

**Comments on draft SNA chapter:  
Chapter 4: Institutional units and sectors**

**Deadline for comments: 1 September 2007  
Send comments to: [sna@un.org](mailto:sna@un.org)**

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Submission date:	21 August 2007

This three-part template allows you to record your comments on draft chapter 4 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.

Especially when providing comments in Part III of the template, you are encouraged to focus on the new passages of the draft text. To facilitate this process, a file comparing the existing text and the draft text is available on the website under the following link: <http://unstats.un.org/unsd/sna1993/projectmanagement/drafts/Chapter4dv2cdv0.pdf>

Save this template and send it as an attachment to the following e-mail address: [sna@un.org](mailto: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:*

<p>The new text is a significant improvement and clarifies several issues. We have some residual concerns that the residency of units with operations in more than one economy needs to be made clearer. These are outlined in the specific comments attached relating to Paragraphs 4.10 – 4.12 and 4.53.</p>
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**Part II: Comments on specific draft paragraphs or passages**

In your review of draft chapter 4, you may wish to devote particular attention to the passage listed below. For ease of reference, we have identified the relevant paragraphs.

Please use the space provided to the right of the paragraph number to make your comment.

1. Section A, paragraphs 4.10 – 4.12:

The definition of 'residence' was slightly changed in the 1993 SNA Rev.1 by introducing 'predominant' before "economic interest." Because residence is principally a BOP term, the text in paragraphs 4.10 – 4.12 has been taken from *BPM 6*. Do you consider the definition appropriately described? Is it clear to a national accountant?

4.10	<p>In the CSO's view, the introduction of the concept of 'centre of predominant economic interest' could cause serious confusion in determining the residency of a quasi corporation that is not established as a legal unit in the country in which it is located. The earlier paragraphs (e.g. 4.3 and 4.6) of the new Chapter 4 appear to suggest that only legal entities are considered separate institutional units. This was also the case in the SNA93, but the SNA93 section defining residency clearly indicated that quasi corporations were separate institutional units to be treated as residents of the country in which they were located. This is not clear from the new draft text. Indeed, the introduction of the concept of 'centre of predominant economic interest' causes ambiguity by suggesting to compilers that the country of residency of corporations should be determined at the group level, with quasi corporations (i.e. branches) and their parents assigned the same residency even when they are located in different countries. While the draft BPM6 text seems to be clearer on this specific matter (Par. 4.14 and 4.15) the CSO has submitted similar comments to the IMF to those in this response.</p> <p>Fundamentally, we feel that if national statistical compiler determines the existence of a real or notional institutional unit then its residency is automatically determined as the economic territory of its location. Therefore, in our view, the use of the terms "centre of predominant economic interest" and "... economic territory with which it has the strongest connection..." are not meaningful or helpful in the context of the definition of residence of institutional units generally. Consequently, we think that the existing term 'centre of economic interest' is still perfectly adequate. We agree, however, that there is a need to address the situation where household units have economic interests in different economies. The CSO agrees that the concept of 'centre of predominant economic interest' is a useful additional theoretical criterion for the classification of some borderline cases relating to households and, even though we think that the concept is not entirely clear and may cause problems for compilers, we recognise it has been accepted by the vast majority of countries. However, such clarification might be more appropriate to the Chapter 24 concerning the Rest of the World account.</p> <p>As regards units other than households, our view is that where a <b>legal unit</b> has centres of economic interest in more than one economy, it is only necessary for a national compiler to determine whether each of these centres qualifies as an institutional unit. This depends on whether a centre of economic interest sufficiently meets the relevant criteria as described in Chapter 4 for the existence of an institutional unit - without any need to assess the scale of its economic interest relative to that of any other centre of economic interest within the overall legal unit. An extreme case that might cause concern in this context is where a company is</p>
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	<p>incorporated in one economy (Economy A) but whose entire substantive economic interest (under the usually accepted criteria) is represented by a branch in another economy (Economy B). In such a case, the foreign branch is clearly a centre of economic interest and, under the relevant criteria, is (presumably) also an institutional unit. The incorporated entity in Economy A is also (presumably) an institutional unit in that it is a "passive" holding company (as described, but not labelled as such, Par. 4.47 of this Chapter 4 - see also Par 4.77(b) of the draft revision to BPM5). In arriving at this contention, i.e. that there are two centres of economic interest and, correspondingly, two institutional units, no consideration of predominance would appear necessary in our view. We would take the same view irrespective of whether the incorporated entity in Economy A also happens to have substantive economic activity. Interestingly and despite the inclusion of the same terminology, Par. 4.120 of the draft revision to BPM5 appears to make the above point very clear and states (in relation to a single legal unit having substantial operations in more than one country) "As a result of splitting such legal entities, the residence of each of the subsequently identified enterprises is clear. The introduction of the terminology "center of predominant economic interest" does not mean that entities with substantial operations in two or more territories no longer need to be split."</p>
4.11	<p>The points made under Par 4.10 above concerning the term "centre of predominant economic interest" apply. In addition and on the basis of the same thinking, we would query the generality of the wording of the sentence commencing with "Since some institutional units have economic interest in two or more economies ...". We think that, unlike the case for a legal unit, an institutional unit cannot generally be thought of as having centres of economic interest in more than one economy. We feel that the issue of household units having interests in more than one economy might be more appropriately treated under 'borderline cases'.</p>
4.12	<p>The points made under Par 4.10 and Par. 11 above apply.</p>

