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ISWGNA decisions on clarifications and consistency issues that flowed from the Full Set of Consolidated Recommendations

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Issue 2 - Employer retirement pension schemes

The ISWGNA meeting on 1-2 November 2007 discussed defined contribution scheme payouts and agreed the draft text should be changed as follows:

> When defined contribution scheme benefits must be taken in the form of an annuity, the two transactions currently specified of receiving a lump sum and reinvesting it will not be shown; a reclassification would be recorded instead.
>
> If an annuity yields a fixed income (or one determined by indexation) then the whole of the amount received will be recorded as property income.

Another point discussed at this meeting under the heading of "Pension schemes" related to segregated (largely) unfunded schemes. The following proposal by the Editor was accepted. If a scheme is run in such a way that a separate scheme exists but it is significantly underfunded, then it should be treated as normal but with responsibility for paying only that part of pensions corresponding to the proportion of contributions payable that it actually receives. The remaining part should be treated as a scheme run by and not segregated from the employer.

On 24 January 2008, the ISWGNA considered differences between the final report of the EU Task Force on Pensions and the draft of the 1993 SNA Rev.1 concerning the proposed recording of changes in pension entitlements. These differences may be grouped into the following categories:

1. Treatment of pension reforms
2. Treatment of experience effects (actuarial gains and losses)
3. Neutrality over time between ABO and PBO based reporting.

The ISWGNA agreed that the subject of recording such items should be treated as part of the ongoing research agenda.

Issue 3 - Employee stock options (ESOs)

The ISWGNA clarified two points concerning ESOs at its meeting on 25 July 2007.

1. ESOs should be recorded as a separate financial asset with the same name from grant date through exercise date and with no conversion from one category of financial asset to another at vesting date.

2. The market value of the ESO at vesting date may include a premium, based on what a willing buyer would pay to purchase the stocks in question at the strike price in the period between the vesting and exercise dates. Only in the case of the exercise date being very close to the vesting date would the market price of the option itself be very close to the difference between the market price of the share less the strike price.

Issue 5 - Non-life insurance services

On 2 October 2007, the ISWGNA decided that the following clarifications regarding insurance should be included in the text of the Updated SNA:

1. Equalisation provisions should not be included with insurance technical reserves. Thus, the proposed change of terminology from "technical reserves" to "technical provisions" was unnecessary.

2. Equalisation provisions should be shown as a memorandum item and the item would be used when insurance output is derived using the “accounting” approach (described in paragraph 17.23 in the Updated SNA text).

3. When insurance output is derived using the “statistical” approach (see paragraph 17.22 in the Updated SNA text), the time series of claims from which adjusted claims is derived should reflect the fact that a direct insurer only has to fund actual claims less any excess of reinsurance claims received over reinsurance premiums paid.

4. The case for paying claims as capital transfers depends on the way in which premium levels are set. It must be presumed that, usually, premiums are intended to cover normal or expected claims. If the insurance company misjudges the level of claims, the difference between actual claims and expected claims leads to either greater or less disposable income and saving for the insurance company; negative saving will lead to a reduction in net wealth.

5. The only rationale for treating some claims as giving rise to capital transfers was the possible (if uncommon) situation where an insurance company deliberately set the premiums at such a low level that it expected to have to meet some claims from a run-down of wealth.

6. When any claims are treated as capital transfers, the ISWGNA recommends that all claims be partitioned between current and capital transfers in the proportion of the total being paid by each sort of transfer.

Issue 6 - Financial services; Allocation of the output of central banks

At its meeting on 1-2 November 2007, the ISWGNA discussed an anomaly that could arise in estimating the output of a central bank. It is frequently the case that the interest rates offered by the central bank are not determined by market forces but by policy considerations. In such cases, it is not appropriate to consider the difference between the interest charged and paid by the central bank and the interest calculated using a reference rate as market production of financial intermediation services. The ISWGNA decided that, in cases where some or all market output cannot be separated from non-market output, the value of this market output is included with the value of the non-market output valued at the sum of costs excluding the costs associated with separately valued market output.

