above situation by stating that "ancillary activities may be carried out in separate location, located in another region than the local KAU's they serve. The strict application of the rule (ancillary activities should be integrated with local KAUs they serve) for geographical allocation of the ancillary activities would result in underestimation of the aggregate in the region where ancillary activities are concentrated. Therefore according to the principle of residence, they have to be allocated where the ancillary activities are situated". However, 1995 ESA does not present a mechanism for achieving this regionalization scheme and further discussions are needed to work toward a clearly spelled-out convention.

Issue 25b: A related issue is the present treatment of ancillary corporations as an integral part of the parent corporation and not as a separate institutional unit. However, in financial markets and asset management, separate entities have come into existence that only hold assets or liabilities but do not enter into production. Such entities use legal structures or/and are set-up for specific purposes such as ad-hoc structures specialized in managing portfolios of assets and debts, restructuring agencies, special purpose entities, shell companies, limited liability partnerships or trusts. For these entities, principles have to be formulated whether to treat them as separate institutional units.

Issue 25c: Similarly, with the appearance of multi-territory enterprises that operate as a single legal entity in more than one territory, principles have to be adopted whether to allocate the unit to the predominant territory or to use pro rata splitting.

Issue 25d: Principles of recognizing these ancillary units as separate institutional units should take into account different residency and the institutional sector of the (ultimate beneficiary) owner, sources of information, etc. Moreover, the sectorization of those units has to be determined.

Summary conclusion

Recommendations/questions

Ancillary activities

(a) Units undertaking ancillary activities should be recognised as separate establishments (ancillary units) when they satisfy the conditions to be an establishment and should be classified according to their own economic activity.

(b) Output of an ancillary unit should be valued by sum of costs plus a proportional allocation of the operating surplus of the establishments it serves. Operating surplus of establishments it serves may be allocated to the ancillary unit in proportion to indicators such as their output, value added or employment.

(c) Output of ancillary units should be allocated as intermediate consumption to establishments they serve in proportion to indicators such as their output, value added, or employment of the establishments using their services.

Outcomes

(a) The AEG agreed with this recommendation subject to some of the wording being refined, particularly in relation to the units needing to be observable for statistical purposes

(b) The AEG agreed that in deriving a value for output, costs should include the cost of the capital used by the unit. Reservations were expressed with the idea of allocating operating surplus from the establishments it serves and the AEG agreed that a degree of flexibility should be permitted in the allocation.

(c) The AEG agreed.

Ancillary corporations

Recommendations/questions

(d) Ancillary corporations should be recognized as institutional units and should be classified in their own right when they satisfy the criteria for qualifying as institutional units.

Outcomes

(d) The AEG noted that the scope of ancillary activities was limited and that lending to customers, for example, though widespread is not an ancillary activity. Units undertaking these activities are financial institutions. For purely ancillary corporations, the AEG agreed that an institutional unit always needs to be separately identified when it is non-resident.

The AEG noted the original rationale for the treatment of ancillary corporations as integral to the units they serve was when they represent artificial units created for legal or tax reasons. In these circumstances, the 1993 SNA treatment of not treating resident units conducting purely ancillary services as separate institutional units should stand.

Holding companies

Recommendations/questions

(e) Parent companies without significant production recognized as holding companies should be classified as "other financial intermediaries".

Outcomes

(e) The AEG agreed but noted this category would be described as "miscellaneous financial institutions". The ambiguity of treating a publicly controlled holding company without significant production as a separate institutional unit was noted.

NOTE: Jacques Magniez agreed to look at the implications of this terminology for the French translation.

Special purpose entities

Recommendations/questions

(f) SPEs should be treated as institutional units when they satisfy the criteria for qualifying as institutional units and their output should be valued at cost if no market valuation method is available.

(g) There is no need for a separate classification of SPEs as they undertake a range of economic activities. The activities should be examined on a case by case basis and classified by existing industrial and institutional sector classifications.

(h) The term "securitization vehicles" should be used for institutional units that undertake securitization of assets only and such institutional units should be classified as "other financial intermediaries".

(i) All flows and stock positions between the general government and the non-resident SPE should be recorded in the general government and SPE accounts when they occur.

(j) If securitization is based on a future stream of general government revenue it is not the sale of an asset, but a borrowing transaction of the government. The economic substance of this transaction is best accounted for by imputing general government borrowing from the non-resident SPE for the same value and at the same time that the SPE incurs a liability to the foreign creditor.

(k) When government creates non-resident entities, such as SPEs, to undertake government borrowing and/or incurring government outlays abroad with no economic flows between the government and the SPEs related to these fiscal activities, transactions should be imputed in the accounts of both the government and the non-resident entity to reflect the fiscal activities of the government.

Outcomes

(f) The AEG agreed with the broad thrust of the recommendation. However, the AEG felt it would be better to express the recommendation as follows:

Resident SPEs should **not** be treated as institutional units **unless** ~~when~~ they satisfy the criteria for qualifying as institutional units; their output should be valued at cost if no market valuation method is available.

(g) The AEG agreed.

(h) The AEG agreed that securing an asset against future revenue constituted borrowing by the owner of the SPV. This is a sufficiently common form of SPV that they should be termed securitization vehicles and classified within miscellaneous financial institutions.

(i) The AEG agreed.

(j) The AEG agreed with the aim of this recommendation. However, the AEG felt it would be useful to separate the statement of the principle and the application of that principle. Although this principle has general validity it will be applied only for non-resident SPEs created by government for fiscal operations.

(k) The AEG agreed with the aim of this recommendation. However, the AEG felt it would be useful to separate the statement of the principle and the application of that principle.

Trust funds and investment funds

Recommendations/questions

(l) Trust funds and investment funds that are created as legal entities, even without employment, should be treated as institutional units. Their output should be valued at cost if no market valuation of their output is available. These units should be classified, separately from securitization vehicles, in the industry classification at (section K, group 643)and as other financial intermediaries in the institutional sector classification.

Outcomes

(l) The AEG agreed.

Restructuring agencies

Recommendations/questions

(m) If the restructuring agency acts only to implement pre-specified government policy and bears no risk in the transformation of financial instruments connected with the restructuring, the agency is regarded as a non-market unit and part of the general government sector.

(n) If the restructuring agency puts itself at risk in the transformation of the assets and liabilities of the units in difficulty and if it can determine the costs it can charge for the restructuring activity, it is treated as a financial corporation. Whether it is publicly controlled or purely private financial corporation is determined using the usual criteria.

(o) When government uses a restructuring unit to channel funds to a unit in financial difficulties and the restructuring unit derives its main resources from activities other than acting as an agent of government, these funds should be shown as payable and receivable by the government and unit concerned directly and not routed via the restructuring agency.

Outcomes

(m) The AEG agreed.

(n) The AEG agreed, but with the qualification that it needs to be made clear that a public sector unit cannot put itself “at risk” in the same sense that a private sector unit can.

(o) The AEG agreed.

Output of ancillary units

Recommendations/questions

(p) Output of ancillary units should be recorded as market output when it is classified as part of the financial or non-financial corporations sector and non-market output when it is classified in the general

Outcomes

(p) The AEG agreed.

Public-private partnerships

Issue 24; Paper SNA/M1.06/10; for decision

Description of the issue

A BOOT or PPP scheme is one in which a private enterprise builds or purchases a facility that provides services for the general public (such as a toll booth, highway, prison or electric generating facility) at its own expenses in return for the right to operate it and to charge a regulated fee that allows it to earn a net profit for an agreed length of time. At the end of the period, the ownership of the facility is transferred to the government without compensation. Should SNA provide guidance to the treatment of the various BOOT schemes?

Summary conclusion

Questions

(a) Are PPPs sufficiently important to include a description of them in the revised SNA? Is the description included [in paper SNA/M1.06/10] acceptable?

(b) Given that there is no consensus on how to decide which unit is the economic owner of the fixed assets associated with a PPP, is it sufficient to list several of the indicators that are likely to be important in making that decision? Is the list suggested here acceptable?

(c) Given that there is no consensus on the accounting treatment to apply to certain events that are likely to occur with PPPs, is a broad description of these events sufficient?

Outcomes

72. The AEG acknowledged John Pitzer's contribution in advancing the work on this complex topic in the difficult situation of not having any firm international accounting standards to draw on.

(a) The AEG agreed that a description is required and the one included in the paper is satisfactory.

(b) The AEG agreed that a list of indicators would be useful. However, the AEG also agreed that it is necessary to examine specific arrangements on a case-by-case basis.

(c) The AEG acknowledged that although a general description of the issues would be useful, this issue is very complex, with the development of this type of partnership spreading rapidly and with many different variations being introduced. It was therefore proposed that the material might appear in an annex to the updated SNA. It will be noted that the annex may need updating within a relatively short time of the update being released. The ABS, ONS and IMF offered to draft text for an annex on this subject and to keep abreast of developments in international accounting standards.

The general government and public sectors

Issue C15; Paper SNA/M1.06/41; for information

Description of the issue

The public sector is mentioned only briefly in Chapter 19. It has become an important analytical construct that complements the currently more prominent general government sector. The Task Force on Harmonization of Public Sector Accounting is clarifying several issues that are unique or particularly important for government, and for the public sector. It is proposed that a chapter (or annex) clarify the identification of institutional units, the meaning of control, the meaning of economically significant prices, the definition of the public sector and its various possible sub-sectors, accounting rules peculiar to the public sector (e.g., loans at concessional interest rates, transactions between general government and controlled public corporations, public-private partnerships, privatization, and securitization), and propose an alternative set of accounts useful for fiscal analysis (similar to the accounts in Government Finance Statistics Manual 2001).

Summary conclusion

Outcomes

73. The AEG noted the developments and that the proposals set out in the partial draft chapter on this topic will be discussed, in general terms, at the TFHPSA meeting in March. The AEG will be provided with a copy of the draft chapter before the meeting and encouraged to provide detailed comments. A revised draft of the chapter will be provided to the Editor around mid March. It will take account of the AEG decisions on the five priority issues of the TFHPSA.

Consistency of recommendations

Introduction

The Project Manager provided a note (SNA/M1.06/44) about how consistency issues will be dealt with in the coming months.

The Editor provided a paper (SNA/M1.06/45) which described where, in a number of cases, it was already apparent that the resolutions to the list of 44 issues to be considered in the update presented problems of consistency. These could be (a) where recommendations on one issue are in conflict with recommendations in another, (b) where recommendations on one issue have consequences for another not yet recognised, (c) where there are unexplored consequences of previous recommendations, (d) where the rationale for a recommendation is complicated and does not sit easily with usual SNA accounting rules, (e) possible "inconsistencies" in the existing text. Attention needed to be drawn to both inconsistency within the SNA and inconsistency with other manuals and handbooks related to the SNA.

Summary conclusion

Decision tree

Questions

(a) The paper on the delineation of the public sector suggests a decision tree to allocate units between the various sub-sectors included in the public sector according to the nature of their production. A generalisation showing the allocation of all production units to sector was produced (attached) and the AEG was asked if this would be a useful chart to incorporate in chapter IV?

Outcomes

(a) The AEG agreed it would be useful to include the decision tree in the SNA in addition to the description of sectoring according to function to illustrate the role of production within sectoring.

The market /non-market distinction

Questions

(b) Given there is still some ambiguity about whether and when production for own final use should be treated as market and when as non-market, would an exposition of four rather than three types of production (distinguishing whether products are sold or not and whether or not they have economically significant prices) allow for a consistent approach to delineating production by government units, ancillary units and informal production?

Outcomes

(b) The AEG agreed further work is required to refine the issues underlying the market/non-market distinction.

Non-profit institutions

Questions

74. Given the interest in implementing the handbook on NPIs, a number of questions arise for the identification of key characteristics of them.

(c) Should the sector classification include identifying NPIs within government and the corporation sectors for ease of compilation of an NPI satellite account? If so, would this extra information be included as standard or supplementary items? If either, would the identification within corporations appear before or after distinguishing the public, foreign controlled and national private sub-sectors?

(d) Would it be desirable to suggest that NPISHs should be sub-sectored into foreign controlled and national private elements? If so, should this be a standard or supplementary breakdown?

(e) Do the rules on recording reinvested earning for foreign-controlled units apply to foreign-controlled NPIs?

(f) Should it be possible that some NPISH consumption is recorded as collective consumption rather than the default assumption of individual consumption?

Outcomes

(c) The AEG agreed with the first point but came to no conclusion on the second or third points.

(d) The AEG agreed with the first point but came to no conclusion on the second point.

(e) The AEG agreed there is a need for clarification on reinvested earnings in relation to NPIs.

(f) The issue of NPIs delivering collective consumption is a new one and so is outside the scope of the current update.

Unpaid labour

Questions

75. There are three paragraphs in the 1993 SNA which refer explicitly to whether an imputation should be made for the value of unpaid work, especially in unincorporated enterprises in the household sector and in NPISHs. These are paras 6.86, 7.8 and 7.21, which appear somewhat contradictory.

(g) Should these contradictory statements stand? If so, what rationalisation for the difference can be given?

Outcomes

(g) The AEG agreed that the statements should be elaborated to provide better clarification on this issue. The value of volunteer labour should not be included in the core accounts.

Re-routing

Questions

76. Paragraphs 3.31 to 3.33 in the 1993 SNA are headed “recognising the principal party to a transaction”. On occasion these have been interpreted as providing licence for new forms of re-routing including in the discussion on government SPVs. An alternative view is that these paragraphs were intended to describe certain limited cases where some re-routing of transactions was desirable.

