

Comments on Volume 1 by Statistics Finland

Institutional unit (Chapter 4 and ISWGNA clarifications Issue 25b)

According to the text, the ISWGNA meeting has reaffirmed 1993 SNA requirement (4.42) that, 'for units to be classified as quasi-corporations, they must have a full set of accounts including balance sheets. Otherwise, any such unincorporated enterprises remain in the sector of their owners, including government when appropriate.'

This modification is a revision compared to the present SNA/ESA, where it is stated that an institutional unit must 'either keep a complete set of accounts... or it would be possible and meaningful, from both an economic and legal point viewpoint, to compile a complete set of accounts if they were required.' (1993 SNA 4.2. (d)).

The present SNA/ESA requirement is more operational from the point of view of sector classification. If strictly interpreted, the new requirement would mean a change to the treatment of such government or household owned quasi-corporations that behave the same way as corporations but which do not have full set of accounts. The legal status of such units may vary depending on institutional or administrative arrangements so that they do not always keep all the accounts even if they could do it, or their accounts may be combined to the accounts of their owner. However, those units are often clearly market producers from economic point of view - as a typical example the municipal quasi-corporations operating in the field of energy production.

At least in the revised ESA the present interpretation should be kept.

Research and development (Chapter 6)

Paragraph 6.226 suggests that "Research and development is treated as capital formation except in any cases where it is clear that the activity does not entail any economic benefit for its producer (and hence owner) in which case it is treated as intermediate consumption." (See also paragraph 10.104) This statement is somewhat confusing and would benefit from amplification, also if compared to the definition of economic benefit in paragraph 3.19. At first sight it gives the impression that freely available R&D should be treated as intermediate consumption. But obviously it is not about freely available R&D since freely available R&D does not have an owner; neither does it have any price. The other possibility is that it is about R&D output produced and used by the same unit during the same production period (year). But in this case the wording "the activity does not entail any economic benefit to producer" is confusing. Why the producer would have produced the R&D output, unless it expects to draw some economic benefit from it? The owner might not draw any benefit from holding the R&D output (perhaps since it is used up during the same year) but surely it gets economic benefit from using it as intermediate input.

Output for own use (Chapter 6)

The distinction between and the valuation of different categories of output could be clarified. There obviously are three categories of output: market, output for own use, and non-market. However, the last sentence in paragraph 6.131 seems to suggest that own account capital construction would be included in market production. Output for own use should be valued “at the basic prices at which the goods and services could be sold if offered to the market” (paragraph 6.122). The second best procedure (paragraph 6.123) would be based on the cost of production including net return to fixed capital. According to the clarification issue C17 “When production to own final use is undertaken by government units or NPISH no return to capital should be included.” But what if reliable market prices of production to own final use undertaken by government units or NPISH could be obtained, would it then be valued at market prices, which include net return to fixed capital?

Price concepts (Chapter 6)

In figure 1, paragraph 6.67, “taxes on products including VAT not deductible by the producer”, are added to the basic price to obtain purchasers’ prices. It is unclear what could be the purchases on which this VAT has been paid. In any case, the non-deductible VAT paid by the producer on its inputs is included in the purchaser’s price of these inputs and, therefore, already in the basic price of the output.

Transport margin (Chapter 14)

The bottom row of table 14.3 (paragraph 14.59) suggests that the transport charges paid by B can simultaneously be interpreted both as transport margin and as a separate product with its own purchaser’s price. This makes the concept of transport margin ambiguous. In the case represented by the bottom row the change of ownership, according to paragraph 14.59, takes place when “the product leaves the factory” i.e. when C representing B takes the delivery. Therefore, it is misleading to place the transport charges in this case under the heading “Transport margin plus tax on transport”.

Merchanting (Chapter 14?)

Merchanting is one of 44 issues. However, it is actually not treated in volume 1. There can only be found a reference to chapter 26 in the paragraph 14.72 where transport of merchanted goods is treated. It would be good if there would be a small paragraph on merchanting also in volume 1 - e.g. different types of merchanting (commodity trading, international wholesale/retail activities, global manufacturing) or at least a reference to the revised BOP manual.

Super-dividends (Chapter 7 and 11)

The recording of super-dividends (7.123 and 11.90) should be clarified (at least in the revised ESA) to explicitly concern cases where the level of dividends in relation to distributable income, in a certain year, is clearly in excess of this level in the past, but where the amount of dividends does not still

exceed the distributable income. For example in cases where a company has changed its dividend policy (whether temporarily or more permanently) it seems strange to treat the "excess" as withdrawal of equity if the dividend is, in absolute terms, smaller than distributable income.

Investment funds (Chapter 7 and 11)

Treatment of investment (mutual) funds requires some further clarification (at least in the ESA revision). Chapter 7 (7.141) introduces a new income category: income attributed to investment fund shareholders (D.443). This would be something similar to reinvested earnings on FDI, which means that this category would consist of (property)income net of expenditure of funds. What should be considered as expenditure of the fund? Major part of funds' expenses consist of management fees paid to fund management companies. We think that management fees should be treated as financial services supplied by fund management companies and *used by fund shareholders*. Shareholders are, de facto, implicitly paying to management companies for managing their investments. Thus, these expenses should be considered as expenditure (consumption/intermediate consumption) of shareholders and not decreasing the income attributed to them.

The proposed treatment differs from the current ESA95, according to which property income received by funds should be recorded as shareholders' property income even if it was not distributed but reinvested on their behalf. We would prefer retaining this principle also in the revised ESA95. Anyway, more emphasis should be put on the treatment of mutual funds in general at least in the revised ESA. A separate section or box for this complex and important issue would be welcome. It should cover entries related to the funds, fund management companies and fund shareholders.

Moreover, paragraph 11.98 in Chapter 11 (the Financial Account) is odd. It says: *"The increase in value of investment fund shares or units is shown in the System as distributed to the share or unit holders and reinvested by them in the financial account"* Increase in value of investment fund shares is largely affected by revaluations related to the funds' investments, which should be recorded in the revaluation account. The paragraph should be revised as follows: *"Retained earnings of investment funds are shown in the System as distributed to the share or unit holders and reinvested by them in the financial account"*

Employer retirement pension schemes (Chapter 17)

Table 17.10 in chapter there are some differences to the corresponding table in the final report of the EU Task Force on pensions. A part of the differences belong to the ongoing research agenda according to the ISWGNA clarifications (issue 2). However, some differences are not mentioned there, e.g. the cell in the row 2.2. in the column G, which is now white and means also difference to paragraph 17.189 (the cell should be grey?).

The title of the updated System of National Accounts

We prefer the alternative where 2008 is shown: System of National Accounts 2008. Perhaps there could be a subtitle: The Revised Version of the SNA 1993.