Comments on draft SNA chapter:
Chapter 11: The financial account

Deadline for comments: 12 February 2007
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This three-part template allows you to record your comments on draft chapter 11 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.
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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:

The 'role' of the financial account is (together with the capital account) twofold: It closes the transaction accounts, but it is also part of the accumulation accounts. This should be clearly illustrated.

The relationship between flows and stocks is one of the key issues in national accounts and it has gained a lot of importance in analysis and policy. Therefore, one focus should be, when describing the financial account (and the capital account) on their role in the context of the accumulation accounts and balance sheets (in addition to be part of the sequence of transaction accounts).

Accordingly, the presentation of the accumulation accounts and balance sheets could also begin with the description of the opening balance sheet and its content in terms of non-financial and financial assets, liabilities and net worth. In this context the description of the financial account would mean to concentrate only on transaction-related issues like the time of recording, valuation, the quadruple-entry system, etc. after having described the classification of financial assets and liabilities in the balance sheet chapter.

Another interesting presentation to be mentioned would be to combine the capital account and the financial account showing the close link between the net acquisition of non-financial and financial assets and net saving, net capital transfers and net incurrence of liabilities. Net lending/net borrowing could still be shown as the balancing item of both transaction accounts.

On the classification of financial assets we are almost content with the proposed amendments. The definition of monetary gold has to be modified following the recent discussions on also distinguishing between gold bullion (allocated monetary gold) and unallocated gold accounts. (A draft text on monetary gold has been attached to the cover letter.) As the end there is only one subcategory of monetary gold and SDRs having no counterpart liability which is gold bullion.

There is also a need to redraft the paragraphs dealing with allocated and unallocated nonmonetary gold.

In general, the denomination "financial transactions" seems preferable to "transactions in financial assets and liabilities".

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 11, 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. One of the points that has been under discussion even as the chapter was being draft was the treatment of inter-bank deposits. Are you satisfied with the inclusion of inter-bank deposits under currency and deposits for the reasons explained in section C2?

Comment:

The new proposal is to present the inter-bank deposits on a net basis (e.g. deposits minus loans). In the ESCB's reporting scheme on money and banking statistics inter-MFI loans and deposits are **reported on a gross basis**. Then, through consolidation to derive the monetary aggregates and counterparts inter-MFI deposits/loans are netted out. Usually there is a discrepancy which is allocated under 'excess of inter-MFI liabilities'. Following the proposal this discrepancy would be allocated under inter-bank deposits and would be presented on a net basis (e.g. deposits minus loans).

While it might be useful to present this term is a more detailed from-whom-to-whom framework with corresponding subsectors of financial corporations. There is no need to introduce it separately as an additional sub-item as we do not do so for similar subcategories like inter-company loans. Therefore, we would recommend showing inter-bank deposits as part of transferable deposits.

Concerning the distinction between deposits and loans in macroeconomic statistics a document has been provided by the ECB which gives some hints about the usefulness of the split between loans/deposits and proposes to include some practical ex ante criteria to distinguish between both (see: *http://www.imf.org/external/np/sta/bop/pdf/bopteg30-bp.pdf)*

2. Is there sufficient, too much or too little detail on the different types of debt securities in section C3?

Comment:

There is not very much detail. It might be useful to better clarify the distinction between loans and debt securities and also to explain some more borderline cases.

Otherwise the ordering is rather haphazard. For example, paragraph 11.50 introduces "short-term securities", followed by “securitization” in paragraph 11.51.

In fact, the ECB made contributions which could clarify the definition and the borderline cases between loans and debt securities, The proposed guidance is contained in Para. 19 of the note attached (ch11_annex_1.doc) and the decision tree in ch11_annex_2.doc.

3. Is the coverage of the items related to insurance, pension and standardised guarantees satisfactory? (There will be an overview of all items relating to these schemes in chapter 17 on Cross-cutting and Other Special Issues).

Comment:

This is difficult to assess. For that it might be necessary to know and see the cross-cutting chapter. Nevertheless, it might be eventually better to have the description in a more concentrated form in the chapter on financial assets.

4. Sections F to I describe briefly other possible dimensions to the accounts.

Comment:

It is not clear which sections are meant. The sections on equity (11.67-11.73) and financial derivatives (11.84-11.96) are far too long and unclear how and where they fit in the financial account.

5. Do you agree to moving the section on flow of funds from this chapter to one (chapter 26) dealing with the link between the SNA and monetary and financial statistics?

Comment:

The financial account (financial transactions) should be presented here and flow of funds in Chapter 26 (as described by the comments on this chapter), as this is the basis for the use of the financial accounts by users. There are many examples of how the use of financial accounts provides users with essential information to interpret economic flows.

Part III. Other specific comments

You are welcome to make other comments. Please do so by using Adobe Acrobat Version 6 or 7 to comments directly on the PDF of the draft chapter.

