<Reimund.Mink@ecb.int>

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To <REdwards@imf.org>, <sna@un.org>

cc <beckera@un.org>, <CASPDEN@OECD.org>, <Ligia.FRANKFORD@ec.europa.eu>, <Gallo.Gueye@ec.europa.eu>, <Havinga@un.org>,

bcc

Subject Comments on 1993 SNA, Rev 1, Vol 1

Dear Mr Edwards, dear ISWGNA colleagues,

On behalf of Mr Steven Keuning and further to the letter of 3 March 2008 from Mr Paul Cheung, Director of the United Nations Statistics Division (UNSD) to the Directors of National Statistical Offices, and to the letter of 20 March 2008 from Mr William E. Alexander, Acting Director of the Statistics Department of the IMF to the President of the ECB, please find attached the comments of the ECB on Volume 1 of the 1993 SNA, Rev. 1.

Essentially, two issues were raised in the letters: (i) to provide comments on the content of Volume 1 of the updated SNA as a whole; and (ii) to seek our opinion on the title of the update. While the ECB has some preferences to use **1993 SNA, Rev.1** as the title of the updated SNA, the request to provide comments is quite challenging taking also into account the rather short commenting period (from 1 March to 30 April 2008). Following the request as outlined in the two letters, countries and international organisations should bring to the attention of the ISWGNA substantive observations they may have in relation to the 44 issues adopted by the UNSC in February 2007 and the clarifications and consistency issues that flowed from these issues. In this context, the ISWGNA will not be able to consider pure drafting changes or revisions to the recommendations adopted in 2007.

At European level, it was considered to coordinate the comments of NSIs, NCBs, Eurostat and the ECB. In this context, the ECB has coordinated the comments on chapters dealing with financial issues (financial corporations, financial balance sheets, transactions, and other flows as well as some cross-cutting issues). Based on this agreement, the ECB has drafted an ESCB version of the comments on financial issues (as defined above). We have also checked this draft with the few comments on financial issues provided by EU NSIs. Nevertheless, each institution has already sent its own comments to the UNSD or to the IMF.

For your convenience, we have included two documents: The first document describes the comments the ECB has provided so far (section 2) and brings forward various substantial comments on financial issues to be taken into consideration by the ISWGNA (section 3). On non-financial issues two topics are specially mentioned: (i) the treatment of FISIM (section 4); and (ii) the non-life insurance accounting of catastrophic losses (section 5). The second issue raised by the BEA is supported by the ECB. Section 6 of the document recalls the comments made by the ECB on the occasion of the previous consultations that were not taken on board but are deemed still relevant.

The second document (annex) covers drafting suggestions which may be directly forwarded to the

Editor of the SNA. The comments have been transmitted to Eurostat - well in advance of the deadline and as part of the envisaged interactive process to consolidate the European comments. While we remain available for any questions you may have on the documents we are very sorry for the delay for sending these comments.

Best regards,

Reimund Mink

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Annex 1

Purely editorial (drafting) comments and further comments

The following comments on the draft volume one of the 1993 SNA (Rev. 1) mainly refer to financial issues and are of editorial nature. There are also new comments in cases where new text has been presented. The chapters to be considered at this stage are essentially: (a) Part of Chapter 4: Institutional units and sectors (*financial corporations*); (b) Chapter 11: The financial account; (c) Part of Chapter 12: Other changes in *financial* assets accounts; (c) Part of Chapter 13: The *financial* balance sheet; and (d) Chapter 17: Cross-cutting and other special issues.

1. Chapter 4: Institutional units and sectors

1.1 Editorial comments:

P 4.95, line 1 of the second part of the para: Suggest 'The production of financial services takes the form of...'.

P 4.96, line 7-12: Is this saying that S.11 corporations now often handle their own issues of commercial paper, bonds, etc. rather than use an issuing house or investment bank? If so, suggest adding in line 9 '..themselves (rather than using the services of a financial corporation) by selling..'. But we wonder whether anyone would think that arranging issues in-house would lead an S.11 corporation for that reason alone to be classified in S.12. (The case of issuing through a finance subsidiary is of course a different matter.)

P 4.103, line 5: Suggest 'Many of the liabilities...'

P 4.105, line 8: Suggest 'MMF shares may often..' (I don't think these shares/units are always transferable; it isn't part of the definition used by the ECB.) At the end of the para, suggest adding: 'MMF shares/units may be included in measures of broad money.'

P 4.106, line 4: Suggest '...short-term assets, and in non-financial assets...'

P 4.108 (c), line 2: Suggest '..retailers if they are separate entities, who may..'

P 4.108 (d), 4th bullet: Suggest "Venture and development capital' (this is a list of types of finance, not of financial institutions).

P 4.110, line 1-2: Suggest 'In general, the following financial corporations are classified in the financial auxiliaries subsector.'

P 4.110 (e), line 2-3: Suggest '...and futures (without being party to the contract);...'

P 4.112 (a), line 2: Suggest '...agency accounts or brass plate companies;' (a, b, c, etc should all be separated by semi-colons, as elsewhere).

P 4.112 (e): Suggest that introductory section should end with a colon, with semi-colons to separate the bullets. In 2nd bullet, line 2, suggest delete 'from'.

P 4.114, line 5-7: Suggest '...or by government, by insurance corporations on behalf of employees, or by separate institutional units established to hold...'.

1.2 Further comments

Partnership structures used for covered bond issues (P 4.59): We suggest consideration of one possible clarification with respect to the existence of partnership structures used for covered bond issues, such as the case of UK limited liability partnerships (LLPs). These achieve much the same effect and have similar characteristics as SPEs used for securitisation as are discussed in 4.54 to 4.61, but formally they are not incorporated entities although they would be considered in the System as 'quasi-corporations'. It is possible that the drafting of 4.59 to 4.61, where 4.59 begins, 'A subsidiary corporation...', might inadvertently serve to exclude covered bond LLPs from the scope of artificial subsidiaries. Moreover, in para 4.112 the inclusion of, '(a) Units which are legal entities such as trusts, estates, agency accounts or brass plate companies' as part of the sub-sector '7 Captive financial institutions, […etc.]' might be taken to include covered bond LLPs as institutional units of this kind. We therefore suggest the following update of paragraph 4.59 (additional text in *italic*): A subsidiary corporation, *or quasi-corporation such as a partnership or trust*, wholly owned by a parent corporation, may be created to provide services to the parent corporation, or other corporations in the same group, in order to avoid taxes, to minimize liabilities in the event of bankruptcy, or to secure other technical advantages under the tax or corporation legislation in force in a particular country.

In addition, the following insertion is suggested to the end of 4.95.b: ";branches are typically financial auxiliaries as they do not take ownership in the financial assets and liabilities they handle on account of their mother-companies;". In our view this brings the text in line with the discussions with financial accounts compiler using supervisory (ICPF) data, following the "home approach", suggesting that the treatment of branches of non-resident financial corporation as resident quasi-corporations needs a more detailed explanation.

Funded financial compensation schemes: One question might be how the proposed financial corporations sub-sectorisation would classify funded financial compensation schemes, such as statutory depositor protection or pension fund protection schemes, which may as part of their operation assume the assets and liabilities of failed entities. Were it not for their possible assumption of balance sheet risk, such entities might be expected to be classified under the 'captives' heading.

Treatment of central clearing counterparties (CCPs) (P 4.109): Broadly, we would view these entities as serving a market infrastructure purpose, and therefore should be classified as financial auxiliaries, even though they take ownership of matching positions in significant size in their relevant financial instruments. However, because these positions are precisely matched, and clear margin and collateral arrangements apply to CCP members, we would not consider that this function of a CCP would constitute financial intermediation as we understand the term. It is possible, however, that the drafting of 4.109, describing financial auxiliaries as: '*…not taking ownership of the financial assets and liabilities being transacted*' might be read as precluding this treatment. A possible remedy might be to insert in paragraph 4.109 an additional example, namely: *'Central clearing counterparties which maintain fully matched positions in certain financial assets and liabilities'*.

Finally, concerning the issue of residence: the SNA should give more emphasis to the residence status of the various types of offshore enterprise which are to be treated as resident in the country in which they are registered, licensed or incorporated even in the absence of a physical presence there. Although P 4.15 (e) is fine so far as it goes, the draft SNA is rather reticent on this point, stressing physical location and then referring to the residence criteria in

BPM6 which is much more explicit on the residence status of offshore enterprises. We think it should at least repeat the wording of BPM6 (perhaps in 4.14). The reason is that in our experience NSIs are a bit reluctant to accept this residence criterion, and a bold statement in the SNA can only help.

2. Chapter 11: The financial account

2.1 Editorial comments:

P 11.3. line 4: replace 'the entity' by 'it'. (It seems odd to call an asset an entity.)

P 11.11 line 6: 'may conceptually lead...'

P 11.15, last line: 'increase in assets...'

P 11.16, line 10: suggest replacing 'assets' with 'instruments', because this reference is to both the asset and liability sides. (For the same reason we would suggest the same in the last line of 11.20.)

P 11.32, line 4: We suggest omit 'financial assets and other'. The present wording implies that some instruments not classified as financial assets may be recorded in the financial account.

P 11.33, line 4: it is unclear what 'deliverable' means here. Aren't bank deposits deliverable (though they are not negotiable)?

P 11.34, line 8: 'price' not 'rice'.

P 11.37, line 8: should this be 'financial account' (no 's')?

P 11.41 (a), line 2: delete apostrophe.

P 11.45, line 3: 'held as reserve assets' (or perhaps better 'as a reserve asset').

P 11.45, line 23: 'a change in inventories...'

P 11.46, line 4-5: I would omit 'Therefore...not a problem.'

P 11.50, line 10: 'as the acquisition of a new deposit.' we would redraft the next sentence to read 'An increase or decrease in deposits may correspond to a rise or fall in holdings of currency.'

P 11.52, line 7 and 10: I would delete 'other banks'. This is a very unusual arrangement, and the last sentence says all that is necessary about it.

P 11.54, top of p.10: earlier the English spelling ('chequing') is used, the document should be consistent. (See also 11.99, line 6.). We would redraft the sentence 'A chequing account in credit ...transferable deposit, but if it becomes overdrawn, the withdrawal...of a loan.'

