

## **Foreword to the report of the ISWGNA meeting in June 2007**

In June 2007, the ISWGNA met in Geneva to discuss the comments received on chapters 6 to 14 that required further consideration of the recommendations. In addition, the Editor proposed how to proceed on chapters 15 and 16. The following document gives the summary conclusions of the meeting. The original discussion document is also attached.

A number of items needed further consideration. The status of these items at the end of October 2007 is as follows:

On the output of central banks, new text has been prepared and is for discussion by the ISWGNA at a meeting November 1,2 2007.

The proposed letter to the ECB is still pending.

On the definition of capital transfers, it transpired that the apparent difference with the BPM text was due to a mistaken use of italics in the draft BPM. No difference in the substance of the definition is intended; the comment appearing in bold was simply a comment, not an alternative definition.

On financial derivatives, it is confirmed that the SNA should agree with the position in the BPM. (This is also the position on own funds.)

The note informing readers that a glossary will be part of the SNA is included in the general notes to the readers pre-fixing the draft chapters.

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Editor, SNA update  
October 24 2007

## **ISWGNA Meeting Geneva June 13-15 2007**

The group discussed comments on the chapters already posted where face to face discussion by the ISWGNA had been identified as necessary. For other comments where attention by the ISWGNA rather than by the Editor alone has been deemed appropriate, the Editor will make initial drafting proposals to take account of the comments and these will then be considered by the ISWGNA. The topics were outlined in a note prepared by the Editor which is attached to this report. In addition there was discussion on chapters to be updated shortly. The comments are reported in chapter order except that chapter 14 follows chapter 16.

### **Chapter 6 The production account**

#### Output of central banks

It was agreed that the IMF will look at the draft text and the comments received and then make proposals about how to reconcile these by the end of June. Eurostat will confirm its position to the IMF so that can be taken onto account also.

#### Measurement of production for own final consumption

The ISWGNA provisionally agreed that when production for own final use is undertaken by corporations or households, it is appropriate to include a return to capital as part of the sum of costs when this approach has to be used because no comparable market price exists. When production for own final use is undertaken by government units or NPISHs is measured by the sum of costs, no return to capital should be included. This position corresponds approximately to saying a return to capital is included for production undertaken by market producers and not for non-market producers but gives a pragmatic guideline for some borderline cases such as production for own final use by a market establishment within government or the treatment of production by households who only have production for own final use and where the market/non-market distinction is not strictly applicable. These borderline cases are assumed to be of limited magnitude in practice.

#### Financial intermediation

The Editor agreed that “financial intermediation” was missing from the definition of financial services in the draft chapter and would restore it.

#### Agricultural output and storage

The AEG meeting in New York confirmed that allocating output across periods in accordance with costs remained an acceptable option. The draft text, however, also mentions other options and the group felt it was not necessary to restore the paragraphs from the 1993 text as some comments had suggested.

The ISWGNA reviewed a document that included the detailed rationale for the treatment of storage described in the draft text. (This document was intended for an e-consultation that did not in the end take place.) It was confirmed that the activity of putting goods into inventories with the intention of realising a real holding gain over a given period of time was to be treated as the output of storage. It was further agreed that it would be helpful to include the example in the note considered as an electronic annex to the SNA Rev 1.

## **Chapter 7: The distribution of primary income accounts**

### Employee stock options (ESOs)

The Editor and Charles Aspden will compare the background paper on the subject submitted to the February 2004 AEG with another paper prepared by Tony Johnson of ABS for the EDG on ESOs to see whether there is a difference in these papers that explains the comments made on the text on ESOs in both chapters 7 and 12. They will report back to the ISWGNA by the end of June on their findings and propose how to proceed.

### Classification of taxes

The Project Manager will draft a letter to be sent to the ECB explaining that the ISWGNA thought it important to maintain the mapping of taxes from the classification in the GFSM and the OECD's Revenue Statistics.

### Reinvested earnings

It was agreed that the possible extension of the treatment of reinvested earnings should be mentioned as part of the description of the research agenda or in the introduction to the update but not in chapter 7.

## **Chapter 8: The secondary distribution of income accounts**

### Social security and social assistance

A matter to be settled after the AEG meeting in New York was the basis of a decision tree to determine which social benefits were to be treated as social security and which as social assistance. The separation of cash benefits presented no problem but that of benefits in kind did. The 1993 SNA partitions social transfers in kind into social benefits in kind (with a further breakdown distinguishing social security benefits and social assistance benefits) and the transfer of non-market goods and services. Subsequent to the publication of the SNA, ESA95 had specified these categories more closely and in such a way as to bring harmonisation with ESSPROS (the European System of Social PROtection Statistics). This involved treating all health expenditure by government as social benefits. Health expenditures were then treated as social security or social assistance depending on the institutional arrangements in a given country. The ISWGNA did not think it appropriate to have categories defined in this way in Rev 1 and Eurostat reported that within Eurostat there was now more interest in having social transfers in kind disaggregated into those individual goods and services that are produced by government and those that are purchased by government from market producers and provided to beneficiaries indirectly. It was agreed that within Rev 1, social transfers in kind would be disaggregated only into those produced by government and those purchased by government from market producers and provided to beneficiaries indirectly. It was noted that other systems, such as GFSM, might choose to elaborate this breakdown further.

### Details of social contributions

Because it has been decided to show the cost of operating a social insurance scheme (other than social security) as paid by the participants and not by the sponsors, part of the amount received by households from the sponsor is used to meet this charge. In order to have the same entries for "employers' social contributions" in all accounts where they feature, the following breakdown of payments by households to social insurance schemes was agreed:

## Social contributions

- Employers' actual social contributions
- Plus* Employers' imputed social contributions
- Plus* Households actual contributions
- Plus* Households contribution supplements
- Less* social insurance schemes service charges

Because it has been agreed that social contributions should be separated into those relating to pension and other, this breakdown of social contributions will appear three times in the classification hierarchy, once as above and once for each of pension and non-pension contributions.