(h) What are the implications for paragraphs 3.31 to 3.33 in the light of the units discussion?

Outcomes

(h) The AEG said there was an important distinction between re-routing and imputation of flows. There could not be an exhaustive list of re-routings; many re-routings will have to be identified as such on a case-by-case basis.

Unincorporated joint ventures

Questions

77. Although so far the AEG and the “feeder” expert groups have avoided partitioning the ownership of non-financial assets in the SNA, there are cases in the IASB where partition is recommended. One such is the case of unincorporated joint ventures with joint ownership of assets.

(i) For consistency with international accounting standards, should the SNA consider apportioning the ownership of assets across different enterprises as done in the IASB recommendations?

Outcomes

(i) The AEG considered it did not have sufficient information on which to base a conclusion. The issue of the consistency between IASB and SNA is important but extensive. It may need exploring outside the context of the update.

Guarantees

Questions

78. A number of questions were raised where the treatment proposed for standardised guarantees in issue paper SNA/M1.06/18 were inconsistent with the treatment of insurance even though an earlier AEG discussion had favoured treating these “like insurance”.

(j) Should the treatment of standardised guarantees reflect the considerations developed for insurance on the time output is delivered, the treatment of property income earned by those providing the service, the current/capital nature of calls on the guarantees and the relationship between the fees payable and the liabilities of the guarantor?

The inclusion of loans at nominal value and assets representing the degree of default on the loans represents double counting in the national balance sheet. Is this inconsistency sufficient to reconsider the recording of loans at nominal value? If not, how is the asset held by the beneficiary of the guarantee to be described?

Outcomes

(j) This was postponed until the full discussion on guarantees on Wednesday afternoon.

Own funds

Questions

There is reference to “own funds” in the 1993 SNA but it is nowhere defined.

(k) Does the SNA need to define a concept of own funds and if so how?

(l) Should own funds be excluded from the calculation of property income to be redistributed by insurance companies if the AEG agrees not to exclude own funds from the calculation of financial services?

Outcomes

(k) The AEG agreed that own funds need to be defined and their treatment elaborated.

(l) The AEG confirmed that own funds should be excluded from the calculation of property income for insurance companies, but FISIM should be calculated for lending from own funds.

Life insurance

Questions

(m) When agreement is reached on the appropriate treatment of private pension funds, should recommendations for life insurance be brought into line with these recommendations and those for non-life insurance?

Outcomes

(m) The AEG agreed.

Redistribution of property income

Questions

(n) Should the amount of property income distributed to insurance policy holders (for both life and non-life insurance) represent the opportunity costs of money to the policy holders of having financial claims on the insurance companies?

Outcomes

(n) The AEG concluded that property income is not treated in a fully consistent manner in the SNA. Expected price increases may affect decisions taken by producers but holding gains and losses themselves do not enter production. There are occasions where property income flows may reflect holding gains and losses but there are no general specifications about when this may or may not happen. Peter Harper volunteered to lead a group to pursue this further.

Ownership of financial assets

Questions

(o) Should the SNA make clearer the distinction between assets available to meet the liabilities of certain financial corporations and the liabilities themselves?

(p) Does the recognition that some of these liabilities are based on the expected value of payments due make these provisions rather than liabilities? If so, does this change the asset boundary?

Outcomes

(o) The AEG agreed.

(p) The AEG noted that the value of some liabilities may be based on expected claims but thought the question of provisions should be put on the research agenda. The OECD volunteered to take the lead on this issue, taking into account the practices of insurance companies and international accounting standards.

Very large insurance claims

Questions

(q) Should exceptionally large claims be recorded on the basis of the time at which agreement on amounts payable and paid are reached rather than always on the basis of the time at which the event giving rise to the claim occurred?

(r) What steps can be taken to avoid asymmetric recording of exceptionally large insurance claims as current transfers by one party and capital transfers by the other?

Outcomes

(q) The AEG thought the rule of recording claims at the time the event to which they relate occurred should be preserved.

(r) The AEG agreed that inconsistencies in treatment will arise due to the relative importance of catastrophic events in countries of significantly different sizes. In particular, there will be inconsistencies in the classification of transfers as either current or capital based on their relative size.

Jacques Magniez agreed to produce a note setting out the consequences of these issues.

Annuities

Questions

(s) Should the SNA elaborate on the case of private pension provision via the mechanism of annuities?

Outcomes

(s) The AEG agreed that this issue should be clarified by e-discussion.

Discount rates

Questions

(t) Should there be some brief discussion in the SNA on the possible relationship between the factors associated with discount rates?

Outcomes

(t) The AEG agreed that the links should be set out in a special section ("box") in the relevant chapter of the SNA.

Inventories

Questions

79. The consistency paper noted two aspects of the treatment of changes in inventories where clarification on the treatment of changes in the value of products in inventories would be helpful. One concerns products (currently wine and crops) where part of the increase in value is deemed to be production of a "storage" activity without a very clear description of how to separate the results of storage from holding gains and losses. The other concerns partitioning the value of work in progress spanning several accounting periods.

(u) Are the clarifications set out in the paper on the treatment of storage acceptable?

Is the clarification of the valuation of work in progress useful?

Outcomes

(u) The AEG agreed that such clarifications would be useful. Comments on the wording set out in the paper should be sent to the Editor.

Maintenance

80. The consistency paper suggested that defining capital maintenance as that which prevented a shortening of asset life rather than actively prolonging it would be more consistent with the capital services approach to the income generated by similar assets. Further, treating more maintenance as capital rather than current would avoid the anomaly whereby current maintenance reduced GDP when done by an enterprise and increased it when done by a non-market producer.

Questions

(v) Is the proposed change to the definition of capital maintenance acceptable?

Outcomes

(v) The AEG thought that this is a new issue and, as such, outside the scope of the current update.

The treatment of the informal sector

Issue 32; Paper SNA/M1.06/15; for decision and information

Description of the issue

An extract from the resolution of the Fifteenth International Conference of Labour Statisticians (Geneva, January 1993) concerning the distinction between the formal and informal sectors is reproduced as an annex to chapter IV in the 1993 SNA for the benefit of those countries that wish to introduce the distinction between formal and informal sectors into their sub-sectoring of the households sector as well identify the informal sector dimensions in the production structure. As part of the review, it was advisable to review the annex to chapter IV in light of the work undertaken of the Delhi Group and related work on international standards by international organizations including ILO, UNECE, IMF and OECD on the measurement of the non-observed economy.

Summary conclusion

Context

Questions

(a) Does the AEG confirm that there are strong reasons why guidance on the treatment of the informal sector should be added to the updated *1993 SNA*?

(b) Does the AEG agree that there seems to be a substantial body of methodological literature and of practical experience available to serve as a foundation on which to prepare guidance on the treatment of the informal sector within the national accounts framework?

(c) Does the AEG recommend any other sources to be consulted, or do they commend any in particular of those mentioned?

Outcomes

(a) The AEG agreed.

(b) The AEG agreed.

(c) Several suggestions were made, including Women in Informal Employment Globalizing and Organizing (WIEGO).

Definitions

Questions

(d) Should the different meanings of “sector,” “informal,” “households,” and “formal” be clarified and explained in the updated *SNA?*

(e) Does the AEG agree that the updated SNA should describe the differences between the ICLS and SNA definitions of the types of production units and where possible reconcile the differences?

(f) Does the AEG agree that there are advantages to the ICLS “some or all” criterion in identifying market producers? If so, could it be developed as an application for analytical and policy oriented purposes? Which option is preferred — in the core household production account or in a supplementary presentation?

(g) AEG views are sought on the question of comparability? Should further attempts be made … to identify groupings of household enterprises, including the informal sector, in the SNA household production account that have a greater degree of international comparability, especially to facilitate the preparation of macroeconomic indicators on household production that are internationally comparable and consistent with the SNA?

(h) Should a bridge table be developed, in coordination with the ILO and Delhi Group, between the informal sector special cases and their SNA counterparts for inclusion in the updated SNA?

Outcomes

(d) The AEG agreed.

(e) The AEG agreed that the differences between the ICLS and SNA definitions of the types of production units should be reconciled via bridge tables.

(f) This referred again to the question of the market/non-market distinction raised under “Consistency” and will be considered in that context.

(g) The AEG considered that the issues underlying this question need to be refined further, in consultation with agencies that have an interest in the issue.

(h) The AEG agreed.

Draft outline for a chapter in the updated SNA

Questions

(i) Are there relevant topics that are missing from the outline?

(j) What are the AEG's views about the approach of tracing with broad brush strokes the evolution of the subject as a frame within which to explain differences in terminology and differing analytical needs?

(k) What are the AEG's views about the balance struck between being too much and too little?

Outcomes

(i) The AEG suggested that a section on issues associated with international comparability be added.

(j) The AEG did not express a view on this topic.

(k) The AEG noted the need for the chapter to provide a good introduction to the subject without attempting to reproduce all the material of a Handbook.

Work plan

Questions

(l) Are there AEG members who would like to volunteer for the sub-group to be set up to provide advice and review progress on the development of a recommendation on the informal sector?

(m) Are there forums - groups or meetings - in addition to the Delhi Group whose views should be sought or that can be used to test preliminary proposals?

Outcomes

(l) Mr Peter Pariag (Trinidad and Tobago, Chair), Mr Omar Hakouz (Jordan), Mr Akhilesh C. Kulshreshtha (India), Mr Jacques Magniez (France), Mr Roberto Ramos (Brazil) and Ms Lidia Bratanova (UNECE) volunteered.

(m) The Joint National Accounts meeting to be held at the UNECE in Geneva in April 2006 was mentioned as a possibility.

Review of the outcome of e-discussion

The concept of persons in the 1993 SNA Rev. 1

Clarification C11; Papers SNA/M1.06/32.1, SNA/M1.06/32.2

Description of the issue

Chapter 17 of the 1993 SNA seems to reject the concept of persons from the national accounts. This is in contradiction with the practice of many countries, which publish and transmit data in terms of persons in the framework of national accounts. The objective of this clarification would be to be less restrictive than the current SNA on the concept of persons. ESA's approach, which presents both concepts, would inspire this clarification.

Summary conclusion

Questions

(a) Does the AEG support the introduction of the concept of persons employed in the new SNA?

(b) Does the AEG support that the new SNA should be based on the existing paragraphs of the ESA95 defining employment, self-employment and unemployment?

Outcomes

81. The AEG noted the recommendations agreed to in the e-discussion on the concept of jobs and the concept of persons in the SNA.

Working time measurement

Issue C16; Paper SNA/M1.06/38

Description of the issue

Chapter XVII of 1993 SNA (Population and labour inputs) includes several references to existing ILO Resolutions. One of these Resolutions, the 1962 Resolution concerning statistics on hours of work, may be revised at the next ICLS (possibly in 2008). The new ILO Resolution on working time measurement could have some impact on the revised SNA. The proposed changes to the Resolution include a revised definition of hours worked and improving the methodologies recommended for measurement, etc., in the light of the increased incidence of alternative working time arrangements. The revised Resolution will also cover the estimation of annual hours worked and labour input. Paris Group discussions have highlighted a small number of grey areas that could benefit from further clarification in the revised SNA. In this context, the Paris Group will provide further details in a more formal submission to the ISWGNA regarding Chapter XVII, possibly proposing clarifications to the revised SNA needed to accommodate a revised Resolution.

Summary conclusion

Outcomes

82. The AEG agreed to work with the Paris Group to harmonise the SNA with the ICLS Resolution to the greatest extent possible. The AEG agreed that the updated SNA should discuss hours worked as well as numbers employed and supported the ICLS and the Paris Group in their emphasis on actual hours worked.

Government/public sector/private sector delineation issues

Issue 36; Paper SNA/M1.06/17; for decision

Description of the issue

In the 1993 SNA, the notion of control, which defines the public sector boundary, is more elusively defined. Weak areas refer to special purpose vehicles (SPV), notably created in the context of public private partnerships (PPP) or securitization. Other areas relate to how control is determined, including the link with the "mainly financed" concept for non-profit institutions. Another issue relates the market versus non-market distinction. The distinction between government and public corporation might be based on a legal status or whether production takes place at economically significant price. The ESA 1995 has established a rigid rule of 50 percent of the costs to be covered by sales. Is the 50 percent high enough?

Summary conclusion

Questions

(a) Does the AEG agree with the TFHPSA recommendation 1 to use a decision tree relevant for the delineation government/public/private?

(b) Does the AEG agree with the additional guidance on control over corporations and over NPIs, as set out in the TFHPSA recommendations 2 and 3 respectively?

(c) Does the AEG agree with the additional guidance on economically significant prices set out in TFHPSA recommendation 4, supported by TFHPSA recommendations 5 and 6 [about the definition of sales and production costs respectively]?

Outcomes

(a) The AEG agreed. The description of the decision tree, which relates to units and not production, should be set out in the chapter on government and the public sector. Further elaboration is required for quasi-corporations.

(b) The AEG agreed that the list of indicators is useful, but emphasised that they should be used in conjunction with each other in reaching a decision on control, rather than any one of them necessarily being definitive in its own right. The AEG felt that the text set out in the TFHPSA paper was too long to be incorporated directly into the SNA.

(c) The AEG agreed with the guidance set out to determine what constitutes "economically significant prices". The AEG felt the SNA should avoid being prescriptive in relation to the use of a specific threshold (such as the ESA95 50% rule).