P 11.56: although the word 'banks' is used elsewhere in the text, the name for the subsector is depository corporations; this paragraph should probably make clear that these are the institutions which are being talked about. (We are not suggesting though that the familiar term 'inter-bank positions' should be dropped.) The 's' at the end of line 11 should be deleted. We notice that the table has no entry for F221 in the ROW column. Is this deliberate (= is F221 restricted to positions among resident institutions)? If so this makes it an unusual instrument.

P 11.59, last 4 lines: this is not the treatment of repos (where the transactions give rise to a liability of MFIs) in ECB statistics.

P 11.60, line 6: 'An (rather than 'The') unallocated...'. line 9, suggest 'Unallocated gold accounts are thus...' At the end of 11.60, suggest '...as reserves, in which case they are classified as monetary gold.'

P 11.61, line 3-6: suggest '...in a similar way. Unallocated metals accounts are treated as deposits in foreign currency; allocated metals accounts are valuables. If the practice...'

P 11.67, line 14: suggest 'by non-financial..' In line 16, why a musician's earnings - seems a bit quirky?

P 11.68, line 10: suggest 'claim on the customer who issued the draft or bill.'

P 11.71, line 1 of both (a) and (b): 'comprise', not 'include'.

P 11.73, line 10-11: suggest '../payable, treated as a separate category of financial assets, and loans that have become debt securities, are excluded...'

P 11.76: suggest adding at the end 'Thus a securities repurchase agreement is not treated as a transaction in the underlying security.'

P 11.78, line 11: suggest 'lessee, which the lessor uses to acquire...'

P 11.89: suggest adding '..old price, and the issue of bonus shares does not provide the corporation with new financing.' (I thought this was the reason for their exclusion, not that they leave relative holdings unchanged.)

P 11.91, line 9: delete 's' in first word. 3 lines down, suggest '..permit expansion. Such an injection may represent an addition...'

P 11.93, line 4-5: suggest '...owned by a notional resident unit...of the non-resident owner in the notional resident unit.'

P 11.95, line 7: 'flow of funds tables'.

P 11.99, line 4: Money market fund shares/units..' Line 8, suggest ' ..item in the financial account..'

P 11.109, line 5: 'standardised guarantee schemes' is better English.

P 11.114, line 4 and 12: similar point - 'derivative transactions' and 'derivative contracts' are better English.

P 11.116, line 6: similar point - 'option contracts'.

P 11.123, line 13-14: suggest delete 'in order to....aggregates'. (it seems common to exclude some categories of deposit from monetary aggregates, either on grounds of maturity or restrictions on use, or because the holder is outside the money holding sector - they are still deposits, though.)

P 11.124, line 12: 'it may have to be...' Line 13-14 suggest '..or, if the employee stock options are traded, between....'

2.2 Further comments

In addition we have the following comments on the new text of chapter 11:

Negotiability (P 33): Is negotiability really only a matter of the legal form of the financial asset? On the definition of securities, do they only include shares and debt securities or also financial derivatives? What about investment fund shares?

Currency and deposits (P50ff): P50: Text on interest should be dropped. Misleading: SNA interest … may be recorded as a new deposit; P51: First sentence should be dropped. It is too prescriptive to say that a distinction should always be made between currency and deposits in domestic and in foreign currency (depends on the availability of data, especially for currency; applies also to P52). We would generally suggest linking the financial asset deposit and the money issuing sector in the sense that deposit-taking corporations are the main issuer of deposits. For monetary policy purposes the breakdown of deposits in terms of maturity is much more relevant (overnight or sight deposits, agreed maturity, redeemable at notice); therefore, it might be useful to have definitions of these terms; P52: Currencies are generally issued by central banks or central governments. Does it make sense to mention explicitly other banks? P53: Cost of producing notes and coins is not always government expenditure. If central bank produces the notes cost is shown in the central bank profit and loss account. P54: It is not true that transferable deposits are exchangeable for banknotes and coins …without … restrictions. A reference to anti-money laundering might be appropriate nowadays. P56f: The text on inter-bank positions is still too detailed and the reference to FISIM is not necessary. The convention how to classify these positions has to be fixed in the context of collecting and compiling the accounts (compilation guide). Inter-bank positions refer to whom-to-whom information in the System and do not require a definition of a financial asset sub-category. P58: By convention, deposits may only be incurred by 'banks' - and exceptionally by central government. Therefore, cases in which both parties are non-banks seem to be unlikely. In P 59, Margin accounts should be added, because they should also be treated as deposits. Finally you may wish to review the structure of P 59 as the following remarks are somewhat unclear or even misleading: *"….The category also covers shares or similar evidence of deposits " and "……. as are overnight and very short-term"* (timeliness not defined ?) *"repurchase agreements, if they are considered part of national definition of broad money"*.

Liabilities (P 50): The SNA definition of Liabilities should make it explicit that Equity is included as this is in contrast to common English as well as business accounting terminology.- we therefore propose the following insertion at the end of 11.5: "In the case of equity it is a voting majority of creditors (e.g. shareholders) that decides about the size and timing of the payment(s) to be made."

Debt securities (P 64ff): P64, P 67-70, and P 72: It is not obvious to us why the definition has been changed and why a new structure of debt securities has been introduced to describe debt securities (ABS, banker's acceptances (relevant?), stripped securities, index-linked securities) and why the third part of the definition has been dropped.

Loans: P 72ff: A new definition has been introduced (P 73), for repos, the reference to money has been dropped and moved to P 75/P 74: Securities repurchase agreements are now discussed under loans. P77 on gold swaps has been taken from BPM6 and P78 on financial leases is new.

Equity and investment fund shares (P 81ff): P 84 has been expanded; now, it also covers depository receipts. P 85: What is 'equities'? Why to introduce a new term 'equity securities?' P 86 to P 88: The definitions of listed shares, unlisted shares and other equity seem not to match anymore with the current ESA definitions. Why to introduce a new term 'private equity?' The treatment of cases where a major part of listed shares is devoted to a strategic investment and in reality never traded should be taken into account. P89: The treatment of bonus shares is trivial. Why not to describe other cases of economic relevance like the issuance of new shares, or the buy-back of shares? P90 and P91: It should be indicated that P90 deals with super-dividends and P91 deals with capital injections. Only P90 is 'purely' financial. P94 covers a new definition of investment funds as institutional units (we would expect here a definition of the financial asset issued by the institutional unit as defined). P96, P98 and P99 are new paragraphs with new descriptions and definitions of funds and trusts, MMFs and non-MMFs, reinvestments.

Depository receipts (P 84): We do not see the need to mention depository receipts as they are not financial instruments, and would suggest deleting any reference to them. The description of depository receipts suggests they are financial instruments in themselves which are liabilities of depository (custodian?) institutions. This is not correct as the underlying shares are held directly and the depository does not take ownership in the financial assets and liabilities they handle. - If there has to be an explanation at all we suggest the redrafting below:

11.84 Ownership of equity in legal entities is usually evidenced by shares, stocks and participations~~, depository receipts, or similar documents. Shares and stocks have the same meaning, while~~ Depository receipts are ~~securities~~ documents that facilitate ownership of securities listed in other economies~~; a depository issues receipts listed on one exchange that represent ownership of securities listed on another exchange~~.

Definition of Money market funds (MMF) (P 97): While we highly appreciate that the definition of money market funds (see 4.105) has now been brought in line with the definition in Regulation ECB/2001/13 (by including also short-term instruments with a maturity of exactly one year as eligible investment of MMFs), it seems that paragraph 11.97 still needs to be amended according to this effect. The latter would then read as follows: "…MMFs typically invest in money market instruments with a residual maturity of up to one year…")..

Investment funds shares: We would suggest distinguishing rather between open and closed funds, because these types are well-defined sub-categories, whereas the breakdown in listed and unlisted is not very common.

Insurance, pension and standardised guarantees schemes (P 103ff): P104: Social security pension scheme entitlements should at least be discussed even if not seen as a financial asset sub-category. P107: The expression 'future pensioners' is too imprecise taking into account the concept of accrued to date liabilities. It is not correct to say that only the difference between net contributions receivable and benefits payable is recorded in the financial account. Incoming and outgoing cash flows are recorded.

Financial derivatives and employee stock options (P 110ff): P124: Please consider possible dupllicate with chapter 17's description of employee stock options.

3. Chapter 12: Other changes in assets accounts

3.1 Editorial comments:

P 12.1, line 7: 'capital account and the financial account.'

P 12.2, line 5: Suggest '..due to events other than transactions.'

P 12.8, line 12: Suggest delete 'also'.

P 12.12 (d): Suggest '… financial assets and liabilities.'

P 12.15, last line: 'as normal' isn't very helpful. If this is the meaning, we suggest '..in the capital account as a transaction, with a reclassification recorded in 'other changes in the volume of assets'. 12.16 indicates that the reclassification is effected before the transaction is recorded. Whatever order the entries are made in, the text should explain clearly what is to be done.

P 12.21, last sentence: Is it really correct that an increase in the value of land due to, for example, the building of some amenity in the vicinity ('adjacent capital activity') is 'economic appearance' rather than a valuation change to be reflected in the revaluation account? This is what the text seems to be saying.

P 12.23, line 11: Suggest '…underlying buildings following the issue of a building permit may result.'.

P 12.37-12.41: These paragraphs form part of a section headed 'Appearance and disappearance of financial assets and liabilities' and are not grouped satisfactorily. Most of the cases discussed are recorded as transactions, or not recorded in the accounts at all. The exceptions are write-offs/write-downs. We suggest starting with write-offs/write-downs, followed by an explanation (if this is thought the place for it) that certain other 'debt operations' which might be thought similar to write-offs are recorded as transactions or are ignored in the System.

P 12.42: A similar point concerning financial derivatives - as I understand it, only the expiry of an option contract may require an entry in 'other changes in volume' (since some entry must accompany its disappearance from the balance sheet where it may still be residually valued at the amount of the premium). To our knowledge, all other derivative contracts will either be recorded at zero market value at the time they expire, or will require settlement (recorded in the financial account).

P 12.67, line 2: Suggest 'When unit A issues a security and sells it to unit B, A has...'. In the last line, 'of''. (I take it that this example illustrates the difference between the debtor/creditor and transaction approaches.)

P 12.68: The block of 8 1/2 lines of text at the foot of 12.68 should go at the end of 12.71.

