Comments on draft SNA chapter:
Chapter 26: Links to monetary and financial statistics

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This three-part template allows you to record your comments on draft chapter 26 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. The chapter is a surprise. Extensive work was undertaken to prepare the IMF's MFSM. We would strongly suggest that this framework is used, in correspondence to a (general) flow of funds system (as explained later), including the appropriate application of the building block approach to the compilation of monetary aggregates.
2. Insofar, does this chapter work in linking (national accounts) to financial and monetary statistics? From a user perspective: no. Also the tables 26.3a and 26.3b are not seen as a general model. Therefore, a more general approach has to be used.
3. The main motivation of the chapter is in explaining to users the new classification of financial assets and liabilities and the new classification of financial corporations. Would it not be better to link this part with the chapters in which financial assets and liabilities and financial corporations are introduced in more detail?
4. Would it not be better to start and explain in detail the flow of funds system in a from-whom-to-whom context (as the general model) in this chapter (which is somewhat new compared to the SNA 93)?
5. The flow of funds model could be introduced as a subset of the more comprehensive approach of an integrated system of institutional sector accounts (ISISA) (which will have to be described in the overview chapter or in chapter 4). Starting from this, flow of funds (in a narrow sense) could be seen as the transaction accounts covering all financial assets and liabilities. Extensions of this approach would be to include also the capital account and eventually the use of income account. In an integrated framework balance sheets and the other flow accounts would have to be added as well as the from-to-whom-framework.
6. This comprehensive approach would be the common framework presented across all types of (financial) statistics which users can see as helpful in the analysis of monetary and financial developments (reference to the IMF's MFSM).

7. Linking the from-whom-to-whom flow of funds system to monetary and financial statistics means that essentially two types of presentations and analyses should be presented: (i) the link to monetary statistics (money and flow of funds: money issuer/money holder sectors; consolidation/aggregation; resident/non-resident part; monetary presentation of the balance of payments); and (ii) the link to financial statistics which is rather general.
8. Some typical examples could be specifically discussed like the relationship between money and credit, the composition and counterparts of government debt, corporate finance in a cross-sectoral framework, the development of non-financial sector debt broken down by sector, maturity, creditor sector or residency and household (financial) wealth).
9. In general, it might also be useful to provide some guidance on the treatment of monetary unions (cross-border consolidation, rules on the issuer of banknotes, sector/financial asset harmonization.
10. The four factors presented in the chapter (paragraphs 26.6 to 26.10) are not the key classification issues.

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 26, 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 like the idea of a chapter showing the link to monetary and financial accounts? If so, does this chapter cover sufficient material to facilitate the link?

Comment:

1. Yes, but the link should be in a table/description showing the framework of flow of funds as described above (balance sheets, transactions and other flows). Money and particularly its flows should be defined here within the consolidated balance sheet and flows accounts of the financial corporations sector, specifically the money issuing sectors (central bank, deposit-taking corporations and eventually money market funds, but also central government). Its counterparts are described as the money holding sectors taking into consideration the resident concept of money.
2. This presentation could be extended into the monetary presentation of the balance of payments. In terms of the proposed institutional sectors chapter, these breakdowns serve in the reconciliation between the balance of payments and international investment position and the rest-of-the-world account in the financial accounts.
3. We do not agree there is not a simple definition of money for the SNA (see corresponding section in the ESA) or it is not useful analytically to draw a clear distinction between transferable and non-transferable deposits as described in paragraph 26.6. In addition, paragraph 26.7 is rather negative and has no place in the SNA. It might be more appropriate to replace with value of monetary and financial statistics for the general public and for decision-making in the analysis of monetary conditions and of the monetary transmission mechanism.
4. Finally, the aim of this chapter has to be made clearer. Our preference would be to choose a similar approach as in the chapter showing the link between the rest of the world account in the SNA and balance of payments and international investment position statistics. For that it would be useful to set the framework as outlined above

and link this framework with monetary and financial statistics (the IMF's MFSM, by eventually using bridge tables).

5. For monetary and financial statistics should reference be made exclusively to the IMF MFSM or is a specific definition envisaged? Has reference to be made to monetary and financial statistics as a set of source data for national accounts? In any case, this has to be specified.

2. Would you like to see the details on financial sub-sectors in this chapter or in chapter 4 on Institutional Units and Sectors?

Comment:

1. It would be the preferred option to describe the financial sub-sectors in chapter 4 on institutional sectors (as also done for the detailed description of financial assets and liabilities in the financial account or, preferably, in the balance sheet chapter).
2. Possible combinations of sub-sectors could be discussed if dealing with money or other key financial variables in chapter 26.
3. We assume that there would be a rather comprehensive description and analysis of the ISISA either in the introductory chapter or in the chapter on institutional units and sectors.

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

26.1 Financial account shows "transactions." What does "listed" financial assets and liabilities mean? The last sentence is unclear. It would be better to give an example.

26.2 For the reader, it is not clear what monetary and financial statistics (MFS) means.

26.3 I would assume that monetary statistics refers in any way to the concept of money. Examples are the monetary survey in the IFS or the integration of money into the system of financial accounts/financial balance sheets. Reference is primarily made to the money issuers and money holders. Financial statistics covers a broader range of financial variables like financial wealth, debt, liquidity, financial stability (?), etc. Not so easy to cover. In that context the concept of financial survey in the IFS might be too narrow. One possibility would be to look at all statistics related to financial corporations as well as to stocks and flows in financial assets and liabilities of the remaining resident sectors and the rest of the world. This could be easily illustrated in a diagram.