It was agreed to drop the distinction between compulsory and voluntary contributions that appears in the classification hierarchy but not in the text.

## **Chapter 9: The use of income accounts**

### Government output

One comment suggests an error in chapter 9 because there is a reference to operating surplus of government. It states that the value of output of a non-market producer is equal to the sum of costs so that net operating surplus is zero. The ISWGNA confirmed that this is true for a non-market establishment, even if it has secondary market production, but is not true for a non-market institutional unit that has a market establishment. If sufficient information were available to treat the market establishment as a quasi-corporation, there would be no problem. However, if there is no balance sheet information for the establishment it must remain within its parent institutional unit, which then may show an operating surplus. (Some case where the operating surplus is negative have been observed.)

### Social transfers in kind to the ROW

The 1993 text simply assumes all social transfers in kind are paid to residents. However, some social transfers in kind are paid to non-residents, for example emergency medical treatment to tourists. (Health services provided by one country to a non-resident at the expense of the non-resident's government are exports of market services and not social transfers in kind.) One possibility is to treat the cost of emergency treatment as a transfer in cash to the non-resident who then purchases the medical services with it. The ISWGNA considered the sums involved are likely to be small and there will, in general, be both social transfers in kind paid abroad and received from abroad. It was agreed that in Rev1, this fact will be noted with a statement that by convention these items are assumed to be offsetting and therefore can be ignored. Though a small item in most cases at present, the subject could be placed on the research agenda.

### Terminology

The ISWGNA confirmed the difference between a transaction that is imputed, as in the case of re-routing, and an imputation of a value for an actual transaction. In order to keep the use of "imputed" restricted as far as possible to the first case, it is preferable to describe imputed valuation as being indirectly measured.

It was noted that in chapter 9, acquired is used with a different sense from purchased but in chapter 10 acquisition corresponds to purchased. No immediate resolution of this inconsistency was found.

## Chapter 10: The capital account

### Capital transfers

The ISWGNA considered the definition of capital transfers in the 1993 text, in the Rev 1 text and in the BPM6 text. Although at first sight the BPM6 definition seemed attractive, further reflection revealed a potential circularity. Only after a transfer is designated as capital can it be confirmed that saving for both units is unaffected. The definition does not provide guidance on how to treat a transfer that one party may regard as current (thus affecting saving) and the other party considers as capital. Capital taxes are a case in point; the government receives capital taxes regularly every year and could regard these as current even though the units paying the taxes regard them as capital and each may only pay them intermittently. The Editor will pursue further discussion with the BPM6 drafters will take place to look for an improved definition.

### Cost of unpaid labour

A comment remarked on the inconsistency in the 1993 SNA that whereas the value of communal construction, in the absence of a comparable market price, is measured as the sum of costs including an imputed cost for volunteer labour but this later is not treated as compensation of employees. This being so, there is a mismatch in that use of labour exceeds the supply of it.

It was agreed that for the production of goods by communal activity, where no comparable market price is available as a measure of output, the sum of costs should continue to include the full cost of labour at prevailing market rates. Any excess over actual compensation of employees (which may be none or minimal) is treated as gross mixed income accruing to households who in effect “purchase” the resulting product and may then transfer it to another household (in the case of communal activity on behalf of a particular household) or to the government (in the case of activity for the community at large).

This provision is likely to apply only to the construction of capital goods. For services, even when the labour provided is free or at prices well below the prevailing market price, no imputation of mixed income is to be made, consistent with the different treatment of goods and services produced by households within the production boundary of the System.

### Exceptional losses

Draft paragraph 10.93 explains that disposals of tree, crop and plant resources do not include exceptional losses and it was noted that a further explanation of “exceptional losses” would be helpful. It was agreed that in this case, as in the case of goods going into inventories in general, the measure of output excludes “regular” losses. Regular losses include losses due to deterioration, pilfering, losses due to pests, etc. In the case of growing resources, the losses due to an expected level of poor weather conditions should also be excluded from output. If there are losses from a higher than expected level of losses due to any of these causes, the excess over the normal losses should be recorded in the other changes in the volume of assets (fixed capital or inventories as the case may be).

### Originals and copies

The ISWGNA confirmed the recommendations previously made and endorsed by the Statistical Commission.

### Permits

It was agreed that the Editor and Charlie would discuss the points that concerned him.

The term enterprise

The ISWGNA was unable to suggest an alternative word and, given the well-established use of the word enterprise through successive versions of the SNA, felt it should remain as the preferred term.

### **Chapter 11: The financial account**

The relation between chapters 11, 13 and 26

The ISWGNA did not accept the point of view that having the flow of funds described in chapter 26 but not in chapters 11 and 13 meant that the flow of funds was not part of the full System. For this reason and because of the pressure of time to complete the first deliverable, it was agreed not to merge chapter 26 back into chapters 11 and 13.

### **Chapter 12: The other changes in assets accounts**

Formulae in the text

It was agreed that some readers would appreciate having the formulae previously in the main chapter restored and so this will be done.

The present annex on holding gains and losses

It was agreed that it was appropriate to keep this as an electronic annex, given other similar material that will be so treated.

ESOs

The remarks on ESOs in relation to chapter 12 will be handled at the same time and in the same way as those on chapter 7 discussed above.

Mergers and acquisitions

Reference should be made in chapter 12 to the chapter on corporations.