P 12.74, line 5: '...other than arising from transactions..' The sentence wavers awkwardly between singular and plural - 'assets' might be better throughout. The following sentence is confusing. Presumably the message is that, for debtors, holding gains arise on liabilities when their value falls (after allowance for any accrual of interest which will tend to increase their value). The text should say this clearly.

P 12.82, last line but one: Suggest '..in other words it must be the full value..'.

P 12.107, line 8: The text suggests that the issuer can only sometimes purchase his bonds in the market. Is this not usually possible? If so, suggest '..can usually repay..'.

P 12.109, line 3: 'varying' would be better. In line 7, suggest 'volume' rather than 'quantum'.

P 12.112, line 2: Delete comma after 'case'. In the last line, presumably 'with no storage component' means with no tendency to improve with keeping (like wine). But why is it necessary to make this comparison? I would delete after 'and losses.'

P 12.113, line 5: '..gains..'

P 12.114, line 2 (and in section heading): 'standardised guarantee schemes' (no 's') is better English (we don't write 'banks deposits' unless we mean deposits held by banks, in which case we write 'banks' deposits'). (I would also drop the 's' from pensions in line 1 - as the heading does.)

The last sentence is not fully clear in our view. All the reserves etc are deemed to belong to policy-holders/beneficiaries. Does it mean that the assets of the ICFC record a revaluation gain, while their liabilities (and the assets of policy-holders/beneficiaries) record a gain in 'other changes in volume'? That seems very odd if so. Is the same treatment applied to defined contribution pension schemes where the fund is in effect holding a portfolio of earmarked assets on behalf of the future pensioner?

4. Chapter 13: The balance sheet

4.1 Editorial comments

P 13.5: 'The balance sheet completes the sequence of accounts...' This is fine, except that 11.1 says that 'The financial account is the final account in the full sequence of accounts that records transactions..'. A related point is that 13.5 does not mention the reconciliation accounts. Suggest: 'The balance sheet thus shows the ultimate result of the entries in the ....accounts, with allowance for influences other than transactions on balance sheet amounts (see chapter 12).'

P 13.6, line 9-10: What do data on the stocks of consumer durables in practice reveal about deterioration/obsolescence that is not evident from expenditure data in the use of income account? So far as we know, they do not show the age of the stock. Perhaps the last sentence should make clear that balance sheets for groups of households (presumably by income, family size, etc.) are likely to have to be collected in periodic surveys (I guess most countries compile at least the financial side of the household sector balance sheet in their regular sector accounts from counterpart information, which is unlikely to reveal such detail).

P 13.11, line 3-5: The net worth of the ROW in a country's or area's accounts must be confined to the ROW's financial claims on less liabilities to the country/area concerned. It must therefore be a (probably hugely) narrower definition than national/area net worth, which at least in principle includes all non-financial assets on the territory. Suggest '..., and a measure of net worth confined to financial assets and liabilities.'

P 13.31, last 3 lines: A comma in front of each 'or because' would be better punctuation.

P 13.32, 13.35: Chap 13 is some way distant from the explanation that R&D and exploration costs are now to be treated as capital expenditure. Suggest to start 13.32:'Accumulated research and development expenditure is a non-financial asset in the System (see....). Research and development expenditure carried out on contract... '. Similar suggestion for 13.35: 'Like spending on research and development, accumulated expenditure on mineral exploration and evaluation is a non-financial asset in the System ...'.

P 13.34, line 9: Suggest: 'as intermediate consumption (expenditure on services) when'.

P 13.36, line 6: Delete 'the' (2nd word).

P 13.40, line 6: 'work-in-progress' (as in line 1). The last sentence is a bit obscure. Is the meaning that, separately from any revaluation adjustment, w-i-p (like maturing wine) increases in value as delivery date approaches, and that this is an 'other change in volume'? Suggest that the text should make it clear if this is so.

P 13.50, line 14: '…owner are shown as rent' is better English.

P 13.57, line 7: Presumably 'interest' here means 'SNA interest', and 'service charge' refers to FISIM. The amount of interest actually reported as accruing will be less than SNA interest because the financial institution will have deducted an implicit service charge. Presumably the correct treatment in principle is this: the depositor is deemed to receive full SNA interest as it accrues, and simultaneously (i) spends part of it - the FISIM element - on services (recorded in the current accounts as final consumption expenditure or intermediate consumption) (ii) adds the rest to his deposit. Only (ii) (it seems to me) should be reflected in deposits in the balance sheet. So why does 13.57 say 'The amount of principal outstanding includes any interest and service charge due but not paid.'? If it means that the service charge is negative and should indeed be deducted from accruing SNA interest, it is a confusing way of putting it.

P 13.61, last 3 lines: There seems to be confusion here between debt owed to non-residents (regardless of the currency of denomination or settlement), and debt denominated in foreign currency or debt which must be serviced in foreign currency though denominated in domestic currency (regardless of who the creditor is). It might be better to omit the last sentence.

P 13.63, line 2-3: Suggest '..the loan is to be reclassified as a debt security.'

P 13.66, line 6-7: Should the source of the quotation be given?

P 13.70 (d), line 3: Suggest '"…own funds at book value" (see below)..' In line 7, 'Aternately' should read 'Alternatively'.

P 13.70 (d), line 3: To check that 'direct investment enterprise' should not read 'direct investor' (i.e. the non-resident parent). If 'direct investment enterprise' is indeed meant, it would be clearer to say '...uses the value of the direct investment enterprise valued in its own books...'.

P 13.73, last line: 'its', not 'their'.

P 13.78: Readers of the manual will be confused by standardised guarantees. It seems to us that this example is saying that lenders (e.g. MFIs) have a claim on borrowers (e.g. households) of 20,000; households have a corresponding liability to MFIs of 20,000; and the guarantor has liability of 200 which is left hanging. Net worth of the economy is non-financial assets owned by residents plus their financial assets minus their liabilities. How is it then that net worth is unaffected? it seems to be 200 lower than it would have been with no allowance for liabilities under standardised guarantees.

P 13.82, line 12: 'changes'.

P 13.86, line 2: Suggest 'In this calculation, the value of...'. This isn't an easy paragraph. It may help the reader to insert (in 3 on p.15) '...balance sheet date. The value of shares may not equal the value of the corporation's assets minus the value of its other liabilities. Thus, even though...'.

P 13.89, line 11: Suggest replacing 'reinvested earnings' with 'paid out and then reinvested'.

P 13.92, line 2-3: Suggest adding 'However, these are not treated as non-financial assets used in a production process giving rise to household services, but as household final consumption expenditure.'

4.2 ECB's initial comments not taken on board that are still deemed relevant

Not much has been changed in this chapter compared to the version on which the **ECB has commented on** 12 February 2007. Some of the comments were integrated but the bulk of them were not taken. They, for instance, refer to the proposals:

Elaborate more than currently done on the **use of balance sheets**. For the time being, only two paragraphs (P6 and P7) cover some examples how balance sheets could be used for analytical purposes. Unfortunately, one of the examples refers to the stock of durable consumer goods which is not treated as a standard component of the accounts. Other comments refer to the following: (c) P4: The term 'financial and non-financial resources' at the disposal of an institutional unit (net worth) is misleading; and (d) P5: The (opening) balance sheet could also be seen as a starting point.

In addition we would suggest the following amendment to P 13.88: "A non-zero value of ~~own funds~~ net worth comes about through a number of factors."

5. Chapter 17: Cross-cutting and other special issues

5.1 Editorial comments:

P 17.211, line 7: Suggest deleting 'means of'. In line 10, suggest deleting 'even' (because borrowing to finance consumption is common). But I think the text should add (line 11) '..as saving. (Borrowing for consumption is a form of dissaving.) The equation..' The reason for the insertion is that the equation doesn't hold in the absence of this treatment of consumer borrowing.

P 17.216, last word: 'System'.

P 17.219, line 12: 'on' should read 'of'.

P 17.234, line 5: 'known'.

P 17.235, line 14: 'its' for 'their'.

P 17.236, line 9: '(Often in fact the service charge..)'

P 17.237, in 2: Suggest insert '..banks within the national economy..' (assuming that this paragraph is indeed confined to domestic inter-bank business). In sentence 3, you may wish to reconsider the validity of showing the amount net.

P 17.256: The correctness of the first formula may be revised (in our view it should be the first term minus 1).

P 17.260, line 6: '..of the index..'

P17.264, line 4: '..currency, interest, ...'. In line 9, '..be converted..'.

5.2 ECB's initial comments not taken on board that are still deemed relevant

Chapter 17 on cross-cutting and other special issues has been rearranged, also based on the ECB comments provided on 1 September 2007, but also expanded. Now, it covers six sections with a total of 60 pages. One of our comments was to restrict this chapter only to insurance (direct insurance, reinsurance, social insurance and credit insurance) which was not taken.

5.3 Further comments

Because of the many rearrangements, which are not documented at all, it is difficult to comment on this new draft. However, it helps to have direct insurance and reinsurance in one section and the presentation of social insurance in another section (not clear why the sub-section numbering continues over the various sections).

On section one, **direct insurance and reinsurance** (we would prefer this title), we would like to make the following general comments: (a) It would be helpful to also have an example for reinsurance (new Table 17.3). Especially the text on reinsurance is rather incomplete. For instance, the treatment of reinsurance in the financial accounts is not discussed at all; (b) the accounting examples for non-life and life insurance are illustrative but incomplete (no financial account entries); and (c) the treatment of annuities is now illustrated by a numerical example; however, it is still unclear why annuities are not treated within life insurance.

Section two deals with **social insurance** (it is assumed that all input provided by the Eurostat/ECB Task Force on Pensions should still be included). On the structure of this section, we would prefer to start with a definition of social insurance (P84ff), social benefits and social contributions. Furthermore, we would continue with pension schemes and not with the non-pension social insurance schemes.

As already mentioned in the ECB comments we would like to use the **supplementary table** (which is now presented, but not explained, at the end of section two) to describe and define the different types of pension schemes in social insurance. It should be the most useful tool for presenting stock, transaction and other flow data on pension schemes in social insurance. For that reason, not only the institutional arrangements but also the different transactions, other flows and positions should be described by using the table.

On the treatment of **loan guarantees**, section three, we would prefer to only refer to 'guarantees' as guarantees are also provided for other financial asset categories like debt securities. We also still believe that the recording of **flows associated with financial assets and liabilities**, section four, could be easily integrated into other chapters related to financial issues (chapter 10 to 12) or to financial services (chapter 6). Now, it is quite cumbersome for the reader to gather all information related to financial issues which are currently spread over different chapters of the updated SNA.

