ISWGNA: NATIONAL ACCOUNTANTS MEETING
SEPTEMBER 7-8, 2006

Participants

Eurostat: C. Ravets
IMF: A. Bloem (Chair), L. Laliberté, K. Zieschang, L. Rivas (minutes)
OECD: C. Aspden
UNSD: I. Havinga
World Bank: B. Hexeberg
1993 SNA Update project: C. Carson (Project Manager), A. Harrison (Editor).

Venue

IMF Statistics Department, Washington DC

The Chair welcomed the participants to Washington DC and introduced Messrs. Ravets and Zieschang as well as Ms. Laliberté to the rest of participants.

The ISWGNA had agreed to meet to consider a number of points that, if left open any longer, would put the work on chapters at risk. The first tranche, comprising 14 chapters, is scheduled for drafting, eagle-eye reviewing, and posting on the Internet for AEG/world-wide review before the end of the year.

Thursday September 7, 2006

1) Substantial Issues I

a) Pension Schemes

The meeting discussed the position on pensions put forward by the Deputy Director of General Statistics of the European Central Bank (ECB) in comments on the AEG recommendations made in Frankfurt earlier this year. The Project Manager reported that the Management Group (MG) discussed the ECB's position and had agreed that Mr. Edwards, on behalf of the ISWGNA, would send a reply informing Mr. Bier that this was an encouraging way forward and seen as a starting point for the work to be developed by the ECB-Eurostat Task Force on Pensions Schemes. She also reported that the MG would like to expedite the closure of this issue; if this is possible, the meeting of the BEA-IMF Task Force on Pensions Schemes, which was planned for early December, would not need to take place.

Mr. Ravets informed the meeting that the ECB-Eurostat Task Force on Pension Schemes, which will take place during September 20-21, would be focused on developing distinguishing criteria between social security and unfunded government pension schemes and between pension schemes and government, as well as on measurement issues. The ISWGNA requested Eurostat to inform the ISWGNA:NA the following Monday, September 25, on the outcomes of the meeting of the ECB-Eurostat Task Force on Pensions. The ISWGNA agreed it would be helpful to put the results of the meeting before the AEG by early October. The meeting agreed that the Editor would have a statement of the ISWGNA position and present it during the ECB-Eurostat meeting.

b) Guarantees

The ISWGNA recognized the work of Messrs. Lequiller and Mink in preparing a paper summarizing the treatment of standardized guarantees proposed for the new SNA. Mrs. Laliberté mentioned that there was an inconsistency between the SNA Rev. 1 and the BOP Manual regarding the recording of imputed subsidies on non-market interest rates applied by the central bank, the recording of subsidies on granting and activation of guarantees by the government, and the recording of debt conditionality. Ms. Rivas mentioned that Mr. Heath, confirmed that subsidies were not recorded on debt conditionality in the BOP core accounts as a matter of practicality, because it was difficult to obtain data on market interest rates for those types of loans; therefore, it was decided to record them as a supplementary item. There was therefore no inconsistency between core entries in the SNA and the BPM. She also informed the meeting that Mr. Dublin had also confirmed that there was no inconsistency with the GFSM 2001 where loans of government at concessional interest rates are treated consistently with SNA and BPM, except for a special case of interest of loans extended by government to goverment employees at less than market rates. [1]

The meeting discussed the proposals on this issue and concluded that it was not advisable to record a subsidy in the case where the fee charged for the guarantee was below market prices or there was no fee at all. The ISWGNA agreed that Messrs. Lequiller and Aspden would adjust the paper to reflect this conclusion. In line with the follow-up indicated at the Frankfurt meeting, the ISWGNA also decided to send the amended paper to the AEG for confirmation.

c) Non-performing loans

The ISWGNA discussed a point that arose in the comments on the Full Set of Provisional Recommendations. It concluded that, in order to put an accounting framework together to reflect the AEG recommendations on this issue, it is necessary to add memorandum items that cover non-performing loans (NPLs) at both nominal value and fair value, if available, or their nominal value and expected losses of the creditor along with the same information for all loans. (The ISWGNA also noted that the value of total loans at fair value was not necessarily equal to the value of all loans at nominal value less the difference between NPLs at nominal and fair value, because it was possible for loans not classed as NPLs to have a fair value below their nominal value. However, the main interest in recording loans with market value below nominal value is in loans that have been designated as NPLs.) This clarification will be conveyed to the AEG in a note describing the considerations and decisions on other points for their confirmation.