Price index for calculating neutral holding gains

The previous text should be restored. Some commentators suggested that different price indices should be used for different institutional sectors. It was agreed that this matter should be placed on the research agenda.

Financial derivatives

The Editor will consult with the BPM editor to resolve the question of whether paragraph 12.44 is correct and consistent with the draft BPM6.

## **Chapter 13: The balance sheet**

### Definition of assets

Some disquiet had been expressed that the previous annex containing a definition of each type of asset did not presently appear in one place in the draft chapters. The ISWGNA felt that this was due to a lack of awareness of the intention to include a glossary in the publication, pulling together the definitions highlighted in bold italic in the text. In addition it was agreed that it would be useful in addition to an alphabetical glossary to have one relating to the sectors, transactions, other flows and assets arranged in the order of the classification hierarchy. A statement of this intention should appear on the web site to inform readers and commentators of this.

It was agreed the Editor would consult with IMF staff on cross-cutting issues with BPM6 including the treatment of own funds.

## **Chapter 15: Supply and use tables**

### The structure of the chapter

It had previously been agreed to partition the existing chapter 15 and retain only that part describing the supply and use tables in the first deliverable and place the description of input-output tables in the second deliverable. With this as background, and bearing in mind other comments made on the present chapter, the Editor presented an overview of the content of the relevant part of the existing chapter and a note of what appeared to be missing. A transcript of the power point presentation follows.

### **1 Chapter 15: Supply and use tables and input-output**

#### **2 Outline of chapter**

- Goods and services accounts
- Supply and use tables
- Analytical input-output tables
- Agree to postpone IO until second deliverable?

#### **3 Introduction**

- Defines the following concepts
  - Units
    - Enterprises
    - Establishments
- Principal and secondary production

#### **4 Goods and services account**

- Para 15.20
- Output + imports (total resources)
- = intermediate consumption + exports + final consumption + gross capital formation (total uses)

#### **5 Valuation .taxes and margins**

- Paras 25-53
- Repeats material from chapter 6 on

- Basic, producers and purchasers prices
- Classification of taxes
- Treatment of margins

## **6 Supply and use table**

- Paras 15.54 - 59
- Reference to tables 15.1 and 15.2
- Paras 15.62 - 66
- Market and non-market production
- Paras 15.68-70
- Imports cif and fob

## **7 Supply and use cont**

- Paras 15.71 - 77
- Columns of use = production and generations of income (names not used)
- Paras 15.78 - 110
- Describes final demand with definition of the difference between consumption expenditure and actual consumption, the breakdown of capital formation etc.
- Paras 15.101 - 118
- Equations in unfamiliar notation

## **8 Does not**

- Explain concept of goods and services account
- Explain why products are used for commodity balances and industries are used for value added
- Mention balancing feature of supply and use tables
- Discuss functional classifications and conversion to products
- Discuss deflation

The ISWGNA agreed that to complement the rest of the SNA properly, less space should be given to repeating principles explained at length in previous chapters and more attention should be given to the topics listed on slide 8 as missing from the chapter.

It was noted that the original version of chapter 15, much longer than the published version, had been recovered and that this could appear as an electronic annex for those who wanted to have all the concepts related to the compilation of supply and use tables together in one place.

Goods for processing and merchanting

It was noted that in any case the existing chapter would need significant revision to take account of the decisions made on the revised treatment of goods sent abroad for processing and merchanting

Imports cif and fob

In the draft import and export price manuals, a clear preference is stated for the recording of imports in the supply and use table fob rather than cif. There was discussion about the implications of changing the present treatment on the SNA to match that in the price manuals.

On all these issues, it was agreed the Editor would prepare a draft outline of a revised chapter paying attention to all the points raised by the end of June.



## **Chapter 16: Volumes and prices**

The structure of the chapter

As with chapter 15, the Editor gave an overview of the chapter as it stands at the moment after Mick Silver of the IMF has updated the theoretical parts of the chapter. A transcript of the presentation follows.

### **Chapter 16: price and volume measures**

#### **2 Four parts**

- Basic index number theory
- Application to national accounts items
- Overview of ICP
- Rest of the chapter

#### **3 Index number theory**

- 20 pages
- Mick Silver has updated to reflect developments in CPI and PPI manuals

#### **4 Application to NA items**

- 5 pages
- Chain indices
- Single indicators
- GDP volume

#### **5 ICP overview**

- 9 pages
- Mick Silver has updated with latest developments from current round

#### **6 BUT...**

- No description of what this means for the national accountant
- No mention of comparable vs. representative prices
- No mention of need for weights and treatment of government expenditure

#### **7 Rest of the chapter**

- 5 pages on quality change
- 1 page direct indirect measurement
- 2 pages on non-market services (to be updated using Atkinson)
- 1 page Scope of volume measures in the System
- 4 pages Measures of real income terms of trade

#### **8 Scope of volume measures**

- Compensation of employees
- Consumption of fixed capital
- Taxes and subsidies on products
- Net operating surplus
- 1 para each
- No mention of final expenditure categories, output, intermediate consumption

## **9 Terminology**

- For consistency with price manuals
- Change “base year” to “weight reference” or “ price reference”
- Change “constant prices” to “volume series”

## **10 Propose**

- Move quality change to basic theory
- Include other aggregates in application to NA items
- Include more for NA on ICP
- Review export and import price manuals for consistency with SNA

The ISWGNA confirmed the suitability of the basic structure: first an overview of theoretical concerns and then their application within the SNA followed by a description of the concepts of the ICP and the implications for national accountants

There was discussion about whether starting with 20 pages on index number theory was appropriate. Some thought this could be dramatically reduced with the longer version available as an electronic annex but others thought it was a good overview and should be retained.