There are no specific comments on the two remaining sections five and six, on contracts, leases and licences and on employee stock options.

Annex 2

Text on FISIM in the updated SNA

a) Financial services provided in association with interest charges on loans and deposits (Chapter 6: The production account)

6.160 One traditional way in which financial services are provided is by means of financial intermediation. This is understood to refer to the process whereby a financial institution such as a bank would accept deposits from units wishing to receive interest on funds for which the unit has no immediate use and lend them to other units whose funds are insufficient to meet their needs. The bank thus provides a mechanism to allow the first unit to lend to the second. Each of the two parties pay a fee to the bank for the service provided, the unit lending funds by accepting a rate of interest lower than that paid by the borrower, the difference being the combined fees implicitly charged by the bank to the depositor and to the borrower. From this basic idea the concept emerges of a "reference" rate of interest, the difference between the reference rate and the rate actually paid to depositors and received by borrowers representing a financial intermediation service charge indirectly measured (FISIM).

6.161 However, it is seldom the case that the amount of funds lent by a financial institution exactly matches the amount deposited with them. Some money may have been deposited but not yet loaned; some loans may be financed by the bank's own funds and not from borrowed funds. However, the depositor of funds receives the same amount of interest and service whether or not his funds are on lent, and the borrower pays the same rate of interest and receives the same service whether his funds are provided by intermediated funds or the bank's own funds. For this reason an indirect service charge is to be imputed in respect of all loans and deposits offered by a financial institution irrespective of the source of the funds. The reference rate applies to both interest paid on loans and interest paid on deposits so that the amounts of interest recorded as such in the System are calculated as the reference rate times the level of loan or deposit in question. The difference between these amounts and the amounts actually paid to the financial institution are recorded as service charges paid by the borrower or depositor to the financial institution. For clarity the amounts recorded in the System as interest are described as "SNA interest" and the total amounts actually paid to or by the financial institution are described as "bank interest". The implicit service charge is thus the sum of the bank interest on loans less the SNA interest on the same loans plus the SNA interest on deposits less the bank interest on the same deposits. The service charge is payable by or to the unit in receipt of the loan or owning the deposit as appropriate.

6.162 By convention within the System, these indirect charges in respect of interest apply only to loans and deposits and only when those loans and deposits are provided by, or deposited with, financial institutions. The financial institutions in question need not be resident; nor need the clients of the financial institution be resident. Thus imports and exports of this type of financial service are possible. Nor need the financial institution necessarily offer deposit-taking facilities as well as making loans. The financial subsidiaries of retailers are examples of financial institutions that make loans without accepting deposits. A money lender who has sufficiently detailed accounts to be treated as an actual or quasi-corporation may receive this sort of charge; indeed since money lenders usually charge especially high rates of interest, their service charges may exceed the SNA interest payments by significant amounts.

6.163 The reference rate to be used in the calculation of SNA interest is a rate between bank interest rates on deposits and loans. However, because there is no necessary equality between the level of loans and deposits, it cannot be calculated as a simple average of the rates on loans or deposits. The reference rate should represent a risk-free rate of interest such as that prevailing for inter-bank borrowing and lending. However, different reference rates may be needed for each currency in which loans and deposits are denominated, especially when a non-resident financial institution is involved. The fact that the inter-bank rate may be considered as the reference rate implies that, for banks within the same economy, there is often little if any service provided in association with banks lending to and borrowing from other banks.

6.164 Banks may offer loans that they describe as being fixed interest loans. This is to be interpreted as a situation where the level of bank interest is fixed but as the reference rate changes, the level of SNA interest and the service charge will vary.

6.165 When an enterprise acquires a fixed asset under the terms of a financial lease, a loan is imputed between the lessor and the lessee. Regular payments under the lease are treated as being payments of interest and repayment of capital. When the lessor is a financial institution, the interest payable under the terms of a financial lease corresponds to bank interest and should be separated into SNA interest and financial service charge as for any other loan.

6.166 Even when a loan is described as non-performing, interest and the associated service charge continue to be recorded in the System. There is discussion on the treatment of non-performing loans in chapter 13.

b) Recording flows in financial instruments (Chapter 17: Cross-cutting and other special issues)

17.224 As explained above, both service charges and property income flows may be combined with the costs of acquiring and disposing of financial assets and liabilities. This section of the chapter, therefore, examines each class of instrument in turn to identify what flows should be recorded in each case. Explicit fees are not covered in this section since even if they apply, their value is additional to the value at which financial assets change hands. There are thus three types of flows of relevance in this section; the implicit fees made by financial institutions, different income flows and holding gains and losses. A summary of the types of flows that relate to each instrument is given in table 17.11. Implicit fees are subdivided between those that appear as a margin between the buying and selling price and those that represent a margin on interest paid and received (FISIM). All income flows are property income and these flows are divided between interest, dividends, withdrawals from quasi-corporations and investment income attributed ot investment fund shareholders. Only the instruments relating to insurance, pension and standardised guarantee schemes are excluded as the treatment of these schemes is described in detail in other parts of this chapter.

…

Deposits and loans

17.234 In the 1993 SNA, financial intermediation other than that implicit in insurance activity was assumed to be restricted to deposits and loans and the only indirectly measured service charge was associated with interest flows on these instruments. The acronym used for the service flows became know as FISIM, Financial Intermediation Services Indirectly Measured. Although the update recognises other indirectly measured service charges associated with financial intermediation, it is convenient to continue to use the familiar expression, FISIM, for its traditional meaning, that is, for financial intermediation associated with loans and deposits held with financial intermediaries.

17.235 Paragraphs 6.160 to 6.166 describe the basic principle of FISIM and explain the need to make the distinction, referred to above, between interest as understood by the banks holding deposits and issuing loans and the investment income flows recorded in the System. One (or possibly more) reference rate(s) should be applied to the level of loans and deposits to determine the SNA interest flows to be recorded. The difference between these flows and bank interest are recorded as service charges payable to the banks by the units holding the deposits or loans. This applies to both resident and nonresident units and to deposits and loans held with resident and non-resident units. For clarity, the term bank interest is used to indicate the apparent interest as quoted by a financial intermediary to their customer; the term SNA interest is used for the amount recorded in the System as interest, that is the level of loans and deposits multiplied by the reference rate chosen. For deposits with banks, the service charge is equal to SNA interest less bank interest; for loans the service charge is equal to bank interest less SNA interest. At a minimum, it is probable that different reference rates should be used for every currency in which non-resident loans and deposits are denominated.

17.236 No exclusion is made for lending of own funds. Although the act of lending, and the charging of SNA interest is not a productive activity, there is a service charge associated with lending. A person borrowing from a bank is unaware of whether the amounts borrowed are of intermediated funds or come from the bank's own funds and no difference in the service charges applied should be made. Similarly, if a person borrows from a money lender, there is a service charge payable. (Often in fact service charge is very large reflecting the much higher risk of default faced by the money lender. A noteworthy feature of some micro-finance schemes is that, because defaults are uncommon, the charges are modest.)

17.237 It is not always simple to determine whether positions between banks should be classified as deposits or loans. In a complete flow of funds presentation, this should be resolved but in the absence of a flow of funds analysis, inter-bank positions may be shown under currency and deposits. By convention they are shown as deposits less loans with a negative sign if necessary. It is assumed that the inter-bank rate at which banks borrow and lend to one another is usually such as to meet the criteria for a reference rate, that is, it is a risk-free rate. (In some cases it may be appropriate to use the interbank rate as the reference rate.) For this reason, it may often be appropriate to assume that there is no FISIM associated with inter-bank lending and borrowing within the national economy.

17.238 The outstanding balance on a credit card or on an account with a retailer is often subject to interest. These outstanding balances should be classified as loans, not other accounts receivable/payable. FISIM is calculated on them if the unit providing the loan is classified as a financial institution.

17.239 Repurchase agreements are classified as giving rise to deposits or loans depending on whether they are or are not included in the national measure of broad money. They give rise to interest that may have a FISIM component but, even if this is so, it may be very difficult to isolate it. They do, though, have fees associated with their initiation and thus for pragmatic reasons the measurement of associated flows may be treated in the same way as for debt securities.

17.240 There are no nominal holding gains and losses on deposits and loans expressed in domestic currency (whether these are held by residents or non-residents). With any inflation at all, there will be real holding losses on assets denominated in domestic currency. There may be nominal and real holding gains and losses on deposits and loans denominated in other currencies or held as unallocated metal accounts.

17.241 Any charges made by a financial institution for operating a bank account, a fee for cashing a cheque or for withdrawing money from an automatic teller machine are all treated as explicit fees.

17.242 The special case of non-performing loans and how they should be treated in the System is discussed in chapter 13.

...

Financial leases

17.294 ***A financial lease is one where the lessor as legal owner of an asset passes the economic ownership to the lessee who then accepts the operating risks and receives the economic benefits from using the asset in a productive activity.*** One indicator of a financial lease is that it is the responsibility of the economic owner to provide any necessary repair and maintenance of the asset. Under a financial lease, the legal owner is shown as issuing a loan to the lessee with which the lessee acquires the asset. Thereafter the asset is shown on the balance sheet of the lessee and not the lessor; the corresponding loan is shown as an asset of the lessor and a liability of the lessee. Payments under the financial lease are treated not as rentals but as the payment of interest and repayment of principal. If the lessor is a financial institution, part of the payment is also treated as a service charge (FISIM).

17.295 Very often the nature of the asset subject to a financial lease may be quite distinct from the assets used by the lessor in his productive activity, for example a commercial airliner legally owned by a bank but leased to an airline. It would make no economic sense to show either the aircraft or its consumption of fixed capital in the accounts of the bank or to omit them from the accounts of the airline. The device of a financial lease avoids this undesirable form of recording the ownership of the aircraft and the decline in its value while keeping the net worth of both parties correct throughout the length of the lease.

17.296 It is common for a financial lease to be for the whole of the life of the asset, but this need not necessarily be so. When the lease is for the whole of the life of the asset, the value of the imputed loan will correspond to the present value of the payments to be made under the lease agreement. This value will cover the cost of the asset and include a fee charged by the lessor. Payments made regularly to the lessor should be shown as a payment of interest, possibly a payment for a service and a repayment of capital. If the terms of the agreement do not specify how these three items are to be identified, the repayment of principal should correspond to the decline in the value of the asset (the consumption of fixed capital), the interest payment to the return to capital on the asset and the service charge to the difference between the total amount payable and these two elements.

