

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

**Deadline for comments: 21 August 2007
Send comments to: sna@un.org**

Your name:	Peter van de Ven
Your country/organization:	The Netherlands, Statistics Netherlands (Note: The comments below also include those made by the Dutch Central Bank.)
Contact (e.g. email address):	pven@cbs.nl
Submission date:	5 September 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>

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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:

First of all, we would like to compliment the editor with this draft chapter. Generally speaking, the chapter is exhaustive and very clearly written.

We do have some general comments, some of them much along the lines of the comments made by Eurostat and the ECB:

1. Residence: We appreciate the alignment with BPM. However, in addition, we would prefer a more extensive discussion of residence in chapter 4, according to para. 4.16 of the present SNA.
2. In our opinion, the original table 4.1 in the 1993 SNA still has some merits, because it shows, in a snapshot, the relationship between different kinds of units and the institutional sectors according to the System.

3. Corporations and control: In our opinion, the new paragraphs on corporations and control (para. 4.36 and 4.69) may be a bit too elaborate, especially if you compare it, for example, with the discussion on the delineation of quasi-corporations.
4. Institutional units with no employees and little production activity and artificial subsidiaries (para. 4.48 – 4.54): In our opinion, it may not be possible to delineate artificial subsidiaries in practice. Also conceptually, the proposed definition of artificial units seems not to be mutually exclusive with the definition of other institutional units with no employees and little production activity. The units mentioned in para. 4.49 as an example may also be related to avoidance of taxes, etc. Furthermore, in line with the relevant remark by Eurostat, in our opinion, it should be made clear that artificial units are to be considered as separate institutional units if they are resident in a country other than the one of the related corporations. Finally, we agree with the remark of Eurostat on the classification of SPEs (para. 4.51).
5. Subsectoring of NPIs: In our opinion, the cross-classification of NPIs and FPIs with other criteria for subsectoring of (non-)financial corporations is far too detailed. One could imagine a subsectoring into NPIs and FPIs, but not cross-classified with other criteria.
6. Financial corporations: In general, we support the remarks by the ECB in this respect.
7. Social security funds (para. 4.118-119): In our opinion, the definition of social security funds may need further elaboration. As it is defined now in para. 4.118, it could relate to all social insurance schemes. Criteria such “covering the community as a whole or large sections of the community” and “imposed and controlled by government units” need to be spelled out here.
8. Households: We fail to see the reason for deleting some of the paragraphs included in the 1993 SNA.

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	See general remark 1 on residence of units. As residence is a very important characteristic defining the System, a further elaboration along the lines of para. 4.16 of the present SNA has, in our opinion, a major value added. One could also consider including some of the conclusions arrived at in the AEG-meetings (e.g. on the residence of SPEs and the like).
4.11	
4.12	

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	The decision tree is clear. In our opinion, the tree would gain in clarity if the question “Is it a non-market producer?” is changed into “Is it a market-producer?”
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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?

4.52-4.54	We agree that the term “artificial subsidiary” is to be preferred over and above the term “ancillary corporations”. However, we do have some concerns about the delineation between institutional units with no employees and little production activity on the one hand and artificial subsidiaries on the other hand. Furthermore, the residence of artificial subsidiaries should be clarified. See also general remark 4.
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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?

4.64	Generally speaking, we think the text is very clear. However, we do have some concerns in relation to the balance of the text in this chapter; see general remark 3.
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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	Terminology is clear. However, in our opinion, the full subsectoring is overdone. It would be preferable not to crossclassify the distinction NPIs/FPIs with other criteria such as control/ownership of the corporations. See general remark 5.
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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	Again, as in the case of non-financial corporations, we fail to see the relevance of a full subsectoring. It may be useful to subsector financial corporations into NPI’s and FPI’s, but it seems to be totally overdone to have a full cross-classification. See general remark 5.
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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	In our opinion, social security funds are not sufficiently defined and specified. The criteria distinguishing social security funds from other social insurance schemes are missing. See general remark 7.
4.119	

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 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>

Para. 4.1: The present text gives the impression of circular reasoning and repetition. Text proposal: "The total economy consists of the institutional units that are residents of its economic territory. This chapter is concerned with the definition and description of institutional units and the way in which they are grouped to make up the sectors and sub-sectors of the System. In addition, it defines the concept of residency".

Para. 4.19: 5th sentence: "The attributes of an institutional ...". It is preferable to explicitly mention the attributes that are referred to. Consequently, it can be stated that this is more fully explained earlier (refer to exact paragraph).

Para. 4.23: 2nd sentence: "In the context of sectors ...". This sentence needs to be clarified. It makes a reference to 'above', i.e. para. 4.7. There it is explained that the term 'corporation' is extended to comprise notional resident units and quasi corporations. The reader of the SNA may reasonably assume that in this way all 'corporations' in the non-financial corporations sector or the financial corporations sector are covered. He may be surprised to find out that some institutional units exist that are still not covered (or he may completely overlook this fact). The text in para. 4.24 explains that these institutional units are NPIs engaged in the market production of goods. We advise to integrate the text of para. 4.23 and 4.24.

Para. 4.40 (c): Indentation.

Para. 4.46: It is suggested that holding companies are part of the financial auxiliaries (last sentence), though, as we see it, they should be classified under captive financial institutions.

Para. 4.48: It may be useful to include the, in practice quite important, example of units managing royalties and proceeds from copyrights.

Para. 4.102 (c): "Financial corporations engaged in lending, including the finance associated of retailers, (...)". What is meant by finance associated?

Para. 4.106: Sub-numbering is missing.

Para. 4.108: Typo: “mange” should be “manage”.

Para. 4.111 and 4.113: It may be preferable to replace “a result of market failure” by “a result of political/social targets/objectives”.

Para. 4.111, (b)(i): We think that it is preferable not to include “public health” as an example of collective services, as the larger part of health services is provided on an individual basis.

Para. 4.121 and 4.124: Leaving apart the strict definition of NPIs in para. 4.120, all units constituting government are non-profit institutions. As a consequence, we fail to see the relevance of distinguishing NPIs as an “of which” item for (subsectors of) general government.

Para. 4.139: The qualification of units producing market goods and services as quasi-corporations (or not) seems to lack full coherence with the definitions in para. 4.39-40. This may be true in other cases as well.

Para. 4.140: “As explained above, ...”. Actually, it has not (yet) been explained in previous paragraphs. See also general remark 7.

Para. 4.164, 2nd sentence: “Most international organizations are financed ...”. Other, equally important sources of funding such as subscriptions to the capital stock of international organizations and lending by member countries are left out but deserve being mentioned on an equal footing.