All members of the group thought it essential that more material be included on the deflation of all elements of the goods and services account and it was noted that it might be possible to take material from the CPI and PPI manuals (chapter 14 in each case) to fill this gap, at least in part.

Several additions were recommended for the chapter by the group. One was on the question of chaining and the applicability to quarterly series. Charles Aspden offered to suggest some draft text on this. The question of volume measures of non-market services had been discussed in the AEG and some draft text has been proposed. It was suggested by Tihomira Dimova that in addition a measure of the contributions of different aggregates to growth rates would also be useful. The ISWGNA agreed and Chares Aspden offered to prepare draft text on this also.

The Editor will prepare a draft outline of the revised chapter by the end of June for comment by the ISWGNA.

## **Chapter 14: Summarising and presenting the accounts**

### **Section B**

A number of comments strongly suggested that section B be rewritten avoiding the example where the only transactions with the rest of the world are in respect of imports and exports of goods and services. The Editor explained that most of these comments seemed to come from commentators who approached the accounts initially via the supply and use tables, for whom the goods and services account was a given whereas in the SNA as currently written and presented, the goods and services account has not been explained by chapter 14 and in chapter 2 it is explained before introduction of the supply and use table also. Section B as presently drafted was intended to show how the goods and services account emerges from the sequence of accounts by consolidating out all distributive transactions. It was agreed that it would be difficult to implement the proposed rewriting of chapter 14 before the explanation of the goods and services account. It was further agreed that ultimately chapters 14, 15 and 16 would be reordered so

that supply and use chapter became chapter 14; prices and volumes became chapter 15 and the existing chapter 14 became chapter 16. Implementing this renumbering will be postponed until the next round of drafts (V3) are prepared.

#### Partitioning chapter 14

It was confirmed, as agreed at the AEG meeting in March that chapter 14 would be partitioned with the present sections D, F, G and I forming a chapter in the second deliverable. Only the sections that discuss summarising and integrating the accounts would remain in what will become chapter 16.

#### Relationship with chapter 2

There was discussion about whether there was overlap with the content of chapter 2. It was noted that most of chapter 2 up to section D gives an overview of each of the chapters from 3 to the existing 18. This material is not duplicated in the new chapter 14/16. There is a question though about whether all the material in section E and in the annexes needs to remain in chapter 2 or whether some rationalisation with the new chapter 14/16 would be appropriate.

It was agreed that when she turned attention to chapter 2, the Editor would make a proposal about how the latter parts of the chapter should be treated. However, redrafting of the new chapter 14/16 will not take place before the preparation of V3 work.

#### **Chapter 17: Cross cutting and other special issues**

A question was raised with the description of the use of land for very short periods such as for caravan sites where the caravans remain only for a very limited period of time and where the owner of the land provides associated services such as the supply of water and control of litter. It was agreed that in these cases it was not necessary to partition an element of rent from the payments made by the users of the land any more than an identification of rent is made within payments for hotel rooms. However, it was felt that this item was too minor to warrant discussion in the manual and the draft paragraph touching on the subject will be removed from the draft before it is posted.

### **Attachment:**

The following pages formed the basis of the discussion reported above. They describe the issues raised in the comment process that the ISGWNA institution responsible for reviewing the comments, in consultation with the Editor, felt needed to be discussed by the ISWGNA. The text that follows was prepared by the Editor and gives her ranking of the importance of each issue in terms of a number of \*s. It was written to be the basis of discussion for a small group, well known to one another and is thus informal in style

### **Chapter 6 : The production account**

4 issues	Central bank output	*
	Own account production	***
	Financial intermediation	
	Agricultural output and storage	**

#### **Central bank output**

There are some very critical remarks on the paragraphs describing central; bank output. I thought I had picked up the AEG conclusions correctly but in view of the disquiet, it is suggested that The IMF might like to consider the comments, the draft text and the conclusions from the AEG meetings and propose what to do.

#### **Own account production**

We have agreed not to include a return to capital on the assets used by government and NPISHs in non-market production. We have also agreed to have a split of production into three categories, market, non-market and the third one for production for own final use. The question arises whether there should be a return to capital included when production for own final use must be estimated as the sum of costs for want of a better measure?

Consider imputed rent of owner occupiers. The correct measure of output is the market price of housing, a price that includes a return to capital.

Consider the cost to a construction firm of erecting a building for own capital formation. They would incur costs of using their capital and it would seem plausible to include a cost of capital just as they would if they were erecting a building for another unit.

*This looks like we are heading to wards saying when own account is undertaken by a market producer or where there is a market price, include a return.*

The illogicality of including a return to capital on rented buildings but not on owner occupied government buildings would suggest a similar illogicality on own account construction; that is to omit it. Thus costs of construction for non-market production will always be lower than for market producers, appearing to give a bias in favour of own construction rather than outsourcing but it is consistent with the rental/owning situation.

This is consistent also with the premise above (in italics) but there are two wrinkles to sort out.

Suppose government has a market establishment than undertakes own account construction; is there a return to capital or not?

Consider subsistence farmers (who may have little capital in any case but let us assume some). We are back with the question of whether they are or are not market producers.

My proposal is that the case of the market establishment within government undertaking production for own final use is uncommon and unlikely to be significant. For subsistence farmers, you may have some other activity, clearly market and to include a return for some types of output and not for others in the same unit would be a bit difficult to explain. For pragmatic reasons, therefore, I would suggest that by convention we include a return to capital when production for own final consumption is carried out by corporations (including public ones) or households but is excluded when it is carried out by units in government and NPISHS. We explain it as following mainly the principle in italics with a pragmatic extension to cover borderline cases.