Issue 16 - Government-owned assets

At its meeting on 13-15 June 2007, the ISWGNA provisionally agreed that, when production for own final use is undertaken by corporations or households, it is appropriate to include a return to capital as part of the sum of costs when this approach has to be used because no comparable market price exists. However, no return to capital should be included when production for own final use is undertaken by government units or NPISHs, and is measured by the sum of costs. This position corresponds approximately to saying a return to capital is included for production undertaken by market producers and not for non-market producers. It gives a pragmatic guideline for some borderline cases such as production for own final use by a market establishment within government or the treatment of production by households which only have production for own final use and where the market/non-market distinction is not strictly applicable. These borderline cases are assumed to be of limited magnitude in practice.

Issue25a - Ancillary units

The ISWGNA, at a meeting on 7 December 2007, discussed possible alternative treatments for recording ancillary activity when a significant part of it is sold. It was agreed that only that part that is sold would be treated as secondary production; the remainder would be treated as ancillary production (paragraph 5.42).

Issue 25b - Institutional units

The ISWGNA meeting of 13-15 June 2007 also discussed the consistency of the SNA and ISIC. The first decision was that the wording of ISIC on horizontal integration should be incorporated into the SNA description. Another decision related to an inconsistency between the SNA and ISIC. On vertical integration, the SNA takes a different line than ISIC, suggesting that separation into establishments is desirable. The ISWGNA recommended that the SNA should explain the ISIC position and make clear that the SNA is deliberately different. However, the whole subject of the treatment of establishments in the SNA could be put on the research agenda since developments in input-output tables and the proposals on goods for processing suggest a new look at the existing conventions would be beneficial.

At its meeting on 1-2 November 2007, the ISWGNA reaffirmed the 1993 SNA requirement that, for units to be classified as quasi-corporations, they must have a full set of accounts including balance sheets. Otherwise, any such unincorporated enterprises remain in the sector of their owners, including government when appropriate.

Issue 25b - Institutional units (a. Holding companies, SPEs, trusts)

At its meeting on 24 July 2006, the ISWGNA decided the Updated SNA should follow the ISIC recommendations regarding the classification of holding companies.

On 28 September 2006, the Project Manager sent the following note to all AEG members regarding the treatment of head offices.

> In discussions related to holding companies, a question was raised about the classification of head offices. As a result of a change in the ISIC, head offices of a financial holding company would be classified in the non-financial corporations sector. The ISWGNA agreed that, by convention, head offices of financial corporations are to be treated as financial auxiliaries in the SNA. If a head office has several subsidiaries, some of which are financial corporations and some of which are non-financial corporations, the head office is allocated to the sector to which most of the subsidiaries are allocated or to which most of their production is allocated.

The ISWGNA discussed holding companies at its meeting on 1-2 November 2007 and confirmed these should be financial auxiliaries not captives. In places, the text needs to make use of the term “head office” rather than “holding company” to ensure compatibility with ISIC. The holding company of a group of non-financial corporations stays in the financial corporations sector.

At the same meeting, the term “artificial subsidiaries” was considered but no better description could be identified for the phenomenon being described in paragraphs 4.59 to 4.61. Although such units may be established legally, they do not qualify as institutional units because they do not have the freedom to set their level of output and prices independently of their parents. The ISWGNA agreed the text would include a sentence making explicit that this section is not a discussion about ancillary activities. The ISWGNA also confirmed that ancillary activities are a limited set of services and not any good or service delivered only to the parent or other units in the same enterprise group.

Issue 25c - Privatisation, restructuring agencies, securitisation and special purpose vehicles (SPVs)

The ISWGNA discussed the treatment of SPEs at a meeting on 7 December 2007. The meeting accepted the Editor’s formulation: “even if they are legally separate units, SPEs that are passive are merged with the parent (unless non-resident) but if they take on the risks and rewards from selling assets and incurring liabilities and can act independently, they are treated as separate institutional units.”

Issue 30 - Definition of economic assets

The ISWGNA meeting on 1-2 November 2007 discussed benefits and liabilities in the context of the definition of economic assets.

It also agreed to add a sentence making clear there are no non-financial liabilities in the System.

At a meeting on 7 December 2007, the ISWGNA requested the Editor to re-formulate paragraph 3.40 making clear that contingent liabilities are recognised only when they take on the characteristics of an actual obligation.

