UK comments on Volume 1 of the updated 1993 SNA

General

Sequence of chapters and accounts

The UK strongly recommends that Chapter 14, The Supply and Use Tables and Goods and Services Account should be placed just before Chapter 6, The Production Account. The Supply and Use Tables and the Goods and Services Account are integral and form the start of the national accounting framework. In addition, the Supply and Use Tables provide the natural framework to determining a single estimate of GDP integrating detail from the production, income and expenditure approaches.

Having described the system framework in Chapters 1 and 2 of the new SNA, and established the accounting set-up and principles in Chapters 3, 4 and 5, this proposal would be in line with the sequence of accounts and provides the appropriate importance of the content. Having this chapter placed as Chapter 14 seems rather inconsistent and, as a result, provides a confusing message to readers, including both producers and users.

The I-O Tables are separate and quite rightfully should come later.

Coding changes

The coding structure and notation used in the revised SNA 93 has been changed, for example:

- Consumption of fixed capital is now shown as P6 rather than K1
- Exports of goods and services are shown as P7 rather than K6
- Imports of goods and services are shown as P8 rather than P7
- Acquisitions less disposals of non-produced assets are shown as NP rather than K2
- Capital transfers (receivable and payable) are shown as D8 rather than D9
- Catastrophic losses are shown as K3 rather than K7

The UK would prefer where possible, the coding frame to remain unchanged. Whilst the new coding structure may make the coding more sequential in terms of the accounts, it does mean that although concepts have not changed between the new and old SNA, the codes will have changed. This does not help transparency between the two systems and provides unnecessary additional work and confusion for users, especially the movements between P6, P7 and P8.

Consistency between revised SNA 93 and BPM6

In general, there is a need to ensure that both the revised SNA 93 and the BPM6 are consistent, more so, covering each of the 44 changes.

In particular, the BPM6 has good coverage of the R&D change, and it would be useful to include in the revised SNA 93 some of the tables from BPM6 to illustrate the change.

The goods for processing treatment is not entirely consistent across the two references, i.e. SNA and BPM6. In particular, the treatment of the product classifications of the goods involved, as well as recognising the collection difficulties inherent with the proposals, i.e. component parts being classified to different products from the final output produced which may be classified to another product. See comments under Chapter 14.

Inclusion of rent on land (and a net return to fixed capital) within the production boundary

The UK does not accept the inclusion of “rent on land used in the production” and “a net return to fixed capital” in the estimation of output for own use or the value of non-market output. The inclusion of this type of rent within the production function of government is a radical change, and does not seem to be have been discussed or agreed at the AEG. See Chapter 6 for further comment.

Treatment of non-life insurance

The new treatment of non-life insurance has set aside one of the decisions made by the AEG. In particular, the conditions under which part of non-life insurance claims could be treated as a capital transfer has been significantly changed from the AEG recommendation.

The UK believe that the AEG’s recommendations should be restored both on conceptual and interpretational grounds. In addition, overturning the AEG’s decision in this manner does not follow the agreed process. See Chapter 17 for further comment.

Chapter 1: Introduction

The production boundary section needs to have a paragraph reflecting the inclusion of the “illegal economy” as well as recognising the measurement difficulties. Appropriate references could appear in both Chapter 1 and 2. For example, the UK national accounts include estimates covering smuggling activity as well as the impact of VAT missing trader intra-community fraud. It should also distinguish between the illegal economy activity and hidden economy activity, both of which should be captured within the production boundary.

Para 1.70 - it mentions that the assumptions used in accounting standards are a necessity for certain inclusions in the System. It would very helpful to list these examples of why these are the cases and the chapters where this occurs in this respect or what the specific inclusions were.

Chapter 2: Overview

Para 2.23 – this would benefit greatly from the addition of examples supporting the text description. There is an example of a unilateral transaction which is included. Other examples you may wish to add cover theft which is unilateral and outside the system. In addition, illegal but bilateral transactions such as drug dealing or smuggling which are theoretically inside the System. Another example may be the "black economy", which is also illegal but inside the system, although this may be too detailed for the overview chapter.

Para 2.48 - the change of legal ownership principle is clearly laid out to help the treatment of goods for processing activity. However as already mentioned in the general points above, this poses problems in the classification of products and their links between domestic production and trade (imports and exports).

Para 2.99 – albeit trivial, the title of Table 2.7 in the text is misquoted, i.e. title of Table 2.6 is repeated.

In Table 2.6 and 2.7, should P3 and P4 respectively be appearing in the resources side?

Para 2.100-2.103 – the discussion of final consumption and other variables seems quite technical and the implications are not obvious. The text should mention the convention applied to measuring the output of non-market bodies is equal to the sum of inputs. Although this point is made in later chapters, it is quite fundamental and should also be mentioned in this section.