Government dividends and capital transactions with public corporations in the updated SNA

Issue 34; Paper SNA/M1.06/16; for decision

Description of the issue

While this issue is generally applicable to the treatment of the transaction of dividends (losses) between corporations (quasi-corporations) and their controlling shareholders, in particular the attention will be given to the treatment of transactions between public corporations and government. More systematically, the accrued profits and losses of all public corporations could be treated on similar lines as the reinvested earnings of the resident foreign direct investment enterprises with non-resident share holders. Super dividend or other lump sum payments are made to the government treated as non-financial transactions would allow governments to manipulate the timing of recording; when treated as financial transactions this manipulation would not be possible. Otherwise, capital injections could be perceived as compensation for past and future losses of public corporations that failed to be (or will not be) accrued and therefore should be construed as expenses rather than treated as a financial transaction.

Summary conclusion

Questions

(a) Does the AEG agree to record exceptional payments by public corporations to government funded from accumulated reserves or sales of assets as withdrawal of equity?

(b) Does the AEG agree to record exceptional payments by government to public corporations and to public quasi-corporations intended to offset accumulated losses - or as investment grants - as capital transfers? (this is a change in the SNA for public quasi-corporations)?

(c) Does the AEG agree to record exceptional payments by government to public corporations and to public quasi-corporations for commercial reasons (new issuance of shares and valid expectation of dividends) and leading to increases in government's claims on shares or other equity in the unit as addition to equity? (this is an amendment in the SNA for public corporations)?

(d) Does the AEG agree to recommend that the "reinvested earnings" approach to payments between government and public corporations and quasi-corporations be mentioned in the dedicated chapter as a conceptual reference (but not as a guideline), and be added to a research agenda?

Outcomes

(a) The AEG agreed, with the emphasis on *exceptional* payments.

(b) The AEG agreed.

(c) The AEG agreed.

(d) The AEG was attracted to the "reinvested earnings approach" in concept but was concerned about both some conceptual aspects and the practical implications. The AEG agreed that the text of the updated SNA should refer to the possibility of using this approach when considering what transactions should actually be recorded under the three points above.

The AEG agreed that this issue should be put on the short-term research agenda starting from the BPM treatment and seeing how far these principles could be applied directly to publicly controlled enterprises. An AEG team will work with the ISWGNA to support the research; volunteers for the team were Peter Harper, Jacques Magniez, Brent Moulton and Peter van de Ven.

Granting and activation of guarantees in an updated SNA

Issue 37; Paper SNA/M1.06/18; for decision

Description of the issue

This issue basically pertains to the formulation of the treatment of flows between the original debtor and creditor and between the original debtor and guarantor when the guarantee is activated or between debtor and creditor when collateral is called by the creditor. While the 1993 SNA does not treat these flows, GFSM 2001 describes the treatment of debt assumption involving general government: either acquisition of financial asset, acquisition of equity, capital transfer, or other volume changes. In addition, this issue addresses the recognition of constructive obligations which are not legally enforceable liabilities but are nevertheless expected to result in outflows. The recognition of the latter would result in the relaxation of the economic asset boundary.

Summary conclusion

General

Recommendations/questions

(a) The proposed treatment of guarantees should distinguish between

guarantees [covered by] financial derivatives;

standardised guarantees; and

one-off guarantees.

(b) Guarantees that meet the definition of financial derivatives should be treated as financial derivatives. This should be clarified within the updated SNA by also specifying such types of guarantees as a sub-category of financial derivatives.

Outcome

(a) The AEG agreed.

(b) The AEG agreed.

Standardized guarantees

Recommendations/questions

(c) The provision of standardised guarantees should be treated as in a manner that records a financial instrument equal to the net present value of the expected cost of calls on the guarantee. There are two possibilities to do so: Option A: use the insurance current transfers D.71 and D.72; and Option B: do not use D.71 and D.72. In both cases financial transactions are recorded in the financial instrument, but in different ways. The balance sheets, output, and property income are the same for both options.

(e) The financial instruments for ‘standardised guarantees’ are the assets of the creditor benefiting from the guarantee and the liability of the guarantor. When fees are paid by borrowers, the amount equal to the value of guarantee is re-routed through the creditor as a capital transfer from the borrower to the creditor for the value of the financial asset. The consumption element of the fee is not rerouted and remains the borrower’s consumption.

(f) The fee paid to the guarantor covers a consumption element (as intermediate consumption or final consumption of the unit paying the fee) and the purchase of a financial asset. In addition, if treated like insurance (Option A), there would be a current transfer payable to the guarantor.

(g) The unit paying the fee receives imputed property income from the guarantor earned on the financial asset acquired when paying the fee. This is returned to the guarantor as the acquisition of more of the financial asset. The resulting increase in the balance sheet liability arises from the unwinding of the discount in the net present value.

(h) If a publicly controlled market guarantor sells the guarantee for a premium that does not cover the administration costs and the expected calls under the guarantee, a subsidy from government to the guarantor should be imputed for the amount relating to the administration costs and a capital transfer for amounts relating to the expected costs of calls.

(i) The activation of a standardised guarantee should be recorded as a financial transaction in F.63. Under the insurance option (Option A) a current transfer would be recorded from the guarantor to the creditor.

(j) For standardised guarantees, under the insurance option (Option A), where a one-off premium provides cover for a number of years, a D.71 current transfer would be imputed each year paid by the creditor to the guarantor equal to the value of the expected calls during that year. A financial transaction in F.63 (disposal of asset by creditor, reduction in liability of guarantor) would also be recorded for the same amount as the D.71 transfer, representing the expiry of the risk relating to that year. In effect, accruing insurance premiums would be imputed in cases where a one-off payment provides cover over several accounting periods.

Standardized guarantees

Outcome

(c) The AEG agreed and clarified that standardised guarantees should be treated in the same way as insurance; in respect of output, property income and the recording of premiums and claims.

(d) A new sub-category of insurance technical reserves should be created and identified as "standardised guarantees".

The AEG agreed that the category of insurance technical reserves, now to be called "insurance technical provisions," should be extended to be "provisions for insurance claims and calls under standardised guarantees" with an optional breakdown to distinguish insurance reserves from provisions for calls on standardised guarantees.

(e) The AEG specified a number of aspects under this question flowing from the decision to treat standardised guarantees as insurance:

The assets of those benefiting from the guarantees are those matching the liability and not the itemised assets of the guarantor.

The consumption item is attributed to the unit taking out the guarantee, the creditor or debtor as appropriate.

If the guarantee is taken out by the debtor, all transactions with the guarantor are recorded as being with the debtor up until the call is paid to the creditor.

Because of the change in direction of the AEG's recommendation, recommendations (f) to (j) were not discussed. A new reworking of the tables will be prepared and checked for any remaining questions for discussion.

One-off guarantees

Recommendations/questions

(k) One-off guarantees should be recorded outside the core accounts, either in a memorandum item or, preferably, in a supplementary set of accounts, where a consistent recording of the involved flows and stocks would be provided.

(l) As in the case of provisions on non-performing loans, a sufficiently prominent status should be given to this information to ensure that it is reported in practice.

(m) The specific flows arising from the activation of a one-off guarantee should be recorded on the basis of contractual arrangements and specific circumstances (such as when the unit concerned no longer exists) either as a capital transfer or a financial transaction (including increases in existing equity participation) or other changes in volume of assets.

(n) Some guidance should be provided on how to record in the standard accounts one-off guarantees given to corporations in certain well-defined financially distressed situations.

Outcome

(k) The AEG preferred the memorandum item approach rather than having a set of supplementary accounts. Valuation should be at nominal value and on an expected net present value, if possible.

(l) The AEG agreed.

(m) The AEG agreed, with the qualification that the guarantor always makes a capital transfer or has a financial claim. It should be treated as a capital transfer unless there is a genuine financial claim.

(n) The AEG agreed.

Wrap Up

83. The Project Manager noted that all were aware that this meeting marked the end of the issue-oriented meetings and that the agenda was long and included several issues recognized as difficult. She believed that participants deserved high marks for professionalism, cooperation, and other attributes that help provide the kind of atmosphere needed for sound and thoughtful discussion. The meeting completed an extraordinary amount of work. Recommendations were reached on almost all issues, and, in the few cases where they were not, the meeting identified a time-bound way forward. Discussions were opened on consistency, a focus for the months immediately ahead. Thanks should go to all who helped make the meeting a success: the task forces and their secretariats, AEG members, the ISWGNA members and their staff, and especially the ECB, which provided excellent facilities and warm hospitality.

84. In terms of the Statistical Commission's mandate, the Update Project is about on schedule, remained focused on the 44 agreed issues, conducted full and professional discussion, and involved the international statistical community.

85. Looking ahead, the next steps are as follows:

Short and long reports of the meeting
Full set of provisional recommendations
A schedule for the drafting and review phase
Website for consistency issue
Website for long-term research agenda

86. Over the longer term, AEG members' continued involvement will be through participation in the electronic discussion of consistency issues, in reviewing chapters of *Rev. 1* and in specific tasks such as topical subgroups.

Agenda

Fourth Meeting of the Advisory Expert Group (AEG) on National Accounts

30 January – 8 February 2006

at the European Central Bank, Frankfurt

Monday, 30 January

9.00 – 12.30 Chair: Barbro Hexeberg, World Bank

Opening of the meeting by the European Central Bank

Approval of the agenda
Document: **SNA/M1.06/01**

Leases and licences, part 1 and part 2 (Issue 21)
Papers for decision: SNA/M1.06/09.1 and SNA/M1.06/09.2

Contracts and leases: Government permits (Issue 21)
Paper for decision: SNA/M1.06/08

Amortization of intangible non-produced assets (Issue 28)
Paper for decision: SNA/M1.06/13
Background paper: Attachment tables for the amortization of intangible non-produced assets

14.00 – 17.30 Chair: Charles Aspden, OECD

Merchanting (Issue 41)
Paper for decision: SNA/M1.06/19

Satellite accounts (Clarification C13)
Paper for information: SNA/M1.06/37

Interest under high inflation (Issue 8)
Paper for information: SNA/M1.06/34

Review of the outcome of e-discussions (Issues 18, 31, 33; Clarifications C10, C12)
Papers for information: SNA/M1.06/26.1, SNA/M1.06/26.2, SNA/M1.06/27.1, SNA/M1.06/27.2, SNA/M1.06/28.1, SNA/M1.06/28.2, SNA/M1.06/31.1, SNA/M1.06/31.2, SNA/M1.06/33.1, SNA/M1.06/33.2

Tuesday, 31 January

9.00 – 12.30 Chair: Carol S. Carson, Project Manager

The treatment of employer pension schemes and other defined benefit pension schemes (Issue 2)
Paper for decision: SNA/M1.06/03.1
Background paper: Unfunded employer and social security pension schemes (Eurostat)

Pension schemes (Issue 2)
Paper for decision: SNA/M1.06/03.2

14.00 – 17.30 Chair: Dieter Glatzel, Eurostat

Definition of economic assets (Issue 30)
Paper for decision: SNA/M1.06/14

Summary of previous day's discussions – AEG recommendations

Review of the outcome of e-discussions (Issues 4a, 42, 44)
Papers for information: SNA/M1.06/25.1, SNA/M1.06/25.2, SNA/M1.06/29.1, SNA/M1.06/29.2, SNA/M1.06/30.1, SNA/M1.06/30.2

Wednesday, 1 February

9.00 – 12.30 Chair: Ivo Havinga, UNSD

Output of central banks (Issue 6b)
Paper for decision: SNA/M1.06/05

The production of financial corporations and price/volume measurement of financial services and non-life insurance services (Issue 6a)
Paper for decision: SNA/M1.06/04
Background paper: Note by A.C. Kulshreshtha on Treatment of informal sector financial activities including own money lenders in the SNA

14.00 – 17.30 Chair: Charles Aspden, OECD

Equity (Clarification C9)
Paper for decision: SNA/M1.06/23

Summary of previous day's discussions – AEG recommendations

Treatment of currency unions (Clarification C26)
Paper for information: SNA/M1.06/39
Background paper: Numerical example for the treatment of currency unions
Background paper: Summary of the Currency Union Technical Expert Group (CUTEG) meeting, 27 June – 1 July 2005

Direct investment (Clarification C28)
Paper for information: SNA/M1.06/40

Globalization: A progress report (Issue 25c)
Paper for information: SNA/M1.06/42

Thursday, 2 February

9.00 – 12.30 Chair: Dieter Glatzel, Eurostat

Assets boundary for intangible non-produced assets - Other intangible fixed assets (Issues 13, 29)
Paper for decision: SNA/M1.06/06

Classification and terminology of non-financial assets (Issue 27)
Paper for decision: SNA/M1.06/12

14.00 – 17.30 Chair: Adriaan Bloem, IMF

Country comments on recommendations made by the July 2005 AEG meeting
Paper for information: SNA/M1.06/43

Non-market producers' owned assets - Cost of capital services (Issue 16)
Paper for decision: SNA/M1.06/07

Summary of previous day's discussions – AEG recommendations

Liability aspects of SDRs and international reserves (Issue 44)
Paper for decision: SNA/M1.06/22
Paper for information: SNA/M1.06/36

Friday, 3 February

9.00 – 12.30 Chair: Ivo Havinga, UNSD

Debt concessionality (Issue 43b)
Paper for decision: SNA/M1.06/20

Debt reorganization (Issue 43b)
Paper for information: SNA/M1.06/35

Classification and terminology of financial assets and liabilities in the updated SNA (Issue 44)
Paper for decision: SNA/M1.06/21

