

UPDATE OF THE 1993 SNA

Progress Report
by the Project Manager
to the Inter-Secretariat Working Group on National Accounts

March 2, 2006

1. This report, the third by the Project Manager, covers developments since September 2005. (The first and second reports, completed in February and September 2005, are available at <http://unstats.un.org/unsd/nationalaccount/snarev1.asp>.) First, it briefly recalls the background of the Update Project. It then evaluates progress on reaching agreement on recommendations for the update, recaps the issues-oriented phase of the Project and looks ahead to the full set of provisional recommendations, and outlines key features of the plan for the drafting and review phase. Finally, it touches briefly on organization and finance.

Background

2. In 2003, the UN Statistical Commission called for an update of the *System of National Accounts, 1993 (SNA 1993)* to bring the accounts into line with the new economic environment, advances in methodological research, and needs of users. The Commission mandated that the update would not recommend fundamental or comprehensive changes to the 1993 SNA that would impede its implementation, and it identified consistency with related manuals such as the *Balance of Payments Manual* as an important consideration.

3. The Inter-secretariat Working Group on National Accounts (ISWGNA)—comprising Eurostat, International Monetary Fund, Organisation for Economic Co-operation and Development, the United Nations, and the World Bank—was mandated to coordinate and manage the Update Project. The timetable, as agreed to by the Statistical Commission in 2004, calls for a consolidated set of recommendations to be ready for endorsement in March 2007 and the 1993 SNA, Rev. 1 to be ready for endorsement in March 2008.

4. The Statistical Commission emphasized the need for transparency in the Update Project and the broadest possible involvement of the global statistical community. In line with this emphasis, the Advisory Expert Group (AEG), including 20 country experts from all regions of the world, was established in 2003 to take a key role in the update. The AEG considers the proposals for change and expresses its views, both in meetings and in written consultations. Proposals for change, for the most part, come from standing and short-term expert groups, which cut across the various topical areas of macroeconomic statistics. The single most important tool to promote transparency and wide involvement in the update is the Project website, “Toward 1993 SNA, Rev. 1,” maintained by the United Nations at <http://unstats.un.org/unsd/nationalaccount/snarev1.asp>.

Progress on reaching agreement on recommendations

5. At its first meeting in February 2004, the AEG agreed on an initial list of candidate issues to be considered for the update, focusing on those related to non-financial assets,

government and the public sector, financial instruments and institutions, and the balance of payments. After some consolidation by the ISWGNA, this list contained 44 issues. The list, which is posted on the Project website, framed the task of the AEG in the first phase of the Project. The AEG subsequently met in December 2004, in July 2005, and most recently during January 30-February 8, 2006 to consider these issues and make recommendations.

6. At the January-February 2006 meeting, the final meeting in the issues-oriented phase, the AEG considered papers that represented the research and consideration by a wide range of topical expert groups. These included the Canberra II Group, the Task Force on Pensions, the Task Force on the Harmonization of Public Sector Accounts, the Task Force on the Valuation and Measurement of Equity, the Task Force on Financial Services, the Expert Group Meeting on Industrial Statistics, and the IMF Balance of Payments Committee. The AEG's agenda was heavy both in terms of the number of issues and of their difficulty and importance. The AEG agreed on recommendations on almost all points of the issues before it. On the few where it did not reach agreement, a time-bound way forward was identified so that the drafting of the *1993 SNA, Rev. 1* can proceed. (An annex to this report, available on the Project website, provides an overview of the meeting in the form of a selectively annotated agenda. The annotations illustrate the motivations that led to identifying the issues for the update, the origins of the research and proposals, and the recommendations reached at the January-February 2006 AEG meeting.)

7. This January-February meeting marked the transition to the next phase of the Project. A paper prepared by the Editor identified consistency issues that have been noted among the recommendations made so far. This paper provided the basis for a first round of discussion on the overall consistency and integrity of the updated system. The resolution of the issues will be undertaken electronically in most cases. (The success of the e-discussions before the July 2005 and January-February 2006 meetings provides encouragement that this can be made to work.) A web page, to open shortly at the Project website, will outline the process and timetable.

