

**Comments on draft SNA chapter:
Chapter 10: The capital account**

**Deadline for comments: 12 February 2007
Send comments to: sna@un.org**

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This three-part template allows you to record your comments on draft chapter 10 easily and, at the same time, makes it easy for us to use your comments in considering revisions to the draft chapter. You may complete any one, any two, or all of the three parts of the template.

Save this template and send it as an attachment to the following e-mail address:
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Part I: General comments

In the space below, please provide any general comments, such as about the clarity with which the new recommendations were incorporated (30 words or less).

Comment:

We feel that the purpose of the capital account from an economic analysis perspective, which is to show the accumulation of non-financial assets by way of transactions and to identify net lending/borrowing as a residual, could be better articulated in the introductory chapter. The purpose statement in 10.2 is actually a summary of what is recorded in the account.

We have mixed views on the treatment of the ownership transfer costs on valuables and contracts, leases and licences seem reasonable. On the one hand, they are akin to ownership transfer costs on other assets (including non-produced assets such as land) and accordingly should be capitalised. On the other hand, ownership transfer costs for valuables and contracts, leases and licences are likely to be relatively trivial, so as a practical expediency that could be treated as current consumption.

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 10, you may wish to devote particular attention to the passages listed below. There is space after each issue for any comment you wish to make.

1. Sections B covers produced assets. Much new material has been included originating in the Canberra II Group. Are the additions clear, especially to those not involved in the Canberra II Group work?

Comment:

There are some cases where the discussion on produced assets was not clear:

10.48 - We feel that more discussion is needed on the treatment of terminal costs, particularly given their impact on the recording of consumption of fixed capital.

10.58 – In the case of building and structures with joint resident/non-resident ownership, it is not clear whether the notional unit holds all of the building or structure or only that part that is 'owned' by a non-resident. This can have different implications for income, and the assets held by the resident units owning the other part of the building or structure. Our position is that only that part of the building or structure that is 'owned' by the non-resident is owned by the notional unit. This comment also impacts on para 11.73.

10.61 - There is an inconsistency created between expenditure and income in valuing the asset on the basis of costs including unpaid labour for GFCF but not including the compensation of employees. It is assumed that the value gets shown in GOS or mixed income but this is not clear from the text. Furthermore, this paragraph states that the only type of capital transfer in kind is communal construction by households. In Australia, businesses construct infrastructure assets (such as power lines) and then hand these over to the relevant utility for connection to the grid. The business gives up ownership of the asset. Wouldn't this be a capital transfer in kind? Also, under some forms of recording of PPPs, the 'transfer' of the ownership of an asset from the operator to the government at the end of the period would also be recorded as a capital transfer in kind.

2. Section D1 covers natural resources. Every attempt has been made to harmonise with the asset categories in SEEA and some detail is left optional within SNA though included in SEEA. Are you satisfied with the balance? If not, what would you propose?

Comment:

We are satisfied with the balance.

3. Section D2 covers contracts, leases and licenses. A fuller exposition of these will appear in chapter 17 on Cross-cutting and Other Special Issues. Although it may be difficult to comment without having chapter 17 in hand, are there points missing from this summary that you think should be necessary even in a summary?

Comment:

It is difficult to comment without Ch.17.

4. It is proposed to omit the annex on costs of ownership transfer. Is there anything missing on this subject from the chapter if the annex is dropped?

Comment:

No

Part III. Other specific comments

10.1 – For readability, the revaluation account might be mentioned before the other changes in volume account.

10.9 - There could be further clarification/expansion on the nature of services as inventories given that in general terms services must be consumed when produced. The definition refers to "other use at a later date" but other than sale or use in production it is unclear what this use might be.

10.12 – We think this would read better if the 'which' in the second sentence was changed to 'that'.

10.13 – We think that in practice contracts, leases and licenses should also be recognized when an identifiable market exists.

10.14 - Definition: Goodwill and marketing assets should read 'Purchased goodwill and marketing assets'.

10.15 – The use of terms such as 'as noted above' imply that the reader is working through the material sequentially, which will often not be the case. To the extent possible, material should stand alone, and if this is not possible, there should be explicit reference to the elaborating material.

10.16 - The definition of capital transfer is difficult to work through especially the expression "realises the funds involved". Also the word "unrequited" is redundant. The wording used in SNA93 seems preferable.

10.18: The new sentence begins Net worth but should read "Changes in new worth"

10.24 - states that for the economy as a whole, the value of acquisitions less disposals of natural resources will be zero. This ignores the potential for land purchases by foreign governments for embassies.

10.31 - The explanation of the example of laundry services feels a little awkward - is it necessary to consider whether the services are produced by hand or by machine?

10.34 – ‘Services’ in the first sentence should perhaps read ‘assets’?

10.77 – Should ‘land’ in the last sentence read ‘asset’ instead?

10.94 – The proposed OECD IPP Manual should be referred to for further information on these assets.

10.109 – We are not sure why ‘initially’ is required at the end of the third sentence. Our understanding is that data acquisition/production costs are never reflected in the value of own-account databases, regardless of when acquired or produced.

10.118 - While the logic around measuring the holding gain or loss for goods in storage is fine there would seem little or no possibility of estimating this in practice. This might be recognised or some suggestions on method made. The section on valuing work in progress doesn't cover the issue sufficiently