

ISWGNA: NATIONAL ACCOUNTANTS MEETING
JULY 10, 2006

Participants

Eurostat: G. Gueye, P. Passerini, F. Malherbe
IMF: A. Bloem (Chair), L. Rivas (minutes)
OECD: C. Aspden
UNSD: I. Havinga, Vu Viet, H. Smith and G. Singh
UN ECE L. Bratanova
World Bank: B. Hexeberg
1993 SNA Update project: C. Carson (Project Manager), A. Harrison (Editor).

1. Items from the Consolidated “To do” list (June 30 version)

The ISWGNA: National Accountants (ISWGNA:NA) discussed the substantive items in the updated “To do” list (June 30 version) needed for the drafting of the *1993 SNA Rev. 1*.

a. Leases and licences

The meeting discussed a report prepared by Mr. Aspden on the results of the e-consultation with the AEG on follow-up questions regarding leases and licences, and his proposals on the way forward. Original and copies: Given that the majority of the 17 respondents supported the treatment proposed for original and copies, Mr. Aspden proposed a paragraph on this issue. The meeting agreed that the Editor would check one point with the conclusions of the Canberra II Group and the e-discussion on this issue and would send a note to the ISWGNA as the basis for concluding this matter.

Use of natural resources: The majority of respondents agreed that quotas, licences, and permits to use natural resources are cases of permissions to engage in specific activities and should be treated in a consistent way. Most respondents agreed that if a payment to discharge water was a fine intended to inhibit discharge, it should be treated as a fine; if the discharge medium was an asset, it should be treated in the same way as a licence to use the radio spectrum; and if the charge was linked to remedial action, it represented a payment for a service. The ISWGNA decided that no further action was required on this topic.

Sharing the ownership of assets: The AEG provided strong support for the use of the financial lease treatment for fixed assets, but not for non-produced assets, particularly those not subject to depletion, and did not support the use of the two-loan approach. Mr. Aspden presented three possibilities to treat permits for the use of non-produced assets not subject to depletion: a. Current treatment of mobile phones licences when there is a change of economic ownership and the underlying asset returns to the lessor at the end of the lease; b. When the lease agreement has the appearance of the sale of the natural resource, i.e. the length of the lease is infinite or is expected to be renewed indefinitely for a nominal amount, then it should be treated as a sale; and c. When there is no change in economic ownership, then payments are recorded as rent. The meeting concluded that these alternatives are clear and are to be applied depending on the different circumstances described above. With respect

to natural resources subject to depletion, Mr. Aspden presented three alternative treatments: a. Financial lease treatment; b. Partitioning the ownership of the natural resource in proportion to the expected net present value (NPV) of future returns; and c. Treating the depletion of the resource as the sale of an asset from the lessor to the lessee as it occurs. The meeting agreed to sort out this outstanding issue among the ISWGNA through an email consultation focusing on the treatments b and c and send it to Mr. Aspden by July 14.

Permissions to engage in specific activities (with no underlying asset): The majority of respondents agreed that the payment for the permit to engage in specific activities was a tax. However, there was little support for the Canberra II recommendation about tax prepayment in all cases. There was also little enthusiasm for recording the difference between a tax prepayment and the value of the monopoly profits the permit holder expects to earn as an asset. About half of the 17 respondents agreed that if the tax payment is refundable, there is a tax prepayment and a corresponding government liability. If it is non-refundable, then the tax payment is accrued in the period when the permit begins and there is no government liability, but the permit holder has a non-produced, non-financial asset. The ISWGNA decided to recommend this option as the 1993 SNA is ambiguous on this matter and there was no other option that has much support.

Provision of goods in the future: The majority of AEG respondents disagreed with the treatment of an agreement to provide a good in the future with demonstrable value, such as aircraft options, as an asset that falls into “contracts, leases and licenses.” Some respondents suggested that this type of asset should be treated as a type of financial derivative. The meeting decided to exclude these agreements from contracts, leases and licences and from financial derivatives, as no one had found any actual examples on these types of agreements.

Non-refundable deposits: Given that the views were about equally divided, Mr. Aspden suggested the ISWGNA considers this matter further. The meeting agreed to treat a non-refundable deposit, such as the one paid on non-used airlines tickets, as the sale of a service, since the proportion of these transactions are relative minor and are difficult to identify.