8. The AEG discussion of consistency added to the list of issues already identified as outside the scope or timeframe for the update. Steps have been taken to formalize this long-term research agenda. A web page at the Project website will provide a brief description of the issues and, when available, one or more contacts where methodological research is underway.

9. The AEG also noted the comments from countries on the recommendations made at the July 2005 meeting. The number of countries that sent comments increased after each AEG meeting, and almost all the comments supported the AEG recommendations. The ISWGNA seriously considers the few that raise concerns.

10. The so-called short report of the meeting, which is essentially a record of AEG's recommendations, was made available to AEG for comment on February 17, 2005. It will soon be posted on the Project website. As is the standard practice, the recommendations will be sent to countries for comment.

The issues-oriented phase: A recap and looking forward

11. During the issues-oriented phase, the AEG met four times and, over a two-year period, considered close to 100 substantive papers prepared by topical expert groups and the ISWGNA organizations. Some papers covered more than one of the 44 issues, and some issues came back to the AEG several times. In fact, one lesson that might be drawn is that seldom is an issue, especially a complex one, dealt with completely in one meeting; follow up of some kind is usually necessary. The schedule so far has been close to that originally set out to meet the Statistical Commission's mandate. The update has been contained to the 44 issues agreed at the outset, although some issues turned out to be more complex than expected and a few less so. The topical expert groups have put in an enormous effort to research the issues and present well-documented proposals while adhering to the schedule. The AEG has functioned admirably at the top of the pyramid of experts. The members devoted substantial time to preparation for meetings and e-discussions, and they engaged in the collegial and professional consideration of the conceptual and practical aspects of the issues that was needed to reach agreement on recommendations for the *1993 SNA, Rev. 1*.

12. The body of recommendations emerging from the AEG will help bring the international statistical standard in line with the changing economy, methodological research, and users' needs. As well, it will promote the harmonization of the macroeconomic statistical manuals and handbooks.

- Several recommendations deal with the problems of statistics in an increasingly globalized world (for example, allocation of multi-territory enterprises, non-permanent workers, goods for processing, and merchanting).
- Others relate to developments and innovations in financial markets (non-performing loans, index-linked debt instruments, retained earnings of mutual funds, and updated classifications and terminology) and to developments in government and the public sector (tax credits, Public-Private Partnerships, restructuring agencies, and transaction between general government and related public corporations).
- Still others touch on features of the "new economy" (databases, R&D, and originals and copies).
- The recommendation to include a return to capital in addition to depreciation (in supplementary tables) is in line with a large body of methodological research and responsive to user needs in analyzing productivity. There is interest in having an update of the OECD manual on *Measuring Capital*, in part to have more guidance for developing statistical offices.
- The recommendation to include a chapter on the informal sector responds to a long-standing call for guidance on measurement in a national accounting framework.
- Harmonization of the SNA with other manuals is built into the process. These include the *Balance of Payments Manual*, *SEEA2003*, and the manuals on government finance.

13. An important next step is to assemble all the recommendations made by the AEG into one document, along with the descriptions of the issues they are meant to deal with. This will take place in the next weeks. The document, which will be sent to countries and discussed in meetings over the period April-September 2006 (see the timetable in the next section), will provide the basis for review of the internal consistency of the recommendations and consistency of the recommendations with other macroeconomic manuals.

Plans for the drafting and review phase

14. Key features of the plan for the phase of the Project that covers the drafting of the *1993 SNA, Rev. 1* and its review have been agreed by the ISWGNA. The plan is designed to deliver on schedule and in accord with the Statistical Commission's mandate to the ISWGNA, including wide involvement of the global statistical community in reviewing drafts. The Project Manager, Editor, and ISWGNA are working out the details of the plan, which will be posted on the Project website.

15. In line with the mandate that this effort be an update, not a major revision, the basic structure of the existing SNA document will not change. New material will be introduced throughout existing chapters as appropriate, but major new topics—such as government and the public sector, the informal sector, and accounting for capital—will be stand-alone chapters to minimize the disruption to the existing text. A record of changes to existing text will be made.