2. Section A, paragraph 4.20:

A decision tree allocating units to institutional sectors and sub-sectors has been added as figure 4.1. It is first referred to in paragraph 4.21 to the 1993 SNA Rev.1. Do you think it is useful?

4.21	Yes.
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3. Section B, paragraphs 4.52 – 4.54:

The expression 'ancillary corporation' in the 1993 SNA did not fit neatly with the discussion on ancillary activities discussed in draft chapter 5 of the 1993 SNA Rev.1. Therefore the term 'artificial subsidiary' has been introduced. Do you agree with this new terminology?

4.52	CSO accepts the new terminology in the context described.
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4.53	<p>CSO thinks that there is a need for the System to address the question of whether an artificial subsidiary established in a different economy to that of its creator should be regarded as an institutional unit.</p> <p>Par. 4.17 of the draft BPM6 states that “an ancillary corporation is recognized as a separate institutional unit when it is resident in a different economy from that of any of its owners, even if the ancillary corporation is not, in practice, Autonomous. It would appear that an artificial subsidiary should be similarly treated (note: there appears to be no reference in either Chapter 4 or Chapter 5 to the treatment of ancillary operations resident in different economies to their parents as institutional units.</p>
4.54	

4. Section B, paragraphs 4.64 – 4.72 and section C, paragraphs 4.82 – 4.83  
Material from draft chapter 21 (public sector) of the 1993 SNA Rev.1 on control of corporations and of NPIs by government has been brought together. Do you consider this useful?

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5. Section D, paragraphs 4.89 – 4.90:

NPIs are distinguished as a sub-sector of the non-financial corporate sector in the 1993 SNA Rev. 1. Other units in the sector have been labeled 'For Profit Institutions' (FPIs). Do you agree with the new terminology introduced in paragraph 4.89? Do you agree with the full sub-sectoring introduced in paragraph 4.90 and shown in table 4.1?

4.89	Click here and start typing.
4.90	Click here and start typing.

6. Section E, paragraph 4.94:

The new sub-sectoring of the financial corporations sector, including again by NPIs and FPIs, has been introduced in paragraph 4.94. Do you agree with the new classification?

4.94	Click here and start typing.
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7. Section F, paragraphs 4.118 – 4.119:

Do you consider the clarification of the role of social security funds in paragraphs 4.118 – 4.119 consistent with the GFSM? Paragraphs 4.118-4.119 set out the role of social security funds while trying to stay in line with text in the *GFSM* and draft chapter 21 of the 1993 SNA, Rev. 1. Is the text appropriate and clear?

4.118	Click here and start typing.
4.119	Click here and start typing.

### **Part III. Other specific comments**

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

If you don't have Adobe Acrobat Version 6 or 7 and would like to make detailed comments, please send a message to [sna@un.org](mailto:sna@un.org) requesting a version of the draft chapter that permits 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>