### **Financial intermediation**

I made a mistake. I thought we had agreed to use financial risk management and liquidity management as a substitute for financial intermediation. I was wrong and the text in para 6.149 needs amending.

### **Agricultural output and storage**

The Canberra group spent some time discussing these issues and conducted an e-consultation among the group with positive results on both.

For output taking place over several years, for example for forestry, it is recognised that the present SNA advice to simply spread the output in proportion to costs over the growing period is inappropriate. The capital services work came up with a proposal to allow for the increase in value of work already in place to be treated as income and this is described in chapter 19. Para 6.132 has a cross reference to chapter 19. Some comments suggest reverting to the existing SNA text which basically suggests spreading output in accordance with costs even though this is really not satisfactory.

The 1993 text suggests that storage needs to be treated as production and separated from holding gains. It then goes on to say "In practice, it may be difficult to disentangle the effects of the different factors at work". Again in connection with the capital services work, it was agreed in the Canberra group that a possibly more helpful suggestion was to propose that the expected real holding gain over a pre-determined period would be treated as the output of storage but all other changes in prices would be treated as holding gains and losses. Further, the Canberra group could see no justification for saying that a farmer who stored his own crop had storage output but a dealer who bought the crop and harvest and stored it for the same period of time did not. In consequence there may be some storage output of wholesalers and retailers.

These were issues that should have been addressed more explicitly in the e-consultation we had with the AEG on inventories. Can we accept the Canberra proposals as leading to more appropriate advice than that presently in the 1993 SNA despite this?

## Chapter 7: The distribution of income accounts

4 issues	Employee stock options	**
	Classification of taxes	*
	ECB comments	
	Reinvested earnings	*

### Employee stock options

A number of comments on paras 7.52 and 53 suggest the text does not fairly represent the AEG decision and the supporting paper though not all ISWGNA staff agree that there is a problem. The Editor will contact the BPM Editor and those who made comments to clarify the problem and suggest a resolution.

### Classification of taxes

The ECB suggests that the SNA should not defer to GFSM and OECD's revenue statistics in the question of the classification of taxes but should be the initiator of the classifications. This would break with a long tradition but the ISWGNA should take a position on the question and reply to the ECB formally.

### Reinvested earnings

US suggests a mention of using the reinvested earnings approach to public corporations. Do we want to float this as a possibility on the main text or simply keep the possibility on the research agenda?

## Chapter 8: The redistribution of income accounts

2 issues      Social security and social assistance      \*\*\*  
                  Employers social contributions      \*\*\*

### Social security and social assistance

(Here is my earlier note for easy reference)

The comments on the social decision tree were positive about the usefulness of including such a diagram in the SNA but several commentators said that it would need to be accompanied by text. Trying to put some text together has persuaded me there are still some uncertainties here and I am not sure what to do about them.

In the SNA, we show social benefits other than social benefits in kind in the secondary distribution of income account. These social benefits are disaggregated into:

Social security benefits in cash;

Private employee social benefits (wrapping up now funded and unfunded);

Social assistance benefits in cash.

This is pretty much OK. We treat all private employee benefits as being in cash. A large slab of social security benefits in cash is pensions. A large part of social assistance benefits in cash may be means-tested but we don't use that as the deciding factor between whether a benefit is social security or social assistance, we use the fact of whether the beneficiary has made contributions that entitle him to the benefit. Given examples of payments falling into each category, I think the story just about hangs together.

When we come to social transfers in kind, life gets altogether less straightforward.

Social transfers in kind are disaggregated into:

Social benefits in kind

Social security benefits reimbursements

Other social security benefits in kind

Social assistance benefits in kind

Transfers of individual non-market goods and services.

The ESA is more specific about the definition of transfers of individual non-market goods and services. It makes clear that these exclude all non-market goods and services whose provision can be described as providing social benefits. Specifically this excludes all health expenditure from transfers of individual non-market goods and services which some might find surprising. (That is, I did when I realised quite what was implied.)

Now, accepting that all health expenditure falls under social benefits, how do we decide when it is social security and when is it social assistance? Unlike pensions, the question of a related contribution is less helpful. Retired people who have made contributions in the past and children who may make contributions in the future receive medical attention. Do we want to class any of these as social assistance? The answer is probably not and we would argue that pensions are received courtesy of past not present contributions so why not treat medical provision for retired persons in the same way? Children are covered because they are family members of people who are covered. Thus we can slide into a situation where we say that benefits for anyone who is registered with social security is treated as social security. But almost the whole population is registered for social security so who is left for social assistance benefits in kind except, possibly, special cases like asylum seekers? We cannot make a distinction on the grounds of the type of benefit because we began by saying that we start from the idea of social benefit that is common across social security and social assistance.

This problem emerged from the careful amendments Christian made to Cor's original decision tree. Receipts NOT intended to relieve households of the burden of social risks or needs are not all social transfers in kind but only the transfers of individual non-market goods and services. Those that do provide this relief then have to pass the "are contributions required" test and that is where the problem above arises.

At first sight the problem is not obvious if one reads it with the cash situation in mind. But if we have a decision tree it must work for both benefits in cash and in kind

A second set of problems arises, it seems to me. The SNA (but not GFSM) sectors the general government sector into central, state and local government and social security funds. But would we really want to have all health expenditure by all levels of government (ie the expenditure that qualifies as social security benefits in kind) shown as expenditure by social security? It seems most improbable to me. While it might be expected that pensions, say "should" be funded by social contributions would any country set these contributions high enough to cover all health expenditure? If they did would we call them taxes and stop making the distinction between taxes and social contributions? Or might we say that assuming the level of contributions was intended to cover costs over the long run do we say that health expenditure becomes market output not non-market?