16. Now that the recommendations are coming together, the Editor will proceed with the task of incorporating them. The Editor will draft most new text; if others contribute text (as is the plan, for example, for the chapter on government and the public sector), she will bring that text into harmony in substance and style. Most chapters of the SNA will go through at least four stages, from draft, to review, to redraft, to readiness for the Statistical Commission. Both ISWGNA representatives and the AEG will serve as reviewers. Member countries will be invited to comment on drafts.

17. The overall scheme is to divide the chapters into roughly two equal parts and proceed with first one part and then the other. The first part will consist of the “heart” of the SNA, starting with the chapter on the production account and working through the sequence of accounts. This approach will allow review of this part to go on while the Editor drafts the second part. The timetable for the intermediate and final products over the next two years is below.

March 2006	Full set of provisional recommendations assembled. Concentrated drafting begins on the “heart” of the SNA.
April-Sept 2006	Full set of provisional recommendations provides the basis for wide review of the consistency of the recommendations.
November 2006	Consolidated set of recommendations prepared for consideration by the Statistical Commission in March 2007.

Early 2007	Draft of the “heart” of the SNA completed and posted for world-wide review. Drafting begins on the rest.
Early 2007	Draft of the “heart” of the SNA discussed at an AEG meeting.
Late 2007	Draft of the rest of the SNA completed, posted for world-wide review, and discussed at an AEG meeting. This meeting begins the transition to discussions of implementation.
Late 2007	Draft of <i>1993 SNA, Rev. 1</i> , ready for consideration by the Statistical Commission in March 2008.

18. The Project website will make it possible to monitor progress. The website will be built around an issue-by-chapter matrix, where the cells will change color to signal moves through the drafting and reviewing cycle. The matrix will have links to draft chapters that are ready for review. Of course, there are risks. At this stage, when so much background has been built up by those who have been deeply involved in the update, there are risks related to the continued availability of key players, especially the Editor. In addition, there are risks about any unraveling of difficult issues and about any technical and timing problems in the several stages of drafting, review, and redrafting. Finally, there are risks related to the overall size and complexity of the task. Strategic adjustments, for which the monitoring system will help provide timely signals, will probably be needed throughout the drafting and review. The nature of the adjustment will, of course, depend on the problem.

19. Attention will turn to implementation as the drafting and review moves forward. Once the recommendations for *1993 SNA, Rev. 1* have been approved by the Statistical Commissions in 2007, they can be used to frame workshops and training materials.

Consultations

20. Immediately following the January-February 2006 (Frankfurt) AEG meeting, the European Central Bank hosted a meeting with data users, focusing on administrative uses of national accounts in Europe but also ranging more widely. Such a meeting was especially welcome because reaching international groups of users is proving difficult.

21. Looking ahead, two meetings have already been organized in 2006 to help introduce the recommendations and provide a forum for discussing consistency. The Joint ECE-Eurostat-OECD National Accounts meeting, April 25-28, 2005, in Geneva, will devote a day and a half to the SNA Update. Other sessions will cover other topics relevant to the update—especially globalization and the informal economy. A double session on the Update is being planned for the International Association for Research in Income and Wealth (IARIW) in Finland, August 20-26, 2006. Of note is that national accountants from Russia, Jordan, and India will provide papers about the Update from their region’s perspective. The Project Manager is looking for other possibilities, especially outside North America and Europe, for similar discussion. The prospects for workshops in UN regional commissions will be investigated.

22. For 2007, early explorations are underway about a Special Conference of the IARIW in China that would include a session about SNA update issues. The Project Manager has proposed A Special Topic Contributed Paper Meeting (STCPM) for the ISI in Lisboa, August 22-29, 2007. The meeting would focus on implications of the Update recommendations for policy analysis and on implementation.

Organization and Resources

23. In December 2004, the ISWGNA agreed on an updated set of governance arrangements for the Project. They have proven robust.

24. As the issues-oriented phase comes to a close, the tremendous volume of in-kind contributions that went into the preparation of issues for consideration at the AEG meetings should be acknowledged. Thanks should go to the countries and organizations who contributed their experts' time and energy. As for cash contributions, as of February 2006, the contributions in hand, mainly those in the Trust Fund (administered by the World Bank), fall short of the amount foreseen as needed for barest essentials by about \$US 225,000. Another \$US 125,000 would be needed for a more robust Project and contingencies.