The Chair thanked Mr. Aspden and congratulated him for his work on the treatment of leases and licenses.

b. Classification and terminology of (non-financial) assets

The Editor presented the proposed revised classification of non-financial assets. Mr. Havinga made some comments on behalf of the London Group. The meeting agreed to drop the word “natural” from “natural land,” but did not support the replacement of the heading “other natural resources” by “ecosystems.”

Mr. Havinga suggested a new classification of cultivated biological resources: tree, crop, and plant resources; aquatic resources; and animal resources other than aquatic resources. The meeting agreed to accept his proposal provided the phrase “yielding repeat products” be added to these headings.

The Editor suggested answering Mr. Havinga's proposal and her questions on cost of ownership transfer of non-produced assets, especially on natural resources, by e-mail by July 14. She also proposed to reinstate permissions to engage in specific activities as non-produced assets and the ISWGNA agreed.

c. Financial asset classification

The Editor reported that she sent a revised version of the questionnaire on financial asset classification to the ISWGNA. The questionnaire might change on the question on loans and deposits to maintain the distinction between loans and deposits where a unit other than a bank is involved, since the IMF suggested not trying to make this distinction of inter-bank deposits and loans. The meeting agreed to ask Mr. Mink (ECB) to send the questionnaire to the final list of financial statisticians.

d. Guarantees

The meeting agreed to put this item on the agenda for the next teleconference.

e. Units: holding companies

Mr. Havinga sent the text on the e-mail discussion on holding companies to Eurostat, as agreed in the previous teleconference. Mr. Gueye informed that Eurostat did not have any problem on classifying holding companies according to their main activity, but they had a problem with respect to the classification of head offices of financial groups as non-financial corporations. He proposed to consider classifying head offices in the main activity of the group in that particular situation. The Editor clarified that a head office that carries out financial intermediation and head office activities would be classified in financial corporations if its main activity was the financial intermediation, but the SNA could not be inconsistent with ISIC. The meeting agreed that Eurostat would prepare a note on their position few days before July 24 so that the ISWGNA could consider this issue.

f. Globalization

The Project Manager informed the meeting that she and the Editor are discussing a proposal on globalization for email consideration by the ISWGNA by July 24.

g. Inventories

The Editor reminded the meeting that inventories is a clarification item. She reported that there were two questions that relate to the current treatment of inventories in the SNA: 1. Whether incomplete production is classified as fixed capital formation rather than work in progress; and 2. Whether a change in ownership is recorded as work progresses or when the asset goes into service. And there were two questions on 1: Should we record own account construction as capital formation as work progresses, which is what the SNA currently

recommends, or whether we should treat it as work in progress with a change in classification when it goes into service.

Given that this is a clarification, the meeting decided the questions could be resolved by the ISWGNA. The meeting concluded that members would send their views on these questions to the Editor by July 21.

h. Other—reminder to AEG on comments invited during the Frankfurt meeting

Mr. Havinga (UNSD) reported that a reminder to the AEG on comments invited during the Frankfurt meeting on the definition of economic assets and the classification and terminology of financial corporations was sent on July 7. The comment period will be closed on July 31, 2006.

2. Proposed changes to the income accounts (Editor's note on this issue)

The Editor proposed to include a line in the income account for gross disposable income excluding the adjustment for the change in net equity of households in pension funds, because it clarifies something that users find very confusing, and allows to calculate comparable saving ratios amongst institutional sectors. Most of the ISWGNA did not support the proposal. The Chair proposed to include a clarification in the text of the *1993 SNA Rev. 1*, but not to change the accounts. The meeting agreed on the Chair's proposal.

3. Research and Development (R&D): next steps (Mr. Aspden's note on this topic)

Mr. Aspden reported on a joint meeting of NESTI with the Canberra II Group in May to talk about issues in compiling gross fixed capital formation in R&D, measuring capital and trade in R&D, and improving the situation for the capitalization of R&D. The OECD proposed issuing a manual that would describe best practices on R&D. In addition, the meeting talked about changes to the Frascati Manual that would better support the capitalization of R&D. One of the questions that came up during the meeting was how to interpret the AEG's recommendation not to capitalize freely available R&D and the assumption that including freely available R&D in gross fixed capital formation would not lead to a significant error because freely available R&D was minor. Mr. Aspden proposed to add conceptual precision on what should be excluded when recognizing capital formation in R&D and come up with some guidelines on how to deal with this issue in practice after further efforts to quantify better the amount of freely available R&D. Therefore, he had prepared a note and circulated it among the members of the Canberra Group, NESTI, and the ISWGNA. He reported that the majority agreed with his proposals. The ISWGNA expressed support for the conceptual clarification and agreed that he should proceed to work with the NESTI and Canberra II groups to develop practical guidelines for implementing the AEG's recommendation on freely available R&D.

