Comments on draft SNA chapter:
Chapter 13: The balance sheet

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

Your name:	Reimund Mink
Your country/organization:	European Central Bank
Contact (e.g. email address):	reimund.mink@ecb.int

This three-part template allows you to record your comments on draft chapter 13 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:

1. Paragraph 13.4 could be included into a general introductory section or in a chapter as recommended otherwise (see the general comments on chapters 10 to 13, including 14).
2. The remarks made in the paragraphs 13.6 and 13.7 on the analytical use of balance sheets are not complete. One option would be to split the statements by institutional sector saying something on the analysis of households, non-financial corporations, financial corporations, general government and rest of the world balance sheets or focus on specific key indicators like assets, sub-groups of assets, liabilities, debt, net worth, own funds (should be introduced early as it is mentioned several times throughout the chapter), leverage or include also flow/stock ratios.
3. Another important element is to look at asset prices.
4. The memorandum accounts should all appear at the end of the Chapter, for example including non-performing loans in 13.71 and 13.72.

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 13, 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. Do you find it helpful to have the definitions of assets included as the assets are introduced rather than assembled in an annex to chapter 13? (A comprehensive glossary, drawing on the definitions in the text, will be available.)

   Comment:

   As indicated in the comments to the chapters on accumulation accounts it would be useful to start with the balance sheet chapter which covers the definitions of assets and liabilities.
   Each of the balance sheet entries should have a clearly understood and concise definition which is not there.
   All classification and practical issues should go into a Guideline.
   This chapter should also be expanded to explain the use of balance sheets in economic analysis.

2. Section A: Do you find it helpful to describe asset accounts in this chapter to explain the links between balance sheets and stock of assets as used for PIM calculations and as used in the SEEA?

   Comment:

   The description of asset accounts in the table was not at all helpful in understanding the use and analysis of the balance sheet and should be taken out and put in the Guide, if necessary.

3. Is the relationship between the balance sheet entries and the entries in the capital account, the financial account, the other changes in the volume of assets account and the revaluation account sufficiently clear?

   Comment:

   The relationships is a key analytical tool for users but it was not set out in any clear way here (see for example in 13.6 and 13.7), if at all. We can do this very easily in a clear logical way, from the ECB work on institutional sector accounts but also based on diagrams used in IMF manuals (see also the comments made on this issue at other occasions).

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
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13.1	Not sure whether the term asset accounts is commonly used. It is also not very clear what is really meant. An example might useful. Reference to asset accounts is also made in paragraph 13.11; however, the examples mentioned in this paragraph are difficult to understand (at least in the context of an institutional sector accounts framework)
13.2	A balance sheet is also drawn up for the rest of the world.
13.3	Is the lessee not also the economic owner?
13.4	The term "financial and non-financial resources" should be avoided.
13.5	The statement that the balance sheet completes the accounts is a little bit old-fashioned. It only applies if dealing with the accounts in a sequence. Equally important as the 'vertical' presentation (and balancing) is the horizontal presentation (by institutional sector) and also the presentation of stocks and the corresponding accumulation accounts (stock/flow balancing).
13.6	Why reference to durable consumer goods as they are not seen as non-financial assets in the System?
13.8	The sentences of this paragraph repeat what is already in 13.1. The third sentence contains a completely different subject – the relationship between the opening balance sheet and the closing balance sheet. Again, this part has already been presented in chapter 12, paragraph 97 (which splits the other changes in the volume of assets into its two parts)
13.10	This paragraph should be more detailed (OECD, Measuring capital).
13.12	There are a lot of repetitions in it. This paragraph would be better placed at the beginning in describing the content of a balance sheet and its changes.
13.13 to 13.15	See comments on 13.12
13.24	Reference should be made to unlisted shares and not to unlisted securities.
13.27	The description of the present value of future returns is too short. The example of valuing unlisted shares, other equity, dwellings or buildings based on this method could be explained. Would it not be useful to explain the nominal value and the face value as both are mentioned later (for instance in the context of the own funds at book value method)? The paragraphs included in Section C (The entries in the balance sheet) could be easily included under the corresponding types of assets and liabilities when defining and describing them (currently in chapter 10 and 11). For the reader it is rather cumbersome to collect all relevant information on assets and liabilities from the different chapters.
13.61	In practice accrued interest is also included in deposits.
13.62	to 13.66, 13.68 It is more accurate to use the term debt securities
13.67	In contrast to deposits accrued interest is included here. Do not see a reason to treat both financial assets differently.
19.68	Reclassification of loans to debt securities (see also our comment on Chapter 11, para. 11.52: Loans that are traded and for which there is evidence of a market with quotations in the market are reclassified to debt securities (A loan which is traded once is not necessarily to be reclassified). Basic idea is precisely to avoid volatility in asset classes in *setting clear criteria for differentiating loans from debt securities*. Loans that are re-packaged then become debt securities as there has been clear expression of willingness, and at least consultation, between the lender and borrower for this. Or loans that have

passed the maturity and, thus, at least one party has not abode with his/her obligations, become non-performing; they may then become securities if they are object of transactions.

13.70 to 13.72 The description of the treatment of non-performing loans would be much clearer if a small numerical example would be included and be shown in a table.

13.74 The own funds at book value should be included as a fourth valuation method and not seen as an exceptional treatment. Later on (in 13.78) it is said that this method is widely used.

13.80 Not sure whether the central bank is a good example of a quasi-corporation as some of them issue shares. Are partnerships quasi-corporations?

13.91 Should we not be stricter to exclude accrued interest from other accounts receivable/payable? The same should apply for arrears. We should get rid of the term "securities other than shares."

13.95 Why to define 'own funds' so late? Is it really the difference between net worth and equity? According to my recollection it is defined as the sum of both (see ESA).