Issue 34 - Super dividends, capital injections and reinvested earnings (government transactions with public corporations (earnings and funding))

The ISWGNA decided, at a meeting on 24 July 2006, that the treatment of exceptionally large payments by the private sector should be made consistent with that for the public sector; that is as withdrawals of equity rather than as dividends.

Issue 35 - Tax revenues, uncollectible taxes, and credits (recording of taxes)

At its meeting on 1-2 November 2007, the ISWGNA considered the allocation of taxes between levels of government and agreed to adopt the GFSM2001 text as a replacement for all except the first sentence of paragraph 3.70.

Issue 37 - Activation of guarantees (contingent assets) and constructive obligations

The ISWGNA meeting on 1-2 November 2007 agreed it was an unnecessary refinement to introduce "expected calls" into the formula for calculating the output of services connected with standardised guarantees.

Issue 39 - Residence

At its meeting on 1-2 November 2007, the ISWGNA agreed to reinstate paragraph 4.15, concerning the direct relationship between the Updated SNA and BPM6 concepts of residence into the Updated SNA. The SAS-type case will be mentioned explicitly. The use of tax law as one indicator of determining the centre of predominant economic interest will be kept.

Issue 44 - Financial assets classification

The ISWGNA meeting on 1-2 November 2007 agreed to remove the phrase that shares are an asset "by convention" and make clear the exception concerned the liability implied by holding shares.

At a teleconference on 3 April 2008, the ISWGNA agreed on the following text to explain the change in the definition of monetary gold and gold bullion:

> The definition of monetary gold, and gold bullion, has changed in the 1993 SNA Rev1 in order to stay in line with BPM6. The change stems from the recognition of allocated and unallocated gold accounts. An allocated gold account provides a record of title to specified gold. The difference between physical gold and an allocated gold account is simply one of where the gold is held. An unallocated gold account represents a claim against the account operator to deliver gold. In practice, such an account functions like an account denominated in gold. In the System, these are treated as deposits in foreign currency. Monetary gold is gold to which the monetary authorities (or others subject to the effective control of the monetary authorities) have title and is held as a reserve

asset. The gold in questions consists of gold bullion (including gold held in allocated gold accounts) and unallocated gold accounts with non-residents. Monetary authorities may hold gold not held as a reserve asset. If it is gold bullion or an allocated gold account it is classed as a valuable as it is for such gold held by commercial banks, for instance. Unallocated gold accounts of the monetary authorities, even when held by non-residents, if not part of reserves are treated as foreign currency deposits.

Clarifications

Clarification issue C3 - Review of SNA terminology for user-friendliness

At its meeting from 13-15 June 2007, the ISWGNA confirmed the distinction between a transaction that is imputed, as in the case of re-routing, and an imputation of a value for an actual transaction. In order to keep the use of "imputed" restricted as far as possible to the first case, it is preferable to describe an imputed valuation as being "indirectly measured".

Clarification issue C7 - Should the first appearance of values of financial derivatives be entered as other changes in volume (OCVA)

All financial assets that come into existence via a transaction should "appear" directly in the financial account. This includes financial derivatives, on which a question about where they "appear" had been posed as one of the Update clarifications.

Monetary gold is the only financial asset whose appearance is recorded in the other changes in the volume of assets account.

Clarification issue C17 - Measurement of output produced for own final use

The Editor added the following to the minutes of the ISWGMA meeting on 13-15 June 2007:

> When production for own final use is undertaken by corporations or households, it is appropriate to include a return to capital as part of the sum of costs when this approach has to be used because no comparable market price exists. When production for own final use is undertaken by government units or NPISHs is measured by the sum of costs, no return to capital should be included.

Clarification issue C18 - Inventory withdrawals defined including or excluding normal losses

At its meeting on 24 April 2006, the ISWGNA decided it was necessary to amend an inconsistency in the present SNA regarding the treatment of theft. The definition of theft should be elaborated to ensure that irregular and exceptional theft is included in output and for its use to be treated as other changes in volume. This treatment is to be adopted irrespective of whether the output had gone into inventories or not.