17.297 When the lease is for less than the whole life of the asset, the value of the loan should still be estimated as the value of the asset plus the value of the service charges to be made under the terms of the lease. At the end of the lease, the asset will appear on the balance sheet of the lessee and its value will be equal to the value of the loan owed to the lessor at that time. At that point the asset could be returned to the lessor to cancel the loan or a new arrangement, including the outright purchase of the asset, may be reached between the lessor and lessee.

17.298 Although a financial lease will typically be for several years, the duration of the lease does not determine whether the lease is to be regarded as an operating or financial lease. In some cases a large complex such as an airport or even a building may be leased for short periods, perhaps only one year at a time, but on condition that the lessee takes all responsibility for the asset, including all maintenance and cover for exceptional damage, for example. Even though the lease period is short, and even though the lessor may not be a financial institution, if the lessee must accept all the risks associated with the use of the asset in production as well as the rewards, the lease is treated as a financial and not an operating lease and the asset appears on the balance sheet of the lessee with a corresponding loan extended from the lessor to the lessee.

17.299 As a consequence, any corporation that specialises in this sort of leasing, even though it may be called a property company or aircraft leasing company, should be treated as a financial corporation offering loans to the units leasing assets from them. If the lessor is not a financial corporation, the payments are split into repayments of principal and interest only; if the lessor is a financial corporation, the interest is split into bank interest and a service charge (FISIM).

DIRECTORATE GENERAL STATISTICS
STATISTICS DEVELOPMENT AND COORDINATION DIVISION
R. Mink, 7639; S. Duverger, 6845

RESTRICTED

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Comments on Chapters 4, 11 to 13 and 17 of the draft Volume 1 of 1993 SNA, Rev. 1

1. Introduction

The United Nations Statistical Commission (UNSC) adopted, in principle, Volume 1 of the updated SNA at its 39th session in February 2008, allowing for final comments by the end of April 2008[1].

Countries and international organisations should bring to the attention of the ISWGNA substantive observations they may have in relation to the 44 issues adopted by the UNSC in February 2007 and the clarifications and consistency issues that flowed from these issues. In this context, the ISWGNA will not be able to consider pure drafting changes or revisions to the recommendations adopted in 2007.

With a view to present the editors of the SNA with a common European position on the amendments, the present note collates the comments from the ESCB on financial issues (as defined above), as collected by the ECB. The ECB welcomes comments on the financial accounts provided by the NSIs which Eurostat may receive, as well as the opportunity to provide Eurostat with comments on non-financial issues received from the NSIs.

This paper shortly describes the comments the ECB has provided so far (section 2) and brings forward various substantial comments on financial issues to be taken into consideration by the ISWGNA (section 3). On non-financial issues two topics are specially mentioned: (i) the treatment of FISIM (section 4); and (ii) the non-life insurance accounting of catastrophic losses (section 5). The second issue raised by the BEA is supported by the ECB. Section 6 recalls these comments made by the ECB on the occasion of the previous consultation that were not taken on board but are deemed still relevant. A separate annex presents comments of a more editorial nature that could be sent to the editors of the SNA directly.

[1] Letter of 3 March 2008 from Mr Paul Cheung, Director of the United Nations Statistics Division (UNSD) to the Directors of National Statistical Offices, and letter of 20 March 2008 from Mr William E. Alexander, Acting Director of the Statistics Department of the IMF to the President of the ECB, the UN and the IMF.

2. Comments provided so far by the ECB

The ECB (DG Statistics) has provided comments on all draft chapters of volume one (chapters 1 to 17), except chapter 1 and chapter 2. Those introductory chapters were only posted on the UNSD website on 31 March 2008. No comments were also provided so far on two annexes, which were posted on the UNSD website on 22 February 2008. These annexes deal with the classification and coding structure of accounting entries and with a numerical example of the accounts. Most of the comments on chapters 3 to 17 were communicated and coordinated with the comments forwarded by NCBs via the ESCB's Statistics Committee. The comments provided on the draft chapters 3 to 17 have been forwarded to the ISWGNA during the drafting period between December 2006 and end September 2007. Especially, the comments on the first draft chapters were based on a rather limited amount of already existing revised text.

3. Substantial comments on financial issues to be forwarded to the ISWGNA

A couple of comments on financial issues is seen as **essential** and should in our view be taken up in the final drafting of volume one during May and June 2008, also in view of the current drafting of the new ESA.

3.1 There is more than one useful way to 'sub-sectorise' financial corporations (Chapter 4)

The text explaining why the sub-sectorisation has been proposed in the way as outlined should be more explicit as also done for other sectors (like general government or households). For instance, it should be said (as expressed in paragraphs 4.158 and 4.159 for households) that *"there are many useful ways in which the [financial corporations sector] may be sub-sectored and statistical agencies are advised to give due consideration to the various possibilities."*[2] Accordingly, a specific method may be adopted depending on the demand from users, analysts or policy makers. The System has to be applied flexibly, not rigidly.

Accordingly, one proposal may be recommended: A sub-sectoring based on the use for monetary policy purposes. It distinguishes between monetary financial institutions, insurance corporations and pension funds (ICPF) and miscellaneous financial corporations. This sub-sectoring proposal has the advantage to clearly specify the two main groupings of financial intermediaries covered by the sub-sectors monetary financial institutions and ICPF. The split into three groupings would also allow compiling rather detailed from-whom-to-whom financial accounts and balance sheets based on available monetary and financial

[2] For households, three different methods of sub-sectoring are proposed: sub-sectoring according to income, to characteristics of a reference person and to household size and location (see draft chapter 4, paragraphs 156ff); for general government two methods of sub-sectoring are described depending on how to integrate social security funds.

data, while not much data are available for the still rather small miscellaneous financial corporations sub-sector, except for non-MMF investment funds.

Sub-sectoring of financial corporations according to monetary policy analysis purposes

Financial corporations

1. ***Monetary financial institutions***
   - *Central bank*
   - *Deposit-taking corporations except the central bank*
   - *Money market funds (MMF)*
2. ***Miscellaneous financial corporations***
   - *Non-MMF investment funds*
   - *Other financial institutions*
     - *Other financial intermediaries except ICPF*
     - *Financial auxiliaries*
     - *Captive financial institutions and money lenders*
3. ***Insurance corporations and pension funds***
   - *Insurance corporations*
   - *Pension funds*

3.2 Links between the financial account and the other accumulation accounts and balance sheet (Chapter 11 and Chapter 13)

Chapter 2 covers a section on the integrated presentation of the accounts which is illustrated by a table and a diagram. In Chapter 13, the **relationship between stocks, transactions and other flows is described** in the context of the so-called 'asset accounts' (P1, P8, P9, and P14ff). As such asset accounts are only used in a very specific context we would recommend to present the stock-flow relationship in the context of balance sheets and accumulation accounts as a whole as illustrated in the diagram:

Diagram: Transactions, other flows and stocks as presented in the system of accounts

Stocks at the beginning of the period	Transactions	Other flows		Stocks at the end of the period
		Other changes in the volume of assets	Holding gains and losses	
	Current accounts			

		Production of goods and services Generation, distribution, redistribution, and use of income				
Opening balance sheet		**Capital account**	**Other changes in the volume of assets account**	**Revaluation account**	**Closing balance sheet**	
Non-financial assets		Net acquisition of non-financial assets, saving and capital transfers	Other changes in the volume of non-financial assets,	Holding gains and losses in non-financial assets,	Non-financial assets	
		Financial account				
Financial assets	Liabilities Net worth	Net acquisition of financial assets and net incurrence of liabilities	financial assets, and liabilities	financial assets, and liabilities	Financial assets	Liabilities Net worth

3.3 Definition of financial assets and liabilities (Chapter 11):

Beginning with the definition of an asset in general (P.3) one would expect a definition of a financial asset (something like:

All financial assets are economic assets, in that they provide the holder with economic benefits such as a means to settle transactions, a store of value, or a source of fixed or contractually determined income. All financial assets except gold bullion represent the liability of some institutional units. The debtor who has issued the liability has a commitment to the holder, the creditor, who may be the original counterparty but need not be since many financial assets are traded in secondary markets.

The definition of a liability reflects the definition of a financial asset; therefore, the definition of a financial asset (creditor/debtor relationship) determines the rest of the section. Based on these considerations we propose not to introduce the concept of a 'financial claim' as this concept is not used later on. Gold bullion as a financial asset is seen as the only exception having no counterpart liability (in substance, a non-financial asset but held by monetary authorities as a reserve asset).

We doubt whether the concept of constructive liabilities should be introduced at all: (a) Will it be used in other chapters? If not, why is there a need to introduce the concept? (b) There were long discussions in the context of government pension entitlements whether to treat them as constructive or not. Therefore, it makes most sense to discuss the concept of constructive liabilities only in the context of the criteria of classifying pension schemes as part of the core or of the non-core system of accounts; (c) another option would be to discuss the concept together with contingencies and provisions (section 1.6).

3.4 Recording of accrued interest and arrears (Chapter 11, 13, 17)

It is strongly recommended to record accrued interest (interest not yet due) and arrears (of interest already due for payment, but not yet paid and of repayment of principal) always within the financial asset category or subcategory to which they belong and not in F.8. The market price of a debt security typically includes accrued interest (not yet paid); for that reason the same procedure should be applied for deposits, loans and other financial assets.

3.5 Consistent treatment of non-performing loans (Chapters 11, 13 and 17)

The accounting treatment of non-performing loans (NPL) is discussed in various chapters: In chapter 11 and in chapter 13, NPL are introduced as a new memorandum item. However, it is not clear whether the outstanding amounts of NPL (nominal value and fair value for general government and for financial corporations) should be shown or also the corresponding flows. Looking through the different paragraphs (especially paragraphs 65 to 67 of chapter 13) it would be much easier to understand the proposal if an example is included. The ECB had already provided such an example in its letter of 28 November 2005 which was not yet taken into consideration for the drafting:

According to the AEG decision the stock of loans has to be recorded at nominal value. Uncollectible loans are written-off and do not show up anymore in the balance sheet. In addition to the nominal value of loans, supplementary information has to be provided for NPL. The table describes which positions and flows may have to be recorded for NPL to allow a rather complete picture on stocks, transactions, reclassifications and write-offs of nonperforming loans. It starts with the recording of nominal values for loans, performing and nonperforming. Information is also included on loan loss provisions. One part of the NPL might also not yet be covered by loan loss provisions. The second part of the table provides data on the market equivalent values of the various types of NPL based on the calculation of loan loss provisions.