Clearly we do not want to get into these discussion now but how do I get out of the corner I have been painted into?

Do we want to adopt the ESA view that all health is treated as social security (not just but that is the big one)?

For benefits in kind, do we really need to make the distinction between social security and social assistance or could we just leave them as social benefits in kind (making clear in the text that reimbursements are included)? As a corollary, can we keep the existing social benefit/social assistance distinction for cash payments only?

In practice very few countries get into the redistribution of income in kind and use of adjusted disposable income account. Should we just stop at the single item "social transfers in kind" in the first deliverable and think about what else might be done for the second?

### **Employers social contributions**

In the 1993 SNA, we show employers social contributions in three accounts, as payable by employers in the generation of income account, as receivable by households in the distribution of primary income



account and as payable by households and receivable by employers (or fund manager) in the secondary distribution of income account.

The decisions on pensions makes this last transaction a bit more problematical. As noted in chapter 17, as well as in chapter 7, we have now decided that for a defined benefit scheme the employers contributions are determined by the increase in entitlement in a year but must be enough to cover the costs of operating the scheme also, an amount that the employee pays to the employer (or fund manger) as final consumption expenditure in the use of income account. Thus the value of the entry under “employers social contribution” in the secondary distribution of income account is no longer identical to that in the earlier two accounts.

Two possibilities arise. One is to introduce a terms called something like “employers’ social contributions (net)” that would match the treatment of insurance premiums. Quite where it would fit in the classification hierarchy would need consideration but that would keep our existing entries in the accounts close to the present version. Another alternative would be slightly more radical and say, once these employers contributions are passed to households, they become household income and so it would make more intuitive sense to say that the amount paid by households to the employer or fund manger should be a composite of the amounts received from the employers (both actual and imputed) and the amounts paid by households themselves less the cost of the scheme still to appear in the use of income account. This would simplify the recording in the secondary distribution of income account. It would also resolve a picky point that someone (Christian?) raised that by using the expression households social contributions to cover those paid by employees, self and non employed persons, we are being slightly inaccurate as there could conceptually be household employers having a social insurance scheme for their employees. If we were to opt for this second route, that problem would disappear.

Which of these two solution do you prefer? Or is there another?

## Chapter 9: The use of income accounts

3 Issues: Government output \*\*\*

Social transfers in kind to ROW \*\*

Terminology

### Government output

One comment reflects the following reading of the SNA:

i A non-market producer is one most of whose output is non-market

ii The output of a non-market producer is measured by the sum of costs with zero operating surplus

My reading on ii is different. I believe that the output of a non-market producer is the sum of his market output (if any) plus his non-market output. Only the latter is measured by the sum of costs and there may be operating surplus from the former, though this will be very small relative to total output.

Does the ISWGNA agree this is the appropriate treatment?

### Social transfers in kind to the ROW

The 1993 SNA assumes that all social transfers in kind are paid to resident households. This may not necessarily be true, for example health care for tourists is individual consumption of government delivered to non-residents. We could ignore the amounts as too small to bother about or could say these do not exist and any such transfer that may take place is treated as if it were in cash and used to purchase the services. If this is so, it needs to be made explicit. It means a distinction between individual consumption expenditure of government delivered to residents and non-residents is needed. GDP but not government saving would be affected (though by trivial amounts in almost all cases.)

### Terminology

A number of comments suggest “indirectly measured” instead of “imputed value”. IS there a difference in meaning?

The IMF suggests acquired is synonymous with purchased, though this is not the intent of the distinction in chapter 9. How should we draw the distinction?

## Chapter 10: The capital account

5 issues:	Capital transfers	***
	Cost of unpaid labour	***
	Description of originals/copies	*
	Description of permits	*
	The term "Enterprise"	

### Capital transfers

1993 SNA

Capital transfers

Capital transfers are transactions, either in cash or in kind, in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, or in which cash is transferred to enable the recipient to acquire another asset, or in which the funds realised by the disposal of another asset are transferred.

10.29. [3.22.] [8.3.]

Rev 1 draft

Capital transfers

17.91 *Capital transfers are unrequited transfers where either the party making the transfer realises the funds involved by disposing of an asset (other than cash or inventories) or the party receiving the transfer is obliged to acquire an asset (other than cash) or both conditions are met.* The cancellation of a liability by mutual agreement between the creditor and debtor or the assumption of another unit's liability is treated as a capital transfer. Capital transfers are often large and irregular but neither of these are necessary conditions for a transfer to be considered a capital rather than a current transfer. If there is doubt about whether a transfer should be treated as current or capital, it should be treated as current.

BPM6 on capital transfers:

#### **debt assumption**

8.40. *Debt assumption means that one party takes on the liability of another party.* Debt may be assumed under a preexisting guarantee, or without a guarantee, such as where a government wants to assist a project or a direct investor assumes the liabilities of its direct investment enterprises for reputational reasons. One-off guarantees are defined in paragraph 5.66. One-off guarantees are only recognized as financial assets and liabilities from the time they are activated.

8.41. The assumption of the debt may not require repayment at once. According to the accrual principle for time of recording, the assumption of the debt should be recorded at the time the guarantee is activated, rather

than when actual payments are made by the guarantor. Repayments by the new debtor and interest accruals on the assumed debt should be recorded as these flows occur.

8.42. The recording in the international accounts of debt assumption through the activation of a one-off guarantee or other reasons varies depending on the circumstances, as discussed in the following paragraphs.