Clarification issue C19 - Government final consumption expenditure

The Editor incorporated the following addendum to the minutes of the ISWGNA meeting of 13-15 June 2007:

> One comment received suggested an error in the draft of chapter 9 because there is a reference to the operating surplus of government. The draft states that the value of output of a non-market producer is equal to the sum of costs so that net operating surplus is zero. The ISWGNA considered the comment at its meeting on 13-15 June 2007 and confirmed that this is true for a non-market establishment, even if it has secondary market production, but it is not true for a non-market institutional unit that has a market establishment. There would be no problem if sufficient information were available to treat the market establishment as a quasi-corporation. However, if there is no balance sheet information for the establishment it must remain within its parent institutional unit, which then may show an operating surplus. (Some cases where the operating surplus is negative have been observed.)

Clarification issue C22 - Valuation of work-in-progress

The ISWGNA reviewed a document at its meeting from 13-15 June 2007, which included the detailed rationale for the treatment of storage described in the draft text. (This document was intended for an e-consultation that, in the end, did not take place.) The ISWGNA confirmed that the activity of putting goods into inventories with the intention of realising a real holding gain over a given period was to be treated as the output of storage. It was further agreed that it would be helpful to include the example in the note considered as an electronic annex to the SNA Rev 1.

Clarification issue C24 - Changes in inventories

The Editor added the following clarification to the minutes of the ISWGNA meeting held on 13-15 June 2007.

> It was confirmed that the activity of putting goods into inventories with the intention of realising a real holding gain over a given period of time was to be treated as the output of storage. It was further agreed that it would be helpful to include the example in the note considered as an electronic annex to the SNA Rev 1.

Clarification issue C26 - Currency Unions

At a meeting on 16 June 2006, the ISWGNA decided that the 1993 SNA Rev 1 would not discuss currency unions in any detail but simply refer readers to the Revised Balance of Payments Manual (BPM6).

Clarification issue C30 - Financial corporations' classification

The ISWGNA discussed financial subsectoring at its meeting on 1-2 November 2007. A sentence will be added to the Updated SNA making clear that insurance corporations and pension funds are to be treated as financial intermediaries. The ISWGNA confirmed that credit insurance corporations and guarantee banks must have differentiated pools of reserves to meet claims so (then) paragraph 4.104(j) would be dropped.

New clarification issue - Allocation of agricultural output across periods of less than one year

The AEG meeting in New York in March 2007 was asked to clarify a concern about the allocation of agricultural output across periods of less than one year. The AEG confirmed that allocating output across periods in accordance with costs remained an acceptable option. The draft text, however, also mentions other options and the AEG felt it was not necessary to restore the paragraphs from the 1993 SNA text as some comments had suggested.

New clarification issue – Entrepreneurial income

The ISWGNA decided, on 7 December 2007, that in line with the current definition of entrepreneurial income, it is relevant only for the corporate sectors. The tables will be changed to reflect this.

New clarification issue - Details of social contributions

The ISWGNA discussed details of social contributions at its meeting on 13-15 June 2007. Because it has been decided to show the cost of operating a social insurance scheme (other than social security) as paid by the participants and not by the sponsors, part of the amount received by households from the sponsor is used to meet this charge. In order to have the same entries for "employers' social contributions" in all accounts where they feature, the following breakdown of payments by households to social insurance schemes was agreed:

Social contributions

Employers' actual social contributions

Plus Employers' imputed social contributions

Plus Households actual contributions

*Plu*s Households contribution supplements

Less social insurance schemes service charges

Because it has been agreed that social contributions should be separated into those relating to pension and other, this breakdown of social contributions will appear three times in the classification hierarchy, once as above and once for each of pension and non-pension contributions.

It was also agreed to drop the distinction between compulsory and voluntary contributions that appears in the classification hierarchy.

New clarification issue - Exceptional losses

The Editor inserted the following addendum to the minutes of the ISWGNA meeting held from 13-15 June 2007:

> Draft paragraph 10.93 explains that disposals of tree, crop and plant resources do not include exceptional losses and it was noted that a further explanation of "exceptional losses" would be helpful. It was agreed that in this case, as in the case of goods going into inventories in general, the measure of output excludes "regular" losses. Regular losses include losses due to deterioration, pilfering, losses due to pests, etc. In the case of growing resources, the losses due to an expected level of poor weather conditions should also be excluded from output. If there are losses from a higher than expected level of losses due to any of these causes, the excess over the normal losses should be recorded in the other changes in the volume of assets (fixed capital or inventories as the case may be).