Tables 2.5 and 2.7 seem to missing from Tables 2.13 and 2.14 respectively. There is no explanation of their omission, whether it is because they are new tables or it is an attempt to simplify the tables. Nonetheless, something needs to be added or corrected.

Chapter 3: Stocks, flows and accounting rules

In general terms, the concepts, rules and guidance within the chapter are largely in agreement with the rules and concepts of business accounting, for example, regarding the use of accruals accounting, valuation methods, timing considerations, etc. Some differences do exist, and these seem to be the same differences that have always existed because of the different requirements of the two systems of national accounting and business accounting. For example, the SNA recommendations on time of recording, partitioning of transactions into components, making adjustments to business recording to comply with national accounts recording concepts (for example, attempting to estimate market prices where transfer prices have been reported) etc. - may be much more difficult in practice than described.

There are some examples of strange wording, listed below, and the sources of non-standard definitions (for example, see the definition of an asset in 3.5) do not have an identified source.

Throughout the chapter, the term 'stocks' is still used despite this term having multiple possible meanings. There are alternatives, for example, 'positions', 'holdings' etc.

Para 3.4 - the terms 'entries' and 'withdrawals' do not seem to be defined anywhere.

Para 3.5 – the definition of an asset is different from that used in business accounting, for example in Para. 49 of the IASB's Framework – why is this definition not consistent? The second sentence of the SNA definition - that an asset '….is a means of transferring value from one accounting period to another' makes little conceptual sense. Accounting periods are placed arbitrarily upon the time continuum, the opening balance of value at the start of one period being identical to that at the end of the previous period - because they are the same thing. There is no need for a 'transfer'.

Para 3.9 – there is a strange use of the terms 'left-hand side' and 'right-hand side' accounting entries. 'Left' and 'right' makes no sense in the accounting conceptual world. Similarly, the explanation of 'balancing item' is not particularly useful, for example, how do you 'obtain a contruct'?

Para 3.17 - 'quadruple accounting' is not a well used term. What is really being described is just normal double entry accounting but viewed as a complete/articulated system across the counterparties to each transaction. Nevertheless, the revised SNA does explain what it means clearly enough, though the same ground is essentially covered in the later paragraph on horizontal and vertical accounting (para. 3.113 and 3.114) – again, these terms have a different, presentational, meaning in business accounting.

Para 3.49 - says 'There are some environmental assets excluded from the SNA asset boundary. These are usually of the same type as those within the boundary but are of no economic value'. This is an oxymoron - if there is no economic value, there is no asset.

Chapter 4: Institutional units and sectors

A number of terms are used before they are defined, in some cases cross-referenced, in other cases not.

Para 4.4 - states "known as institutional households". It is not clear by whom. Strictly speaking, it is "defined here as institutional households". This may sound a detailed point but there are a number of terms that are used differently by different people. The problems both in this chapter and in Chapter 5 are demonstrated when reference is made to the EU Regulation on Statistical Units in the link below:

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31993R0696:EN:HTML

Para 4.7 - describes "corporations" whilst Para. 4.6 refers to "unincorporated enterprises". Firstly, the EU uses the word "enterprise" precisely within its Statistical Units Regulation (see previous paragraph) and it would be unwise to use the word "enterprise" in the generic sense used here. Also "corporation" has a specific legal meaning, at least in the USA. More neutral would be to use the terms "incorporated business" and "unincorporated business".

Para 4.15 - includes the statement that "All land and buildings are therefore owned by residents". We assume that this is not what is intended. It is possible that the statement is actually that "All land and buildings are deemed to be owned by residents for the purposes of .....".

Para 4.46 - raises the key issue of the treatment of unincorporated businesses. This would benefit from more extensive explanation as well as the later paragraphs dealing with ownership and control. The main types of unincorporated business are sole proprietors and partnerships. The issue here is one of definition and not the difficulty in treating them as "Quasi corporations". Sole proprietors would appear to be always part of the households sector whereas the treatment of partnerships is less clear.

Para 4.154 - there is reference to partnerships where all of the partners are within a household, traditional "husband and wife" or "parent and children" partnerships. The difficulty here is identifying whether these are wholly within a household. It also seems odd to separate unincorporated partnerships.

Para 4.50 - states that "each individual corporation should be treated as a separate institutional unit". This is not consistent with the approach within the EU as defined in the EU Statistical Units Regulation. For EU purposes, "enterprises" are "institutional units" and comprise the smallest group of legal units under common ownership with a certain degree of autonomy in decision making. Thus a group of incorporated businesses could form an institutional unit. Usually this would be a sub-group of an enterprise group. There is some acknowledgement of this in paragraph 4.60.

Para 4.54-4.61 - we support the revised wording of this section which provides an important clarification. This now makes clear that vehicle company's resident in the same territory as their parent should only be classified as separate institutional units if they satisfy the requirement for demonstrating independence from their parent.