14.00 – 17.30 Chair: Barbro Hexeberg, World Bank

Classification and terminology of financial corporations in the updated SNA (Clarification C30)
Paper for decision: SNA/M1.06/24

Summary of previous day's discussions – AEG recommendations

Drafting and review phase of the update, including outreach
Discussion based on oral presentations
Background paper: Minutes of OECD/ECE Working Party

Monday, 6 February

9.00 – 12.30 Chair: Charles Aspden, OECD

Units in the 1993 SNA (Issues 25a, 25b, 25d)
Paper for decision: SNA/M1.06/11

14.00 – 17.30 Chair: Ivo Havinga, UNSD

Public-private partnerships (Issue 24)
Paper for decision: SNA/M1.06/10

Summary of previous day's discussions – AEG recommendations

The general government and public sectors (Clarification C15)
Paper for information: SNA/M1.06/41

Key features of the editing and review phase of the SNA update
Presentation for information

Tuesday, 7 February

9.00 – 12.30 Chair: Adriaan Bloem, IMF

Consistency of recommendations
Discussion based on oral Presentation

14.00 – 17.30 Chair: Dieter Glatzel, Eurostat

The treatment of the informal sector (Issue 32)
Paper for decision: SNA/M1.06/15

Summary of previous day's discussions – AEG recommendations

Review of the outcome of e-discussion (Clarification C11)
Papers for information: SNA/M1.06/32.1, SNA/M1.06/32.2

Working time measurement (Clarification C16)
Paper for information: SNA/M1.06/38

Wednesday, 8 February

9.00 – 12.30 Chair: Adriaan Bloem, IMF

Government/ public sector /private sector delineation issues (Issue 36)
Paper for decision: SNA/M1.06/17

Government dividends and capital transactions with public corporations in the updated SNA (Issue 34)
Paper for decision: SNA/M1.06/16

14.00 – 17.30 Chair: Barbro Hexeberg, World Bank

Granting and activation of guarantees in an updated SNA (Issue 37)
Paper for decision: SNA/M1.06/18

Summary conclusions and wrap-up

Closing of the meeting

List of participants

Fourth Meeting of the Advisory Expert Group on National Accounts

30 January – 8 February 2006

at the European Central Bank, Frankfurt

Mr Ole Berner
Denmark

Mr Meshesha Getahun
Ethiopia

Mr Peter Harper
Australia

Mr Omar Hakouz
Jordan

Mr Jan Heller
Czech Republic

Mrs Mariam Cover Jiminez
Costa Rica

Mr Andrey Kosarev
Russian Federation

Mr Akhilesh C. Kulshreshtha
India

Mr Robin Lynch
United Kingdom

Mr Jacques Magniez
France

Mr Reimund Mink
European Central Bank

Mr Brent R. Moulton
USA

Mr Peter Pariag
Trinidad and Tobago

Mr Johan Prinsloo
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Mr Roberto Ramos
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Mr John Ruser
USA

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Ms Anne Harrison

Intersecretariat Working Group on National Accounts

Organisation for Economic Cooperation and Development

Mr Charles Aspden

Mr Jean-Pierre Dupuis

Mr François Lequiller

International Monetary Fund

Mr Adriaan Bloem

Mr Cornelius Gorter

Mr Robert Heath

Ms Lucie Laliberté

Mr Manik Shreshta

World Bank

Ms Barbro Hexeberg

UN Economic Commission for Europe

Ms Lidia Bratanova

UN Statistics Division

Mr Ivo Havinga

Mr Viet Vu

Eurostat

Mr Dieter Glatzel

International Labour Organization

Mr Ralf Hussmanns

Ms Sophia Lawrence

Apologies

Ms Heidi Arboleda
The Philippines

Ms Chellam Palanyandy
Malaysia

National Accounts and Related Manuals

SNA: *System of National Accounts, 1993* by Commission of the European Communities/Eurostat, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank

ISIC: *International Standard Industrial Classification of All Economic Activities, Revision 3.1*, United Nations, 2003

CPC: *Central Product Classifications, Version 1.1,* United Nations, 2003

NPI Handbook: *Handbook on Non-Profit Institutions in the System of National Accounts,* United Nations, 2003

SEEA-2003: *Integrated Environmental and Economic Accounting 2003,* by European Commission/Eurostat, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank

BPM5: *Balance of Payments Manual Fifth Edition*, International Monetary Fund, 1993

GFSM 2001: *Government Finance Statistics Manual 2001* by International Monetary Fund

MFSM 2000: *Monetary and Financial Statistics Manual*, International Monetary Fund

External Debt Guide: *External Debt Statistics: Guide for Compilers and Users*, International Monetary Fund, 2003

Acronyms

BoP	Balance of payments
BOPCOM	IMF's Balance of Payments Committee
BPM5	Balance of Payments Manual 1993 (fifth edition)
CPC	Central product classification
COICOP	Classification of individual consumption by purpose
COFOG	Classification of the functions of government
COFC	Consumption of fixed capital
CPI	Consumer Price Index
Eurostat	Statistical Office of the Commission of the European Communities
FISIM	Financial intermediation services indirectly measured
FRA	Forward rate agreement
GDP	Gross domestic product
GFCF	Gross fixed capital formation
GFS	Government Finance Statistics
GFSM2001	Manual of Government Finance Statistics (2001 edition)
GNI	Gross national income
GOS	Gross operating surplus
IMF	International Monetary Fund
I-O	Input-output
ISIC	International Standard Industrial Classification of All Economic Activities
MFP	Multifactor productivity
NDP	Net domestic product
NPI	Non-profit institution
NPISH	Non-profit institutions serving households

NPL	Non-performing loan
NPV	Net present value
OECD	Organisation for Economic Cooperation and Development
PIM	Perpetual inventory method

PPP Public/private partnerships **OR**

PPP	Purchasing power parity
R&D	Research and development
SAM	Social accounting matrix
SDRs	Special drawing rights
1993 SNA	System of National Accounts (1993 edition)
S-U	Supply-use (tables)
UNSD	United Nations Statistical Division
VAT	Value added tax
WIEGO	Women in Informal Employment Globalizing and Organizing

SHORT REPORT

Third Meeting of the Advisory Expert Group on National Accounts

18 – 22 July 2005

at ESCAP, Bangkok

Cost of capital services

Issue 15; Paper SNA/M1.05/04; for decision

Description of the issue

Capital services provided by fixed assets to the production process are not explicitly defined by the 1993 SNA. The OECD's Measuring Capital defines capital inputs as the actual or estimated pure economic rent payable; that is, by the sum of depreciation and the capital, or interest, costs. The capital services of rented produced fixed assets are only part of the rental paid by the user to the owner, the remainder being the costs incurred by the renter in providing the service. For own-use fixed assets, capital services appear implicitly as part of the gross operating surplus.

Recommendations/questions

1. Several questions were set out for discussion by the AEG:
   - (a) should capital services be introduced into the SNA? If so, then:
   - (b) should they appear in the main accounts or in supplementary accounts?
   - (c) should capital services, depreciation and capital stock measures be compiled in an integrated and consistent manner?
   - (d) should a comprehensive description be included in the SNA?
   - (e) does the AEG agree with the proposed formulae for the estimation of capital services and the options given for the rate of return?

Summary conclusion

Decisions

2. The AEG:
   - (a) confirmed the importance of including the concept of capital services in the updated SNA
   - (b) strongly supported including the estimates of capital services in supplementary tables rather than in the core accounts of the SNA
   - (c) confirmed that capital services (comprising depreciation and return to capital) and capital stock measures should be compiled in an integrated and consistent manner
   - (d) agreed that the basic concepts of the capital services approach be presented in the SNA and that the detailed recommendations would be elaborated in an updated version of the OECD manual on "Measuring Capital"[1]
   - (e) agreed that the concepts underlying the formulae presented in the paper ("Cost of capital services", document number SNA/M1.05/04; Issue 15) are appropriate, subject to detailed checking.

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1 It was agreed in later discussion related to the manual that it is important that it should give due consideration to the position of countries with less developed statistical systems.

Government and non-market producers: cost of capital of own assets

Issue 16 ; Paper SNA/M1.05/05; for decision

Description of the issue

Services from assets used in non-market production are reflected in output only as consumption of fixed capital. This means that neither return on capital to these assets nor opportunity cost of capital is recognized. Should the SNA treatment of imputed output of non-market activity remain the same or should the full value of capital services be included?

Recommendations/questions

3. The questions presented for discussion were:

Should a return to capital be estimated for non-financial capital used in non-market production and, if so, on which of the following asset groups:

(a) assets used by civil servants in the normal course of their work (e.g. computers, vehicles, offices)

(b) assets of benefit to the economy generally (e.g. roads)

(c) assets of benefit to the community at large (e.g. city parks)

(d) inventories

(e) land and other natural resources?

Summary conclusion

Decisions

4. The AEG reaffirmed the principle to include a return to capital on non-financial assets used in non-market production.

5. It was agreed to follow-up on a one-on-one basis the comments from the global and country consultations, including those comments on the scope, and report back to the next AEG Meeting in early 2006.

Obsolescence and depreciation

Issue 23; Paper SNA.M1.05/06; for decision

Description of the issue

Consumption of fixed capital (depreciation) is defined in the 1993 SNA in general terms as the decline, during the course of the accounting period, in the current value of the stock of fixed assets owned and used by a producer as a result of physical deterioration, normal obsolescence or normal accidental damage. This decline is expressed in the average prices of the period but the 1993 SNA does not state whether the prices to be used should relate to the general price level or whether they should be asset specific.

Recommendations/questions

6. The recommendations set out for discussion by the AEG were:

(a) no change of substance is required to the SNA text, but a clarification should be made that average prices should be measured with respect to a constant-quality price index

(b) additional text should be included in the SNA explaining the concepts underlying the SNA measure of depreciation and its relationship to the concept of income

(c) more guidance should be provided on the implementation of depreciation measures and such guidance should be integrated into the broader setting of the revised manual on capital measurement, to be prepared in conjunction with the revision of the SNA.

Summary conclusion

Decisions

7. The AEG agreed with the recommendations but with the following qualifications:

(a) the current text of the 1993 SNA (Para. 10.118) relating to depreciation should reflect the accepted practice that "average prices" refers to the average price of an asset at constant quality

(b) the relationship of this recommendation to the concept of income needs to be considered

(c) the detailed practical guidance on measuring depreciation should be provided in an updated version of the OECD manual on "Measuring Capital"

(d) it is important that the above-mentioned manual should give due consideration to the aspects of countries with less developed statistical systems.

Overview of comments on decisions of the second AEG meeting

Paper SNA/M1.05/03; for information

Description of the issue

The United Nations Statistical Commission emphasised the need for transparency and the broadest possible involvement of the global statistical community in the updating process of the 1993 SNA. In line with this emphasis, the recommendations made by the Advisory Expert Group (AEG) in its meeting held in December 2004 were referred to the national statistical offices of the UN member States and the national banks for their comments.

Summary conclusion

Observation

8. The meeting noted the successful outcome of the consultations.

Financial services

Issue 6(a); Paper SNA/M1.05/26: for information

Description of the issue

The output of financial intermediation services and portfolio management by financial corporations has undergone a structural transformation towards a rising importance of the portfolio management of financial assets.

The AEG considered a paper listing the provisional recommendations of a task force on financial services. A final paper is being produced for consideration and decision in January 2006.

Summary conclusions

Observations

9. The AEG expressed concern that none of the specialised task forces on financial questions had addressed the questions concerning the outputs of life insurance; this aspect should be considered explicitly by the Task Force on Pensions.

10. Some reservations were expressed with some of the provisional recommendations (e.g. using a single reference rate, the redefinition of financial corporations, inclusion of own funds in the calculation of FISIM).

11. A report of the Financial Services Task Force will be available in September 2005 for international discussion including at the OECD/UNECE National Accounts Meeting in October. This timing will give AEG members a chance to examine the questions and provide comments on them before the next AEG meeting.

Employers' pension schemes

Issue 2: Paper SNA/M1.05/28; for information

Description of the issue

In the 1993 SNA, promises to pay future pension benefits are not recognized as liabilities of unfunded employer schemes and social security schemes. The review will investigate the analytical relevance of recording these liabilities in the national accounts and, if appropriate, formulate recommendations regarding their valuation and measurement. The review will also formulate proposals to reconcile the recommendations of the 1993 SNA and the IMF Government Finance Statistics Manual regarding the treatment of unfunded employer pension schemes.

Summary conclusions

Observations

12. The AEG noted there will be a Task Force meeting in September to discuss this question.

13. The AEG suggested the accounting for defined contribution schemes should be a starting point for considering the treatment of defined benefit schemes.

General government and public sectors: Chapter and Annex outline

Issue C15; Paper SNA/M1.05/9.2; for information

Description of the issue

The public sector is mentioned only briefly in Chapter 19 of the 1993 SNA.. It has become an important analytical construct that complements the currently more prominent general *government sector. The Task Force on Harmonization of Public Sector Accounting is clarifying several questions that are unique or particularly important for government, and for the public sector. It is proposed that a chapter (or annex) clarify the identification of institutional units, the meaning of control, the meaning of economically significant prices, the definition of the public sector and its various possible subsectors, accounting rules peculiar to the public sector (e.g. loans at concessional interest rates, transactions between general government and controlled public corporations, public-private partnerships, privatisation, and securitisation), and propose an alternative set of accounts useful for fiscal analysis (similar to the accounts in Government Finance Statistics Manual 2001).*

Summary conclusions

Observations

14. The AEG supported including in the updated SNA both a chapter and an annex covering general government and public sector questions.