If you don't have Adobe Acrobat Version 6 or 7 and would like to make very detailed comments please send a message to sna@un.org requesting to receive a version of the draft chapter permitting you to comment. To optimize your commenting tools please download Adobe Reader 7.0 for free from http://www.adobe.com/products/acrobat/readstep2.html

Comments:

11.1	We recommend starting with paragraph 11.2. Paragraph 11.1 describes the relationship between net lending/net borrowing as derived from the capital account and from the financial account.
11.2	Net acquisitions of financial assets and net incurrences of liabilities are recorded, not acquisitions / disposals. The concepts gross/net are described later – which is unfortunate.
11.4	The quadruple principle should be explained earlier (eventually in the overview chapter) and not here.
11.5 to 11.10	The same applies to these paragraphs.
11.5	Strange sentence. Does not provide any substantial information. What is meant by 'other accounts.'
11.6	A rather complicated description of a transaction in goods or in non-financial assets with a counterpart financial transaction.
11.11	The terms 'resources' and 'uses' should be avoided.
11.13	A distinction should be made between financing (net incurrence of liabilities) and financial investment (net acquisition of financial assets).
11.14	In financial analysis is does not make much sense to consolidate the financial sector.
11.15	It depends. In the financial account some from-whom-to-whom information can be shown.
11.16	Not sure whether the assumption of a closed economy makes sense as a 'horizontal balancing' always seeks equality of the net acquisitions of a specific financial asset and its net incurrence of liabilities across all resident sectors and the rest of the world.
11.17 to 19.20	We doubt whether the term 'contingent assets' is appropriate taking into account the terminology as used in international accounting standards. It might be better to refer to contingencies and provisions. The case of one-off guarantees has to be amended as outlined in the AEG recommendations.
11.22	Why 'financial claims'? There is no full symmetry (monetary gold).
11.23	Who are the 'others' which own monetary gold? First shares, then shares, other corporate equity securities and financial participation: this is not the agreed terminology used in the SNA. Are there claims on the net worth of the corporation?
11.25	We would question these statements.
11.27	The statements are too vague. According to the financial asset classification we have tried to comply with the new developments. The conclusions made are therefore too pessimistic.
11.30	Quasi-corporate enterprises or quasi-corporations? Households' claims? Insurance enterprises? The content of the paragraph is not very informative.
11.35	(b) is the regular presentation in financial accounts; it is not seen as netting; (a) is the exception applied in specific types of financial statistics like securities statistics in which data on "gross" figures are available. (c) is usually treated as

netting; it is not clear why (d) and (e) are relevant in financial accounts.
11.36 Option c is seen as not useful.
11.37 The text on consolidation is rather short. What about consolidation on a group (of corporations) level?
11.38 What does ‘normally’ mean?
11.39 The text of this paragraph might have to be modified based on the discussions with the IMF.
11.40 There is a mix-up of monetary authorities and central banks.
11.40 SDRs: Something in addition to SDRs allocated?
11.41 What does this sentence mean?
11.42 Issuers of currency differently specified throughout the paragraph.
11.43 Transferable deposits might be …
11.44 We have still reservations to show inter-bank deposits as a separate subcategory (they should be included into transferable deposits).
11.45 Cross-classification according to original maturity is quite helpful in the context of defining monetary aggregates.
11.46 The question arises whether to discuss allocated and unallocated gold here or under monetary gold (based on the discussions mentioned under 11.39).
11.50 Short-term debt securities instead of debt securities.
11.51 It is rather unusual to discuss ‘securitisation’ under the heading debt securities.
11.55 The same applies to repurchase agreements. They are treated either as loans or as deposits.
11.60 Has the concept of ‘remaining’ maturity already been explained?
11.61 What does hire-purchase credit mean?
11.62 This paragraph is rather repetitive. See section on financial leases.
11.63 to 11.65 These paragraphs should be merged. The second sentence of paragraph 11.65 is unclear.
11.66 Why not to discuss non-performing loans under loans? It would increase the user-friendliness of the manual.
11.68 What is the ‘claim to the residual value of corporations’? Please specify. Are the claims not restricted to equity?
11.69 It is stated that this in not a transaction.
11.70 The outcome of the discussion in the TFHPSA was to treat differently capital injections and withdrawal of equity. The paragraph 11.70 already deals, in its first sentence, with capital injections by the owners, then switches to withdrawal of equity. Then, paragraph 11.71 deals again with capital injections which is to some extend disturbing.
11.74 Not sure whether the argument of timeliness is decisive. It seems to be more relevant that from-whom-to-whom financial accounts are more the exception than the standard by taking into account the available data sources. Agreed terminology should be used (debt securities, equity)
11.75 Do they only invest in non-financial assets in the form of real-estate? See other non-financial asset (ships, airplanes, etc.) funds.
11.78 More important seems to be another classification criterion like the type of underlying asset.
11.79 Not sure whether the first sentence describes properly the features of the financial asset. The term ‘schemes’ is misleading (it could be interpreted as an institutional unit like a pension scheme). Doesn’t the aspect of insurance risk play a crucial rule for the different types of financial assets provided by the corresponding corporations?
11.86 The term ‘debt instruments’ should be avoided.

11.94	The ordering of the first two sentences should be changed.
11.95	Credit default swaps are not mentioned anymore. It might be useful to describe them as traded guarantees.
11.96	‘Liabilities’ instead of ‘financial liabilities’.
11.99	Manage? Would ‘pension entitlement funding’ a new subgroup under ‘other accounts receivable/payable? Was this discussed during the AEG meetings? Not aware of this.
11.100	The ‘other’ position should not cover accrued interest at all. Would be in favour to show accrued interest with the ‘underlying’ instrument which is also in line with accrual accounting. The same refers to arrears. Therefore, we are not in favour to show arrears as a memorandum item as recommended in paragraph 11.103.