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[1] For the GFSM 2001, the interest forgone when loans to employees are provided at reduced or zero rates would be treated as an expense (2112) recorded as wages in kind.

d) Property income—summary of the responses to Mr. Harper's paper

The meeting discussed the results of the consultation on this issue. There was unanimity on 9 of 11 questions and only one dissenter on question 5. The only question where there was not clear unanimity was number 6. The ISWGNA concluded that it would not be advisable to record expected holding gains and losses on non-life insurance technical reserves as a transaction; that is, as a premium supplement. They should first be recorded as a revaluation in the revaluation account of the household sector and then rerouted to the insurance companies through an institutional reassignment in the other changes in the volume of assets account. The ISWGNA also decided to post the paper on property income prepared by Mr. Harper and the outcome of the consultation on the UN website. The meeting agreed that Mr. Bloem would prepare a text on this proposal to be sent to the AEG for confirmation.

e) Decision tree

The Editor, in a note posted under consistency issues on the Website, presented a chart that contains the necessary questions to assign institutional units to the different institutional sectors. There had been no responses to the note, despite a recent reminder. The meeting discussed the questions in the chart and suggested some amendments. The ISWGNA agreed to send the corrected chart to the AEG and request their opinion by end September. They also decided to post the amended chart on the UN website.

f) Market/non-market

A note and a later comment by the Editor had been posted under consistency issues on the Website. There had been no responses by the time of the meeting. The meeting discussed this issue and concluded to separate production into three categories: The first, previously called "market" production, continues to cover production of goods and services intended for delivery to other units at economically significant prices. No change in coverage is proposed. It is proposed to change the terminology from "market production" to "production for sale," the term "for sale" being recognized as short-hand for "delivery to other units at economically significant prices."

The second category relates to goods and services intended for use by the producer. In general, goods produced and then used within the same unit are recorded as neither intermediate consumption nor output. However, if research and development, for instance, is not treated as capital formation, and the activity cannot be separated into a different establishment, then it will be shown as a secondary product consumed by the same unit as intermediate consumption. In addition, in the infrequent case where an entity undertaking only ancillary activity is recognized as a separate production unit, the output of this ancillary unit is to be recorded as intermediate consumption of the establishments it serves. It is therefore proposed to change the coverage of this item to allow these exceptional types of production for own intermediate consumption. It is proposed the terminology change from "production for own final use" to "production for own use". The first two categories together-- that is, production for sale and production for own use-- form market production.

The third category of output, whereby goods and services are delivered to other units at non-economically significant prices, previously described as “other non-market production” is to be retitled “non-market production”. No change of coverage is proposed.

The note on the web is to be revised to incorporate the terminology now proposed. The revised note will be sent to the AEG with a request for their opinion by end September.

g) Non-profit institutions (NPIs)

A note on NPIs had been posted on the website under consistency issues. No responses had been received by the time of the meeting. The ISWGNA discussed the categorization of NPIs. They agreed that given the importance of NPIS, countries might want to choose to classify NPIs early in the categorization of institutional units and sectors, such as corporate profit institutions and corporate non-profit institutions, and then, government and non-profit institutions. For corporations, the distinction between NPIs and other units in the sector might be at the first level, with the breakdown between publicly controlled, national private and foreign controlled at the second level or the reverse. Similarly, for general government, the choice of which disaggregation to put at the higher level is a matter of choice. The meeting agreed that the Editor would prepare a text on this proposal that would be posted on the website. The AEG’s attention would be directed to the website.

h) Codes

Mr. Aspden noted that Eurostat is in the final stages of developing new codes as per the 1993 SNA/ESA95 for electronic data transmission from EU member countries. He said that they initially thought of using these new codes as a starting point for developing codes for the updated 1993 SNA. However, questions had been raised about the suitability even of the current SNA codes on which they are based. He therefore proposed that the current structure of the SNA codes needed to be examined first. He reported that Mr. Gueye had informed him that the codes would be ready by October or November 2006.

