

SNA News

Number 16
April 2003

An information service of the Inter-Secretariat
Working Group on National Accounts (ISWGNA)

For ISWGNA documents and reports of meetings visit
<http://unstats.un.org/unsd/nationalaccount/iswgna.htm>

RECOMMENDATIONS BY THE STATISTICAL COMMISSION ON THE UPDATE OF THE 1993 SNA

By Magdolna Csizmadia, UNSD

At its 34th session in March 2003, the United Nations Statistical Commission adopted the proposed procedure for the updating of the 1993 SNA. The Commission's review of the proposal was based on the report by the Task Force on national accounts (document E/CN.3/2003/9) and several room documents that are all available at <http://unstats.un.org/statcom/sc2003.htm>.

After a discussion in which 24 countries and international organizations participated, the Commission reached the following main conclusions:

- a. Endorsed the scope of the updating process supporting the view that there is currently no need for fundamental or comprehensive changes to the System as such changes would impede the process of its implementation, which in many countries has not yet been achieved.
- b. Emphasized the need for maintaining consistency with related manuals, such as the *Balance of Payments Manual*, the *Government Finance Statistics Manual* and the *Monetary and Financial Statistics Manual*.
- c. Recommended that the updating process should focus on a number of specific issues. It supported the following criteria for identifying issues for updating:
 - i. Issues that are emerging in the new economic environment;
 - ii. Old issues that have been discussed and rejected before in the 1993 revision process but may need a further look in the new economic environment due either to their economic significance and/or to their advancement in methodological research that may justify a different treatment of the issues;
 - iii. Old issues that have been discussed and rejected before in the 1993 revision process should not be candidates for updating if no changes in the economic environment or progress in methodology research warrant their consideration for updating;
 - iv. Address user needs;
 - v. Take into account the feasibility or adequacy of the planned changes.
- d. Endorsed the list of issues currently under review (see table overleaf) and recommended that it be an open-ended list to include additional items e.g. treatment of military equipment, return on capital assets of general government and other topics.

- e. Agreed that the managing and coordinating role of the ISWGNA should continue with the assistance from the Advisory Group on National Accounts. The Commission welcomed that the updating process will also be supported by the Canberra II Group on Non-Financial Assets after having the terms of reference of the Group reviewed in one of the room documents.
- f. At the request of the Commission, a detailed project document will be prepared to describe the updating of the 1993 SNA including its agenda, work programme, timetable, governance, resource implications and decision-making process and the delineation of the role of the Advisory Group.
- g. Recognized the necessity of ensuring that issues and possible solutions that require an interpretation or a change in the SNA will be circulated as widely as possible for discussions and seeking solutions in a spirit of compromise. The need to widen the participation of member states in the updating process was emphasized.
- h. Approved the targeted publication date of 2008 for the updated System of National Accounts. It suggested mid-2006 as the deadline for submitting the proposals for consideration to the Statistical Commission. All updated issues will be implemented as soon as they are approved by the Commission. All approved updates will be integrated into the re-issued 1993 SNA.

The draft of the detailed project plan for the SNA update will be ready by May 2003 to be sent to countries for comments. The first meeting of the Advisory Group on national accounts is tentatively planned for November 2003.

List of issues currently under review

<i>Topics</i>	<i>Topics (cont.)</i>
Treatment of repurchase agreement	Purchased goodwill
Treatment of interest under conditions of high inflation	Other intangible fixed assets
Pension schemes (employer, social security and social assistance schemes)	Calculation of consumption of fixed capital for intangible non-produced assets
Employee stock option plan	Valuation of consumption of fixed capital for intangible produced assets
Treatment of non-performing loans	Borderline between rent and sale
Insurance/reinsurance	Cost of ownership transfer
Financial services	Treatment of BOOT
FISIM	Capital input in production account for productivity analysis
Patented entities	Other issues relating to measuring of capital stocks and consumption of fixed capital
R&D expenditure	Consumer durables
Trade marks, brand-names and franchises	Capital gain taxes
Leases and other transferable contracts, licenses to use intangible fixed assets	Capitalization of military equipment
Asset boundary for non-produced intangible assets	

Note: Detailed description of the issues, the responsible organizations and deadlines for the above topics are available in the *List of issues currently under review* in Annex II of document E/CN.3/2003/9

ALLOCATION OF FINANCIAL INTERMEDIATION SERVICES INDIRECTLY MEASURED (FISIM) IN THE EUROPEAN UNION COUNTRIES

By Christian Ravets, Eurostat

From year 2005, all Member States of the European Union will allocate Financial Intermediation Services Indirectly Measured (FISIM) in their national accounts.

