

**Comments on draft SNA chapter:
Chapter 6: The production account**

**Deadline for comments: 15 April 2007
Send comments to: sna@un.org**

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Submission date:	12 March 2007

This three-part template allows you to record your comments on draft chapter 6 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:
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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:

We note that as number of recommendations are yet to be incorporated into this chapter so we are unable able to comment on them. For others please see our specific comments in part III below.

Part II: Comments on specific draft paragraphs or passages

In your review of draft chapter 6, 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. In section B, the text extends the definition of services to cover margin services explicitly. Is this a useful extension? This section also is more precise about products

capturing knowledge, some of which have many of the characteristics of goods. Is this precision useful?

Comment:

Yes we believe the extension is useful though we do have some comments on specific elements of the extension in our detailed comments.

2. Section D now discusses GDP as derived from the production account only. The expenditure based estimate and the relationship between this, the income based estimate of GDP and the production based measure are now discussed in chapter 14 after the components of the other estimates have been discussed in the accounts where they occur. Do you agree to this placement of the material on the alternative estimates of GDP?

Comment:

Agree that this is sensible.

3. The AEG recommended that goods sent abroad for processing should be recorded without imputing a change of ownership when no change actually happened. They further recommended that the same principle should be adopted for processing of goods by another resident unit. Does the text in section E reflect this recommendation adequately?

Comment:

Yes we believe it does

4. Section E introduces the recommended change in terminology for kinds of production. Market production covers production for sale (short-hand term that includes other deliveries also) and for own use; non-market production relates only to production by general government and NPISHs. Is the resulting text sufficiently clear?

Comment:

Yes it is sufficiently clear

5. The output of the central bank is described in a stand-alone subsection of section F. Is the resulting text sufficiently clear on the proposals for compiling and allocating monetary policy services and financial intermediation services provided by the central bank?

Comment:

Yes

6. In section F, new text has been provided for the financial services. Is this text accurate and clear? This part of the text has been extended to include margins as well as FISIM and insurance charges. Are there any comments on this extension? (Further material will be added when chapter 17 is posted).

Comment:

We are concerned with the recommendation in para 6.158 that a single reference rate be used, representing the inter-bank rate. In our experience, this can lead to negative FISIM for particular financial institutions or groups of financial institutions, and we believe flexibility is needed to avoid nonsensical results.

7. Section G has a brief discussion of leasing, leaving the main discussion for chapter 17 on cross-cutting issues. Is the discussion here adequate in the context of chapter 6?

Comment:

It is difficult to say without seeing chapter 17, but it should be adequate.

8. The discussion of consumption of fixed capital, in section H, is reduced from that in the 1993 SNA. The previous recommendations have been superseded; fuller discussion will appear in chapter 19 on capital services. Is the discussion in chapter 6 adequate in this content?

Comment:

Yes it is.

Part III. Other specific comments

6.1 We would prefer that production is described as a process rather than an activity. The term activity has other connotations in the accounts and is used, for example, in activity classifications.

6.11 states that it is not necessary to make a distinction between goods and services. One place where such a distinction is necessary is own-account production by households, where production of goods is included in the production boundary whereas production of services (other than from owner-occupied dwellings) is not.

6.14 The new product here is called "knowledge capturing products" but in most of the rest of the chapter they are referred to as "knowledge embodying services". Consistent terminology is needed.

6.19 While services might not be held in inventories they can be embodied in assets - eg architectural services and ownership transfer costs – which may be held as inventories.

6.23 The term not-observed economy is used here. In other places and more generally the term non-observed is used. In 6.39 the term informal economy is used. We would prefer to see consistency in terminology.

6.25 We suggest that the word ‘obtain’ in the second sentence be replaced with ‘employ’ or ‘utilise’.

6.32 Water supply is mentioned in both 6.32(b) and 6.32(e). We’re not sure it is needed twice.

6.35 Typo - should be "wages" of the domestic staff rather than "ages"

6.45 The issue is not so much that a failure to record will lead to errors in the financial accounts so much as create asymmetries if the financial transactions are recorded and the production transactions are not.

6.49 It would be helpful to include some text distinguishing between taxes and subsidies on products versus those on production, this is also relevant in other paragraphs including 6.70.

6.65 “the sum of value added leads to the first definition of gross domestic product” gives the impression that value added is equivalent to GDP when in fact taxes also need to be included

6.66 We think subsidies need to be mentioned here

6.68 In the first sentence we suggest "difficult items in the accounts to *define* conceptually" rather than measure conceptually. It is also difficult to measure/estimate in practice as the sentence explains.

6.69 We think the last sentence could be replaced by the tone of text in para 7.4 although we note that the proposed approach is reversed in chapter 6. We feel that consistency is needed on this from chapter to chapter

6.70 We suggest that the word ‘increase’ (in the third sentence) is replaced with the word ‘difference’.

6.77 The last sentence of this paragraph does not seem to add anything to the discussion and seems out of context.

6.89-90 The use of the terms capital services and return to capital could be tightened here to ensure different interpretations are not made in valuing output. There

should also be close links to the definitions given later on - eg 6.120 to ensure consistency.

6.98-99 There is a slight inconsistency in the valuation basis recommended in this section and those for compensation in kind in Ch.9. We recognise that the two valuation basis give the same value in this case but it may be helpful to use same terminology.

6.100 It would be helpful to increase the discussion of intra-enterprise deliveries to more completely explain transaction across companies

6.137-138 We suggest that the wording be tightened to ensure that there is appropriate distinction between value added by storage services (part of production process) and that by holding gains (not part of production process).

6.144 The 'borderline cases' needs more elaboration.

6.214 We think hyperbolic should also be mentioned - we think it the relatively most suitable and it is certainly better than linear decline.