The meeting agreed that the Editor continue drafting the 1993 SNA Rev. 1 without codes and include them later when they are ready. The meeting agreed that a task force to develop codes should be set up with the participation of Eurostat and the UNSD, and led by the OECD. The meeting agreed that the codes of the 1993 SNA Rev. 1 should be ready by end 2007 and could go to the Statistical Commission separately from the text.

i) Freely available Research and Development (R&D)

Mr. Aspden reported that during a joint meeting of NESTI with the Canberra II Group in May. One of the questions was how to interpret the AEG’s recommendation not to capitalize freely available R&D and in principle assume that including freely available R&D in GFCF would not lead to a significant error because freely available R&D was minor. To address this question, Mr. Aspden prepared a note proposing conceptual precision on what should be excluded when recognizing capital formation in R&D and presented some guidelines on how to deal with this issue in practice after further efforts to quantify the amount of freely available R&D. He found that basic research undertaken by higher education institutions, government and non-profit institutions were strong candidates for exclusion from GFCF, since it would seem likely that for most of this research there was no strategy in place to capture future economic benefits. He said that these expenses represent around 20 percent of the expenditure on R&D on average by the countries for which he had data. By contrast, it could be assumed that business enterprises expect to gain benefits from their basic research. Further discussions are needed on research undertaken by non-profit institutions.

The ISWGNA expressed support for the conceptual clarification and agreed the following:

> Research and development should be treated as capital formation and the value should be determined in terms of the economic benefits it provides. In principle, R&D that does not provide an economic benefit to its owner does not constitute a fixed asset and should be treated as intermediate consumption. Because it is difficult to quantify the benefits of R&D, by convention, it may be valued at the sum of costs.

The ISWGNA suggested approaching countries that did not support the idea of recording freely available R&D as GFCF next week to discuss this issue. The meeting also suggested including the ISWGNA's proposal in the package to be sent to the AEG.

2) Organization and Process

a) Decision taking process

The ISWGNA confirmed that topics that are not included in the 44 issues will be included in the long-term research agenda and only remaining inconsistencies and clarifications on the Full Set of Provisional Recommendations will be addressed in this update.

Regarding the proposal to broaden the definition of an institutional unit to include groupings of related corporate legal entities, the ISWGNA concluded that the definition of an institutional unit has been discussed in the past and that the discussion could not be reopened at this stage. It was also mentioned that the BOP Committee (BOPCOM) has not discussed changing this definition. The meeting agreed that Mr. Aspden would convey this concern to the author of the proposal.

The Project Manager recalled the three-way approach that has been agreed earlier (July 24). In brief: Drafting of chapters will proceed with agreement that outstanding issues or issues that may arise will be handled in one of three ways: (1) gaps will be left to be filled in later (e.g., when filling in somewhat now would be politically insensitive), (2) the Editor will flag issues that need ISWGNA attention to the Project Manager, who will undertake to get ISWGNA resolution on a fast turn-around basis, and (3) the Editor will draft, using her own judgment on less contentious issues but flagging the issue for attention in the AEG review. The ISWGNA confirmed the earlier agreement.

b) Feedback from the MG meeting on September 6

The Project Manager reported that a meeting took place before the CCSA meeting in Montreal on September 3, 2006. On organizational matters, she said that the MG was concerned about the tightness of the schedule for drafting and review of the SNA Update. They noted that some flexibility had been built in. The MG noted that, in the months since the June MG meeting, progress had been made in settling outstanding points needed for drafting. Further progress was expected at the meeting of the NAs, Editor, and Project Manager on September 7-8.