Para 4.61 – in this paragraph and other places use the word "establishment". This word is not used within the EU, possibly because of the confusion with the French word "etablissement", which has a different meaning. The equivalent term in the EU is "local kind of activity unit" or "LKAU". It would be helpful to make this clear.

Para 4.67 – covers the issue of "control". This may be direct or indirect but the discussion and examples seem to focus only on "direct" control. As an example of indirect control, A may have 40% of the shares of B directly, and another 20% of the shares through C in which A may have 100% of the shares in C. A would then have control through share ownership of 60%.

The following paragraph includes further discussion of control.

It would be helpful to develop two aspects of this: the role of the natural person and the treatment of relationships that are in different institutional sectors. Firstly, if we take a person who owns the majority (or all) of the shares in an incorporated business, how is the ownership defined? We would state that the person is not an institutional unit and cannot have economic activity separate from the incorporated business. The territory in which the institutional unit is where the incorporated business operates, and not that of the domicile of the person owning the shares. Thus there would be one institutional unit and that would be allocated to the "corporations" sector.

The second issue relates to the fact that an institutional unit in one sector may control an institutional unit in another sector. An example quoted is that of the "government" controlling a "non-profit institution". It would be helpful to have some discussion of the limits to these relationships and how to manage them. If we take the five main sectors of corporation, government, non-profit, household and rest of world, which are illustrated excellently in figure 4.1, the limit between sectors would appear to be that a government, corporation or NPI can control a corporation and a government can control a NPI. It is less clear whether a household can control a corporation. In our view it cannot, instead being simply absorbed as a shareholder. It would help to have a clear statement of the limits.

The separation of "state" from "central" or "local" government appears to be, and to some extent is, acknowledged as artificial. On a specific definitional point though, Para. 4.140 refers to the "authority to levy taxes". This does not appear to provide a definitional distinction between state and local government.

Para 4.71-4.74 - government control of corporations is well drafted. The control indicators are listed with details and even 'golden shares or options' (we now call them 'special shares') and regulation are covered well. Our only concern is the last sentence in Para. 4.74h - is the last sentence necessary? We are not sure it adds anything. Control cannot be implied but it might indicate the need to examine the details of the lending arrangements to see if there were any controls present.

Para 4.84 – previously, NPISH units were acknowledged as having the majority of their funding coming from transfer payments and property income. Now there is no mention of property income. Is there any reason why?

Para 4.86 – description of government control of NPIs looks good except for Para. e on risk exposure. 'If the government openly allows itself to be exposed to all or a large proportion of the financial risks associated with a NPIs activities, then the arrangement constitutes control'. Should 'constitutes' read 'indicates' or 'could indicate'?

Para 4.148 - uses the word "families". This is a rather traditional view of what forms a household. We are not sure that this discussion needs to be included. The following paragraphs in the chapter demonstrate that it is easier to define what does not form a household.

Chapter 5: Enterprises, establishments and industries

As stated in our comments on Chapter 4, this chapter needs also to draw on the EU Statistical Units Regulation. The enterprise is an institutional unit comprising one or more incorporated businesses (legal unit) and the LKAU is the same as the establishment (see paragraph 5.15). The term KAU appears to be used with the same meaning as in the EU.

There does not seem to be any reference to the concept of the enterprise group, which is becoming increasingly important in relation to globalisation issues. It would help to develop this term in this chapter.

Para 5.14 - location should be interpreted as being within a small administrative area. When considering an area as wide as the state or county, this is not helpful for statistical purposes given the increasing focus on small area statistics. The EU definition equates to local administrative area level 2, the old NUTS 5 level or in the UK the local authority ward level.

Chapter 6: The Production Account

Para 6.95b - the chapter is good at providing examples of the activities that are covered when specific cases are described. It would also be helpful to include an example of collective services here to maintain this good practice across the chapter.

The UK does not accept the inclusion of “rent on land used in the production” in the estimation of output for own use or the value of non-market output. The inclusion of this type of rent within the production function of government is a radical change, and does not seem to be have been discussed or agreed at the AEG.

The treatment of rent of land needs further discussion and agreement. For example, what is the guidance in handling rent on land separate from the rental on the building, where it is not separable? Different treatments have an impact on GDP and other variables. In addition, there is no cross-reference set of changes reflected in Section 4 of Chapter 7, Rent (D45).

Under the Perpetual Inventory Method, there should a paragraph describing capital services given the increasing interest in this issue and its contribution to economic capability.

Chapter 14: The Supply and Use Tables and the Goods and Services Account

In general, it would very helpful to show a diagram linking the Goods and Services Account with the Supply and Use Tables, and the sector accounts.

In some places, for example, Para 14.44, 14.45, purchaser's prices should be purchasers' prices. Similarly, producer's prices should be producers' prices.