8.43. If the original debtor no longer exists (e.g., the original debtor has been liquidated) or is about to be so, the parties record the creation of a new debt of the debt-assuming party to the creditor (financial account entry) as the counterpart entry to a capital transfer from the guarantor to the creditor. The original debt of the debtor to the creditor is written off in the accounts of both the original debtor and the creditor (other changes in financial assets and liabilities account).

8.44. If the original debtor continues to exist at the time of the debt assumption, there are flows among the three parties involved. Two situations can be distinguished: (a) if the debt-assuming party does not acquire a claim on the (original) debtor as a result of the assumption of the debt. The liability of the original debtor to the creditor is extinguished (a financial account entry, matched by a capital transfer from the creditor to the original debtor) and a liability of the new debtor to the creditor is created (financial account entry matched by a capital transfer from the new debtor to the creditor). (b) if the debt-assuming party acquires a claim on the original debtor as a result of the assumption of the debt. Such a claim may be on the original debtor as a debt or as an increase in the new debtor's existing equity participation in the old debtor (for example, the activation of a guarantee made by a parent company for debt owed by a subsidiary will improve the balance sheet of the subsidiary and, hence, the parent company's equity in the subsidiary). In this case, the liability of the original debtor to the creditor is extinguished (a financial account entry) and a new liability of the new debtor to the creditor is created (a financial account entry). In addition, a debt or equity claim of the guarantor on the debtor is created

### **Current and capital transfers**

12.12. Transfers may be either current or capital. To avoid duplication, the distinction between current and capital transfers is discussed primarily in this chapter rather than in Chapter 13 (Capital Account). To distinguish current transfers from capital transfers, it is preferable to focus on the special characteristics of capital transfers.

**12.13. *A capital transfer results in a commensurate change in the stocks of assets of one or both parties to the transaction without affecting the saving of either parties.*** Capital transfers are typically large and infrequent, but capital transfers cannot be defined in terms of size or frequency. A transfer in kind without a charge is a capital transfer when it consists of (i) the transfer of ownership of a nonfinancial asset (produced or nonproduced) or (ii) the forgiveness of a liability by a creditor when no counterpart value is received in return. Similarly, a transfer of cash is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of a fixed asset (for example, an investment grant) by one or both parties to the transaction.

12.14. *Current transfers consist of all transfers that are not capital transfers. Current transfers directly affect the level of disposable income and should influence the consumption of goods or services.* That is, current transfers reduce the income and consumption possibilities of the donor and increase the income and consumption possibilities of the recipient. For example, social benefits and food aid are current transfers.

12.15. It is possible that some cash transfers may be regarded as capital by one party to the transaction and as current by the other party. Nonlife insurance claims are generally treated as current transfers even though recipients often consider the transfers as capital. Similarly, a large economy that regularly makes investment grants in cash to a number of smaller economies may regard the outlays as current, even though they may be specifically intended to finance the acquisition of assets. So that a donor and a recipient do not treat the same transaction differently, it is recommended that a cash transfer be classified as a capital transfer by both parties—even if the transfer is linked to the acquisition or disposal of a fixed asset by only one of the parties, until there is a serious doubt that a cash transfer should be classified as a capital transfer, in which instance it should be classified as a current transfer.

### **c. Recording and valuation of Capital Transfers**

13.18. The definition of transfers and the distinction between current and capital transfers are given in paragraphs 12.12-15. Governments, households, and nonprofit institutions undertake transfers to convey a benefit to another party. For appendix RRRR on personal remittances [forthcoming].

13.19. Transfers from enterprises arise for compulsory transfers to governments or voluntary transfers to nonprofit institutions. Unlike governments, households, or nonprofit institutions, commercial entities do not generally have the motivation to transfer resources to other entities for no return, so there are only limited cases where a commercial entity may provide a capital transfer to another commercial entity, such as catastrophic insurance claims, compensation for damages caused by major catastrophes (see paragraph 13.23 below), and some cases of activation of one-off guarantees (as discussed further in paragraphs 8.40-44).

13.20. There may be imputed capital transfers as a result of government use for fiscal purposes of entities resident in other economies, as discussed in paragraphs 8.24-26.

#### **1. Debt forgiveness *Reference: External Debt Statistics*, Chapter 8**

13.21. *Debt forgiveness is the voluntary cancellation of all or part of a debt within a contractual agreement between a creditor and a debtor.*<sup>1</sup> With debt forgiveness, the contractual arrangement cancels or forgives all or part of the principal amount outstanding, including interest arrears (interest that fell due in the past) and any other interest costs that have accrued. Debt forgiveness does not arise from the cancellation of future interest payments that have not yet fallen due and have not yet accrued.

13.22. Debt forgiveness is distinguished from debt write-off in that debt forgiveness arises from an agreement between the parties to the debt and it has the intention to convey a benefit, rather than unilateral recognition by the creditor that the amount may not be collected.

Debt 1 This includes forgiveness of some or all of the principal amount of a credit-linked note due to an event affecting the entity on which the embedded credit derivative was written, and forgiveness of principal that arises when a type of event contractually specified in the debt contract occurs—for example, forgiveness in the event of a type of catastrophe. forgiveness is unlikely to arise between commercial entities; more commonly there are debt-write-offs (as discussed in paragraphs 9.7-10). (Appendix 1 on exceptional financing and Appendix 2 on debt reorganization provide additional information.)

#### **2. Insurance claims**

13.23. Exceptional direct insurance claims related to major catastrophes may be recorded as capital transfers. However, reinsurance, other nonlife insurance claims, and all net insurance premiums are classified as current transfers. For current transfers relating to insurance, see paragraphs 12.34-38. For a discussion of the operation of insurance generally, see paragraphs 10.99-116.