Initially, the European System of Accounts (ESA 95), which is the EU version of the 1993 SNA, did not require countries to allocate FISIM because of doubts about how to make the allocation in practice and the reliability of the calculations.

EU Council Regulation 448/98 of 16 February 1998 presented trial methods of calculating and allocating FISIM which were to be tested by Member States for the years 1995 to 2002.

The main results of the trial exercise were the following:

- Allocating FISIM is recognized as an improvement of the national accounts methodology as more accurate GDP levels could be obtained: GDP would include the entire value added generated by financial intermediaries, and not just the part corresponding to commissions and fees invoiced to customers.
- The impact of allocating FISIM on GDP (and GNI) would correspond, on average, to an increase of 1,3%. The results are similar among Member States, and quite stable through years.
- Despite the lack of direct sources for some data, a sufficient level of quality has already been obtained. The main problems met were the calculation of imports of FISIM and the breakdown of households' deposits and loans in order to determine the parts corresponding to final and intermediate consumption.

As a result it was possible to make a new Regulation 1889/2002 of 23 October that confirms that FISIM is to be allocated, fixes the methods to be used and sets the 2005 deadline for the implementation of the allocation of FISIM in national accounts.

The main characteristics of the methodology to be used on a harmonized basis by all Member States are the following:

- FISIM has to be calculated and allocated only on loans and deposits granted by financial intermediaries (belonging to sectors S.122 other monetary financial institutions and S.123 other financial intermediaries, except insurance corporations and pension funds) to user sectors. This is because only the interest rates of those loans and deposits are controlled by financial intermediaries.
- In the balance sheet of FIs included in S.122 and S.123 loans and deposits have to be broken down to differentiate between loans and deposits :
 - Which are interbank (i.e. between the institutional units included in sectors S.122 and S.123);
 - Which are undertaken with user sectors (except the Central Bank).

Similarly, loans and deposits with the rest of the world should be broken down into loans and deposits with non-resident FIs and loans and deposits with other non-residents.

It is necessary to use average stocks of loans and deposits (average of four quarters) and the accrued interest.

Moreover, to calculate imported FISIM, it is necessary to know, by user sector, stocks of

loans and deposits and interest payable and receivable by non-resident FIs.

- The output of the Central Bank (S.121) is measured as the sum of its costs because the way the Central Bank operates using the same method as for other FIs produces very strange results. The Central Bank is not taken into account in the calculation of FISIM output and its allocation among user sectors.
- The calculation and allocation of FISIM on loans and deposits is based on the differences between the actual interest payable and receivable and a "reference" rate of interest; these differences represent the margin earned by the financial intermediaries.
- According to SNA (paragraph 6.128), the reference rate represents the pure cost of borrowing funds – that is a rate from which the risk premium has been eliminated to the greatest extent possible and which does not include any intermediation services.

As a result of the trial period, the interbank rate has been chosen as reference rate: it is calculated as the ratio of interests receivable on loans between resident FIs to stocks of loans between resident FIs.

To determine FISIM imports and exports, the reference rate used is the weighted average interbank rate on loans and deposits between residents FIs and non resident FIs. If necessary, a split could be done, distinguishing several external reference rates according to currencies in which the transactions are denominated.

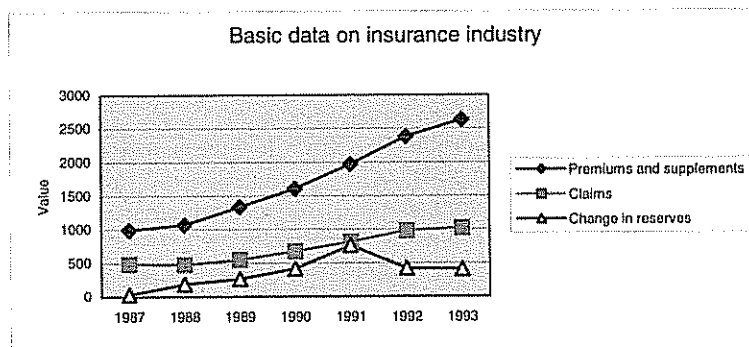
- This reference rate approach is a bottom-up approach where FISIM output generated by the activity of financial intermediaries is simply calculated as the sum of FISIM that are provided to each user sector and to the rest of the world.

