

## **SHORT REPORT**

**Third Meeting of the Advisory Expert Group on National Accounts**

**18 – 22 July 2005**

**at ESCAP, Bangkok**

Cost of capital services.....	1
Issue 15; Paper SNA/M1.05/04; for decision.....	1
Government and non-market producers: cost of capital of own assets .....	2
Issue 16 ; Paper SNA/M1.05/05; for decision.....	2
Obsolescence and depreciation .....	2
Issue 23; Paper SNA.M1.05/06; for decision.....	2
Overview of comments on decisions of the second AEG meeting .....	3
Paper SNA/M1.05/03; for information .....	3
Financial services .....	3
Issue 6(a); Paper SNA/M1.05/26; for information.....	3
Employers' pension schemes .....	4
Issue 2; Paper SNA/M1.05/28; for information .....	4
General government and public sectors: Chapter and Annex outline .....	4
Issue C15; Paper SNA/M1.05/9.2; for information.....	4
Public/private/government sectors delineation.....	5
Issue 36; Paper SNA/M1.05/9.1; for decision.....	5
Non-resident SPEs linked to government .....	6
Issue 25e; Paper SNA/M1.05/31; for information .....	6
Research and development.....	6
Issue 9; Paper SNA/M1.05.20; for decision .....	6
Originals and copies .....	8
Issue 11; Papers SNA/M1.05/18.1 and 18.2; for decision following e-discussion .....	8
Databases.....	9
Issue 12; Papers SNA/M1.05/19.1 and 19.2; for decision after e-discussion .....	9
Land improvements and structures.....	10

Issue 20; Papers SNA/M1.05/22.1 and 22.2; for decision after e-discussion .....	10
Water as an asset .....	10
Issue 31; Papers SNA/M1.05/23.1 and 23.2: for decision after e-discussion.....	10
Purchased goodwill and marketing assets .....	12
Issue 22; Papers SNA/M1.05/24.1 and 24.2; for decision after e-discussion .....	12
Tax revenues, uncollectible taxes and tax credits .....	13
Issue 35; Papers SNA/M1.05/07; for decision .....	13
Granting and activation of guarantees.....	14
Issue 37: Papers SNA/M1.05/08; for decision .....	14
Merchanting .....	16
Issue 41: Paper SNA/M1.05.14; for information .....	16
Goods sent abroad for processing .....	16
Issue 40: Paper SNA/M1.05/16; for decision.....	16
Migrants' transfers .....	17
Issue 38b: Papers SNA/M1.05/13.1 and 13.2; for decision after e-discussion .....	17
Residence of households: non-permanent workers .....	18
Issue 39c: Papers SNA/M1.05/15.1 and 15.2; for decision after e-discussion.....	18
Residence of households: ships' crew and patients.....	18
Issue 39c: Papers SNA/M1.05/15.3 and 15.4; for decision after e-discussion.....	18
Multi-territory enterprises - basis for allocation.....	19
Issue 25e: Papers SNA/M1.05/27.1 and 27.2; for decision after e-discussion.....	19
Reverse transactions .....	20
Issue 1: Papers SNA/M1.05/25.1 and 25.2; for decision after e-discussion .....	20
Non-performing loans .....	20
Issues 4a, 4b, 38c: Papers SNA.M1.05/21; for decision .....	20
Distinction between loans and deposits.....	22
Issue 44c: Paper SNA/M1.05/10.2; For decision .....	22

Fees on securities lending and reversible gold transactions .....	23
Issue 43c: Paper SNA/M1.05/12; for decision .....	23
Retained earnings on mutual funds and other collective investment schemes .....	24
Issue 42: Papers SNA/M1.05/17.1 and 17.2; for decision .....	24
Government transactions with public corporations: super-dividends, capital injections and reinvested earnings .....	25
Issue 34: Paper SNA.M1.05/29; for information .....	25
Measurement of non-market output in volume terms .....	25
Issue C10: Paper SNA.M1.05/30; for information.....	25
Valuation of equity.....	26
Issue C9: Paper SNA/M1.05/32; for information.....	26
Interest on index-linked debt instruments .....	26
Issue 43a: Paper SNA.M1.05/11.1; for decision .....	26
Debt instruments indexed to a foreign currency.....	27
Issue 43a: Paper SNA.M1.05/11.2; for decision .....	27
Traded loans (borderline between securities and other financial instruments) .....	28
Issue 44d: Paper SNA/M1.05/10.3; for decision.....	28
Classification of financial instruments .....	29
Issue 44: Paper SNA/M1.05/10.1; for information .....	29
Wrap-up.....	30
Agenda .....	
National Accounts and Related Manuals .....	
Acronyms .....	

## 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"<sup>1</sup>
  - (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.

---

<sup>1</sup> 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 the 1993 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<sup>2</sup>

#### 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.

---

<sup>2</sup> 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<sup>3</sup>. 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*

---

<sup>3</sup> 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<sup>4</sup>. 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

---

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  $\approx$  deposits / non-banks  $\approx$  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 a new 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**

**General 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

13.30 – 17.30 Afternoon session

**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

8.30 – 12.30 Morning session

**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

13.30 – 17.30 Afternoon session

**Chair: Adriaan Bloem, IMF**

**Merchanting** (Document SNA/M1.05/14; Issue 41) – information

Presenter: Robert Dippelman

**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