With respect to pensions, the MG reviewed the approach outlined in the ECB's July 28 letter. Mr. Edwards is to respond positively to that approach, encouraging the ECB and Eurostat to go as far as possible in the September meeting of the Task Force to propose the supplementary table, as described, as the way forward. The MG noted that, aside from a very few issues, there is a wide degree of consensus on the recommendations evident in the country comments. A detailed analysis of the comments on these few issues is needed, and the Project Manager will work with UNSD to prepare the analysis soon after the September 15 closing date for comments on the Full Set of Provisional Recommendations. These comments will help to shape the documents that will be presented to the Statistical Commission.

c) March AEG meeting

The Project Manager informed the meeting that they were still looking for a venue for the AEG meeting in March that was price favorable. She proposed the agenda include the feedback from the Statistical Commission (SC), comments from countries on the first tranche of chapters, the long-term research agenda, implementation of the 1993 SNA Rev. 1, and status of the other manuals and classification referred to in the 1993 SNA Rev. 1.

d) Template for comments

The Project Manager recalled for the meeting that the draft chapters posted on the web (after eagle-eye review) would be open to comment by the AEG (including the ISWGNA organizations), national statistical offices and central banks, and interested experts. She said that the proposed template is designed to encourage useful comments without inviting undue wordsmithing. It also aims to make it possible to assemble the comments in a timely and informative way.

The template is in three parts. The idea is that the person preparing the comments may complete any one, any two, or all of the three parts. Part I, the general comments, would allow countries to stay involved by making a comment without devoting lots of time and effort. She mentioned that this would enable countries to feel that they have had their say and be acknowledged for their effort in the international community.

Part II, on specific paragraphs and passages, would include (1) passages where the Editor flags that she had to interpolate or extrapolate, (2) passages that build in recommendations worked out late in the process, (3) new features of note (such as in the first couple of chapters that introduce the tables), etc. This part is designed to continue the record of transparency. A place would be provided for people to comment if they felt the need to do so.

Part III, on other specific comments, is for those who have the time, energy, and background to comment in detail. This part could deal with typos, areas with lack of clarity or inconsistencies. The comments would be made using Adobe Acrobat (as in the process for eagle-eye review); only the ISWGNA would be asked to code their comments according to whether they are about substance, clarity, preferences, or typos.

The ISWGNA agreed to use the proposed template for comments from countries. The ISWGNA also agreed translate the comments that were not in English. However, countries will be informed that comments are preferred in English. The UNSD will send the link to the Acrobat Reader software and instructions to the countries for commenting. The instructions will emphasize the decision to keep the text of the 1993 SNA Rev. 1 as close as possible to the 1993 SNA.

Friday September 8, 2006

3) Substantial issues II

a) Financial assets classification

Mr. Havinga reported on the worldwide consultation on classification and terminology of financial assets and liabilities carried out by the ECB's Directorate General Statistics. The ISWGNA congratulated Mr. Mink for completing this task successfully. Mr. Havinga said that 52 responses have been received; 80 percent were from European countries. He commented that this was a quite successful exercise taking into account the limited period of time. Concerning the answers to the eleven questions raised in Section 4 of the questionnaire rather detailed answers were given.

There was a clear majority of the respondents in favor of showing monetary gold and special drawing rights (SDR) separately in one asset category.

On the questions on the distinction between deposits and loans, there was also a broad agreement to adopt the convention of the 1995 ESA as articulated in paragraph 5.75, which only applies to short term deposits and to cases when the other party is not a depository institution. The ISWGNA agreed with these conclusions, but suggested referring readers to the definitions of loans and deposits of the BPM and the MFSM.

Many respondents were in favor of introducing a new subcategory "interbank positions." Others argued that it was not necessary to introduce such positions because the exact allocation between deposits and loans can be found in the flow of funds table. Mr. Ravets commented that the interest rates charged by domestic banks and foreign banks were different and it would be useful to have interbank positions for domestic and foreign banks separately in order to calculate FISIM. The ISWGNA concluded that the majority of countries supported this proposal and the breakdown would be needed for analytical purposes, particularly for countries that do not compile a flow of funds table. Therefore, it was agreed that an additional item called "interbank positions" would be added to the financial asset classification under deposits. It was also agreed that the Editor would clarify in the text of the corresponding chapter that transferable deposits include transferable deposits other than interbank positions.