15. The AEG considered a balance needs to be struck between the amount of detail that is included in the SNA and the risk of overburdening the SNA by duplicating detail that is already set out in other international manuals.

16. Sufficient detail should be included in the SNA to provide guidance to national accountants in countries which have less-developed statistical systems, with cross references to more detailed documentation embodied in other relevant standards, such as the Government Finance Statistics Manual 2001.

Public/private/government sectors delineation

Issue 36; Paper SNA/M1.05/9.1; for decision

Description of the issue

In the1993 SNA, the notion of control by government, which defines the public sector boundary, is defined only in general terms. Ambiguous areas include special purpose vehicles (SPV), notably created in the context of public-private partnerships (PPP) or securitisation. Other areas relate to how control is determined, including the link with the "mainly financed" concept for non-profit institutions. Another question relates to the market versus non-market distinction. The distinction between government and public corporations is on whether production takes place at economically significant prices. The ESA 1995 has established a rigid rule of 50 percent of the production costs to be covered by sales. Should sales and production costs and the relationship between them be introduced in the updated SN ?

Recommendations/questions

17. The following recommendations were presented to the AEG:

(a) use a decision tree to distinguish units controlled by government from others then distinguish market from non-market on the basis of the economically significant criterion

(b) eight major indicators of government control on corporations were proposed

(c) five major indicators of government control on NPI were proposed

(d) no major changes to the definition of economically significant prices were proposed but elaborations were suggested concerning a supplementary criterion for producers involving the proportion of production costs to be covered by sales

(e) arising from this proposal a suggestion was made concerning the definition of sales

(f) and similarly a proposed definition of production costs.

Summary conclusions

Decisions

18. Following detailed discussions on the above recommendations and a broad level of support, the AEG decided that there are still a number of questions requiring further clarification before final decisions can be made. Therefore, the AEG chair requested members to send detailed comments to Lucie Laliberté and to Jean-Pierre Dupuis by the end of August. The authors should take into account these comments in conjunction with the comments made during the meeting to produce a revised version of the paper for e-discussion with the aim of finalising this question at the next AEG meeting.

Non-resident SPEs linked to government

Issue 25e; Paper SNA/M1.05/31; for information

Description of the issue

The question is whether a special purpose entity (SPE), incorporated in the economic territory separately from its owners, should be treated as a separate institutional unit and be treated as resident in its territory of incorporation. Should an exception be made for SPEs created by government? The TFHPSA would like an exception made; BOPCOM suggest no exceptions.

Summary conclusions

Observation

19. The AEG considers that this issue is an important one and it should be taken forward not only in the TFHPSA but also in other relevant forums such as the UNSD meeting on institutional units being held in September. The AEG expressed concern that consistency problems with BPM could arise from the recommendation by the TFHPSA that these non-resident units be treated as part of general government.

Research and development

Issue 9; Paper SNA/M1.05.20; for decision

Description of the issue

The SNA currently does not recognize the output of R&D as capital formation. If all R&D covered by the Frascati Manual were included in the asset boundary, the practical difficulties of deriving satisfactory estimates would have to be addressed, such as using expenditure data collected as per the Frascati Manual, and obtaining appropriate deflators and service lives.

Recommendations/questions

20. The recommendations presented for the AEG's consideration were:

(a) The 1993 SNA should be changed to recognise the outputs of R&D as assets, and the acquisition, disposal and depreciation of R&D fixed assets should be treated in the same way as other fixed assets.

(b) All R&D output should be treated as an asset, irrespective of its nature or whether it is made freely available. In the latter case, the asset should be recorded on the balance sheet of the owner of the original and be regarded as providing a free service until it becomes obsolete.

(c) The definition of an asset should be reviewed to ensure it covers the assets of non-market producers adequately.

(d) The definition of R&D given in the Frascati Manual (FM) should be adopted in the SNA.

(e) The Frascati system provides the best means of deriving estimates of R&D statistics, principally gross fixed capital formation (GFCF). However, there are shortcomings in the Frascati data and the FM should be amended to better support the needs of the SNA. (NESTI has indicated a willingness to do this.)

(f) Most R&D output is produced over several periods and the SNA recommendations for the production of other assets should apply. Most R&D production is on own account, which implies recording it as GFCF as it occurs under the current recommendations.

(g) Patented entities should no longer be recognised as assets in the system.

Summary conclusions

Decisions

21. A large majority of AEG members supported recommendation (a), that the 1993 SNA should be changed to recognise the outputs of R&D as assets.

22. A number of AEG members expressed concern about some aspects of recommendation (b). In particular, the proposed inclusion as assets of R&D made freely available would potentially change the current SNA definition of an asset. It was agreed that theoretically these should not be treated as assets. However, because the amount of R&D made freely available is likely to be small and difficult to identify, in practice they might not be excluded.

23. The definition of an asset (recommendation (c)) is being re-examined by the Canberra II Group.

24. The AEG agreed to use the Frascati Manual definition of R&D with the clarifying explanation that this does not imply that human capital is treated as an asset in the SNA.

25. Recommendations (e) and (f) were accepted.

26. The following amended version of recommendation (g) was accepted:

> "Patented entities will no longer be separately identified as such in the system, but they will be subsumed into R&D assets."

Originals and copies

Issue 11; Papers SNA/M1.05/18.1 and 18.2; for decision following e-discussion[2]

Description of the issue

The part of the issue not previously resolved concerned the treatment of annual licences to use proprietary software.

Recommendations/questions

27. The Canberra II Group made the following recommendations to the AEG for its consideration and comments were received on these questions via an e-discussion:

(a) If a copy (licence-to-use) is acquired via regular annual payments, the payments should be recorded as finance lease transactions if it can be established that the purchaser intends to use the copy repeatedly in production until the end of its economic life. Intent can be determined if significant associated costs are incurred on acquisition (e.g. for software, the costs involved in training or developing new systems based on the software). For other copies, however, establishing intent is likely to be more difficult.

(b) The full value of the software reproduction should be recorded as fixed capital formation at the time of acquisition, with annual license payments corresponding to interest payments thereafter, following the usual national accounts rules for financial leases. When this is not practical it is acceptable to capitalise the annual licence payments as and when they occur and record consumption of fixed capital in the same year.

28. Regarding question (a), a small majority of those participating disagreed. Question (b) was strongly supported.

Summary conclusions

Decisions

29. The AEG did not accept that annual licence fees for software without a long-term contract should be treated as fixed capital; the payments should be treated as rentals.

30. In general, software should be treated in a similar way to any other asset. As a result, a long-term lease of software can be treated as a financial lease.

31. If a large initial payment is followed by a series of smaller annual fees, the initial payment is treated as fixed capital formation and the annual fees as a service charge.

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[2] For all issues reviewed following e-discussion, the first mentioned paper discusses the substance under discussion; the second gives a summary of the e-discussion.

Databases

Issue 12; Papers SNA/M1.05/19.1 and 19.2; for decision after e-discussion

Description of the issue

The 1993 SNA recommends that large databases should be capitalized. Should SNA provide a clear definition of databases to be capitalized covering characteristics such as size and marketability of the data as well as the database itself?

Recommendations/questions

32. As a result of the e-discussion, a slightly revised set of questions were put to the AEG.

33. The part of the question not previously resolved was formulated in terms of the following questions put to the AEG.

(a) Do you agree that the valuation of a database should include only the loading costs for data and metadata but exclude the value of the DBMS, which should continue to be recorded as a software asset?

(b) Do you agree with the recommended method for deriving estimates of own account database capital formation?

Summary conclusions

Decisions

34. Arising from the e-discussion and the follow-up discussion in the meeting, the AEG agreed the following in respect of own-account databases:

(a) databases holding data with a useful life of more than one year are fixed assets

(b) the value of the software component of databases, the DBMS, would normally be recorded elsewhere as a software asset

(c) the remaining value of the database should only include the costs involved in converting data from one medium/format to that required by the DBMS, including the application costs (adapting the software for a particular application, setting up the structure of the database, loading metadata, etc.), but should exclude the costs of acquiring the data themselves

(d) no maintenance is entailed with databases and all updating costs should be recorded as capital formation

(e) the value of databases should be estimated using a sum-of-costs approach, in the absence of a more satisfactory alternative.

35. The value of databases for sale includes the value of the information content.

Land improvements and structures

Issue 20; Papers SNA/M1.05/22.1 and 22.2; for decision after e-discussion

Description of the issue

The SNA currently records improvements to land as gross fixed capital formation, but in the balance sheet such improvements are included with land itself – a non-produced asset. Should land be split into two, with one part recorded as a fixed asset and the other part recorded as a non-produced asset? If so, how should the separation be made? One option is to distinguish between land that is in, or nearly in, its natural state as a non-produced asset and the remainder as a fixed asset. Another option is to separate land from the improvements made to it, and record the former as a non-produced asset and the latter as a fixed asset.

Recommendations/questions

36. The Canberra II Group set out the following question for AEG consideration:

(a) Do you agree with the following proposal:

Activities such as land clearance, land contouring, creation of wells and watering holes which are integral to the land in question and which are carried out by the landowner are to be treated as part of land improvements. Activities such as the creation of sea walls, dykes, dams and major irrigation systems which are in the vicinity of the land but not integral to it, often affect land belonging to several owners and which are often carried out by government, are to be classified as structures.

(b) If you answered NO to question 1, is there another division which you prefer? If so, please describe it.

(c) Or, do you think the SNA should be left unchanged in this respect?

Summary conclusions

Decisions

37. The proposals in question 1 of the e-discussion were overwhelmingly supported.

Water as an asset

Issue 31; Papers SNA/M1.0523.1 and 23.2: for decision after e-discussion

Description of the issue

When water is no longer free, how should the charge for it be treated? Should it be treated in a similar way to land or mineral resources giving rise to rent? It is complicated by the fact a large share of the charges represents distribution costs.

Recommendations/questions

38. The following questions were set out by the Canberra II Group for e-discussion:

(a) It is proposed that the definition of water resources be extended to cover rivers, lakes, artificial reservoirs as well as other surface catchments in addition to aquifers and other groundwater resources. The intent of the proviso "to the extent that their scarcity leads to the enforcement of ownership and/or use rights, market valuation and some measure of economic control" would stand though some changing of this wording will be needed arising from other discussions on the interpretation of ownership and control.

(b) It is recommended that the SNA include guidance that water bodies should in principle be valued in a manner parallel to the valuation of mineral resources but with an indication that more pragmatic alternatives may have to be used such as estimates based on access fees.

(c) The phrase "and associated surface water" should be added to land under cultivation.

(d) It may be that the surface land associated with a water body is relatively small and of little value separately from the water body. In keeping with the recommendation on buildings and land under buildings, land and associated surface water should be allocated to either a category of land or to water resources depending on which element has the greater value.

(e) The value of an artificial reservoir full of water may exceed the cost of building and maintaining the reservoir but this addition represents the value of the water per se. In principle this addition should be recognised as the value of the non-produced water resource but as noted in connection with land, it may not be possible to separate these in practice and in that case the allocation should be made between the reservoir and the water resource according to which has the greater value.

(f) By extension of the treatment of carrying water as the production of a good and similar treatment of bottling and branding water, distribution of mains water should be treated as the production of a good (water) and not just a service of moving water from one place to another. This is also consistent with the move to charge for mains water on a volumetric basis.

(g) Where fees are levied for permission to deposit waste water into a body of water the fees should be treated in the same way as other fees to use natural resources, noting that the exact modalities for this are yet to be agreed by the Canberra II Group.

Summary conclusions

Decisions

39. Proposals (a) to (e) were overwhelmingly agreed in the e-discussion.

40. Proposal (f) could have implications for the proposed CPC classification of distribution of water (as a service). The SNA editor agreed to discuss the implications with classification experts and report back to the next AEG meeting.

41. Proposal (g) in the e-discussion was supported but some reservations were expressed by the AEG and they will be investigated further.

42. An update on the situation following the next Canberra II Group meeting will be presented to the next AEG meeting.

Purchased goodwill and marketing assets

Issue 22; Papers SNA/M1.05/24.1 and 24.2; for decision after e-discussion

Description of the issue

The 1993 SNA only records purchased goodwill and it treats purchased goodwill for corporations and unincorporated enterprises differently. Should goodwill continue to be recognized only when purchased or should internally generated goodwill be recognized? Should purchased goodwill be treated the same way for corporate and unincorporated enterprises? Should the balance sheet recognize assets such as brand names, trademarks, franchises, etc.?

Recommendations/questions

43. The Canberra II Group set out the following questions for AEG consideration:

(a) Do you agree that an asset class 'Purchased goodwill and marketing assets' should replace the existing 'purchased goodwill'?

(b) Do you agree that the economic nature of purchased goodwill and marketing assets should be clarified along the lines presented in this paper?

(c) Do you agree that the valuation principles for purchased goodwill and marketing assets should be applied consistently, irrespective of whether the entity is a listed or unlisted corporation, a quasi-corporation or is unincorporated. They should be calculated as the excess of the purchase (or takeover) value of a business over the value of the other assets and liabilities otherwise identified in the SNA system for that business?

(d) Do you agree that internally generated goodwill and marketing assets should continue to be excluded, except when their value is evidenced by a sale? In the case of internally generated goodwill, this occurs only with the sale of a business. In the case of marketing assets it can also occur with their independent sale.