Carol S. Carson
Project Manager, SNA Update
ccarson@imf.org

AGENDA:

Selectively Annotated after the Meeting¹

**Fourth Meeting of the Advisory Expert Group on National Accounts
30 January – 8 February 2006, Frankfurt**

Monday, 30 January

9.00 – 12.30 Chair: World Bank

Opening of the meeting by the European Central Bank

Adoption of the agenda

Leases and licences (Issue 21)

The 1993 SNA introduced the asset category “leases and other transferable contracts” and the concept of a financial lease, drawing the distinction between a financial lease, which in essence is an arrangement to finance the purchase of an asset, and an operating lease. Since then, the treatments of leases, licences, and contracts have evolved by “case law.” The Canberra II group undertook to clarify the subject.

The AEG agreed on a number of points, but, as is probably unavoidable in a discussion of a complex topic for the first time, identified some points for further clarification. For example, the AEG was in broad agreement that the distinction between operating and financial leases (and thus the determination on which balance sheet the asset appears) depends primarily on which party—the lessor or the lessee-- has responsibility for maintenance and a production activity in which the asset is used. However, the AEG asked for some further elaboration to refer to criteria for economic ownership.

The AEG agreed that leases are seldom assets in their own right, but identified a few cases where they may be. These include operating leases that can be sub-contracted at a higher rental and contracts that deal with the provision of good and services in the future (such as footballers' contracts).

After substantial debate, there was not agreement on the treatment of government permits, such as taxi permits and casino licenses, issued on a restricted basis without an underlying asset. The ISWGNA will consider this matter further.

Amortization of intangible non-produced assets (Issue 28)

¹ This annex started from the agenda (SNA/M1.06/01) tabled at the opening of the meeting; subsequently adjustments were made, mainly by reducing the time for the “information” items. For this annex, the agenda was condensed—for example, by omitting the document numbers and the daily review of the previous day's conclusions. Informal, selective annotations by the Project Manager are in italics. The references to recommendations are based on the draft short report of the meeting.

14.00 – 17.30 Chair: OECD

Merchanting (Issue 41)

Merchanting refers to trading in goods that do not enter the territory of the trader. As part of the globalized economy, such trade is growing in importance. The 1993 SNA does not provide explicit guidance. The AEG agreed to follow the change in ownership principle, recording the acquisition of goods as an import (negative export), the subsequent resale as an export, and the difference as net exports by the merchant, all within the goods category. The revised BOP Manual is expected to incorporate the same treatment.

Satellite accounts (Clarification C13): *Paper for information*

Interest under high inflation (Issue 8) *Paper for information*

Review of the outcome of e-discussions

In all, nine issues went to the AEG by e-discussion. They were follow-ups to issues already discussed and/or relatively less complex issues. When a consensus emerged in the e-discussion, the recommendations were noted in the meeting. Only when a consensus did not emerge in e-discussion did the AEG discuss the issue in the meeting.

Right to use/exploit non-produced resources (Issues 18) Follow up

Water (Issue 31) Follow up

Illegal activities (Issue 33)

*The issue was to what extent the treatment of various illegal activities described in *The Measurement of the Non-Observed Economy: A Handbook* (2002) should be brought into the updated SNA. The discussions turned on the basic question of what constitutes a “transaction” in the SNA sense of the word; the AEG agreed that theft should not be treated as a transaction. The AEG also agreed that bribery, although a transaction, should not be treated as compensation of employees.*

Measurement of non-market volume output (Clarifications C10)

Proposals for two SNA/ISIC aggregations for SNA reporting (Clarification 12)

The AEG agreed to the proposed 10-category and 38-category aggregations of the revised ISIC for SNA reporting.

