

Merchanting (issue 41)

This is an **important issue** for Switzerland as merchanting has grown in importance over the last 20 years with the implementation of more and more commodity traders in Switzerland (Cargill, Louis Dreyfus, Bunge, Glencore,...). Geneva is now second only to London in terms of locations where commodities are traded and financed. Estimates suggest that up to 25% of the freely available oil production is traded in Geneva.

Comments

We **agree** with the recommendation of the AEF to follow the **change in ownership principle** and ensure consistency with the treatment of **domestic wholesalers**. This will allow national accountants to have uniform and consistent treatments.

We also **support** the decision to record goods on a **gross** basis, whether the purchase and the sale occur at the same time or not. This will end a major shortfall of the current treatment, namely the difference currently made between transactions which are completed within one period and transactions where purchase and sale occur at different point in time. Though economically similar, these two options have different outcomes, as the latter involves the recording of imports in order to balance supplies and uses. One alternative for the country hosting the merchant would be to only record the output and export of services at the time when the resale takes place. However, this treatment would lead to inconsistencies between countries, and changes in inventories might prove difficult to adjust. Furthermore, such a treatment would be inconsistent with the treatment of domestic wholesalers, where the service, on the user side, is included in the value of the goods purchased, as well as with the change in ownership principle. We therefore support the decision of the AEG to record goods on a gross basis.

We nevertheless are **concerned** that national economic characteristics –for Switzerland, the presence of global players in wholesaling and retailing, of high volumes combined with relatively low margins- may lead to strange results when gross accounting is used in a strict way. This may lead to distortions in the external account which shouldn't be underestimated. Further investigation of this issue might be of interest for various countries.

Given the fact that these markets are characterized by high price volatility and very active trading special attention must be paid to the exclusion of holding gains and losses. This issue can be dealt with in the framework of the **overall coherence and consistency** of the system, with references made to the decision taken by the AEG for financial corporations and the price/volume measurement of financial services.