The example in the table shows an outstanding amount of loans at nominal value of 1000 in t-1, of which 500 are performing and 500 are nonperforming. The major part of the nonperforming loans, 400, is covered by loan loss provisions, while 100 are not. The second part of the table provides detailed supplementary information on the market equivalent value of the non-performing loans. It is derived as the difference between the nominal value and the loan loss provisions. In t-1, it is assumed to be 375. During the period from t-1 to t, parts of the loans are reclassified (from performing or not yet covered to nonperforming or from nonperforming, type 3, to nonperforming, type 4, and vice versa) or written-off. The flows are shown in the corresponding columns of the table. For the loan loss provisions the nominal values and the market equivalent values are also presented.

In conclusion, the assessments on loan loss provisions have to be made in the framework of the accounting standards, the legal status and the taxation rules applicable to the units, which might lead to rather heterogeneous results in terms of amounts and duration of loan loss provisions. This makes it difficult to treat nonperforming loans in the core accounts taking also into consideration *that it is almost impossible to achieve consistency between the debtor and creditor stocks of loans. It seems preferable instead to provide "market equivalent" values as a supplement to the standard table showing the nominal values of loans, performing and nonperforming.*

Recording of non-performing loans

Positions	Stock t-1	Transaction	Reclassification	Write-off	Stock t
		period t-1 to t			
Nominal value					
Loans	*1000*	*200*	*0*	*-90*	*1110*
Performing loans	*500*	*200*	*-50*		*650*
Non-performing loans	*500*		*50*	*-90*	*460*
Covered by loan loss provisions	*400*		*70*	*-90*	*380*
Type 3	*250*		*30*	*-20*	*260*
Type 4	*150*		*40*	*-70*	*120*
Not yet covered by loan loss provisions	*100*		*-20*		*80*
Market equivalent value					
Non-performing loans	375		24	-51	348
= Nominal value	*500*		*50*	*-90*	*460*
- Loan loss provisions	125		26	-39	112
Type 3 (20% of nominal value)	50		6	-4	52
Type 4 (50% of nominal value)	75		20	-35	60
o/w not yet covered	*100*		*-20*		*80*

3.6 Consistent treatment of pension entitlements (also social security pension entitlements), sponsor, and claims of pension funds on sponsor (Chapter 11, 13 and 17)

The value of pension entitlements (13.77) is generally based on actuarial estimates. The main determinant for this estimate is the amount of pension benefits (defined benefits) which have to be paid currently and in the future. Financial or non-financial assets held by the scheme are basically 'irrelevant' for the valuation of its liabilities in the case of defined-benefit schemes.

As a new subcategory of financial assets has been included (claims of pension funds on sponsor), it requires the definition of the term sponsor which has to be introduced and described in chapter 4 and in chapter 17.

3.7 Debt operations and mergers and acquisitions into a new section (Chapter 12)

It is recommended to provide a more detailed description of debt operations (see External Debt Guide, chapter 8 on debt reorganisation) and mergers and acquisitions into a new section.

3.8 Reconsider the valuation methods for unlisted shares and for other equity (Chapter 13)

One of the major amendments of the new draft chapter is the description of various methods how to value unlisted shares (P 70a-f). The text has been taken from the draft BPM6. We would recommend to modify the text which is too much bop-oriented (own funds at book value, see later, not only for direct investment enterprises). Moreover, to explain the own funds at book value method it would help to know already the concept of own funds. Finally, the terminology should be rather precise (unlisted shares instead of untraded equity or unlisted equity).

Compared to the variety of methods proposed for the valuation of unlisted shares there is only one proposal how to value other equity (P 73). Here, we would recommend that some of the methods recommended for the valuation of unlisted shares could also be applied to the valuation of other equity.

In the section on 'General principles of valuation' it would be useful to define also other valuation methods, in particular 'nominal value' (important in relation to non-performing loans).

3.9 Consistent definition of own funds (Chapter 13)

Concerning the definition of net worth and own funds (P 84-P 90) the text is too vague. While the definition of net worth is provided within the context of the NA balance sheet we would recommend to do the same also for own funds, defined as net worth plus equity or as assets minus debt. In addition, it might be necessary to refer to the different concept of own funds in the context of business accounting taking into consideration the still diverging valuation and classification rules worldwide. According to this definition own funds might cover equity (at nominal value) including several types of reserves (which are not part of debt).

3.10 Start pension section with the supplementary table and explain ingredients (Chapter 17)

With reference to Chapter 17 and social insurance, it is assumed that the main results provided by the Eurostat/ECB Task Force on Pensions will be reflected in the SNA review (see also section in Annex dedicated to chapter 17)

The supplementary table is intended to cover only pension schemes included as social insurance (Table). Social insurance schemes may provide benefits other than pensions, for example health benefits that can be very significant for retirees. There was also some acknowledgement that there could be elements of social assistance within pension schemes generally organised as social insurance which might not be separable (therefore they would enter the supplementary table).

Many pension schemes cover entitlements for survivors (e.g. dependent spouses, children, orphans) and these entitlements should be included in the supplementary table. The treatment of disability and invalidity type benefits could be rather important in some schemes. A split could be made in some schemes (at least for pension entitlements). Since disability / invalidity can be considered another form of retirement within a pension scheme, all disability and invalidity type benefits provided for within pension schemes should be included in the supplementary table. All elements of the supplementary table should be recorded gross; no deductions are made for taxation, further social contributions or the service charge associated with the pension scheme.

The columns of the table: At the top level of the columns there is division based on the recording of the pension schemes in the core national accounts or not in the core national accounts. The entitlements of pension schemes shown in columns A to F are recorded in the core national accounts, while the entitlements of pension schemes in columns G and H are not included in the core national accounts. These two columns showing the data for the government-sponsored defined benefit schemes not recorded in the core accounts and for social security pension schemes are the focus of this supplementary table: by adding pension entitlements of these columns to those recorded in the core accounts (columns A, B, D, E, and F), it will be possible to compare the pension scheme data by country, where some countries worldwide might include certain schemes' entitlements in the core accounts and others (for sometimes similar schemes) may not.

The pension schemes are classified further by the sponsor of the pension scheme. In the table, government and non-government sponsors are distinguished. The definition of a sponsor is not straightforward. It is proposed to follow the relevant terminology in the pensions field by adopting a definition from the OECD pensions glossary, as follows: “An institution (e.g. corporation, industry/employment association) that designs, negotiates, and normally helps to administer an occupational pension plan for its employees or members. This may also involve the sponsor being eventually responsible for paying the pensions (in which case an asset/liability relationship is to be shown in national accounts), but this is not necessarily always the case.”[3]

On the definition of the sponsor, it was noted that some government-sponsored employer pension schemes contain a mixed membership (for example including employees of public corporations) and many pension schemes have frozen the membership of participants who have moved to other employers (this is sometimes called "inactive membership"). A pragmatic approach should be taken – a small proportion of non-government employees should not prevent a scheme being described as government-sponsored.

Columns of the supplementary table on pension schemes in social insurance

Recording	Core national accounts					Not in the core accounts	Total pension schemes	Counterparts: Pension entitlements of resident households[4]
Sponsor	Non-general government			General government				
	Defined con-tribution schemes	Defined benefit schemes and	Total	Defined con-tribution	Defined benefit schemes for general government employees[2]	Social security pension schemes		

[3] See the OECD website http://www.oecd.org/dataoecd/5/4/2496718.pdf on: Private pensions: OECD classification and glossary, Paris 2005.

		other[1] non-defined contribution schemes		schemes	Classified in financial corpora-tions	Classified in general government	Classified in general government			
Column number	A	B	C	D	E	F	G	H	I	J

1) Such other non-defined contribution schemes, often described as hybrid schemes, have both a defined benefit and a defined contribution element (see the new draft SNA).

2) Schemes organised by general government for its current and former employees.

3) These are non-autonomous defined benefit schemes whose pension entitlements are recorded in the core accounts.

4) Counterpart data for non-resident households will only be shown separately when pension relationships with the rest of the world are significant.

The columns below distinguish between defined contribution schemes (shown in columns A and D) and defined benefit schemes (shown in columns B, E, F and G). Column B is intended to include non-government-sponsored defined benefit schemes; however it may also contain hybrid pension schemes which have both a defined benefit and defined contribution element. Such hybrid schemes appear to be rare in government; however there are some examples of "notional" defined contribution schemes which share features of both types of schemes.

For most private pension schemes, whether the sponsor is a financial or non-financial corporation, the pensions fund is likely to be classified in the pension fund sub-sector of the financial corporations sector. Only schemes where the non-financial corporate sponsor has a non-autonomous fund or a completely unfunded scheme will the pension liabilities appear in the non-financial corporations sector. In contrast, most government sponsored schemes are likely to be within general government though some may appear in the financial corporate sector, for example if they are administered by a financial corporation or are simply autonomous funds of government. In order to have a clear picture of where government pension liabilities appear in the accounts, column F shows which are in the financial corporations sector, column F shows which are in general government and appear in the core accounts, column G shows which are in general government but are shown only in the supplementary table.

Given that the supplementary table is intended to show all pension schemes in social insurance, column H records stocks and flows for social security pension schemes in the supplementary table. This also has an advantage in those cases where the social security system is indistinguishable from government (or other) employer schemes and therefore some countries might record a high proportion of pension entitlements under social security.

Column J shows the pension entitlements acquired or held by resident households. In case of insignificant pension entitlements acquired or held by non-resident households vis-à-vis resident pension schemes the amounts recorded in column J are almost identical with the data included in column I. However, the pension entitlements acquired or held by non-resident households should be shown separately if they are significant for a country.

The rows of the table: The rows of the table relate to balance sheet positions, transactions and other economic flows associated with pension entitlements of the schemes included in the supplementary table. Two related indicators refer to the output and the assets held by the pension scheme to meet pensions. Specific SNA-based codes will be added to the table in its final version to aid users. Social contributions of both actual and imputed nature are recorded, following the 1993 SNA methodology.