Mr. Havinga suggested indicating in the last paragraph (15) of the note that freely available R&D as original knowledge can be maintained as assets when "they are actively managed

and controlled.” The ISWGNA agreed that Messrs. Havinga and Aspden would come up with a proposal on this suggestion and inform the ISWGNA by Monday July 17.

4. Report on meetings not covered by e-mails

a. *UNSD on upcoming meeting on R&D*

Mr. Havinga reported that there would be a meeting during July 13-14 with business accountants on R&D at the UNSD and he would provide the link to the information on this meeting on the UNSD website.

b. *Eurostat on CMFB and progress toward the Task Force on Pensions*

Mr. Gueye reported that Eurostat has set the Task Force on Pensions to work on criteria to distinguish between unfunded government pension schemes and social security as well as measurement issues. He said that the task force would have two meetings, one in September and one in November. He asked the ISWGNA when would be the latest date to have these proposals and invited the ISWGNA organizations to participate in the task force.

The Project Manager commented that it would be very useful to find ways to make the process as transparent as possible for all members of the ISWGNA team and reconfirmed interest in seeing a copy of the terms of reference and composition of the task force. She said that the proposals and results of the task force would need to be ready in time to include them as starting point for the consideration of another meeting of the SNA Update Task Force. The Chair informed that the proposals of the Eurostat Task Force on Pensions should be ready by the second week of November to be considered by the BEA-IMF Task Force on Pensions Schemes in a meeting in early December. The meeting decided to organize a teleconference early next week to discuss the timetable of the proposals on pensions.

5. Action items

The meeting discussed and agreed on new dates for the remaining actions from the previous teleconference and dates for the new action items:

Action	By when	Responsible	Status
Mail out questionnaire on financial assets' classification	July 12-14	Mr. Mink	In progress
Note on e-discussion and Canberra Group's proposals on leases and licenses (by email to all)	July 14	Editor	In progress
Opinion on leases to exploit natural resources subject to depletion (by email to Mr. Aspden)	July 14	All	In progress
Opinion on cost of ownership transfer on non-produced assets (by email to the Editor)	July 14	All	In progress

Action	By when	Responsible	Status
Proposal on treatment on globalization in updated text (by email to all)	July 24	Project Manager and Editor	In progress
Note on European cases of holding companies (by email to all)	July 17	Eurostat	In progress
Proposals on freely available Research & Development	July 17	Messrs. Havinga and Aspden	In progress
Teleconference on timetables of Task Force on Pensions and related events	July 17-19	Project Manager, Mr. Havinga, Chair, and Mr. Gueye	Next week
TOR and membership of Task Force on Pensions	In due course	Mr. Gueye (Eurostat)	In progress
Decide on reinvested earnings of public corporations	Mid July	All	In progress
Answers on Editor's questions on inventories (by email to Editor)	July 21	All	In progress
Substantive comments on all issues in the full set of provisional AEG recommendations document	July 21	All	In progress
Note on employee stock options	July 24	Mr. Gueye (Eurostat)	In progress
Set of new tables on guarantees	July 17	Messrs. Lequiller and Mink	In progress
Comments on decision tree	July 14	Editor	In progress
Timetable for preparing first draft of chapter on informal sector	In due course	Project Manager and Mr. Havinga	In progress
Overview memorandum on scope of new classifications and changes to existing items	In due course	Editor and Mr. Aspden	In progress
Check on further elaboration on market/non-market distinction	July 14	Editor	In progress
Follow up on note on redistribution of property income	July 17	Project Manager	In progress
Note on unincorporated joint ventures	In due course	Mr. Aspden	In progress
Identify three people for eagle eye review of draft chapters	July 24	Project Manager and Editor	In progress
Provide vacation plans	ASAP	All	In progress
Note on e-consultation on financial assets' classification	August 18	Mr. Mink	In progress
Comments on chapter on Government and the Public Sector	End of September	All	In progress

6. Next teleconference

The ISWGNA confirmed July 24 as the date for the next teleconference.