(e) Do you agree that the assets should continue to be classified as non-produced assets, even though their value is often driven by a productive activity. However, further consideration will be given by the Canberra II Group to whether a term can be found that better reflects the nature of these assets. This will be addressed in the issues paper concerning Classification and terminology of assets (Issue 27)?

(f) Do you agree that the assets should not be amortised at a predetermined rate but made subject to an impairment test consistent with the international accounting standards for these assets?

Summary conclusions

Decisions

44. All proposals in the e-discussion were overwhelmingly agreed to.

Tax revenues, uncollectible taxes and tax credits

Issue 35; Papers SNA/M1.05/07; for decision

Description of the issue

It is necessary to clarify the definition of taxes and the distinction between the payment of taxes and the payment for services. Moreover, uncollectible taxes should not be recorded as accruing. An estimated uncollectible amount based on experience could be deducted either from the gross amount under the accrual principle ("net recording") or alternatively recorded as a capital transfer ("gross recording"). Another alternative treatment would record unpaid taxes via the other change in volume accounts. Time of recording is an issue for income and wealth tax. For instance, for households it might be preferred to record the taxes at the time of assessment because it affects behaviour at that time. This treatment would be a deviation from the accrual principle that calls for recording taxes when the taxable event occurs. Expensing tax credit separately from tax revenue is increasingly hampered by the fact that source data may not allow separate recording of expenses, reducing international comparability.

Recommendations/questions

45. The following table summarises the recommendations presented for discussion:

1 Definition and coverage of a tax

(a) Fine tuning of definition "nothing directly in exchange"

(b) Taxes versus services

(c) Fees for specific services

2 Accrual recording

(a) General accrual principle

(b) Time of recording: "taxable event"

- of which flexibility for time of assessment

(c) Amount to be recorded: Tax due

- time adjusted cash
- assessment of due taxes

  net recording (coefficient)

  gross recording (capital transfers)

3 Tax credits

(a) Tax relief, of which tax credits

(b) Non-payable tax credits

(c) Payable tax credits

(d) Conditions for tax credits

(e) Clarification for certain transactions, e.g. social benefits (income substitutes).

Summary conclusions

Decisions

Definition and coverage of a tax

46. The AEG noted that the TFHPSA paper focussed mainly on refining existing SNA text rather than on redefining existing principles.

47. The AEG felt strongly that the definition and coverage of a tax should be set out clearly, with some examples. The examples should illustrate the underlying concepts but should not suggest that they are exhaustive or prescriptive. It is important not to try to produce a comprehensive list of treatments.

Accrual recording

48. Taxes are to be recorded on an accrual basis. The expression "due for payment" should be replaced by "accruals".

49. The discussion focussed almost exclusively on the question of whether amounts should be recorded on a net or a gross basis. The principle of not including taxes that are uncollectible and/or unlikely to be collected and so affect the government surplus/deficit was agreed. Because the AEG could not agree which of the three methods in the paper was preferred, it was decided to leave the SNA unchanged in this regard.

Tax credits

50. A clear majority of the AEG decided that payable tax credits should be recorded on a gross basis. The presentation should permit the derivation of tax credits on a net basis also.

51. It was decided that the best way forward would be for the TFHPSA to prepare the proposed free-standing chapter for the SNA covering all the questions on taxes[3.] This draft should include the rationale for the changes proposed and emphasise the underlying concepts and principles. The SNA Editor in consultation with the Project Manager and the ISWGNA will review the text to identify changes in substance and in drafting to the 1993 SNA. A report on this process will be submitted to the AEG.

Granting and activation of guarantees

Issue 37: Papers SNA/M1.05/08; for decision

Description of the issue

This issue covers both the granting and activation of guarantees. For the granting of guarantees, specifically guarantees on loans, this issue address the recognition of constructive liabilities that are not legally enforceable liabilities but are nevertheless expected to result in outflows. The recognition of the latter would result in a change to the asset boundary. The issue affects the formulation of the treatment of flows between the original debtor and creditor and between the original debtor and guarantor when the guarantee is activated or between debtor and creditor when collateral is called by the creditor. While the 1993 SNA does not treat these flows, GFSM 2001 describes the treatment of debt assumption involving general

[3] It was agreed retrospectively that this should apply to the recommendations on the issues concerning the delineation of the government and public sector also.

government: either acquisition of a financial asset, acquisition of equity, a capital transfer, or other volume changes. In addition, this issue addresses the recognition of constructive obligations which are not legally enforceable liabilities but are nevertheless expected to result in outflows. The recognition of the latter would result in the relaxation of the economic asset boundary.

Recommendations/questions

52. **Recommendation (a)** is that guarantees should be viewed according to types. ***Standardised guarantees*** are those where there are very many similar guarantees, for relatively small amounts (e.g. export credits or student loans). ***One-off guarantees*** are individual guarantees, often for large amounts where it is difficult to predict the likelihood of the guarantee being called. However some of these may be ***tradable or offsettable guarantees***.

53. **Recommendation (b)** is that tradable or offsettable guarantees should be treated as financial derivatives.

54. **Recommendation (c)** is that standardized guarantees should be treated in a manner similar to insurance.

55. **Recommendation (d)** is that a sub-category should be created under "insurance technical reserves" called "provisions for payments under standardized guarantees".

56. **Recommendation (e)** is that the sector of the counterpart asset is the sector receiving the guarantees (e.g. the lender for a guarantee on borrowing).

57. **Recommendation (f)** if the guarantor sells the guarantee for a premium that does not cover the expected loss and administration costs, a subsidy/capital transfer to the beneficiary should be imputed.

58. Recommendation (g) is that one-off guarantees should be recorded outside the core accounts

59. **Recommendation (h)** is that a sufficiently prominent status should be given to ensure that one-off guarantees are recorded in practice (as for non-performing loans).

Summary conclusions

Decisions

60. A clear majority of the AEG was in favour of accepting all the recommendations in principle. However, a number of details need to be clarified (e.g. a payment appears to be treated as a capital transfer in one part of the paper and as a current transfer in another, and the exact nature of the parallel with insurance).

61. The AEG agreed that a revised version of the paper combining the granting and activation of guarantees should be prepared for e-discussion.

Merchanting

Issue 41: Paper SNA/M1.05.14; for information

Description of the issue

"Merchanting" is a term used in BPM5 for the activity of trading in goods that do not enter the territory of the trader. In such a case, the treatment is to report only the margin earned as an inflow into the territory of the trader. In cases in which the trade is not concluded during the accounting period, changes in inventories are shown as imports (negative if inventories decrease). The issue is not covered in the 1993 SNA.

Summary conclusions

Observation

62. The AEG noted the potential implications for the national accounts of merchanting. A further issues paper is being prepared on the subject.

Goods sent abroad for processing

Issue 40: Paper SNA/M1.05/16; for decision

Description of the issue

The BPM5 and the 1993 SNA treat goods sent abroad for processing differently. The BPM5, as a practical matter, suggests a convention that all processing be assumed substantial and therefore gross flows are recorded as exports of goods (before processing) and imports of [other]goods after processing, both recorded at their full value. The 1993 SNA only records trade flows in this way when there is substantial processing (reclassification of the good at three-digit CPC). The problem is that no change in ownership of the original goods and thus no transaction covering these takes place. Can a distinction be made between the different levels of processing? It is mentioned that the current treatment of goods for processing in the 1993 SNA was to facilitate input-output analysis. Therefore, any change should take this issue into account.

Recommendations/questions

63. The following questions were posed for AEG's consideration

(a) Should the national accounts always impute a change of ownership for goods going abroad?

(b) Should the national accounts never impute a change of ownership for goods going abroad?

(c) Should the national accounts retain the present situation?

(d) If the answer to questions (a) or (b) is "yes" should the national accounts make the same sorts of changes for domestic processing?

64. Questions to be asked of BOPCOM were:

(a) If AEG says to always impute change, would BOPCOM follow or opt for never?

(b) If the latter, would this apply to unincorporated establishments and to direct investment enterprises?

65. Questions to be asked of both groups were:

(a) However processing is recorded, robust valuation needs the values of goods in and out (from Customs) reconciled with processing fees (from business)

(b) Does BOPCOM support provision of these data?

Summary conclusions

Decisions

66. The AEG agreed that the current situation is undesirable. There was a clear majority for never imputing a change of ownership for goods being sent abroad for processing. The same approach of not imputing change of ownership for goods being processed domestically should be adopted in all cases even if it is between related enterprises.

Migrants' transfers

Issue 38b: Papers SNA/M1.05/13.1 and 13.2; for decision after e-discussion

Description of the issue

The flows of goods and changes in the financial account arising from a change in residence of individuals are treated as imputed transactions in the BPM5, which are offset in the capital account by capital transfers called migrants' transfers. The 1993 SNA is not explicit on this question. Because no change in ownership occurs, it is proposed that changes in financial claims and liabilities due to a change in residence of individuals be treated as a reclassification in the other changes in volume account.

Recommendations/questions

67. The following questions were presented for the AEG's consideration:

(a) Does the Group agree with the proposal not to record migrants' personal effects under imports and exports of goods (and to amend SNA paragraph 14.92 accordingly)?

(b) Would the Group like to clarify the recording of the changes in financial assets and liabilities due to changes in residence? If so, should the changes in assets and liabilities position of individuals who change their residence be recorded under "other changes in volume of assets"?

(c) Should the same principles apply to corporations that change their residence (either due to relocation or to boundary changes)?

(d) Should clarifying text be added to SNA chapters 11 and 12, so that the special nature of these economic events is explicitly outlined?

Summary conclusions

Decisions

68. The AEG accepted the recommendations on migrant transfers as far as households are concerned.

69. It was confirmed that enterprises seldom change location; in general an enterprise in one location is dissolved and another is formed in another location. However, there were specific but

limited examples (for example within the European Union) where an enterprise may change residence, in which case the same rules would apply as for households.

Residence of households: non-permanent workers

Issue 39c: Papers SNA/M1.05/15.1 and 15.2; for decision after e-discussion

Description of the issue

In the case of non-permanent workers with connections to two or more territories, it would be useful to prepare a supplementary presentation for countries where the number of non-permanent resident persons is significant, bringing together relevant components of contract services, compensation of employees, workers' remittances and migrants' transfers with short-term non-resident workers. Also harmonization of the residence concept with demographic, tourism, and migration statistics should be sought and any remaining differences spelled out.

Recommendations/questions

70. It was suggested that:

(a) There was no need for the concept of "migrant" in the SNA or BPM; non-resident was sufficient.

(b) The standard item "workers' remittances" should be replaced by "personal transfers". This would include all transfers from households in one country to households in another whether or not the source of the transfer was income from employment and whether or not the households were related.

(c) In addition there should be a supplementary item called "personal remittances" which comprised (on the receipts side) compensation of employees earned abroad, personal transfers, current transfers payable by other institutional units to households and current transfers from any institutional unit to NPISHs.

(d) Personal transfers and personal remittances could appear both including and excluding capital transfers between households and from other institutional units to households.

Summary conclusions

Decisions

71. The AEG accepted the recommendations on non-permanent workers.

Residence of households: ships' crew and patients

Issue 39c: Papers SNA/M1.05/15.3 and 15.4; for decision after e-discussion

Description of the issue

There is an exception in both SNA and BPM to the general rule on residence for employees in the case of both ships' crew and patients. The question was raised about whether this exception should be continued.

Recommendations/questions

72. The following questions were presented for the AEG's consideration:

(a) Does the Group agree with the continuation of the existing treatment of ships' crew and similar cases as residents of the economy where they spend the most time other than on board?

(b) Does the Group agree with the continuation of the existing treatment of patients as residents of the home country?

Summary conclusions

Decisions

73. The AEG accepted the recommendations on ships' crews and patients.

Multi-territory enterprises - basis for allocation

Issue 25e: Papers SNA/M1.05/27.1 and 27.2; for decision after e-discussion

Description of the issue

With the appearance of multi-territory enterprises that operate as a single legal entity in more than one territory, principles have to be adopted whether to allocate the unit to the predominant territory or to use pro rata splitting. Principles of recognizing these ancillary units as separate institutional units should take into account different residence and the institutional sector of the (ultimate beneficiary) owner, sources of information, etc. Moreover, the sectorisation of those units has to be determined.

Recommendations/questions

74. The following questions were presented for the AEG's consideration:

(a) Do you agree with the prorating of multi-territory enterprises and enterprises in joint sovereignty zones?

(b) If so, would you prefer that the manuals suggest;

i. a range of possible criteria for prorating?

ii. a particular criterion? If so, which criterion?

(c) To cover the possibility that (i) might be chosen, other suggestions on possible criteria for inclusion in the list would be welcome.

Summary conclusions

Decisions

75. The AEG accepted the recommendation of the prorating of multi-territory enterprises and enterprises in joint sovereignty and joint jurisdiction zones, but did not make suggestions on additional possible criteria.

Reverse transactions

Issue 1: Papers SNA/M1.05/25.1 and 25.2; for decision after e-discussion

Description of the issue

A repurchase agreement (repo) involves the sale of securities or other assets with a commitment to repurchase equivalent assets at a specified price. The right to on-selling has become almost universal. The 1993 SNA and the BPM5 treatment of repos is similar to that of a collateralized loan or as other deposits if repos involve liabilities classified under national measures of broad money. Should the 1993 SNA treatment be revised?

Recommendations/questions

76. The AEG suggested an e-discussion to obtain reactions to the following proposals:

(a) there should be no change to the current SNA treatment

(b) the issue should remain on the research agenda

(c) the following clarifications should be added:

(i) added explanations on securities lending and gold loans

(ii) remove reference about not being able to on-sell

(iii) treating short positions as negative assets.