Rows of the supplementary table on pension schemes in social insurance

Row No.	
	Opening balance sheet
1	Pension entitlements
	Changes in pension entitlements due to transactions
2	***Increase in pension entitlements due to social contributions***
2.1	Employer actual social contributions
2.2	Employer imputed social contributions
2.3	Household actual social contributions
2.4	Household social contribution supplements[1)]
3	Other (actuarial) increase of pension entitlements in social security pension schemes
4	Reduction in pension entitlements due to payment of pension benefits
5	Changes in pension entitlements due to social contributions and pension benefits
6	Transfers of pension entitlements between schemes
7	Changes in pension entitlements due to pension scheme reforms
	Changes in pension entitlements due to other economic flows
8	Changes in entitlements due to revaluations [2)]
9	Changes in entitlements due to other changes in volume [2)]
	Closing balance sheet
10	Pension entitlements
	Related indicators
11	*Output*
12	*Assets held at the end of the period to meet pensions*[3)]

1) These supplements represent the return on members' claims on pension schemes, both through investment income on defined contribution schemes' assets and for defined benefit schemes through the unwinding of the discount factor applied.
2) A more detailed split of these positions should be provided for columns G and H based on the model calculations carried out for these schemes (see explanatory note).
3) This row includes financial and non-financial assets held for the sole purpose of paying future pensions, excluding claims by the pension scheme on its sponsor; an explanation should be provided of which assets have been included.

Row 1: This row shows the opening stock of pension entitlements, which is exactly equivalent to the closing stock of the previous year.

Rows 2.1 and 2.3: Employer and employee actual social contributions are recorded here, as in the core accounts. In the case of some pension schemes (notably social security pension schemes) it may be necessary to distinguish actual social contributions relating to pensions from social contributions relating to other social risks (such as unemployment).

Row 2.2: For defined benefit schemes, employer imputed social contributions are generally measured as the balancing item – any changes in entitlements over the year not included in other rows of the table are captured here. This row would capture any "experience effects" observed where the observed outcome of pension modelling assumptions (real wage growth rate, discount rate) differs from the levels assumed. By construction zeroes are entered in this row for defined contribution schemes.

Row 2.4: It relates to the property income earned, or imputed, on the schemes which is routed via the household (or the rest of the world) sector. It should be noted that for all defined benefit schemes including social security, whether funded or unfunded, this property income would be equivalent to the unwinding of the nominal discount rate. In other words the value is equal to the discount rate times the start of year entitlements

Given that the supplementary table must provide a complete elaboration of the changes in pension entitlements over the year, a specific row should be introduced to deal with the case where actual social contributions to the social security pension scheme are not actuarially based, and therefore there is an imputed contribution (which is not the responsibility of any employer).

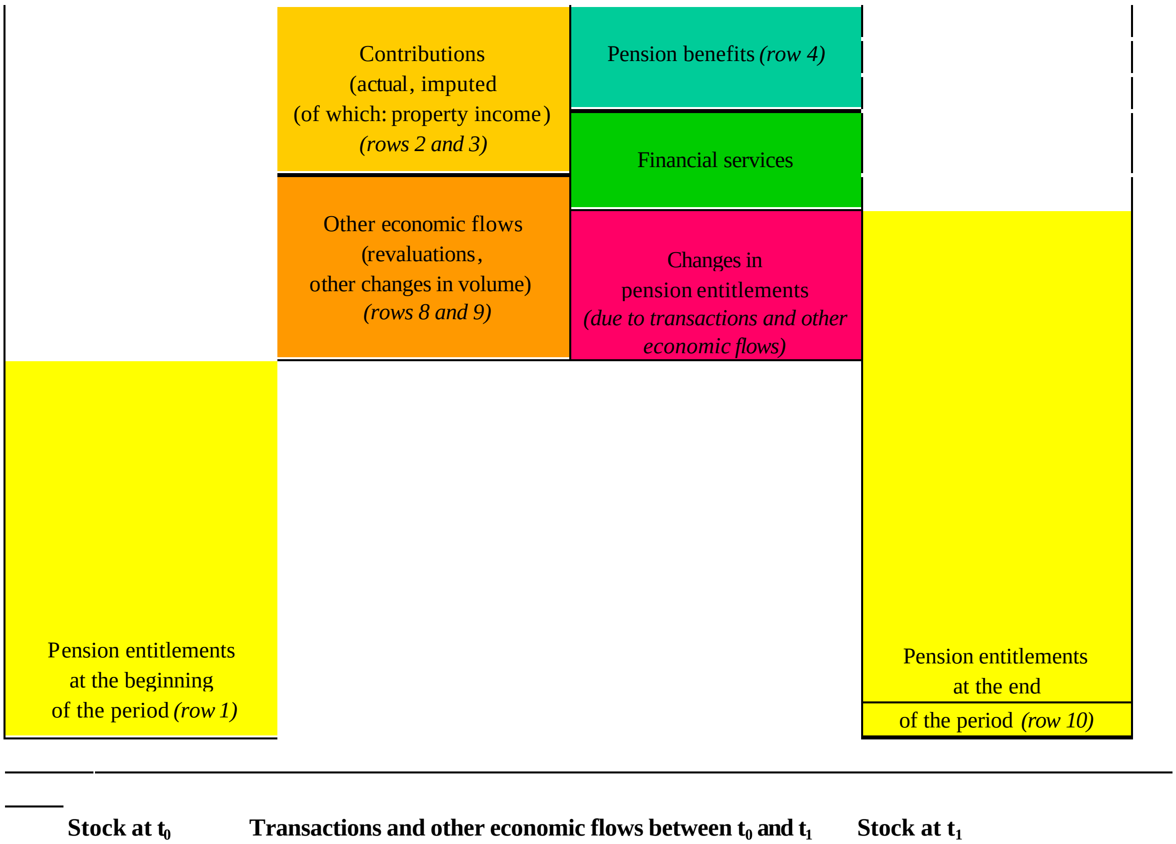
Row 3 is solely associated with these imputed transactions of social security pension schemes (other (actuarial) increase of pension entitlements in social security pension schemes). In practice, the entries in this row might be positive or negative – the negative cases would be observed in a social security scheme where the discount rate is higher than the scheme's internal rate of return[4], for example, where contributions have been raised above the actuarial required level in order to finance a short-run cash shortfall. This row does not represent cash transfers from (for example) tax revenues, which are seen to be large in some countries, and would be recorded in the core accounts as current transfers between government units if they have no impact on entitlements. In some EU countries governments make transfers to pension schemes which do increase entitlements (for example where transfers are made for specific social groups which are unable to contribute directly), which would indicate that the amounts should be implicitly included in a row 3 figure calculated by difference. This row would capture any "experience effects" observed for social security pension schemes where the observed outcome of pension modelling assumptions (real wage growth rate, discount rate) differs from the levels assumed.

Row 4 is simply the pension benefits that are paid during the year. Payment of pension benefits has the effect of "settling" some of the pension entitlements included in the opening stock in row 1.

Row 5 is intended to present the changes in pension entitlements due to contributions and benefits. It is equal to row 2 + row 3 – row 4 less the service charge. This balancing item measured from the non-financial side is conceptually equivalent to that measured from the financial side.

[4] The internal rate of return of a pension scheme is the discount rate that equalises the actual contributions paid and the discounted value of pension entitlements accrued through those contributions.

Pension entitlements and their changes



The updated SNA will record financial services produced by all pension schemes, and record these as being paid by scheme members (thus the costs of pension schemes will never be recorded as intermediate consumption of the employer operating the scheme). There has been some discussion about how to represent these financial services, notably from which social contributions should they be resourced. The chart therefore shows financial services separate from social contributions, and the eventual supplementary table in the updated SNA will include a separate transactions row for this effect, moving up the row for information currently shown in row 11 of the table for output.

Presenting the data in this way has two big advantages. It means the figures shown as contributions received by employees from their employers are exactly the same as that part of the contributions paid by the employees to the pension fund. Secondly, it is not necessary to show which element of social contributions covers the service fee. (It is the household contribution supplement for a defined contribution scheme and either the employers' or the household contribution for a defined benefit scheme.)

Row 6: It is possible that one unit takes over the responsibility for pension entitlements from another unit. In such a case, two transactions must be recorded. The first is a transfer of pension liabilities from the original sponsor to the new sponsor. Secondly, there may be a transfer in cash or other financial assets to compensate the new sponsor. It is possible that the value of the transfer of financial assets is not exactly equal to the value of the pension entitlements transferred. In that case a third entry is needed in transactions (capital transfers) to correctly reflect the changes in net worth of the two units concerned.

Row 7 shows the impact of reforms of pension scheme structures on entitlements relating to past service.

Rows 8 and 9 account for the other economic flows as revaluations and other changes in volume associated with pension schemes in social insurance. Such other economic flows cover:

Revaluations
Changes in assumed discount rate
Changes in assumed wage developments
Changes in assumed price developments
And
Other changes in the volume of assets
Other changes in assumptions and model specifications
Other changes

Revaluations are due to changes of key model assumptions in the actuarial calculations. These assumptions are the discount rate, the wage rate and the inflation rate. Experience effects are not to be included here in principle, though in some circumstances it may not be possible to separate them.

When the demographic assumptions used in the actuarial calculations are changed, since these are not price effects, they are recorded as other changes in the volume of assets.

3.11 Amend text on transfer of pension entitlements and introduce paragraphs on accounting treatment of pension reforms, pension scheme's sponsor, experience effects and other exogenous assumptions (Chapter 17)

In the sub-section on 'transferring pension entitlements' such transfers should be illustrated by examples. We also miss a sub-section on the treatment of pension reforms, including the classification of a pension scheme's sponsor (there is a financial sub-category already introduced: claims of pension funds on sponsor). It is quite important also to include the Eurostat/ECB Task Force's recommendations how (a) exogenous assumptions (discount rate, demographic projections, etc.) or experience effects (forecast 'errors') should be handled; and (c) how transactions, other flows and positions between the sponsor, the pension fund and the beneficiary should be recorded.

3.12 Financial instrument, financial assets, liabilities

We propose to avoid the expression 'financial instrument' and to only use 'financial asset' or 'liability'; concerning terminology the term 'financial liabilities' should not be used (Table 13.2); furthermore, the term debt securities should be applied, instead of securities (P 58, P 59, P 61, P 68) or instead of debt instruments (P 61).