	Comments on the usefulness of the SNA for international comparisons but it might be wise to include a comment on the need of having harmonized data (especially for currency unions). The sentence starting by "financial corporations, on the other hand …" should be amended at the end into something like "and timely of all institutional units."
26.4	This paragraph and the table should be part of chapter 11 or, as explained above, of chapter on balance sheets which should precede the chapters on accumulation accounts. Otherwise, many repetitions are needed. Are transferability, negotiability, marketability and convertibility defined somewhere?
26.5	As an introductory paragraph the content is not very specific. It might be more appropriate to give an overview of the reasoning why these 'factors' have been chosen and not others. Insofar, the selection seems to be rather arbitrary as it is predominantly linked to the financial asset / liability classification. Again these concepts could also be easily integrated into the chapter on balance sheets and balance sheet items. The ECB approach is to have an harmonized money issuing sector (MFIs) then certain liabilities of this sector are considered 'money.' The approach contained in the SNA is to define money depending on national definitions. It might be useful to seek harmonization on the money issuing/holding sectors which could facilitate the international comparisons. The ECB Monetary and Financial Statistics Manual could be helpful. The statements that 'the wide range of ways in which money is defined in different countries" and "few countries find a stable relationship between narrowly defined money and other target variables" should be checked with economists. These sentences should be redrafted to refer to purely statistical/national accounts issues, i.e. that the SNA does not define money because it depends on a number of country- and time-specific elements.
26.6	It is useful to deal with money in this context. However, the text in 26.6 and also in the following paragraph is rather 'negative'. Clearly, financial innovation and technological progress has led to difficulties in precisely defining money. However, it might be more straightforward to explain how to integrate monetary aggregates into the SNA. One example is described in the 1995 ESA which could be easily adapted.
26.7	Similar reservations (repetitions) are made in this paragraph as in the previous one. The presumed instability of the boundary between transferable and non-transferable deposits might be an issue. But is this unique in the accounts? There is clearly in option to define narrow money M1. A further step could be to split other deposits further into deposits with different terms of maturity and also to consider highly liquid financial assets issued by deposit taking institutions like short-term debt securities or even money market fund shares/units. Depending on the integration or exclusion of these components and other financial corporations issuing these different types of liabilities a different specification of the money issuing sectors would have to be carried out. As counterparts, money holding sectors would be specified and also sectors which might be issuers and holders of monetary assets (like central government). Such a specification could be easily demonstrated in a diagram as done in the 1995 ESA or illustrated in a synthesised chart. Issues should be raised like the consolidation of the money issuing sector, the specification of money as a resident concept (resident holders vis-à-vis non-resident holders), aggregation of financial assets and liabilities to money, non-monetary liabilities, credit, other assets. The to some extent different methodological concepts in monetary statistics and

financial accounts should also be mentioned (accrued interest, valuation, stocks, derivation of transactions as differences of stocks minus other flows).
The last sentence refers to the approach of integrating national accounts and monetary statistics but it might be interesting to bridge the flow of funds (financial accounts) with the monetary analysis (e.g. to derive the monetary aggregates from the flow of funds). As an example is attached the bridge at the euro area between M3 and the financial accounts (as long as the actual financial assets included in the monetary aggregates may vary from country to country) (see Annex A). This can serve as an illustrative example.
It should be mentioned that the monetary aggregate components are usually valued according to the valuation criteria which could differ from the criteria used for the compilation of financial accounts. That means that differences between the monetary components and the corresponding financial asset according to SNA may occur in part caused by the different valuation criteria.

26.8 Again the argument is brought forward that financial innovation has diminished the usefulness of this criterion. It would be useful (for financial market analysis and asset yields) to introduce also the concept of residual maturity.
Would it be useful to specify this refers to original maturity?

26.9 Is 'capital account' correct? It must be 'financial account.'

26.10 Not sure of the value or purpose of this paragraph. Is it not part of the chapter on the rest of the world and balance of payments? Does it really refer to the issue of linking national accounts to monetary and financial statistics? What does a 'country's authorities' mean?
Please use the term 'financial corporations' instead of 'financial institutions' and 'insurance corporations' instead of 'insurance companies'. Not sure whether the term 'captive financial institutions and money lenders' has already been discussed (see table 26.2).
If already defined and described in chapter 4 it might not be necessary to have a new table 26.2.

26.13 Depository corporations or deposit-taking corporations? Use the term 'debt securities' instead of 'securities'. Money market funds are not deposit-taking corporations. I would prefer monetary financial intermediaries as previously recommended which would allow combining 1, 2 and 3.

26.14 Sum of 1 to 5 is defined as financial intermediaries. Do not also insurance corporations and pension funds belong to financial intermediaries?

26.15 Is this paragraph needed? At least in two paragraphs, this relationship is described. No reference is made to this paragraph later.

26.16 Is there any specific definition of flow of funds? Does it cover only financial transactions, financial and capital, or financial, capital and some income? Refers flow of funds only to transactions? The flow of funds accounts do not necessary show from-whom-to-whom (fwtw) relationships.

26.17 What is described here as flow of funds is a fwtw framework which goes beyond flow of funds as commonly described. Strange to refer to tables 11.1 and 11.2.

26.18 A nice example would be the analysis of government financing by liability category, maturity, currency, counterpart sector and residency, etc.

26.19 It might clearer to concentrate only on financial corporations and move the sentences on government to 26.18. 'Other resident sectors' are HH / NPISH. Avoid the term 'asset instruments.'
The paragraphs 26.21 to 26.24 should be reformulated taking into account developments in financial accounts in the recent decade.

26.26 As stocks have gained a lot to be a useful analytical tool for different purposes some more input should be provided (see papers presented to the IFC, ECB sector accounts, etc.). Interesting aspects could also be gained by analysing revaluation and other changes in the volume of assets accounts in a more detailed form (asset prices, distribution of wealth among sectors)