Regarding investment funds, the answers to the question “would it be desirable to specify additional supplementary items to identify the type of underlying assets,” were heterogeneous. It was indicated that the proposed breakdown of investment funds shares/units into money market funds/units and other investment funds/units is seen as a standard requirement. Many of the respondents thought additional supplementary items would be useful, but some respondents argued that it would be difficult to separate the funds held by investment funds by type of underlying asset, and there was the possibility of obtaining a mixture of instruments. Therefore, the ISWGNA agreed to include investment fund shares/units with equity in one category that has two subcategories, one for equity and another for investment funds shares/units. The meeting also agreed not to specify a breakdown of the investment funds by type of underlying asset.

On the question on financial derivatives, there was a broad majority indicating that it would not be desirable to split forwards and options by risk category. This was seen as too detailed and outside the scope of the SNA. The extra reporting burden to collect such data and the ability to provide data of sufficient quality were mentioned as limitations as well as the constant innovation of derivatives that is taking place in financial markets.

Regarding the concerns on using the term technical provisions, the AEG decision was to include the term “insurance technical provision” in the classification.[2]

Concerning clearinghouses, the IMF proposed an interim solution to the problem of classification of clearinghouses for repurchase agreements which act as principal to all transactions conducted through them. The meeting agreed to treat them as depository corporations, even though they do not meet the definition, as (i) banks are the primary users of these institutions, and their transactions will tend to net out in the aggregate, and (ii) if these clearinghouses were not included in depository corporations, the resulting distortions to monetary aggregates might undermine their usefulness. The ISWGNA requested the Editor to convey this decision to the countries where clearinghouses for repurchase agreement are operating (US and UK).

Regarding the comments on the definition of other equity and the proposal of the Bank of England to use listed shares instead of quoted shares, the ISWGNA agreed to clarify the definition of other equity as only unquoted/unlisted shares and accepted the proposal of using the term “listed shares” instead of “quoted shares.”

b) Annuities

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[2] A subsequent discussion suggested that the title for the high level item should be insurance, pension and standardized guarantee scheme, that the sub-item for life insurance technical provisions should be changed in context and nomenclature to be “life insurance and annuities entitlements “ to match the new title for pensions.

The Editor reported on the status of the note on annuities that had been commissioned for the consistency website. There were some details on the time of recording of the service provided in connection with an annuity that still needed to be sorted out. The text on annuities states that an annuity should be recorded as a service and this seemed to be an inconsistency, since annuities were very similar to a life insurance policy and should be treated as one. She said that the problem was how to quantify how much was service and how much was benefit or property income. The term annuity was discussed and references to mortgage and loans payments were made where annual payments were also called annuities. The ISWGNA agreed to clarify the term annuities and to broaden life insurance to include annuities that operate in much the same way as life insurance. The Editor agreed to discuss these points with the authors of the note and help ready it for posting on the Website.[3]

c) Own funds

The Editor said that in order to meet the requirement to articulate the increase in value of shares and other equity from one balance sheet to the next, showing the role of reinvested earnings, the following steps are necessary: i) Define retained earnings; ii) Show reinvested earnings as a subcomponent of [changes in] shares and other equity in the financial account for each of listed shares, unlisted shares and other equity; and iii) Determine the revaluation term for each of listed shares, unlisted shares and other equity as the change in the value between the start and end of a period excluding the value of reinvested earnings. The residual amount will include the value of retained earnings. The ISWGNA agreed to define retained earnings in the 1993 SNA Rev. 1, as suggested by the Editor.

She also mentioned that in order to define own funds, the item residual corporate net worth has also to be defined to show the relation between own funds and the value of shares and other equity.

Regarding reinvested earnings, the Editor proposed not to change the present treatment of foreign direct investment enterprises, but proposed changes for publicly controlled quasi-corporations. She also suggested for consistency reasons that similar rules should be applied to private quasi-corporations. Further, the Editor suggested that a full-reinvested earnings treatment (as for foreign direct investment (FDI) enterprises) could be applied to all quasi-corporations since the SNA at present defines quasi-corporations as having zero net worth. Changes were also proposed for publicly controlled [share-based] corporations in respect of exception withdrawals and payments. She also mentioned that exceptional payments should be defined in relation to retained earnings. The ISWGNA agreed to define these payments as the ones that are made over and above the current year retained earnings or the average of the last years retained earnings. The Editor suggested for consistency, similar rules could be applied to private [share-based] corporations where there is an owner with a controlling interest.