#### **3. Investment grants**

13.24. Investment grants consist of capital transfers in cash or in kind made by governments or international organizations to other institutional units to finance all or part of the costs of their acquiring fixed assets. The recipients may be other governments or other entities. The recipients are obliged to use investment grants received in cash for purposes of gross fixed capital formation, and the grants are often tied to specific investment projects, such as large construction projects.

13.25. If the investment project continues over a long period of time, an investment grant in cash may be paid in installments. Payments of installments continue to be classified as capital transfers even though they may be recorded in a succession of different accounting periods. Investment grants in kind consist of transfers of transport equipment, machinery and other equipment by governments to nonresident units and also the direct provision of buildings or other structures for nonresident units. Investment grants include transfers of military equipment in the form of weapons or equipment that are classified as fixed assets.

#### **4. One-off guarantees and other debt assumption**

13.26. Capital transfers occur when a oneoff guarantee is activated and the guarantor acquires no claim on the debtor or a claim worth less than the value of the guarantee. • If the original debtor still exists, the capital transfer is from the guarantor to the debtor. • If the original debtor no longer exists, the capital transfer is from the guarantor to the creditor. The value of any claim the guarantor receives from the debtor (e.g., a promise of reimbursement) is regarded as a financial account transaction between the guarantor and the debtor. The treatment of one-off guarantees is described in more detail in paragraph 8.40-44. Different types of guarantees are distinguished in paragraph 5.66.

**5. Taxes Reference:** *Government Finance Statistics Manual 2001*, Chapter 5. 13.27. Also included under government capital transfers are taxes on capital transfers; that is taxes levied, at irregular and frequent intervals, on the value of assets transferred to nonresidents. Estate, inheritance, gift taxes, and other nonrecurrent taxes on property are classified as capital transfers. Recurrent taxes on income and wealth as well as taxes on financial and capital transactions are classified as current transfers (see paragraphs 12.21-24). Detail on the classification of taxes can be found in *Government Finance Statistics Manual 2001*.

#### **6. Other capital transfers**

13.28. Major nonrecurrent payments in compensation for extensive damages or serious injuries not covered by insurance policies are included in capital transfers. The payments may be awarded by courts of law or settled out of court. They include payments of compensation for damages caused by major explosions, oil spillages, etc.

13.29. Assets of persons changing their economic territory of residence are other changes in volumes, and not imputed as being a transfer, as discussed in paragraphs 9.14-15.

13.30. Capital transfers include legacies or large gifts, including legacies to nonprofit institutions. These capital transfers could be made under wills or when the donor is still living. Capital transfers also include exceptionally large donations by households or enterprises to nonprofit institutions to finance gross fixed capital formation, for example, gifts to universities to cover the costs of building new residential colleges, libraries, and laboratories.

13.31. A capital contribution to an international organization or nonprofit institution is a capital transfer if it does not give rise to equity for the provider of the contribution.

13.32. As discussed in paragraph 12.43, there is transfer element with respect to concessional lending. There is a possibility of possibility of producing supplementary data for the transfer element when it is significant.

13.33. Household-to-household capital transfers may be identified separately when they are significant. They are included in the supplementary item personal remittances, as discussed in Appendix RRRR [forthcoming].

The BPM6 definition is initially appealing but somewhat circular. If one party views a transfer as capital and the other as current, it means the second party thinks their saving has been affected. It is only after we have decided to treat the payment as a capital transfer that we can say that the saving for neither party is affected.

The SNA advice to treat a transfer as current unless both parties think it is capital sounds good but we do not follow this in the case of capital taxes where for government the receipts of capital taxes continue year after year (though from possibly different units) and could be seen to be current.

### **Compensation of unpaid labour**

The 1993 SNA suggests that the result of communal activities is valued at the sum of costs including an estimate of the cost of the labour provided but this is *not* treated as compensation of employees. This leaves a gap in the GDP identities.

### **Permits**

Charlie has some problems with the text that he and I should sort out.

### **The term Enterprise**

Finland suggests the word is difficult for non-native English speakers. My view is that it is so embedded in the text (including unincorporated enterprises) that a change would be a major upheaval. In any case, I cannot think of a good alternative word.

## **Chapter 11: The financial account**

1 Issue: Chapter 26      \*\*

Some comments (including at least part of the IMF) say that having flow of funds in chapter 26 means it is not part of the core SNA and would like it merged back into chapters 11 and 13. I think many national accountants think the core stops at net lending/borrowing. Chapter 11 is already quite hard going for someone not well versed in financial statistics. Further, I think it is better to avoid the duplication of text in chapters 11 and 13



## Chapter 12: Other changes in assets accounts

- 5 Issues:
- Should formulae be reintroduced? \*\*
  - Should the existing annex on holding gains and losses be electronic only? \*\*
  - Treatment of ESOs \*\*
  - Treatment of mergers and acquisitions \*\*
  - Price index for the calculation of neutral holding gains \*\*

Barbro's spread sheet follows



## **Chapter 13: The balance sheet**

1 Issue: Where do definitions appear?

A number of comments suggest restoring the annex with the set of definitions of assets. I think we agreed to have embedded definitions and a glossary and , at the AEG meeting in New York, participants then seemed to think there was not a problem. I have suggested that as well as having a simple alpha glossary, it would also be possible to put those definitions corresponding to entries in the classification hierarchy into an additional annex in that order. I am not sure of the ISWGNA's view on this. It would be helpful to agree what will be done and publicise this.

It was agreed that the Editor would consult with IMF staff on cross-cutting issues with BPM6, including the treatment of own funds.

## **Chapter 14: Summarising and presenting the accounts**

1 Issue: The style of the first section

I would like to discuss this after a discussion on chapter 15 and the introduction of the goods and services account.