4. Comments on the current treatment of FISIM in Chapters 6 and 17 of the draft Volume 1 of 1993 SNA, Rev. 1

As mentioned in the note with comments on Chapters 4, 11 to 13 and 17 of the draft Volume 1 of 1993 SNA, Rev. 1 it is envisaged to coordinate the comments of NSIs, NCBs, Eurostat and the ECB on Volume 1 at the European level before sending them to the ISWGNA as a European contribution. While comments on non-financial issues are mainly expected by NSIs and by Eurostat central banks are also invited to provide comments. This note deals with the treatment of financial intermediation services indirectly measured (FISIM) in the SNA Chapters 6 and 17. It refers mainly to the outcome of the AEG discussions on FISIM and compares the AEG recommendation with the current draft text on FISIM in the updated SNA.

The issue dealing with the **production of financial corporations** (issue 6a of the 44 issues for discussion in the context of updating the SNA) was discussed in two AEG meetings, in the February 2004 meeting and in the January/February 2006 meeting.

For the **February 2004 meeting**, the OECD Task Force on Financial Services submitted three recommendations: (a) a new definition of financial corporations; (b) the principle of non-exclusion of own funds in the measurement of output; and (c) a reference rate approach for the measurement of financial intermediation services indirectly measured (FISIM). The AEG agreed that own funds should not be excluded as a source of funds for the provision of financial services. There was large support for using the reference rate approach in measuring FISIM, although not necessarily using a single rate. Nevertheless, the AEG agreed there is a need to consider alternative approaches as well, since the reference rate approach may not be applicable in many developing countries.

For the **January/February 2006** meeting the **OECD Task Force** set out a series of recommendations for discussion, which also covered proposals on the identification of financial services and on the choice of the reference rate. It strongly recommended changing the current SNA regarding the calculation of FISIM. Key points were the use of a reference rate formula to calculate FISIM and systematically allocating FISIM. In addition, a specific recommendation was made on the scope of financial instruments to be considered in measuring FISIM: *Thus, in practice, FISIM may be limited by convention to loans and deposits (Recommendation 4 of the Task Force).*

Concerning the choice of the reference rate the Task Force recommended that "*the reference rate used in the compilation of FISIM should be a risk-free rate that has no service element in it and that reflects the maturity structure of the financial assets and liabilities to which FISIM applies. It is recommended that a single reference rate be used for transactions in the local currency, but different reference rates may be used for transactions in other currencies*" (Recommendation 6 of the Task Force).

In the **AEG discussion** on financial services is was stated that "*using a single reference rate can lead to negative output/price. For example, negative FISIM can be obtained by using a single reference rate (such as the inter-bank reference rate) if there are long-term fixed interest rates on some instruments, such as mortgages. It may be possible to use a single reference rate for each institutional unit provided allowance is made for expected holding gains/losses. There is also a risk element involved and that can differ for different banks and different components. The SNA should not be too prescriptive about a single reference rate and should refer to something like "an appropriate reference rate" instead* (paragraph 402 of the minutes).

Following the summary conclusion (recommendations and outcomes) the AEG did not accept recommendation 6 on financial services as mentioned above (page 82 of the minutes). Moreover, *"the AEG agreed that a single reference rate should be used but, when relevant, a country could choose to use multiple rates. The reference rate used in the compilation of FISIM should be a rate that has no service element in it and which reflects the risk and maturity structure of the financial assets and liabilities to which FISIM applies. It is recommended that different reference rates should be used for transactions in other currencies* (paragraph 403 of the minutes)*."*

Looking at the text as included in the **draft SNA paragraphs 6.160 to 6.166 describe the basic principle of FISIM**. However, these principles (also partly described in Chapter 17) considerably deviate from the AEG recommendations:

First, the draft SNA states that "*the reference rate to be used in the calculation of SNA interest is a rate between bank interest rates on deposits and loans (paragraph 6.163)"* and *"it is assumed that the inter-bank rate at which banks borrow and lend to one another is usually such as to meet the criteria for a reference rate, that is, it is a risk-free rate. (In some cases it may be appropriate to use the interbank rate as the reference rate.) For this reason, it may often be appropriate to assume that there is no FISIM associated with inter-bank lending and borrowing within the national economy (paragraph 17.237)".*

The AEG never made such an explicit proposal to use the interbank rate as the reference rate. Moreover, the AEG agreed that <u>multiple reference rates may need to be used in some circumstances</u>. Furthermore, the AEG agreed that a single reference rate should be used but, when relevant, <u>a country could choose to use multiple rates</u>.

Second, the draft SNA states, in paragraph 6.123 that *"different reference rates may be needed for each currency in which loans and deposits are denominated, especially when a non-resident financial institution is involved."*

The AEG never agreed on such a narrow interpretation of the use of different reference rates <u>only in the case of multiple currencies</u> (see also first point).

Third, it is explicitly mentioned in the draft SNA that *"the reference rate should represent a risk-free rate of interest such as that prevailing for inter-bank borrowing and lending (paragraph 6.123)".*

Looking at the outcome of the discussion in January/February 2006 the AEG agreed that "the reference rate used in the compilation of FISIM should be a rate that has no service element in it and which reflects the risk and maturity structure of the financial assets and liabilities to which FISIM applies." This text is less restrictive as currently included in the draft SNA and is not "too prescriptive about a single reference rate." As mentioned above the AEG also concluded to refer to something like "an appropriate reference rate" instead of recommending a rather narrow concept as currently done. We suggest to get closer to the AEG conclusions.

5. Treatment of catastrophic events

Following the line of reasoning as outline by the BEA we would suggest that the text of chapter 17 (and the associated text in BPM6) be changed to reflect the AEG's original criteria that of large and exceptional claims, such as those resulting from a major catastrophe, may be classified a capital transfer. There are three reasons for restoring this decision: 1) Conceptually, the claims are intended for the rebuilding of capital assets and belong in the capital account, 2) in practice, large temporary increases in household disposable income resulting from catastrophes would be counterintuitive and impossible to explain to data users, and 3) the overturning of the AEG's decision in this manner is a significant deviation from the agreed upon process for the update and should be questioned.

6. ECB's initial comments not taken on board that are still deemed relevant

6.1 Chapter 4

The **ECB comments** provided on chapter 4, on 3 September 2007, **were partly taken by the ISWGNA**. These refer to the clear distinction between head offices and holding companies; in that respect the title was expanded and the recommendation was accepted to treat a head office whose subsidiary is a financial corporation as a captive financial institution.

The **ECB comments** which were **not taken** and which, we think, are still relevant are: (a) the classification of sectors, in particular i) the clear definition of public sector, which should be explicitly clarified as not being an institutional sector in the core of the System; ii) the allocation of units to institutional sectors, with the suggestion to move references to control to chapter 21; (b) the clarification of the difference between institutional and artificial units; and (c) the suggestion that a decision-tree might help with the assessment of residency (letter of 3 September 2007).[5]

[5].The existence and the role of supranational organisations in the case of monetary or economic unions may be mentioned.

6.2 Chapter 11

Chapter 11 has been expanded and modified in several directions: (a) Some new paragraphs have been added: several paragraphs on the definition of financial assets and liabilities, one paragraph on negotiability, and various paragraphs on defining and explaining the various categories and subcategories of financial assets; and (b) One old subcategory of financial assets has been dropped (inter-bank deposits).

An ECB comment which was not taken and which, we think, is still relevant is : (i) To link the financial account not only to the sequence of transaction accounts but also - in the stock-flow context – to the other accumulation accounts and the balance sheet; Other detailed comments: (a) Paragraph (P) 12: asset should be substituted by non-financial asset; (b) P20: It is true that the financial account (in its simplest presentation) does not indicate counterpart sectors. However, many compilers already include from-whom-to-whom information wherever available from the source data; (c) P22: One-off guarantees are not always contingencies as also described in chapter 17; (d) P27: The one exception of symmetry of financial claims and liabilities should be mentioned – gold bullion; (e) P28: The two classes of assets are gold bullion and shares; (f) P30: Security-by-security databases open a new dimension of data detail even for households; (g) P37: Specific financial transactions are not only described in chapter 17, but already in this chapter (super-dividends, capital injections). Therefore, the paragraph should be modified (with the appropriate terminology (quasi-corporations, insurance corporations) or dropped; (h) P41: Case d and case e could be merged; both cases describe the netting of asset and liability positions which is not allowed in business accounting; (i) P83: It is recommended to substitute 'residual value of a corporation' by 'net worth;' (j) P97: Non-MMF investment funds typically invest in long-term financial assets and in non-financial assets; and (k) P103: We still think that the terminology used for F6 is the appropriate one. 'Schemes' should be substituted by 'reserves.'

6.3 Chapter 12

In general, the new version of chapter 12 is clearer and more concise than the previous one. This is due to a more transparent editing (headings for sections and sub-sections, consistent use of terms and reference numbers). We still think that several of our general comments that were not yet incorporated would enhance the understanding of the chapter. With reference to the sub-heading consistency in the "Appearance and disappearance of assets other than by transactions", our suggestion to have identical sub-titles in the body of the text as in the introduction may still be followed. It seems that P49 was cut in the middle (blank space and inconsistent sentence structure.

6.4 Chapter 13

Not much has been changed in this chapter compared to the version on which the **ECB has commented on** 12 February 2007. Some of the comments were integrated but the bulk of them were not taken. They, for instance, refer to the proposals:

Elaborate more than currently done on the **use of balance sheets**. For the time being, only two paragraphs (P6 and P7) cover some examples how balance sheets could be used for analytical purposes. Unfortunately, one of the examples refers to the stock of durable consumer goods which is not treated as a standard component of the accounts. Other comments refer to the following: (c) P4: The term 'financial and non-financial resources' at the disposal of an institutional unit (net worth) is misleading; and (d) P5: The (opening) balance sheet could also be seen as a starting point.

In addition we would suggest the following amendment to P 13.88: "A non-zero value of ~~own funds~~ net worth comes about through a number of factors."

6.5 Chapter 17

Chapter 17 on cross-cutting and other special issues has been rearranged, also based on the ECB comments provided on 1 September 2007, but also expanded. Now, it covers six sections with a total of 60 pages. One of our comments was to restrict this chapter only to insurance (direct insurance, reinsurance, social insurance and credit insurance) which was not taken.