Summary conclusions

Decisions

77. The AEG accepted the recommendations on reverse transactions.

Non-performing loans

Issues 4a, 4b, 38c: Papers SNA.M1.05/21; for decision

Description of the issue

4a. Non-performing loans

The Thai authorities had asked the ISWGNA for clarification as to what extent unpaid interest on non-performing loans should be accrued (considering that the financial intermediation services indirectly measured on such interest may affect the GDP). The purpose of the review is to determine what criteria should be applied when writing-off non-performing loans and to make sure that they are consistent with the other major macroeconomic statistical systems (balance of payments, government finance, and money and banking statistics).

4b. Valuation of loans and deposits; Write-off and interest accrual on impaired loans

The valuation of loans and deposits positions is subject to alternative perspectives. Nominal or face value valuation might be misleading because of the risk of default and/or changes in interest rates. This difference becomes apparent when the loans are traded. However, these valuation issues are equally applicable to non-traded loans. Business accounting standards are considering using the concept of "fair value" for the valuation of loans as if they were traded.

38c. Application of accrual principles to debt in arrears

The time-of-recording principle for scheduled payment is different between BPM5, External Debt Guide, and GFSM2001 on the one hand and the 1993 SNA on the other hand. The former use the due-for-payment date basis involving imputation of transactions that the liability has been repaid and replaced by a short-term debt. The latter uses an accrual basis involving no imputation of transactions but continuing to show arrears in the same instrument until the liability is extinguished. If the accrual basis is followed, sub-headings or memorandum items for all or selected arrears might be introduced.

Recommendations/questions

78. At the end of the presentation AEG members were asked whether they agreed with:

(a) the proposed definition of NPLs

(b) the proposal for valuing NPLs

(c) the presentation of the memorandum items

(d) the treatment of FISIM on NPLs

(e) the extension to government (compulsory) and other sectors (not compulsory)

(f) the extension to other instruments.

Summary conclusions

Decisions

79. The AEG agreed with the definition proposed[4]. The AEG considered that it should be used as an indicative guideline rather than being prescriptive.

80. The AEG agreed that the valuation basis for NPLs should be a market equivalent valuation. If a fair value figure is not available, an acceptable alternative is nominal value less expected loan losses.

81. The AEG agreed that it would be desirable to have an explanatory presentation in the SNA showing how the memorandum item for stocks of loans and that for flows of interest are connected, even if in practice the memorandum items were shown without the linking information.

82. A term such as “standard item” should be used in the SNA text rather than a more didactic term such as “mandatory” or “compulsory”.

83. The discussion on the treatment of FISIM concluded that there are potential alternative methods that could be used and each of these needs to be documented. Anne Harrison with the help of others volunteered to put together an example for each of the following three scenarios and present them to the AEG for an e-discussion:

(a) continue to estimate FISIM on NPLs and allocate to the corresponding borrowers, but consider how unpaid FISIM is recorded in the accounts in such a way as to increment principal outstanding

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4 Essentially that a loan is non-performing when payments of interest and /or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalised, refinanced or delayed by agreement, or payments are less than 90 days overdue but there are other good reasons to doubt that payments will be made in full. For greater elaboration, please refer to the issues paper.

(b) estimate FISIM on interest received (rather than receivable) and on interest payable so that FISIM is not attributed to NPLs

(c) estimate FISIM on a basis including NPLs but allocate the whole amount of FISIM only to those borrowers currently servicing their loans.

84. The AEG would like further consideration of how long interest accrues and for how long FISIM is calculated on an NPL.

85. The decision made at the December 2004 AEG meeting to show as standard items NPLs for financial institutions and government as creditors was reconfirmed. They may be shown for other sectors as supplementary items.

86. An extension of the treatment of non-performance on other instruments was considered to be conceptually correct and can be shown as supplementary items.

Distinction between loans and deposits

Issue 44c: Paper SNA/M1.05/10.2; For decision

Description of the issue

Current international statistical standards include a distinction between deposits and loans. However, the criteria to make the distinction are not very clear and may require additional guidance in practice. Recent financial innovations raise questions about the continuing analytical usefulness of the distinction. A particular problem is when a position between two parties, especially financial intermediaries, is seen as a deposit by one party and a loan by the other.

Recommendations/questions

87. The following questions were posed for the AEG's consideration:

(a) What are the views of AEG members on the analytical use of the split between deposits and loans?

(b) If the continued usefulness of this split is confirmed, do AEG members agree that current international standards do not provide clear criteria to perform such a distinction?

(c) Do AEG members have any preference for any of the criteria mentioned in the note:

(i) looking at who takes the initiative (and whether or not a distinction should be made between short-term and long-term instruments);

(ii) taking into account the nature of the borrower (banks ≈ deposits / non-banks ≈ loans);

(iii) defining in a very precise way which instruments meet the definition of "transferable" and "other deposits";

(iv) considering the representation in the documents that evidence loans or deposits; etc.?

Summary conclusions

Decisions

88. The AEG agreed that the updated SNA should maintain a distinction between loans and deposits.

89. The AEG agreed that current international standards do not provide sufficiently clear criteria to make a distinction between loans and deposits. Therefore there should be further consultation with experts to formulate improved operational guidelines to be set out in the updated SNA.

Fees on securities lending and reversible gold transactions

Issue 43c: Paper SNA/M1.05/12; for decision

Description of the issue

Neither the 1993 SNA nor BPM5 discuss the question of fees payable on securities lending and gold loans. The fee for securities lending is for putting a financial instrument at the disposal of another unit. However, it does not fit with the definition of interest when the legal ownership is transferred but the economic risks and rewards of the ownership remain with the original owner. The fee payable on gold loans appears to be a payment for services as long as gold is not treated as a financial asset.

Recommendations/questions

90. The following questions were posed for the AEG's consideration:

(a) What are the views of AEG members concerning the three alternatives for the treatment of the fees associated with securities lending and reversible gold transactions, namely:

(i) investment (property) income

(ii) financial service

(iii) a blended approach whereby it would be treated as financial services if the "lender" were a financial intermediary, and as investment (property) income in all other cases?

(b) If treated as investment (property) income, under which category should securities and gold lending fees be included:

(i) interest

(ii) dividends, or

(iii) some other category?

Summary conclusions

Decisions

91. The AEG agreed that fees associated with securities lending and reversible gold transactions should be treated as property income. The AEG also noted the value of the fees involved is likely to be very small compared with other property income items.

92. The AEG agreed that fees on securities lending and reversible gold transactions should be recorded entirely as interest, including amounts paid on loans of allocated [non-financial] gold.

93. The AEG noted that there is no FISIM associated with the interest recorded for these fees.

Retained earnings on mutual funds and other collective investment schemes

Issue 42: Papers SNA/M1.05/17.1 and 17.2; for decision

Description of the issue

In the 1993 SNA retained earnings of an entity are generally treated as the income and saving of the entity, rather than the owner. However, exceptions are made for life insurance companies, pension funds and foreign direct investment companies, where there is an imputed flow to the policyholders, beneficiaries, and owners, with an equal financial account flow. The ESA 95 introduces an imputed transaction for the retained earnings of mutual funds where income is attributed to the investors and then reinvested in the fund. That treatment brings about consistency with the treatment of life insurance and pension funds which are other types of collective investment schemes.

Recommendations/questions

94. The following questions were posed for the AEG's consideration. Does the AEG

(a) Agree on the principle of recording retained earnings of investment funds in a similar way to income attributed to policy holders?

(b) Agree to record it as anew component called 'property income attributed to holders of investment funds"?

(c) Agree to the proposed definition of "investment funds"?

(d) Agree to separately identify funds issuing monetary liabilities within "other depository corporations"?

Summary conclusions

Decisions

95. The AEG agreed unanimously to accept recommendation (a).

96. The AEG requested further clarification on the exact recording of the property income flow, the definition of retained earnings and an elaboration of the parallel with insurance transactions. This clarification should also consider the role of holding gains in the attribution of income to share holders. Some of these questions will be dealt with by e-discussion before the next AEG meeting.

97. The AEG considered the definition of investment funds needs to be further refined and the terminology to be adopted for the unit and the instrument to be re-examined. The e-discussion forum covering questions associated with recommendation (b) should cover these aspects also.

Government transactions with public corporations: super-dividends, capital injections and reinvested earnings

Issue 34: Paper SNA.M1.05/29; for information

Description of the issue

The accrued earnings of all public corporations could be treated on similar lines as the reinvested earnings of the resident foreign direct investment enterprises with non-resident shareholders. This might be preferable to having flows from government to public corporations (capital injections) or flows from public corporations to government (super-dividends) determined on bases other than current profitability and thus affecting the level of government debt and deficit inappropriately.

Summary conclusions

Observation

98. The AEG welcomed the prospect of the paper for discussion in January but the AEG emphasised that it was important that this paper should be even-handed in setting out the pros and cons of the two possible alternative approaches.

Measurement of non-market output in volume terms

Issue C10: Paper SNA.M1.05/30; for information

Description of the issue

The recent report of the Atkinson review in the United Kingdom and the Eurostat Handbook on Volume and Prices have confirmed the desirability of measuring the volume of output of the general government using direct output indicators. They propose principles for the measurement that it would be useful to include in the new SNA, as they clarify the conditions for good measurement of non market output.

Summary conclusions

Observations

99. The AEG was supportive of the recognition of recent developments in this field. However, it considered that some parts of the paper were overly prescriptive and did not strike the right balance between established and innovative techniques.

100. Several AEG members expressed reservations with including in the SNA methods based on a “willingness to pay” approach.

101. The AEG requested that an alternative document be prepared which simply identified the areas for clarification and the corresponding proposals.

Valuation of equity

Issue C9: Paper SNA/M1.05/32; for information

Description of the issue

Paragraph 13.73 of SNA 93 just says that ''the value of shares that are not quoted on stock exchanges or otherwise regularly traded should be estimated using the prices of quoted shares that are comparable in earnings and dividend history and prospects, adjusting downward, if necessary, to allow for the inferior marketability or liquidity of unquoted shares'', but without making reference to specific issues or methods. The issue is, however, very relevant, as unquoted shares in many countries are far more important than quoted shares. Nonetheless, little progress was formerly made in producing harmonized data on unquoted shares. There are two questions for clarifications to help harmonize the valuation of equity:

(a) *the breakdown of the item shares and other equity into quoted shares, unquoted shares and other equity as done in the ESA95;*

(b) *recommendation of methods of valuation of different types of equity. This is not a substantive change question but one that will discuss equity from both the asset and liability side, considering both inter-company and portfolio investment in relation to listed and unlisted equity. Expansion and clarification of text about equity in the SNA will pave the way for better harmonization with other standards, in particular BPM5 (which does deal very closely with portfolio and direct investment).*

Summary conclusions

Observation

102. The AEG suggested that the Task Force should take into account the work already undertaken on this topic in Europe and related work by the Canberra II Group and, as suggested for the clarification question on non-market output, should document reasons for changes and proposals rather than simply present redrafted text.

Interest on index-linked debt instruments

Issue 43a: Paper SNA.M1.05/11.1; for decision

Description of the issue

For index-linked debt instruments, changes in principal arising from indexation are recorded as interest. However, should the recording of interests for index-linked debt instruments be clarified? Moreover, the 1993 SNA, BPM5 and other manuals mention exchange rates as one of various indicators to which indexation can be linked. However, they are not explicit on whether debt instruments with both principal and interest indexed to a foreign currency should be treated similarly to index-linked instruments or to foreign currency debt instruments.

Recommendations/questions

103. The question presented was which alternative do AEG members prefer?

(a) 1993 SNA approach whereby the difference between the eventual redemption price and the issue price is treated as interest accruing over the life of the instrument. Each period, the movement in the relevant index during the period is used to determine interest in the period and is never revised.

(b) 1993 SNA with revisions:

- a single set of revisions made when actual redemption value is known
- continuous revisions made each period using the most recent observation

(c) the modified debtor approach whereby interest is defined for the life of the instrument as the difference between the redemption value expected at the time of issue and the issue price? The revaluation term then reflects the difference between actual and expected redemption values.

(d) an embedded derivative approach, which has the same net effect as the previous option but treats the instruments as separable into a standardised bond and a financial derivative?

104. (Note: the BOPCOM was evenly divided between (a) and (c). The BOPCOM conclusion was to keep the status quo – i.e. option (a) – in the absence of a consensus for change.)

Summary conclusions

Decisions

105. By a slight majority the AEG opted for a dual approach of using option (a) or option (c) depending on the circumstances. In so doing, the AEG recommended that guidance be provided in the updated SNA on the situations in which one or the other of these options would be preferred. Broadly, option (a) would be recommended in situations in which a broad index is used, one expected to change relatively smoothly over time (such as when the CPI is involved) while option (c) would be used when a narrow index is used with the possibility of volatile movements (e.g. when the index relates to commodities).

106. The AEG recognised that option (c) requires a change to be made to the SNA.

Debt instruments indexed to a foreign currency

Issue 43a: Paper SNA.M1.05/11.2; for decision

Description of the issue

The 1993 SNA, BPM5 and other manuals mention exchange rates as one of various indicators by which debt instruments can be indexed. However, they are not explicit on whether debt instruments with both principal and interest indexed to a foreign currency should be treated similarly to index-linked instruments or to foreign currency debt instruments.

