

**Comments on draft SNA chapter:
Chapter 12: Other changes in assets accounts**

**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 12 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:
sna@un.org

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:

In the discussion of other changes of volume, there is no mention of the treatment of the sale of an asset from one party to another from the perspective of the holder of the liability (eg, for flow of funds purposes) associated with corporate restructures. The ABS position is that the holder of the liability records one transaction extinguishing the original asset and another transaction creating the new position. The international accounts are suggesting that this should be treated as a reclassification
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Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 12, 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: As compared with the hierarchy of entries in the other changes in the volume of assets account in the 1993 SNA, the proposed list for the update has been restructured with the intention of making it easier to associate entries in the other changes in the volume of assets accounts with the entries in the other accumulation account chapters including the balance sheet.. Do you find this successful or are there other changes you would suggest?

Comment:

The new structure seems to work well.

2. Does it make sense to have information on the other changes in financial assets moved to this chapter instead of, as previously, having them in chapter 11? In the 1993 SNA, the information on the other changes in financial assets was covered in chapter 11, The Financial Account. Do you see any problems with moving this information to this chapter?

Comment:

Agree with placement in this chapter

3. It is proposed to make the existing annex on the calculation of holding gains and losses an electronic annex, available to all users of the manual but not included in the printed version. Do you have comments on this proposal?

Comment:

Agree with this approach

Part III. Other specific comments

12.8 - '...financial assets for which there is neither an actual nor notional liabilities'. We understand that gold is the only example, this could be stated.

12.15 - This paragraph states that when an asset on the balance sheet is reclassified (eg, to a public monument), the change in value associated with the reclassification is treated as an other change in volume. As no volumes have changed, the revaluation should be treated as such, with only the classification change treated as an other change in volume. The treatment outlined implies a causality associated with the classification change when it could be the valuation change causing the reclassification.

12.16 – The last sentence doesn't seem quite right; how could the counterpart entry to a transaction recorded in the capital account be recorded in the other changes in volume account? It is not clear to us why there should be any capital account entry for the sudden appearance of a valuable.

12.18 - This paragraph addresses the issue of the situation in which it becomes viable to exploit a particular subsoil asset. The final sentence suggests that this can occur because of technological progress or change in relative prices. It might be helpful to note that the relative price change being referred to is the price of the outputs that would be produced as a result of the exploitation of the subsoil asset. (We note that relative price change of inputs could also be a cause but this would be much less common.)

12.25 - This paragraph is difficult to grasp as it currently stands, suggest a rewording.

12.26 – Should the unwinding of the discount associated with subsoil assets valued on an NPV basis be treated as an appearance of the asset, or should it be deducted from the actual value of extractions to get a 'net' depletion measure. (If you think about the analogy with fixed assets, consumption of fixed capital equals the value of the assets service flow used up in the period less the unwinding of the discount.)

12.41 – In the second sentence, to prevent confusion “Changes in value” could be used to replace “write-downs”. In the third sentence, we suggest that “accounting purposes” could be added to “regulatory or supervisory requirements”

12.44 This paragraph states that derivatives are introduced to the balance sheet and removed from the balance sheet (when activated) through other changes in volume. The ABS understanding of the treatment of derivatives is as follows:

- Forwards generally are introduced to the balance sheet with zero value. They then change value through revaluations. When they are activated, they are extinguished through a transaction.
- Options are introduced to the balance sheet with a transaction (valued at the value of the premium). They then change value through revaluations (and may change to a zero value and expire). When they are activated, they are extinguished through a transaction. It is only when an option expires with a non-zero value that an other change in volume occurs.

Also, the discussion on ESOs is inconsistent with paragraph 13.89, which states that ESOs enter the balance sheet as an offset to accrued compensation of employees between the grant date and vesting date, suggesting that the counterpart transaction is in the financial account. We believe that the form of recording suggested in 13.89 is correct, and that paragraph 12.44 is incorrect as it currently stands.

12.53 - Some clarification on the issue of revisions in assumptions would be useful. It is possible that the assumptions underlying COFC calculations are wrong and have been for the whole time series in which case the whole time series should be revised. The paragraph could be interpreted as saying that in such a situation a step change be introduced through the other change in volume account. We think the intention of the paragraph is to note that where economic circumstances change during a period such that the earlier assumptions regarding COFC are no longer applicable then the

consequent change in the value of asset from beginning to end of period should not all be regarded as COFC - some amount should be shown as an other change in volume.

12.66 and 12.67 – We think that ‘ defined contribution’ in the first sentence of each of these paragraphs should be ‘defined benefit’.

12.68 and 12.69 – The information on ABO vs PBO is good material, but the ABO/PBO affects parts of the accounts as well the other changes in assets accounts.

12.75 and 12.76 - These paragraphs suggest treating the creation or elimination of assets and liabilities through corporate restructures as other changes in volume. The ABS preference is that these are treated as transactions.