New clarification issue - Imports cif and fob

The Editor inserted the following addendum into the minutes of the ISWGNA meeting on 13-15 June 2007:

> In the draft import and export price manuals, a clear preference is stated for the recording of imports in the supply and use table fob rather than cif. There was discussion about the implications of changing the present treatment on the SNA to match that in the price manuals.

At its meeting on 11 July 2007, the ISWGNA discussed the note prepared by the Editor on the valuation of imports cif or fob in chapter 14. It was agreed that further clarity is needed on the meaning of basic prices described in paragraphs 14.43 to 14.47 in relation to the valuation of imports of goods cif and fob along the lines proposed in the note. Opinions were divided about whether the whole of the material of the note should be incorporated in chapter 14.

Consistency issues

Consistency issue 1 - Decision tree

The Editor added the following to the minutes of the ISWGMA meeting on 13-15 June 2007:

> The logic of the decision tree for allocating institutional units to sector requires the possibility of NPISHs undertaking collective consumption. This will be mentioned with the proviso that collective consumption for NPISHs should only be recorded if it is significant and data sources are readily available. The default assumption remains that all consumption by NPISHs is individual consumption.

New consistency issue – Calculating the output of life insurance

At the ISWGNA meeting on 7 December 2007, the Editor raised a concern about the calculation of output of life insurance. In order to have consistency with the agreed recording of the increase in pension entitlements, it was agreed that the property income allocated to life insurance policy-holders should be calculated as the property income earned on the start of year technical reserves without deducting holding gains and losses. The rationale is that this is the amount of income forgone by the policy holder and whether the insurance corporation earns this from interest-bearing securities or those subject to holding gains/losses is irrelevant to the policy holder in terms of income forgone.

New consistency issue - Social security and social assistance

The Editor included the following addendum to the minutes of the ISWGNA meeting on 13-15 June 2007:

> A matter to be settled after the AEG meeting in New York was the basis of a decision tree to determine which social benefits were to be treated as social security and which as social assistance. The separation of cash benefits presented no problem but that of benefits in kind did. The 1993 SNA partitions social transfers in kind into social benefits in kind (with a further breakdown distinguishing social security benefits and social assistance benefits) and the transfer of non-market goods and services. Subsequent to the publication of the SNA, ESA95 had specified these categories more closely and in such a way as to bring harmonisation with ESSPROS (the European System of Social Protection Statistics). This involved treating all health expenditure by government as social benefits. Health expenditures were then treated as social security or social assistance depending on the institutional arrangements in a given country. The ISWGNA did not think it appropriate to have categories defined in this way in SNA Rev 1 and Eurostat reported that within Eurostat there was now more interest in having social transfers in kind disaggregated into those individual goods and services that are produced by government and those that are purchased by government from market producers and provided to beneficiaries indirectly. It was agreed that within SNA Rev 1, social transfers in kind would be disaggregated only into those produced by government and those purchased by government from market producers and provided to beneficiaries indirectly. It was noted that other systems, such as GFSM, might choose to elaborate this breakdown further.

New consistency issue - Nominal holding gains

The Editor informed the ISWGNA meeting on 24 January 2008 that she had come across a problem with the definition of Nominal holding gains in the (old) 1993 SNA while drafting chapter 12. She proposed to change the definition as follows:

> For non-financial assets, the nominal holding gain of an asset is the value of the benefit accruing to the owner as a result in the change in price. For financial assets, the holding gain is the increase in

value over time, other than transactions in the assets including the accrual of interest and other change in the volume of assets.

The ISWGNA supported the proposed change of the definition.

New consistency issue - Cost of unpaid labour

A comment on the draft Updated SNA remarked on the inconsistency in the 1993 SNA that the value of communal construction, in the absence of a comparable market price, is measured as the sum of costs including an imputed cost for volunteer labour, but this latter is not treated as compensation of employees. This being so, there is a mismatch in that the use of labour exceeds the supply of it.

