

**Summary Minutes of the ISWGNA Task Force meeting:
March 3-4, 2011, Washington**

The first meeting of the ISWGNA Task Force took place in Washington on 3-4 March 2011, with the following attendees: Derek Cullen, Ian Ewing (ABS); Arthur Berger (StatsCan); Vaclav Rybaeck (Czech NSO); Geoffrey Lefebvre (INSEE); Chihiro Sakuraba (BoJ); Young-Hwan Kim (BoK); Maarten Molders (CBS); Teck-Wong Soon, See Ngee Wong (Singapore, NSO); Marshall Reinsdorf, Dennis Fixler (BEA); Reimund Mink (ECB); Kim Zieschang, Manik Shrestha (IMF); Nadim Ahmad (OECD); and Herman Smith (UNSD).

This note provides a summary record of the main conclusions of the Task Force and action plan going forward.

Terms of Reference:

The Task Force approved the draft Terms of Reference presented (and attached) and the importance of resolving the four primary issues (risk premium, term premium, international trade and prices and volumes), pertaining to the reference rate and the price and volume breakdown, in as timely a manner as possible. It also noted the importance of work to consider the financial instrument and unit scope of FISIM, and although it was recognised that there was an overlap between the consideration of reference rate issues and the instrument/unit scope, to an extent that a concurrent discussion of the two issues would be beneficial, it was also recognised that it would not be possible to consider the two issues together in a timely manner. As such the group agreed that the Task Force would need to consider the instrument/unit scope issues after recommendations had been made on the reference rate. The same conclusion was drawn for issues related to the broader notion of income.

FISIM in International Trade:

The Task Force agreed on the SNA principle that FISIM should be measured in line with the appropriate reference rate for the underlying currency. The discussion focused on what could practically be measured, particularly at the institutional sector level, and a number of participants noted that they would have difficulties calculating imports of FISIM by households in particular. The TF concluded that an inventory on information available at the national level would be needed in order to fully assess what was practically achievable here, notwithstanding any conclusions the TF would make on the underlying principle for measuring the reference rate. To this extent the OECD agreed to develop a template questionnaire for TF Members by the end of March, with responses provided by the middle of April. (This will unfortunately be delayed and the template will be sent in the first week of April, with responses ideally provided by the end of April). The Task Force also concluded that the appropriate reference rates for the underlying currency should also be used for calculating FISIM between resident institutions.

Liquidity Transformation (term premium)

The TF had a lengthy discussion relating to the term premium. The discussion considered both the conceptual arguments for the inclusion or otherwise of the term premium in FISIM and the practical measurement issues. Conceptually the group recognised that both positions had merit. They recognised that there were strong arguments supporting the idea that banks were in the business of providing liquidity transformation services and that removing the term premium from FISIM, using the matched reference rate approach, would implicitly mean that these transformation services were also being excluded, with a risk that the value-added and output of Banks would be implausibly low. However, the arguments for the matched reference rate approach also rotated around the desire to minimise implausible results; for example the fact that changes in monetary policy by the Central Bank could lead to estimates of FISIM that were difficult to interpret in a meaningful way, in particular in relation to increased volatility and negative FISIM, and in relation to feedbacks into calculated inflation.

This led to a discussion on whether, at least in theory, there should be a recognition that the reference rate calculations should be based on some lagged function, or, contractual rates that were in effect at the time contracts were struck between borrowers and lenders, in view of the nominal valuation principle the SNA prescribes for deposits and loans. But it was understood that the use of a lagged approach or contractual reference rate need not necessarily reinforce the arguments for a single or multiple reference rate approach, as the contract reference rate could be the underlying single reference rate that was applicable to all loans and deposits at the contract date or the reference rate that reflected the underlying reference rate applicable to the specific term of the loan or deposit. An alternative approach would be to consider using estimated current market deposit and loan values to estimate the SNA interest on deposits and loans, and using a reference rate from the current period in calculating FISIM (without affecting the SNA's nominal valuation principle for deposits and loans on the balance sheet). At the same time however, there was a recognition that whilst it would be useful to develop the arguments related to the use of contractual or current market reference rates to provide a means to better explain and understand FISIM, there was also a recognition that the data requirements would be demanding and not always available across countries.

Recognising that the inter-bank lending rate caused problems in the measurement of depositor FISIM in particular, there was quite strong support to consider the option of a single reference rate for a longer term maturity, or average of maturities. However the Task Force agreed that further investigations on how this would impact on GDP would be needed.

Practical data requirements, as well as the view that liquidity transformation should be included in FISIM, were keys consideration in the thinking that led the Task Force to

arrive at a preference rate for a single rather than multiple reference rate approach. At the end of the meeting, to gauge opinions on this issue, Task Force members were asked to provide a (non-committal) indication of their preference in relation to the two central views: of the 14 institutions present, 12 indicated a preference for a single reference rate and 2 for matching maturities.

However, that all said, the Task Force recognised that it would not be inconceivable to arrive at a conceptual definition of FISIM that differed from the concept underpinning practical recommendations; although the majority of those that voted in favour of the single reference approach did so both for practical and conceptual reasons.

A reference was made in the meeting to some analyses produced by Stats Can that smoothed FISIM and Arthur Berger agreed to look into this work.

Credit-Default Risk

The Task Force came to broad agreement that part of FISIM, as currently measured, reflected a payment for default risk - somewhat analogous to non-life insurance services. It agreed therefore that an adjustment was needed to remove credit default risk from FISIM with a small part staying in output to reflect the analogous insurance services provided by the Bank. It wasn't clear however whether the corresponding flows should be recorded as interest - for simplicity - or as other current transfers. And it was agreed that further work would be needed to ensure the full implications on income and saving at the sectoral level were understood. Further work was also needed on actually measuring default risk in practice, using perhaps estimates of provisions and defaults on loans.

Price and volumes

The group agreed that there were strong arguments for adopting quantity based approaches to measuring volume FISIM but further discussions were needed on whether quality changes would be captured in the price or quantity. There was a general recognition however that quantity approaches were data intensive and so direct price deflation would remain, and that a general price index was not an unreasonable approach. There was a general acknowledgement that certain users, such as central banks, could desire a sub-index of the CPI that explicitly excludes FISIM to prevent monetary policy changes feeding directly through to changes in their inflation target.

Next meeting

The meeting of the ISWGNA Task force is planned at the end of June or beginning July 2011.