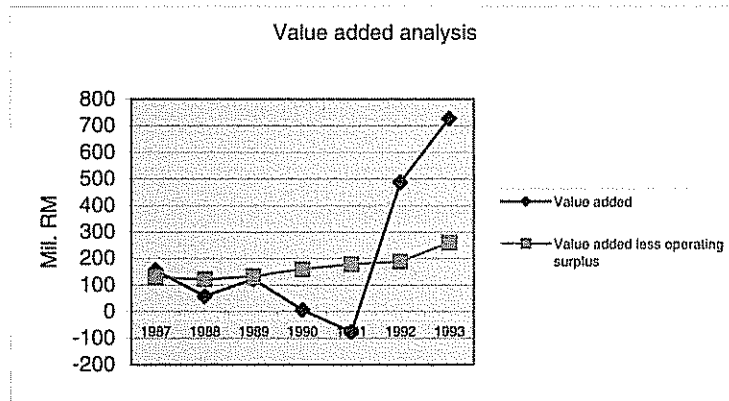
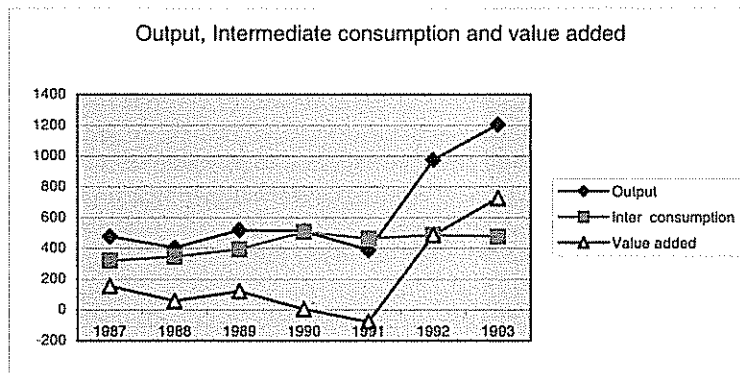
For further information contact Christian.Ravets@cec.eu.int.

AN EXPERIENCE IN COMPILING OUTPUT AND VALUE ADDED FOR THE INSURANCE INDUSTRY: THE CASE OF MALAYSIA

By Viet Vu, UNSD

This case study is based on the data on the insurance industry prepared in 1995 as part of the UNSD supported project to implement the 1993 SNA in Malaysia. The data showed the volatile movement over time of the output and value added of the industry when the 1993 methodology is used to measure output as a difference which is the sum of the premiums earned and premium supplements less the claims due less the change in actuarial reserves and reserves for with-profit insurance.





Unlike the experience of the United States during the period after September 11 2001, during which claims incurred shot up sharply, the output of the insurance industry in Malaysia in 1991 declined mainly because of the increase in the technical reserve, which results in a negative value added. After 1991, the output and value added increased significantly due to a significant increase in premiums and premium supplements. During the 1987-1993 period, intermediate consumption and compensation of employees plus consumption of fixed capital increased steadily.

The volatility of value added over time generates a volatility in the ratios of value added over output during the 1987-1993 period as follows: 0.326, 0.144, 0.235, 0.012, -0.196, 0.500, 0.603. This volatility defeats the purpose of using the ratios of value output over output of previous years to estimate quarterly and annual value added.

This case raises the issue of reviewing the method of calculating insurance output. The OECD Task Force on the Treatment of Non-Life Insurance in National Accounts and Balance of Payments Statistics has been set up to address the measurement of the output of non-life insurance. (See the article on the OECD task force in this SNA News and Notes issue.)

OECD TASK FORCE ON THE TREATMENT OF NON-LIFE INSURANCE IN THE NATIONAL ACCOUNTS AND BALANCE OF PAYMENTS
By Fenella Maitland-Smith, OECD

Following its meeting of national accounts experts in October 2001, and in the light of the events of September 11th, the OECD set up a task force to address the treatment of non-life insurance in national accounts and balance of payments statistics.