Tuesday, 31 January

9.00 – 12.30 Chair: Project Manager

The treatment of employer pension schemes and other defined benefit pension schemes (Issue 2)

As early as 2001, the ISWGNA decided to set up an EDG to review the treatment of pension schemes in the 1993 SNA—specifically the difference in the recording of employer pension obligations as liabilities depending on whether the schemes are funded or unfunded. The AEG discussed the issue in February 2004, on the basis of the EDG report, and in its two meetings in 2005. Following the July meeting, a Task Force on Employer Retirement Schemes was set up, and it met for three days in September 2005.

The AEG had before it the report of the Task Force and several other papers that discussed, among other topics, the problems of distinguishing in some countries between employer retirement schemes and social security. A main outcome is that there was strong support within the AEG for the recommendation by the Task Force to recognize the liabilities involved with all employer pension schemes, including unfunded ones, and any associated assets and transactions. The AEG recognized the problems for several countries in drawing a distinction between pension schemes for government employees and social security schemes. The AEG agreed that it was necessary to develop criteria to make this distinction, and the ISWGNA is exploring alternatives for doing so. The AEG noted the possibility, until such criteria are developed, of not including the liabilities for pensions of government employees in the core accounts but including them together with liabilities for social security schemes in supplementary accounts.

The AEG also agreed on other recommendations, including those related to the calculation of related flows, measurement of output, and recording of pension obligations when they are exchanged between two units.

14.00 – 17.30 Chair: Eurostat

Definition of economic assets (Issue 30)

The AEG agreed that some changes to the 1993 SNA definition of an asset were required. In particular, a revised definition should consider aspects such as risk, demonstrable value, and constructive obligations.

Review of the outcome of e-discussions

Non-Performing loan (Issues 4a) Follow up about the impact of non-performing loans on financial intermediation services indirectly measured (FISIM).

Retained earnings of mutual funds, insurance corporations and pension funds (Issue 42) Follow up

Financial instruments—non-monetary gold (Issue 44)

Non-monetary gold is a balance-of-payments term referring to gold not held as a reserve asset by monetary authorities. Such gold held as a store of value is treated in the 1993 SNA as a non-financial asset, classified as a kind of valuable. This treatment, which was much debated leading up to the 1993 SNA, means that trade in gold bullion between residents and non-residents enters the balance of payments. For countries home to large international gold markets, this trade can have a sizable—some would say “distorting”—impact on trade statistics.

Discussions with gold dealers suggested a distinction, used in the gold markets, between two kinds of gold accounts. For one kind of account, which makes up the bulk of the market, the gold would be treated as a financial asset. Thus, transactions would be financing entries, not trade in goods. For the other, the gold (outside the central bank) would continue to be treated as a non-financial asset. The AEG accepted the treatment proposed by the Balance of Payments Committee.

Wednesday, 1 February

9.00 – 12.30 Chair: UNSD

Output of central banks (Issue 6b)

The production of financial corporations and price/volume measurement of financial services and non-life insurance services (Issue 6a)

The business of financial corporations has undergone a transformation, moving toward the portfolio management of financial assets. This transformation suggests the need to re-examine the SNA definitions, the nature of financial services, and the measurement of these services.

The AEG agreed with the recommendations of the Task Force on Financial Services to recognize, in addition to financial intermediation, the activities of risk management and liquidity transformation in the definitions of financial corporations and financial services. The AEG also specified more explicitly the application of financial intermediation services indirectly measured (FISIM), the treatment of margins on buying and selling of securities, and approaches to the measurement of several kinds of services.

14.00 – 17.30 Chair: OECD

Equity (Clarification C9)

The SNA is not clear about how to value shares that are not quoted on exchanges, yet unquoted shares in many countries are far more important than quoted shares. The AEG confirmed that transactions prices are the preferred means of valuing unquoted equity, but that flexibility will be needed to determine the best approach in the specific situation among the several alternative methods. (See also the item on the classification of financial instruments on Friday morning.)

Treatment of currency unions (Clarification C26): Paper for information

Direct investment (Clarification C28): Paper for information

Globalization: A progress report (Issue 25c): Paper for information

At the December 2004 meeting, the AEG had agreed, in discussing one specific statistical problem that surfaces in the context of multinational firms, that it would be useful for the updated SNA to include some text about globalization more generally. The paper presented a draft outline for such text. The brief discussion noted the potential implications of globalization for the updated SNA and gave some suggestions about the coverage of the outline.