The Editor inserted the following addendum to the minutes of the ISWGNA meeting held from 13-15 June 2007:

> It was agreed that for the production of goods by communal activity, where no comparable market price is available as a measure of output, the sum of costs should continue to include the full cost of labour at prevailing market rates. Any excess over actual compensation of employees (which may be none or minimal) is treated as gross mixed income accruing to households who in effect "purchase" the resulting product and may then transfer it to another household (in the case of communal activity on behalf of a particular household) or to the government (in the case of activity for the community at large).
>
> This provision is likely to apply only to the construction of capital goods. For services, even when the labour provided is free or at prices well below the prevailing market price, no imputation of mixed income is to be made, consistent with the different treatment of goods and services produced by households within the production boundary of the System.

New consistency issue - Social transfers in kind

At its meeting on 11 July 2007, the ISWGNA was advised that the proposal to eliminate the distinction in the SNA between social security and social benefits within social transfers in kind had no adverse consequences for the Government Finance Statistics Manual (GFSM).

New consistency issue - Use of land for short periods

The Editor inserted the following addendum to the minutes of the ISWGNA meeting held on 13-15 June 2007:

> A question was raised with the description of the use of land for very short periods such as for caravan sites where the caravans remain only for a very limited period of time and where the owner if the land provides associated services such as the supply of water and control of litter. It was agreed that in these cases it was not necessary to partition an element of rent from the payments made by the users of the land any more than an identification of rent is made within payments for hotel rooms. However, it was felt that this item was too minor to warrant discussion in the manual and the draft paragraph touching on the subject will be removed from the draft before it is posted.

New consistency issue (BPM) - Social transfers in kind to the rest of the world

The ISWGNA discussed social transfers in kind to the rest of the world, at its meeting from 13-15 June 2007. The 1993 SNA text simply assumes all social transfers in kind are paid to residents. However, some social transfers in kind are paid to non-residents, for example emergency medical treatment to tourists. (Health services provided by one country to a non-resident at the expense of the non-resident's government are exports of market services and not social transfers in kind.) One possibility is to treat the cost of emergency treatment as a transfer in cash to the non-resident who then purchases the medical services with it. The ISWGNA considered the sums involved are likely to be small and there will, in general, be both social transfers in kind paid abroad and received from abroad. It was agreed that in SNA Rev1, this fact will be noted with a statement that by convention these items are assumed to be offsetting and therefore can be ignored.

The ISWGNA suggested this subject could be placed on the research agenda even though it is a small item in most cases at present.

New consistency issue (BPM) - Capital transfers

At its meeting from 13-15 June 2007, the ISWGNA considered the definition of capital transfers in the 1993 SNA text, in the SNA Rev 1 text and in the BPM6 text. The Editor included the following addendum to the minutes of that meeting:

> Although at first sight the BPM6 definition seemed attractive, further reflection revealed a potential circularity. Only after a transfer is designated as capital can it be confirmed that saving for both units is unaffected. The definition does not provide guidance on how to treat a transfer that one party may regard as current (thus affecting saving) and the other party considers as capital. Capital taxes are a case in point; the government receives capital taxes regularly every year and could regard these as current even though the units paying the taxes regard them as capital and each may only pay them intermittently.

The Editor agreed to discuss the problem with those drafting BPM6 to produce an improved definition.

New consistency issue (BPM) - Definition of own funds

The Editor added the following to the minutes of the ISWGNA meeting of 13-15 June 2007, based on discussions during that meeting:

> On own funds, it is confirmed that the SNA should agree with the position in the Balance of Payments Manual (BPM6).

New consistency issue (BPM) - Franchise fees

The treatment of franchise fees had been raised at a meeting of the IMF's Balance of Payments Committee. The problem was that, since franchises are now specifically mentioned as part of marketing assets and thus non-produced assets, it would seem that franchise fees should be treated as property income rather than services. The ISWGNA discussed this proposal at its meeting on 1-2 November 2007.

The ISWGNA noted that the units managing franchise fees do indeed provide services as well as permit the use of the franchise. Conceptually, the franchise fee includes an element of services and an element of some form of property income (rent), but it is unlikely that such a split could be made in practice, so the whole of the franchise fee should be treated as a service. Two qualifications were noted. The first was that, until now, franchise fees have been treated in the Balance of Payments Manual (BPM) as services, so this proposal does not lead to a change. Second, if such a split could be made regularly, then it would be possible to derive a value for the franchise and its treatment as a produced asset could be reconsidered in such circumstances.