In the 1993 SNA non-life insurance output is calculated as the balance of premiums earned plus premium supplements less claims due within the period under review. This works reasonably well for most classes of non-life insurance business but breaks down when a major catastrophe hits. The problem is one of timing. Whereas the 1993 SNA algorithm depends on the balance of premiums to claims within a year (or quarter), catastrophe business is medium to long term, and the relationship between premiums and claims would never be expected to be stable from year to year. The 1993 SNA treatment could lead to negative output in exceptional catastrophe years, and possibly overstated output in 'catch-up' years. Since most countries use a physical quantity indicator to derive output in volume terms their implied deflators reflect the volatility in the current price measure.

Insurers manage their exposure to risk on the basis of 'expected' claims using a combination of reinsurance and 'medium- to long-term' technical reserves, e.g. equalisation reserves. The task force's discussions have focussed on finding a pragmatic approach to reflecting this medium- to long-term aspect of economic behaviour in the national accounts, but have also touched on some fairly radical re-thinking of the treatment of non-life insurance.

The task force has met twice, and will provide a final report to the OCED meeting of national accounts experts in October 2003. The following list provides a summary of the conclusions reached so far, and the work-in-progress. Contributions and comments are welcomed via the electronic discussion group (please contact fenella.maitland-smith@oecd.org).

The task force:

- ... recognizes that the notion of **expectation** plays an important part in the business of insurance – when accepting risk and setting premiums, insurers consider both their expectation of loss (claims) and of income (premiums and premium supplements).
- ... recommends that **expected claims** should replace actual claims in the calculation of output, for all claims.
- ... supports the use of a **statistical method** for estimating expected claims whereby loss ratios (losses : premiums) are 'smoothed' using some type of moving average (simple exponential smoothing is recommended). Losses due to exceptional events (Hurricane Andrew, 9/11, European storms, etc.) may be removed prior to the smoothing process, and then added back, spread over a number of years.
- ... supports the use of an **accounting approach** for estimating expected claims in cases where equalization provisions (or similar reserves) are made for the purpose of smoothing loss ratios. Changes in equalization reserves are then included in the calculation of output in all years. In the case of an exceptional event, and the subsequent recovery years, a further, similar term may be added to the calculation to take account of changes in own funds needed to pay claims, and the related rebuilding of reserves. The task force did not reach a conclusion on how own funds should be defined in this context.
- ... has not yet reached agreement on the integration of expected claims and exceptional losses into the **SNA framework**. The options are currently under discussion, via the EDG, including the possibility of treating some or all claims as capital transactions.
- ... recognizes that an improved treatment of **reinsurance** could solve many problems. The task force is attracted by the use of a common treatment for direct insurance and reinsurance, as opposed to the consolidated approach of the 1993 SNA, and is considering various options, again via the EDG. These options include explicit recording of international flows of net premiums and claims, and the estimation of premium supplements for imported insurance services. Since the majority of reinsurance services are provided cross-border, these changes would have a significant effect, both on estimates of output and on balance of payments statistics.

- ... is considering two aspects of the scope of **premium supplements** – whether the investment income on own funds should be included, and whether holding gains and losses should be included. These questions are being discussed in conjunction with the OECD Financial Services Task Force, and in the context of the insurers’ view of own funds and holding gains as sources to support the payment of claims.

ACCRUAL ACCOUNTING OF INTEREST: OUTCOME OF THE DISCUSSION

By Cor Gorter, IMF

End September 2002, the IMF closed the Electronic Discussion Group (EDG) on the Accrual Accounting of Interest with a report of its moderator. This report—which is available at the IMF website—was sent to the ISWGNA who agreed with most of its conclusions. The ISWGNA established the EDG in 1999 to obtain the views of a broad group of users and compilers on how macroeconomic statistics should record the accrual of interest on bonds and other tradable debt securities. The text of the 1993 SNA allows various interpretations. After much discussion, however, most EDG participants accepted the current SNA probably recommends that the so-called “debtor approach” be followed. According to this method, the amount and time path of interest accrual are determined at the time the debt securities are created.