Thursday, 2 February

9.00 – 12.30 Chair: Eurostat

Assets boundary for intangible non-produced assets - Other intangible fixed assets (Issues 13, 29)

Questions arose when some governments raised funds by securitizing future income receipts—that is, they transferred the right to receive specific future flows, such as from a lottery, to another unit, who paid the government from its own source of financing. The accounting question was whether such transactions should be recorded as the sale of a non-financial asset or as borrowing by government.

The AEG agreed that the definition of an asset in the SNA should make clear that the securitization of future revenue is not an (intangible non-produced) asset. When future income

unrelated to any asset recorded on a unit's balance sheet is the subject of securitization arrangements on the market, such arrangements should be treated as borrowing.

Classification and terminology of non-financial assets (27)

14.00 – 17.30 Chair: IMF

Country comments on recommendations made by the July 2005 AEG meeting: Paper for information

By the cut-off date for the paper, 58 countries¹ had commented on the July 2005 AEG recommendations, up from the number commenting on the recommendations made in December 2004 and February 2004. The July 2005 recommendations have been strongly supported by countries on all issues except two—issue 16, on including a return to capital in the measurement of non-market output (see next item), and issue 40, on goods sent abroad for processing. The AEG noted the reasons for disagreement on these two issues.

Non-market producers' owned assets - Cost of capital services (Issue 16)

The question is whether to replace the estimate of consumption of fixed capital for assets owned by government and other non-market producers with an estimate of their capital services—that is, consumption of fixed capital plus a return to capital—in the cost-based calculation of output. At the December 2004 meeting, the AEG expressed strong support in principle for including a return to capital. The July 2005 meeting reaffirmed the principle, but agreed to follow up the comments from the consultations. The comments do not fit easily into the simple categorization of “agree” or “disagree;” a spectrum of comments in between dealt with conceptual, practical, and other considerations. Some responses called for further discussion, and some suggested misunderstandings. The Project Manager subsequently spoke to representatives of a number of countries about the issue. The single most often mentioned aspect was the need to settle on a rate of return to be used in the calculation. As well, the scope of the assets to be included was mentioned as still being an open question.

At the January-February 2006 meeting, in carrying the issue forward, the AEG agreed that the expected real rate of return on government bonds is an appropriate indicator, supplemented if needed (for example, if the bond market is thin). It further agreed that a return to capital should be calculated for all fixed assets—for computers, vehicles, etc. used by employers, for roads and infrastructure, and for city parks and historical monuments to the extent that they are included in fixed assets.

Liability aspects of SDRs and international reserves (Issue 44)

Special Drawing Rights (SDRs)—international reserve assets created by the IMF in 1969 to supplement the existing official reserves and allocated to member countries—are classified, in both the SNA and the Balance of Payments Manual, as assets without a corresponding liability. Recent events led the IMF to reexamine this asymmetric recording. The AEG agreed with the IMF proposal to recognize SDR allocations as gross liabilities and to classify the allocation and cancellations of SDRs as transactions.

9.00 – 12.30 Chair: UNSD

Debt concessionality (Issue 43b)

The measurement of concessional debt—in general terms, debt contracted with terms, often the interest rate, that are intentionally favorable to the borrower—has gained prominence. For example, the Millennium Development Goals include the level of concessional lending to developing countries as one of the indicators for monitoring development targets. However, not even the most recent manuals in macroeconomic statistics, notably the External Debt Statistics: A Guide for Users and Compilers (2003), provides a definition or recommends a recording. The 1993 SNA says little.

The AEG considered a paper that arose from discussions of the IMF Balance of Payments Committee. The AEG was concerned that the proposals presented could potentially run counter to some core national accounting principles and agreed that debt concessionality should go to the long-term research agenda.

Debt reorganization (Issue 43b): Paper for information

Classification and terminology of financial assets and liabilities in the updated SNA (Issue 44)

Several developments motivated the review of the classification and terminology of financial assets and liabilities, notably the sweeping financial innovation since the 1993 SNA and changing analytical needs, particularly the new attention to financial stability. Also, making the terminology more descriptive and thus more user friendly was a tempting possibility.