Recommendations/questions

107. The question for discussion by the AEG was whether AEG members agree that debt instruments with both principal and coupons indexed to a foreign currency should be classified and treated in the national accounts as though they are denominated in that foreign currency. This is similar to the question discussed at the December 2004 AEG meeting. At that time several participants expressed sympathy with the proposal.

108. The BOPCOM concluded that debt instruments with both principal and coupons indexed to a foreign currency should be classified and treated as being denominated in that foreign currency, and recommended that the currency of account and currency of settlement should be clearly distinguished in the new manuals.

Summary conclusions

Decisions

109. The AEG agreed with the BOPCOM conclusions that:

(a) debt instruments with both principal and coupons indexed to a foreign currency should be classified and treated as being denominated in that foreign currency; and

(b) the currency of account and currency of settlement should be clearly distinguished in the new manuals.

Traded loans (borderline between securities and other financial instruments)

Issue 44d: Paper SNA/M1.05/10.3; for decision

Description of the issue

When and under what circumstances do loans that are traded become securities? This is important because virtually all loans are tradable and trading has increased. Further, it affects valuation since securities are valued at market price and loans at nominal values.

Recommendations/questions

110. The following questions were posed for the AEG's consideration:

(a) Do members agree that traded loans are to be reclassified as securities if a loan becomes tradable and is, or has been, traded in the secondary market? Alternatively, do members conclude that traded loans not be reclassified as debt securities?

(b) If traded loans are reclassified as debt securities, should the definition of the requirements for a secondary market be elaborated according to the criteria in the External Debt Guide or some other criteria? What are the members' views on whether, in addition to being tradable in secondary markets, there should be a requirement that the debtor is not legally prevented from buying back the debt?

(c) If traded loans are reclassified as debt securities, do members agree that the flows arising from traded loans becoming securities be treated as reclassifications in other changes in the assets and liabilities account?

(d) If traded loans are not reclassified, do members agree that loans should be broken down between traded and non-traded loans?

(e) Does the AEG agree that untraded securities should not be reclassified?

111. (Note: BOPCOM decided that untraded securities should not be reclassified.)

Summary conclusions

Decisions

112. With respect to question (a), the AEG decided that the current SNA position should be maintained: that is, the loan should be reclassified as a security only if there is evidence of a market and there are quotations in the market.

113. This change of category of financial instrument is achieved via a change in classification entry in the other changes in the volume of assets account and not via transactions cancelling the loan and issuing a security.

114. The fact that a loan is sold once does not necessarily involve reclassifying the loan as a security.

115. Questions (b) and (c) were not considered by the AEG because in general traded loans would not be reclassified as debt securities – they would not change their classification status as a result of being sold.

116. There was agreement not to break down loans into traded and non-traded categories.

117. With respect to question (e), the AEG agreed that untraded securities should not be reclassified.

Classification of financial instruments

Issue 44: Paper SNA/M1.05/10.1; for information

Description of the issue

A number of proposals have been made to modify the classification of financial instruments. They include the following points.

(a) *With financial derivatives treated as a separate instrument in the 1993 SNA, it would be appropriate to introduce the term "debt securities" to replace "securities other than shares".*

(b) *Moreover, all types of financial derivatives are currently treated as a single item but there is an interest in splitting derivatives in forwards and options, given their different behaviour.*

(c) *Further considerations are to be given to the introduction of employee stock options.*

(d) *There is renewed interest in the question of whether non-monetary gold should be classified as a financial asset rather than under valuables in the asset classification.*

Summary conclusions

Observations

118. Several members of the AEG expressed support for the use of the term "debt securities" to replace "securities other than shares".

119. Several members wished to see mutual funds explicitly included in the classification but views were divided about which level. There was support to distinguish money market funds within mutual funds.

120. Reservations were expressed about moving away from the present classification, based on degree of liquidity, towards the broad three-level grouping though the attractions of the link to income was noted.

121. Reimund Mink agreed that the ECB will write a paper exploring possible options for changes in the classification of financial instruments more generally.

Wrap-up

Taking stock

122. The AEG reached recommendations on several important issues and a number of other issues. There were also several information items and the AEG was given previews on a number of topics. The process has worked very efficiently and the e-discussions worked very well and helped us prioritize our time.

123. The new formats for reports will encourage more effective consultation with the broader international community.

Looking ahead

124. This week's work was an important milestone for the AEG. We are on course to reach the targets set by the Statistical Commission. The next AEG meeting will be held at the ECB, in Frankfurt, starting in the week beginning January 30, 2006. It will be the last of the issue-oriented meetings, so lots of work is underway. The agenda will be ambitious, including:

(a) pensions

(b) informal sector

(c) financial services

(d) leases and licenses

(e) SPVs.

125. We will continue on the work programme laid out in 2003. The ISWGNA will review the schedule of meetings and modalities of the next phase now that this week's milestone has been passed. However, some points are clear now. First, there will be at least one AEG meeting (after January 2006). Second, AEG members will have an opportunity to comment on draft text. Reports of this meeting will be circulated in the next few weeks. Reports on related meetings will be provided to AEG members as they become available. Action items will be followed up as appropriate. The work program for 2006-2007 will be finalised, probably after September.

Agenda

Third Meeting of the Advisory Expert Group on National Accounts

UNESCAP, Bangkok

18-22 July 2005

Monday, 18 July

9.00 – 12.30 Morning session

Chair: Barbro Hexeberg, World Bank, Chair of ISWGNA

Opening of the meeting

Welcome by UNESCAP

Approval of the agenda (Document SNA/M1.05/01)

Cost of capital services (Document SNA/M1.05/04; Issue 15) – decision
Presenter: Anne Harrison

Government and other non-market producers: cost of capital of own assets (Document SNA/M1.05/05; Issue 16) – decision
Presenter: Anne Harrison

13.30 – 17.30 Afternoon session

Chair: Carol Carson

Obsolescence and depreciation (Document SNA/M1.05/06; Issue 23) – decision
Presenter: Charles Aspden

Overview of comments on decisions of the second AEG meeting (Document SNA/M1.05/03) – information
Presenter: Ivo Havinga

Financial services (Document SNA/M1.05/26; Issue 6a) – information
Presenter: Charles Aspden

Employer pension schemes (Document SNA/M1.05/28; Issue 2) – information
Presenter: Adriaan Bloem

Tuesday, 19 July

8.30 – 12.30 Morning session

Chair: Charles Aspden, OECD

G**eneral government and public sectors: Chapter and Annex outline** (Document SNA/M1.05/09.2; Issue C15) – information
Presenters: Lucie Laliberté and Jean-Pierre Dupuis

Public/private/government sectors delineation (Document SNA/M1.05/09.1; Issue 36) – decision
Presenters: Lucie Laliberté and Jean-Pierre Dupuis

Non-resident SPEs linked to government (Document SNA/M1.05/31; Issue 25e) – information
Presenter: Jean-Pierre Dupuis

<u>13.30 – 17.30 Afternoon session</u>

Chair: Carol Carson

Research and development (Document SNA/M1.05/20; Issue 9) – decision
Presenter: Charles Aspden

Monday's conclusions

Outcome of e-discussion on five issues
Presenters: Ivo Havinga

Originals and copies (Documents SNA/M1.05/18.1 and 18.2; Issue 11) – decision (e-discussion issue)

Databases (Documents SNA/M1.05/19.1 and 19.2; Issue 12) – decision (e-discussion issue)

Land improvements and structures (Documents SNA/M1.05/22.1 and 22.2; Issue 20) – decision (e-discussion issue)

Water as an asset (Documents SNA/M1.05/23.1 and 23.2; Issue 31) – decision (e-discussion issue)

Purchased goodwill and marketing assets (Document SNA/M1.05/24.1 and 24.2; Issue 22) – decision (e-discussion issue)

Wednesday, 20 July

<u>8.30 – 12.30 Morning session</u>

Chair: Charles Aspden, OECD

Tax revenues, uncollectible taxes and tax credits (Document SNA/M1.05/07; Issue 35) – decision
Presenter: Jean-Pierre Dupuis

Granting of guarantees (Document SNA/M1.05/08; Issue 37) – decision
Presenter: Lucie Laliberté

<u>13.30 – 17.30 Afternoon session</u>

Chair: Adriaan Bloem, IMF

Merchanting (Document SNA/M1.05/14; Issue 41) – information
Presenter: Robert Dippelsman

Goods sent abroad for processing: progress report (Document SNA/M1.05/16; Issue 40) – decision
Presenter: Anne Harrison

Tuesday's conclusions

Outcome of e-discussion on five issues
Presenters: Ivo Havinga

Migrants' transfers (Documents SNA/M1.05/13.1 and 13.2; Issue 38b) – decision (e-discussion issue)

Residence of households: non-permanent workers (Documents SNA/M1.05/15.1 and 15.2; Issue 39c) – decision (e-discussion issue)

Residence of households: ships' crew and patients (Documents SNA/M1.05/15.3 and 15.4; Issue 39c) – decision (e-discussion issue)

Multi-territory enterprises – basis for allocation (Documents SNA/M1.05/27.1 and 27.2; Issue 25c) – decision (electronic consultation issue)

Reverse transactions (Documents SNA/M1.05/25.1 and 25.2; Issue 1) – decision (e-discussion issue)

Thursday, 21 July

8.30 – 12.30 Morning session

Chair: Ivo Havinga, UNSD

Non-performing loans (Document SNA/M1.05/21; Issue 4a+4b, 38c) – decision
Presenter: Adriaan Bloem

Distinction between loans and deposits (Document SNA/M1.05/10.2; Issue 44a) – decision (1.0)
Presenter: Robert Dippelsman

Fees on securities lending and reversible gold transactions (Document SNA/M1.05/12; Issue 43c) – decision
Presenter: Robert Dippelsman

13.30 – 17.30 Afternoon session

Chair: Adriaan Bloem, IMF

Retained earnings on mutual funds and other collective investment schemes (Documents SNA/M1.05/17.1 and 17.2; Issue 42) – decision
Presenter: Reimund Mink

Wednesday's conclusions

Government transactions with public corporations: super-dividends, capital injections and reinvested earnings (Document SNA/M1.05/29; Issue 34) – information
Presenter: Jean-Pierre Dupuis

Measurement of non-market output in volume terms (Document SNA/M1.05/30; Issue C10) – information
Presenter: Charles Aspden

Valuation of equity (Document SNA/M1.05/32; Issue C9) – information
Presenter: Charles Aspden

Friday, 22 July

8.30 – 12.30 Morning session

Chair: Ivo Havinga, UNSD

Interest on index-linked debt instruments (Document SNA/M1.05/11.1; Issue 43a) – decision
Presenter: Robert Dippelsman

Debt instruments indexed to a foreign currency (Document SNA/M1.05/11.2; Issue 43a) – decision
Presenter: Robert Dippelsman

Traded loans (borderline between securities and other financial instruments) (Document SNA/M1.05/10.3; Issue 44a) – decision
Presenter: Robert Dippelsman

14:00 – 17.00 Afternoon session

Chair: Barbro Hexeberg, World Bank, Chair of ISWGNA

Classification of financial instruments (Document SNA/M1.05/10.1; Issue 44a) – decision
Presenter: Robert Dippelsman

Thursday's conclusions

Wrap up of the meeting
(including summary assessment of outcomes)
Presenter: Carol Carson

17.00 Close of meeting

National Accounts and Related Manuals

SNA: *System of National Accounts, 1993* by Commission of the European Communities/Eurostat, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank

ISIC: *International Standard Industrial Classification of All Economic Activities, Revision 3.1*, United Nations, 2003

CPC: *Central Product Classifications, Version 1.1*, United Nations, 2003

NPI Handbook: *Handbook on Non-Profit Institutions in the System of National Accounts*, United Nations, 2003

SEEA-2003: *Integrated Environmental and Economic Accounting 2003*, by European Commission/Eurostat, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank

BPM5: *Balance of Payments Manual Fifth Edition*, International Monetary Fund, 1993

GFSM 2001: *Government Finance Statistics Manual 2001* by International Monetary Fund

MFSM 2000: *Monetary and Financial Statistics Manual*, International Monetary Fund

External Debt Guide: *External Debt Statistics: Guide for Compilers and Users*, International Monetary Fund, 2003

Acronyms

BoP	Balance of payments
BOPCOM	IMF's Balance of Payments Committee
BPM5	Balance of Payments Manual 1993 (fifth edition)
CPC	Central product classification
COICOP	Classification of individual consumption by purpose
COFOG	Classification of the functions of government
COFC	Consumption of fixed capital
CPI	Consumer Price Index
Eurostat	Statistical Office of the Commission of the European Communities
FISIM	Financial intermediation services indirectly measured
FRA	Forward rate agreement
GDP	Gross domestic product
GFCF	Gross fixed capital formation
GFS	Government Finance Statistics
GFSM2001	Manual of Government Finance Statistics (2001 edition)
GNI	Gross national income
GOS	Gross operating surplus
IMF	International Monetary Fund
I-O	Input-output
ISIC	International Standard Industrial Classification of All Economic Activities
MFP	Multifactor productivity
NDP	Net domestic product
NPI	Non-profit institution
NPISH	Non-profit institutions serving households
NPL	Non-performing loan
NPV	Net present value
OECD	Organisation for Economic Cooperation and Development
PIM	Perpetual inventory method
PPP	Purchasing power parity
R&D	Research and development
SAM	Social accounting matrix
SDRs	Special drawing rights
SNA93	System of National Accounts (1993 edition)
S-U	Supply-use (tables)
UNSD	United Nations Statistical Division
VAT	Value added tax