Consistent of use of the gross and net terms:

"Capital formation" should be referred to as "Gross capital formation"
“Fixed capital formation” in some cases should be referred to as “Gross fixed capital formation”
"Value added" should be referred to as "gross value added"

The above are important in terms of consistency when related to "Gross" Domestic Product.

Para 14.6-14.8 - it would be worth emphasising the relative importance of the parts of the product balance also depend on the data collected, coverage and quality.

Para 14.13-14.16 - emphasis has been put on the production and expenditure approaches. There is a need to emphasise the links to the sector dimension, and thus the income approach. This allows GVA data from the production approach to be confronted with the income approach. The Supply and Use Tables provide the natural framework for this reconciliation to take place, and provide a key coherent and consistency link to the sector accounts.

Para 14.20 - it should be made clearer that the "make" matrix is a term relating to the I-O Tables framework and not the Supply and Use Tables framework.

Para 14.38-14.42 - for Supply and Use Tables, this approach does pose problems as it implies the introduction of elements of confusion in the Supply and Use Tables, mainly in terms of describing production and cost structure. For example, products entering the country (for example, parts, such as vehicle parts like engines, wood for the dashboard, radios/CD players) are classified to very different product groupings from the final product leaving the country (for example, final products, such as motor vehicles). The domestic production data collection and the trade (imports/exports) data will need to be on a consistent basis, otherwise incoherency will be inherent in the balancing of products.

Para 14.39 – the term “returns to labour” needs to be explained.

Para 14.72 and sections on imports and exports - a further important point to mention is the fact that merchanting will be treated as net exports according to the BPM6.

Para 14.87 - it should be stressed that if the COPP system is used, then it has an impact on both the treatment and classification of businesses in both the Supply Table and the Use Table as well as the classification of businesses on the business register etc.

Para 14.94 - it should be mentioned that general government can be shown separately as central government and local government.

Para 14.129 – need to mention that the VAT estimates recorded are not theoretical VAT but cash collected on an accrued basis. However, an estimate of theoretical VAT can be estimated using the Supply and Use Tables.

Para 14.134 & onwards – more is needed on the description of the Supply and Use Tables in volume terms. Reference should be made to the new Eurostat I-O Manual which covers the deflation of Supply and Use Tables well. Deflation of the Supply Table is not covered in any meaningful detail, similarly more should be provided on the volume estimation of margins and taxes.

Chapter 15: Prices and volumes

In general, this is a good chapter covering price and volume measurement. One problem area that deserves more coverage is the treatment of price changes from a price to zero or from zero to a price. For example, the production and sale of new products or the sale of previously charged products which, in later time periods, are sold for nothing or given away for free of charge.

In this chapter, the volume references to the "output estimate of GDP" should be referred to as the "production approach to measuring GDP".

Para 15.57 – although chaining helps to improve the quality comparisons over time, the text should also mention the application of explicit quality adjustments (for example, hedonics) is still needed.

Para 15.70 – it is not clear why the treatment of different customers paying different amounts for the "same product" should be treated as a difference in volume. The price measurement should reflect any discounting or reduced price for bulk purchases.

Para 15.111 – the need for quality adjustment factors is mentioned. However there are no details of how this may be achieved, the associated difficulties in measurement of such changes or examples of best practice to follow.

Chapter 16: Summarising and integrating the accounts

The chapter refers to the "output measure of GDP". The term "output" when referred in this way should be replaced with "production" throughout.

In some of the tables, (for example, Tables 16.1, 16.2, 16.3 and 16.4), imports are referred to as "imports of goods and services" whereas exports are referred to as "exports of goods". They should all be consistent.

Chapter 17: Cross-cutting and other special issues

<u>Treatment of non-life insurance</u>

The new treatment of non-life insurance has set aside one of the decisions made by the AEG. In particular, the conditions under which part of non-life insurance claims could be treated as a capital transfer has been significantly changed.

Reviewing the conclusions of the AEG (see http://unstats.un.org/unsd/sna1993/recomm.asp?ID=5), at the first AEG meeting in February 2004. AEG agreed with the discussion paper that "in some cases, such as catastrophic events, the difference between adjusted and non-adjusted claims can be treated as a capital transfer". Thereafter, the Balance of Payments Committee asked AEG to reconsider that decision, raising the concern that the same international transaction may be treated differently in the accounts of the two countries that are a party to the transaction. The AEG took part in a written consultation, and the result was that AEG confirmed by a very large majority the option to treat transfers resulting from exceptional claims as a capital transfer rather than, as in normal cases, a current transfer. This was the confirmed as their final position.

Chapter 17, however, has greatly changed from the AEG recommendation.

The UK believe that the AEG's recommendations should be restored both on conceptual and interpretational grounds. In addition, overturning the AEG's decision in this manner does not follow the agreed process.