The AEG had dealt with several specific topics in earlier meetings—for example, the distinction between loans and deposits and between securities and other financial instruments. In the January-February 2006 discussion, the AEG dealt with several more and recommended, among other points, to separately identify investment fund shares, to separate equity into sub-categories, and to separate financial derivatives into options and forwards. A final check will be made with groups of financial statisticians.

14.00 – 17.30 Chair: World Bank

Classification and terminology of financial corporations in the updated SNA (Clarification C30)

For many of the same reasons as noted for financial assets and liabilities, the AEG discussed the classification and terminology of financial corporations. The AEG had dealt with several specific topics in earlier meetings and several more during the January-February meeting, including—importantly—the definition of financial services (see Wednesday morning, February 1).

The AEG agreed to a new five-way split of financial corporations, notably breaking out investment funds, which have grown substantially in importance. The new split would comprise monetary financial institutions, investment funds, insurance corporations and pension funds, miscellaneous financial institutions, and financial auxiliaries (with some fine tuning of terminology still possible). Also, it was noted that using the same terms to describe both the instrument and the institution—e.g., pension funds—was confusing, and better terminology will be sought.

Drafting and review phase of the SNA update

The Project Manager presented the key elements of the plan for the drafting and review phase of the Update Project.

Monday, 6 February

9.00 – 12.30 Chair: OECD

Units in the Updated 1993 SNA (Issues 25a, 25b, 25d)

Industrial restructuring, globalization, and financial crises have led to proliferation in the ways units organize to carry out production and hold assets and liabilities. The paper before the AEG brought together the efforts of several topical groups to review ancillary activities and corporations, holding companies, special purpose entities (SPEs), trust funds and investment funds, and restructuring agencies.

Of note is the change that the AEG agreed to recommend for ancillary activities. These activities, which are supporting activities undertaken within an enterprise to create the conditions within which the principal or secondary activities can be carried out, came up for review in part because outsourcing of such activities has increased sharply. The 1993 SNA treats them as an integral part of the establishment they serve. The AEG agreed to recommend a change to recognize a separate establishment when the unit producing ancillary services satisfies the criteria of an establishment, thus making them more statistically visible. In a similar vein, the AEG agreed that ancillary corporations should be treated as institutional units when they satisfy the criteria for qualifying as institutional units.

SPE (also SPV, special purpose vehicle) became a household term thanks to Enron's use of SPEs to hide billions of dollars of debt. Generally, SPEs, now pervasive in corporate finance, are legal entities set up to carry out some specific purpose or transactions. Often they have neither employees nor physical location and are set up in economies other than that of the parent. In the 1993 SNA, SPEs would normally be regarded as providing ancillary services and so be consolidated with their parent when they are resident. The AEG recommended continuing this unless the SPE satisfies all the criteria for qualifying as an institutional unit. However, many SPEs are non-resident. When government sets up non-resident entities such as SPEs to undertake government borrowing and/or incur government outlays abroad with no economic flows between the government and the SPEs related to these fiscal activities, transactions should be imputed in the accounts of both the government and the non-resident entity to reflect the government fiscal activities.

14.00 – 17.30 Chair: UNSD

Public-private partnerships (Issue 24)

Public-private partnerships (PPPs) are legal arrangements in which a private enterprise builds or purchases a facility (such as a highway or prison) at its own expenses in return for the right to operate it and charge a fee for the services provided to the general public for an agreed length of time, at the end of which the facility is transferred to the government usually without compensation. These arrangements, also called "BOOT schemes," have grown in importance as part of government efforts to increase efficiency and gain access to a wider range of financial resources. The SNA provides no guidance on the

accounting for them, either about how to decide who is the economic owner of the fixed assets or the accounting treatment for several events likely to be parts of the arrangement. International accounting standards have yet to be put in place.

The AEG agreed on some indicators that may be used, but noted that it will be necessary to examine specific arrangements case by case to determine the economic substance. This issue will be kept under a watch for last-minute developments before finishing the SNA 1993, Rev. 1.