The next question was whether there is reason to revise the current recommendations. Some of the participants argued forcefully that the future SNA should come to say that interest on debt securities accrues in line with the securities’ current market values (the so-called “creditor approach”). However, there was also strong opposition against such revision. Because neither camp was able to convince its opponents, and also to respond at a request from the IMF Committee on Balance of Payments Statistics, the IMF Statistics Department surveyed its correspondents in the member states on these issues in April 2000. The responses received from statistical offices, central banks, and Ministries of Finance

clearly showed a preference for the debtor approach.

In his report, the EDG moderator therefore concluded that neither the EDG discussions nor the survey among statistical agencies had shown broad consensus for revising the 1993 SNA. Nonetheless, the exchange of views on the theoretical advantages of the various options had shown that the creditor approach has certain merits. The moderator therefore recommended that the ISWGNA recognize that national accounts compilers may wish to record, in supplementary tables, the accrual of interest based on current market values.

The April 2002 meeting of the ISWGNA confirmed the 1993 SNA recommends to accrue interest on the basis of the debtor approach. The meeting also noted that no new economic situation had emerged that would importantly change the arguments used at the time the 1993 SNA was drafted. In view of the importance of the issue, the ISWGNA invited the UN Statistical Commission to approve this “no change” interpretation. Twenty-one out of the 24 members of the Statistical Commission supported the ISWGNA recommendation. Two members disagreed, and one member pointed out that, although it considered the ISWGNA interpretation correct, the creditor approach would be conceptually preferable.

Please consult <http://www.imf.org/external/np/sta/na/interest/index.htm> if you want to read the papers posted on the Accrual of Interest EDG.

ACTIVITIES OF THE ELECTRONIC DISCUSSION GROUP ON THE TREATMENT OF PENSION SCHEMES IN MACROECONOMIC STATISTICS

By Philippe de Rougemont, IMF

Background

At the request of the Inter-Secretariat Working Group on National Accounts (ISWGNA), the IMF Statistics Department established an Electronic Discussion Group (EDG) on the treatment of pension schemes in October 2002. The purpose of the EDG is to explore alternative treatments for, and to identify the most appropriate treatment of such pension schemes in macroeconomic statistical systems. The establishment of this EDG was announced in an article of *SNA News and Notes* No.15, this article provides additional detail about the functioning and activities of the EDG.

Pension obligations, as they have the potential to exert pressure on government finance, have been the subject of increased focus in assessing medium-to-long-term fiscal sustainability. In the accounting area, the International Federation of Accountants (IFAC) has recently begun work on the accounting treatment of government social policy obligations (SPO). These developments have led to a renewed interest in the question of how the activities of pension schemes should be recorded in macroeconomic statistics.

Under the *System of National Accounts 1993 (1993 SNA)* current rules, activities of many pension schemes, such as social security and unfunded employer schemes, do not lead to recognition of financial assets/liabilities. More recently, the IMF's *Government Finance Statistics Manual 2001 (GFSM 2001)* recommends that contributions and benefits of government employer insurance pension schemes be recorded exclusively as financing transactions, and therefore recognizes stocks of government liabilities for all employer schemes, both funded and unfunded, in the form of *insurance technical reserves*.

Contributions

The EDG posted material from six contributors from various horizons, in addition to the introductory discussion paper (John

Pitzer – November 2002). Three contributions focus on issues regarding employer insurance:

- One describes the new practice of treating, in Australian National Accounts, government unfunded employer schemes (superannuation schemes) in a similar manner to funded schemes, and explains the reasons. The impact on the 2001 government debt and *net lending/ net borrowing* is respectively +17% and -0.4% of GDP. There is a call for an "update of 1993 SNA" (Australian Bureau of Statistics – January 2003);
- Another argues that the need for international comparability and time consistency considerations strongly favor liability recognition of unfunded government employer pension obligations. The likely impact on the stock of government liabilities (adding an equivalent of 18% of GDP for Canada in 2001) and *net lending/ net borrowing* is substantial. The contribution calls for "the necessity to review the recommendations of the 1993 SNA" and discusses a more appropriate measure of households savings ratio (Francois Lequiller, OECD – January and March 2003);
- A third stresses the analytical advantages of the way the *GFSM 2001* deals with pension obligations and runs a numerical example (David Pritchett – February 2003).