[3] Discussion with BEA, who had provided a discussion note on annuities confirmed that this approach is both feasible and desirable.

The Editor mentioned that these suggestions were designed to ensure as great a degree of consistency as was reasonably possible and to respond to the requirement that further consideration to the full implementation of reinvested earnings be put on a research agenda. The ISWGNA agreed that this was an inconsistency in the treatment of reinvested earnings, but it was a major change that needed consultation. The meeting agreed not to include the changes proposed for publicly and privately controlled quasi-corporations and that the Editor would revise the note on this issue and include these proposals along with her other proposals on reinvested earnings in the issues for the long-term research agenda. The ISWGNA decided that the Editor would include accepted proposals in the draft chapters and flag the text and the related paragraphs. The meeting also agreed to consult the AEG by sending the revised note on this issue attached to the draft chapters and request them to make special efforts to review it, so this issue can be discussed during the March AEG meeting.

d) Sub-sectoring of the Financial Corporations sector

The Editor presented her proposed sub-sectoring taking into account the suggestions of the ECB, OECD and the IMF for possible combinations of financial sub-sectors. The ISWGNA concluded to include the nine financial sub-sectors in chapter 4 on institutional units and sectors, and to include an explanation of possible sub-aggregates/combinations in chapter 25 on the link to financial and monetary statistics. The nine sub-sectors are the following: 1) Central Bank; 2) Deposit-taking institutions other than Central bank; 3) Money market funds (MMF); 4) Investment funds, other than MMF; 5) Other financial intermediaries except Insurance Companies and Pension Funds (ICPF); 6) Financial auxiliaries; 7) Other financial institutions, except ICPF; 8) Insurance companies (IC); and 9) Pension funds.

e) Terminology

The Editor raised the issue on the difference between financial intermediation and financial services and proposed to use financial services instead of financial intermediation, given that moneylenders provide financial services by using their own funds without any intermediation. The ISWGNA agreed to use the term financial services.

f) Holding companies

Mr. Ravets mentioned that 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 chair noted that the ISIC as an industrial classification had not direct link to the institutional sectorization. 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 are non-financial corporations, the head office is allocated to the sector to which most of the subsidiaries are allocated or most of their production is allocated.

g) Research agenda

The Project Manager proposed to add to the list of proposed topics for the long-term research agenda and post it on the UN website. The ISWGNA agreed.

4) Other

a) Action items

The meeting discussed and agreed on new dates for the remaining actions from the previous teleconference and dates for the new action items:

Action	By when	Responsible	Status
Substantive comments on all issues in the full set of provisional AEG recommendations document	End of September	All	In progress
Adjust paper on guarantees	September 15	Mr. Lequiller	In progress
Summarize results of AEG consultation on guarantees	October 6	OECD	In progress
Summarize position on pension schemes and present it at the ECB-Eurostat meeting	September 15	Editor	In progress
Inform ISWGNA of outcomes of the ECB-Eurostat meeting on pensions	September 25	Eurostat	In progress
Comments on chapter on Government and the Public Sector	End of September	All	In progress
Prepare text on agreed treatments of pending issues	September 14	Editor and Chair	In progress
Revise note on own funds and reinvested earnings	In due course	Editor	In progress
Update list on topics for the long-term research agenda	In due course	Editor	In progress
Send note about pending issues to the AEG	September 18	Project Manager	In progress
Post texts, as appropriate, on non-performing loans, market/non-market, decision tree, freely available R&D, NPIs, head offices, property income, annuities, financial assets classifications, financial sub-sectoring on UN website	September 18	UNSD	In progress

b) Dates of next meeting and teleconferences

The ISWGNA confirmed Wednesday 27 at 9:30 am as the date of the next teleconference. The NA may be invited to the MG meeting on Tuesday October 17 at the World Bank.

Another face-to-face meeting will take place in Paris on October 9. Mr. Bloem offered to explore whether the IMF Paris office could host the meeting. The ISWGNA will invite AEG members who are attending the OECD's WPNA meeting in Paris to a meeting on the evening of October 9. Mr. Aspden will send an email inviting AEG members to attend.