The general government and public sectors (Clarification C15): For information

The AEG was apprised of the status of work on a new chapter, which is being drafted under the auspices of the Task Force on the Harmonization of Public Sector Accounting.

Tuesday, 7 February

9.00 – 12.30 Chair: IMF

Consistency of recommendations

The Editor has identified a number of issues that may be called, in general terms, consistency issues. These could arise, for example, where recommendations on one issue are in conflict with recommendations on another. Attention is needed to both consistency within the SNA and consistency with other manuals and handbooks. The issues identified include, among others, the market/non-market distinction, several points about non-profit institutions given the interest in implementing the Handbook on Non-Profit Institutions (2003), unpaid labor, and life insurance. An electronic procedure was introduced to resolve the issues that were found to be within the scope of the update.

14.00 – 17.30 Chair: Eurostat

The informal sector in the 1993 SNA, Rev. 1 (Issue 32)

The research agenda included in the 1993 SNA noted the need, working with ILO as the lead agency on statistics of the informal sector, to provide more guidance. Since then, there have been repeated calls for expansion or clarification in a national accounting framework. The December 2004 AEG meeting confirmed the importance of the informal sector in many countries and the need for expanded text about it in the SNA.

In the January-February 2006 meeting, where the ILO took part in the discussion, the AEG agreed on some specific topics to be covered in a chapter of Rev. 1 on the informal sector, commented on a draft outline of such a chapter, and gave views on the proposed work plan.

Review of the outcome of e-discussion

The concept of persons in the 1993 SNA, Rev. 1 (Clarification C11)

The AEG agreed to introduce the concept of persons employed in the new SNA.

Working time measurement (Clarification C16): Paper for information

Wednesday, 8 February

9.00 – 12.30 Chair: IMF

Government/ public sector /private sector delineation issues (Issue 36)

The SNA concept of control, which defines the boundary of the units to be included in the public sector, has proven elusive where the likes of Public-Private Partnerships (see afternoon of Monday, February 6) and securitization are in play. Similarly, the criterion “mainly financed” has been questioned in delineating non-profit institutions. In this context, the AEG agreed to include a decision tree for delineation, on a set of indicators to be used jointly in reaching decisions on control, and with proposed guidance on what constitutes “economically significant prices.”

Government dividends and capital transactions with public corporations in the updated SNA (Issue 34)

In recent years, the accounting for transactions between a government unit and a related public corporation has been hotly debated on several occasions. The debate arises because, although such transaction may have no effect on the economic view of the two units when they are treated as a conglomerate, they have an important impact on balancing items, such as the deficit, of each unit when treated separately. The SNA does not provide clear, consistent guidelines on these transactions.

The AEG reaffirmed the need to look for the underlying economic substance of transactions between government and public corporations. For example, it agreed to recommend that exceptional payments by public corporations funded from accumulated reserves or sales of assets be treated as withdrawals of equity. It also agreed that exceptional payments by government to public corporations intended to offset accumulated losses or as investment grants be treated as capital transfers.

The AEG was attracted to the “reinvested earnings approach” in concept but had some concerns. It was agreed that this issue should be pursued, starting from the balance-of-payments treatment for direct investment, to see how far the principles could be applied to publicly controlled corporations. A sub-group was set up to do so.

14.00 – 17.30 Chair: World Bank

Granting and activation of guarantees in an updated SNA (Issue 37)

The 1993 SNA does not provide guidance on the treatment of flows among the parties—original debtor, original creditor, and guarantor—when a guarantee is activated or when collateral is called. Guarantees of payment are deemed to be contingencies, and contingencies are not recorded. However, the SNA recommends that when contingent positions are important for policy and analysis, they be recorded as supplementary information. The Government Finance Statistics Manual (2001) provides some guidance when the general government is involved.

Following work by the Task Force on the Harmonization of Public Sector Accounting, the AEG agreed to recommend a three-way split. Guarantees that meet the definition of financial derivatives should be treated as such. Standardized guarantees, of which export credit guarantees and student loan guarantees are classic cases, should be treated in the same way as insurance (with some thinking to be confirmed on the basis of reworked tables). One-off guarantees should be recorded outside the core accounts.

Wrap-up

Closing of the meeting