Three other contributions include:

- A call for liability recognition of social security and social assistance retirement obligations, arguing that, although no exchange arrangement takes place, government promises to pay retirement pensions create a valid "constructive obligation", which affects household behavior (Brian Donaghue – January 2003);

- A paper on Taxonomy and a Glossary elaborated by a recently established OECD Task Force on Pension Statistics (Jean-Marc Salou – February 2003);
- An interview of Anne Harrison by the moderator, discussing the conditions under which schemes that seem to be funded are not treated as such in the 1993 SNA. It also discusses the notion of segregated “reserves”, which would refer to accumulated schemes’ inalienable assets that are of sufficient financial solidity. The need for greater clarity on the coverage of defined-contribution schemes is raised, as is the question of ownership of the funds of pension schemes (March 2003).

Timetable

An initial report is expected to be prepared by June 2003. It will be circulated to contributors and posted on the website for further comment. An interim progress report will be produced by September 2003 and provided to the ISWGNA for its consideration.

Future contributions could usefully address issues in two main areas, having in mind the

harmonization of statistical and accounting treatments of pension schemes:

Concerning **employer insurance schemes**, one needs to clarify: whether the funded/unfunded distinction is important and what is its precise definition; the valuation rules for pension liabilities and for property income attributed to insurance policy holders; the recording of actual versus imputed contributions; whether government and non-government schemes should be treated differently; and how the recording of relevant transactions in the 1993 SNA – which involves three elements of non-financial transactions, financial transactions, and the adjustment item – would be linked with those in *GFSM 2001*.

In the area of **social security and social assistance schemes**, the EDG needs to discuss the arguments for and against an extension of liabilities recognition of pension obligations.

The readers of SNA News and Notes are invited to contribute to the EDG, get background documents, read views of others and register for automatic notifications at <http://www.imf.org/external/np/sta/ueps/index.htm>.

MANUALS AND HANDBOOKS

Manual on Statistics of International Trade in Services. Statistical Papers Series M No.86. United Nations, European Commission, IMF, OECD, UNCTAD, WTO, 2002.

Quarterly National Accounts in Asia: Sources and Methods. CCNM/STD(2002)1. OECD, 2002.

National Accounts Studies of the ESCWA Region, No.22. UN ESCWA, December 2002.

MEETINGS AND SEMINARS

14 – 16 April 2003: OECD Workshop on national accounts for Balkan countries, OECD, Paris, France

15-17 April 2003: Meeting of the Canberra II Group on Non-Financial Assets, Voorburg, Netherlands

7-9 May 2003: Ad Hoc Expert Group Meeting on a Gender-Aware Macroeconomic Model to Evaluate Impacts of Policies on Poverty Reduction, Addis Ababa, Ethiopia

26-30 May 2003: Inception Workshop on the International Comparison Programme organized by the Asian Development Bank and ESCAP, Bangkok, Thailand

25-27 June 2003: Second Subregional Workshop on Tourism Statistics and the Elaboration of a Tourism Satellite Account, Manila, Philippines

7-11 October 2003: OECD meeting on national financial accounts experts, Paris, France

13-15 October 2003: Second Meeting of the Canberra II Group on Non-Financial Assets, OECD Headquarters, Paris, France

October 2003: Seminar "The Environment and its Implications for the Fund" organized by the IMF, Washington D.C., USA. Participation by invitation only.

Editorial Note

SNA News and Notes is a bi-annual information service of the ISWGNA prepared by United Nations Statistics Division (UNSD). It does not necessarily express the official position of any of the members of the ISWGNA (European Union, IMF, OECD, United Nations and World Bank)

SNA News and Notes is published in four languages (English, French, Russian and Spanish) and can be accessed on the internet: <http://unstats.un.org/unsd/nationalaccount/snaneews.htm>

The updated version of the 1993 SNA with search capability, national accounts glossary, handbooks on national accounts and activities and reports of the ISWGNA can be accessed on the internet: <http://unstats.un.org/unsd/sna1993/introduction.asp>

Correspondence including requests for free subscriptions should be addressed to: UNSD, Room DC2-1520, New York, NY 10017; tel.: +1-212-963-4859, fax: +1-212-963-1374, e-mail: sna@un.org
