

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

Deadline for comments:
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This three-part template allows you to record your comments on draft chapter 6 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

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 9, 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.

Comment:

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| 11.4: last sentence: "exchange of <i>two</i> financial instruments", and not " <i>a</i> " financial instrument" |
| 11.1: last sentence: include " <i>in principle</i> ," and add another sentence at the end: " <i>In practice, there is often a statistical discrepancy between the two magnitudes</i> " |
| 11.4 second sentence: add " <i>or liability</i> " , indeed there can be exchanges of liabilities (debt assumption, for example). |
| 11.13: typo: <u>and</u> holding gains |
| 11.15 typo: <u>to</u> which sector, rather than <u>on</u> which sector |
| Table 11.1, net lending/borrowing 148 rather than 145, and 38 rather than 36. |
| 11.18 Add at the end: <i>The SNA includes some, but not all, of the provisions recognised in business accounts. The recognition of all provisions is in the research agenda of the SNA.</i> " |
| 11.21 typo "stream" and not "steam" |
| 11.22: typo of paragraph number: not in italics bold. |
| 11.23 insert before last sentence: " <i>Indeed, these liabilities are part of the own funds of</i> |

corporations are thus not seen as liabilities by them."

11.28 typo: two dots at end of paragraph

11.28 The second sentence is confusing and should be amended. It gives the impression that the issue is the breakdown between interest and service charge. The issue is more the extraction from the financial transaction of all which is recorded in the non financial accounts. I propose therefore: *Some elements of the amount corresponding to transactions observed for some financial assets may be considered in the SNA as separate non financial transactions, whether interest or service charge, and should be deducted from the amount or added to the amount of the transaction to obtain the valuation of the financial transaction.*

Also after the next sentence (Foreign currency etc...) one could add for clarification: *Thus the valuation of the financial transaction in the financial accounts will be the mid-price value.*

Note that I have said "deducted or added" because for the seller one has to add the difference with the mid price.

11.30 A paragraph should be included here regarding the treatment of reinvested earnings and the problem of double counting that was raised by the task force on equity.

11.35 (b) typo: netting within specific *type of asset*

11:35: typo: font size

11.37 In accordance with AEG recommendation, make the wording of last sentence more stringent: "Another area *where the compilation of a supplementary consolidated account is strongly recommended* (rather than "can reveal useful basic information") is within the the general government sector...."

11.41 middle: typo: in the event *they give up their membership*

11.45: typo: font size

11.50 typo, certificates

11.51: Chapter 21 (and not Chapter 20)

11.55 typo: repurchase agreements *are classified* (suppress "to be").

11.61 typo: font size

11.62: In subsequent periods, the *interest* payments made by the lessee must be divided into *SNA interest* and a financial service charge.

11.71 typo: suppress twice: "to be" in "to be recorded" or "to be included".

11.75 typo: investment funds

11.72: This is chapter 21 and not Chapter 20.

11.82: the only transaction ... is *the* difference..."

11.80 The editor has here deleted a lot of material for unknown reasons. The non life insurance task force had proposed (and the AEG accepted) a new terminology regarding

non-life insurance technical provisions. Here is the exact wording (see the report of the task force to the AEG top of page 42).

Non-life insurance technical provisions comprises provisions for unearned premiums and provisions for outstanding claims (including automobile, health, term-life, marine, aviation, and transport and other accident/injury, income maintenance and other forms of non-life insurance). The former are considered to be assets of the policy-holders, while the latter are assets of the beneficiaries.

Provisions for unearned premiums first result from the fact that, in general, insurance premiums are paid in advance. Insurance premiums are due to be paid at the start of the period covered by the insurance, and this period does not normally coincide with the accounting period itself. Therefore, at the end of the accounting period when the balance sheet is drawn up, parts of the insurance premiums payable during the accounting period are intended to cover risks in the subsequent period. These prepayments of premiums are assets of the policyholders and form part of the insurance technical provisions. The amounts of premiums recorded in the accounts as transactions between policyholders and insurance enterprises consist of the premiums earned - those parts of the premiums that are paid in the current period or the preceding period and that are intended to cover risks outstanding during the current period. The SNA definition of provisions for unearned premiums also includes the provision for unexpired risks and provisions for bonuses and rebates.

Provisions for claim outstanding are held by insurance enterprises in order to cover the amounts they expect to pay out in respect of claims that are not yet settled or claims that may be disputed. Valid claims accepted by insurance enterprises are considered due for payment when the eventuality or accident that gives rise to the claim occurs - however long it takes to settle disputed claims. Provision against outstanding claims are therefore considered to be assets of the beneficiaries and liabilities of the insurance enterprises. The SNA definition of provision for claims outstanding includes provisions for incurred but not (enough) reported incident and provisions for the equalisation of claims. The financial account of the SNA records changes in provisions for unearned premiums and provisions for claims outstanding that result from transactions between policyholders and insurance enterprises under the general heading of changes in insurance technical provisions, but changes in these provisions resulting from holding gains or losses are recorded in the revaluation account and not in the financial account

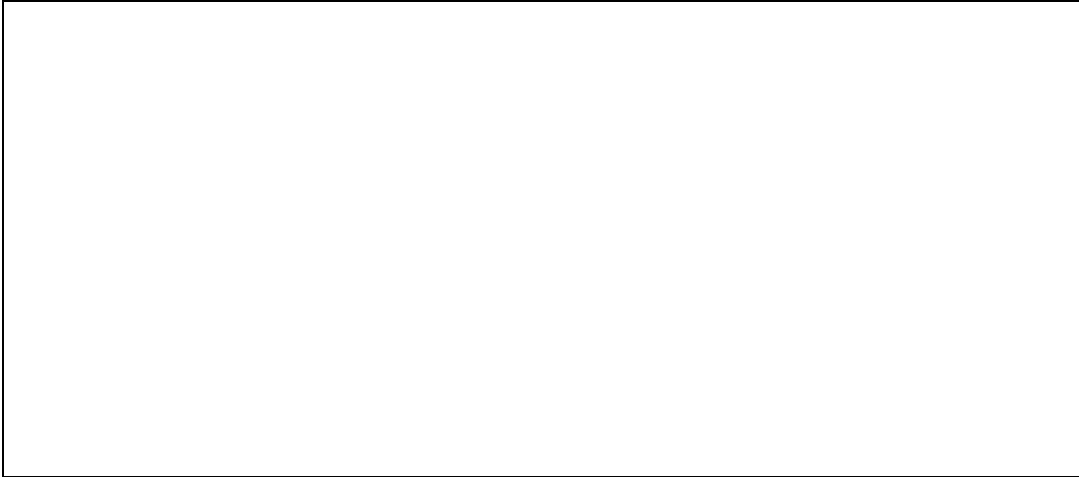
11.81: Add a sentence (task force on insurance) : "*Life insurance entitlements include provisions against outstanding risks, and provisions for with-profit insurance, and unit-linked life insurance.*"

11.85 typo: do not mix "e.g" and "etc.."

11.90 d typo: "involves"

11.90 e "swaps" "involves"

11.100 title typo: suppress dot before Other.



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>